

1 STATE OF MICHIGAN

2 BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

3 In the matter of the application of
Edison Sault Electric Company for Case No. U-14703
4 authority to implement a power supply
cost recovery plan for the 12 month Volume 3
5 period ending December 31, 2006.
_____/ Paperless E-File

6 CROSS-EXAMINATION

7 Proceedings held in the above-entitled matter
8 before Sharon Feldman, J.D., Administrative Law Judge
9 with SOAHR, at the Michigan Public Service Commission,
10 6545 Mercantile Way, Room B, Lansing, Michigan, on
11 Tuesday, June 27, 2006, at 9:00 a.m.

12 APPEARANCES:

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25 (Appearances, Continuing)

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6 On behalf of the Michigan Public Service
7 Commission Staff

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10 REPORTED BY: Lori Anne Penn (CSR-1315)

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At about 9:02 a.m.

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1 (Documents marked for identification by the court
2 reporter as Exhibit Nos. A-1, A-2, A-3, A-4, A-5,
3 A-6, A-7 and A-8.)

4 L E R O Y M. B A A T Z

5 was called as a witness on behalf of Edison Sault
6 Electric Company and, having been duly sworn to testify
7 the truth, was examined and testified as follows:

8 DIRECT EXAMINATION

9 BY MS. MASON SONERAL:

10 Q Good morning. Could you please introduce yourself for
11 the record.

12 A My name is Leroy M. Baatz, I'm the assistant vice
13 president of rates for Edison Sault Electric Company.

14 Q Mr. Baatz, did you prefile direct testimony in this case?

15 A Yes, I did.

16 Q And does your direct testimony consist of a cover page
17 and 12 pages of questions and answers?

18 A Yes.

19 Q And did you also prefile exhibits with your direct
20 testimony?

21 A Yes, I did.

22 Q And just to help the record along, is your first exhibit
23 premarked Exhibit A-1 (LMB-1), and does it consist of
24 four pages?

25 A Yes.

1 Q And is your second exhibit premarked Exhibit A-2 (LMB-2),
2 and does it consist of two pages?

3 A That's correct.

4 Q And your third exhibit, is it premarked A-3 (LMB-3), and
5 does it consist of one page?

6 A That's correct.

7 Q And then your fourth exhibit, is it premarked A-4
8 (LMB-4), and does it consist of two pages?

9 A That's correct.

10 Q And did you also prefile rebuttal testimony in this case?

11 A Yes, I did.

12 Q And does your rebuttal testimony consist of a cover page
13 and 16 pages of questions and answers?

14 A Yes, it does.

15 Q Did you also prefile exhibits with your rebuttal
16 testimony?

17 A Yes, I did.

18 Q And so the record is clear, is your first exhibit,
19 rebuttal exhibit premarked A-5, and does it consist of
20 one page?

21 A That's correct.

22 Q Is your second rebuttal exhibit premarked A-6, and does
23 it consist of one page?

24 A Yes, it does.

25 Q And then is your third rebuttal exhibit premarked A-7,

1 and does it consist of nine pages?

2 A Yes, it does.

3 Q And then is your final exhibit premarked A-8, and does it
4 consist of six pages?

5 A Yes, it does.

6 Q And if I asked you these same questions and answers today
7 that are in your direct and rebuttal testimony, would
8 that be your answers today?

9 A Yes, they are.

10 Q And do you have any changes to make to either your direct
11 or rebuttal testimony today?

12 A No, I don't.

13 MS. MASON SONERAL: Your Honor, I'd
14 request that the prefiled rebuttal testimony, direct and
15 rebuttal testimony of Mr. Baatz be bound into the record,
16 and that his exhibits be admitted into the record.

17 JUDGE FELDMAN: Thank you,
18 Ms. Mason Soneral.

19 Mr. Baatz' prefiled direct and rebuttal
20 testimony will be bound into the record, and we'll just
21 take up his exhibits at the conclusion of
22 cross-examination.

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STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

**In the matter of the application of)
EDISON SAULT ELECTRIC COMPANY for)
authority to implement a power supply cost)
recovery plan for the 12 month period ending)
December 31, 2006.)**

Case No. U-14703

PREFILED DIRECT TESTIMONY

LEROY M. BAATZ

ON BEHALF

OF

EDISON SAULT ELECTRIC COMPANY

Dated: September 30, 2005

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)
EDISON SAULT ELECTRIC COMPANY for)
authority to implement a power supply cost)
recovery plan for the 12 month period ending)
December 31, 2006.)

Case No. U-14703

PREFILED DIRECT TESTIMONY
OF
LEROY M. BAATZ
ON BEHALF
OF
EDISON SAULT ELECTRIC COMPANY

Q₁ PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A₁ My name is Leroy M. Baatz. My business address is 725 East Portage Avenue, Sault Ste. Marie, Michigan 49783.

Q₂ BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A₂ I am employed by Edison Sault Electric Company (Edison Sault) as its Assistant Vice President – Rates.

Q₃ PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND BUSINESS EXPERIENCE.

A₃ I graduated with distinction from the University of Iowa in 1972 with a Bachelor of Business Administration in Financial Management. I was elected to Beta Gamma Sigma, the national honor fraternity for business education in 1972. From 1973 through 1979, I

1 worked for the Utilities Division of the Iowa State Commerce Commission. While I was
2 with the Iowa Commission, I worked in both its rate and revenue requirements sections
3 where I was responsible for reviewing, analyzing, and making recommendations to the
4 Iowa Commission on various rate and tariff proposals of utilities.

5 I joined the American Electric Power Service Corporation in 1979 as an
6 Administrative Assistant to the Vice President – Rates. In that position I was responsible
7 for advising and assisting American Electric Power (AEP) System operating companies
8 in rate and regulatory matters.

9 From 1981 through 1995, I was employed by Indiana Michigan Power Company
10 (I&M), an AEP subsidiary, as its Rates, Tariffs and Contracts Director. My duties in that
11 position involved the overall supervision and direction of I&M's Rate Department.

12 I rejoined the American Electric Power Service Corporation in 1996 as a Senior
13 Rate Consultant. My duties included advising and consulting AEP System companies in
14 rate and regulatory matters.

15 I began my employment with Edison Sault in 1998 as its Director of Rates and
16 Marketing. I was promoted by Edison Sault in 2000 to the position of Assistant Vice
17 President – Rates. My duties with Edison Sault include responsibilities for rate and
18 regulatory matters, the purchase and sale of wholesale power, and billing and contract
19 administration of industrial customers.

20 **Q₄ HAVE YOU PREVIOUSLY TESTIFIED IN ANY PROCEEDINGS BEFORE**
21 **REGULATORY COMMISSIONS?**

22 **A₄** Yes. While employed by the Iowa State Commerce Commission I testified in a number
23 of proceedings involving electric, natural gas, telephone and water utilities. I have

1 testified on behalf of I&M before the Michigan Public Service Commission (MPSC) and
2 the Indiana Utility Regulatory Commission. I have also submitted testimony before the
3 Federal Energy Regulatory Commission on behalf of I&M.

4 I have also submitted testimony on behalf of Edison Sault before the MPSC in
5 Case No. U-12649 concerning unbundled rates, Case No. U-13085 concerning Edison
6 Sault's application to reimplement its PSCR clause, Case Nos. U-13114, U-13563, U-
7 13914 and U-14271 concerning Edison Sault's 2002 through 2005 PSCR plans, and Case
8 Nos. U-13114-R, U-13563-R and U-13914-R concerning Edison Sault's 2002 through
9 2004 PSCR reconciliations.

10 **Q₅ PLEASE DESCRIBE EDISON SAULT.**

11 **A₅** Edison Sault is a Michigan corporation with principal offices located in Sault Ste. Marie,
12 Michigan, engaged in the generation, purchase, distribution and sale of electric energy to
13 approximately 23,000 customers in the Eastern portion of Michigan's Upper Peninsula.
14 Edison Sault has been organized and operated under the laws of the State of Michigan
15 since 1892.

16 **Q₆ PLEASE DESCRIBE EDISON SAULT'S PRESENTLY EFFECTIVE RATES.**

17 **A₆** Edison Sault's existing base rates were authorized by Commission Order in Case No. U-
18 7235, dated November 16, 1982, as revised per the Commission's December 13, 1988
19 Order in Case No. U-9224 to complete a rate transition for customers who previously
20 purchased electric service from Wisconsin Electric Power Company in Doyle, Inwood,
21 Manistique, Mueller and Thompson townships in Schoolcraft County and Garden and
22 Fairbanks townships in Delta County. In Case Nos. U-7519 and U-7520, respectively,
23 both dated March 31, 1983, the Commission authorized Edison Sault's initial PSCR

1 clause and PSCR plan. For each PSCR year thereafter, through 1995, the Commission
2 authorized PSCR plans for Edison Sault. In its Order in Case No. U-10923, dated
3 September 21, 1995, the Commission suspended Edison Sault's PSCR clause, and on
4 April 16, 2002, in Case No. U-13085, authorized the reimplementation of Edison Sault's
5 PSCR clause.

6 **Q₇ WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

7 A₇ On April 16, 2002, the Michigan Public Service Commission issued an Order in Case No.
8 U-13085 which authorized Edison Sault to re-implement its PSCR clause. The purpose
9 of my testimony in this proceeding is to support Edison Sault's PSCR Plan for the twelve
10 month period ending December 31, 2006.

11 Specifically, my testimony will address the following:

12 ☞ A A description of expected sources of electric power and supply and changes in the
13 cost of power supply anticipated over the twelve month period ending December
14 31, 2006;

15 ☞ B A request for a specific PSCR factor for each of the twelve billing months ending
16 December 31, 2006;

17 ☞ C A description of all major contracts and power supply arrangements entered into
18 by Edison Sault for providing power supply during the twelve month period
19 ending December 31, 2006;

20 ☞ D An evaluation of actions taken to minimize power supply costs and the cost of
21 fuel; and

22 ☞ E A forecast of customer requirements, expected sources and cost of electric power
23 supply.

1 By the PSCR Act, 1982 PA 304, a PSCR plan for the twelve month period ending
2 December 31, 2006 should filed "not less than three months before the beginning of the
3 . . . period covered by the plan" (§6j(3)) -- or, in this case, by September 30, 2005.

4 Therefore, my testimony and exhibits in this proceeding are submitted to comply
5 with the annual PSCR plan requirements of the PSCR Act -- for the 12-month period
6 ending December 31, 2006.

7 **Q₈ ARE YOU SPONSORING ANY EXHIBITS?**

8 A₈ Yes, I am sponsoring Exhibits A-1, A-2, A-3 and A-4, which were prepared by me or
9 under my supervision and direction.

10 **Q₉ PLEASE DESCRIBE HOW EDISON SAULT MEETS THE POWER SUPPLY**
11 **NEEDS OF ITS CUSTOMERS.**

12 A₉ Edison Sault serves the power requirements of its customers from five major sources.
13 The major sources and their approximate capacity for calendar year 2006 are:

14 Edison Sault's hydro plant in Sault Ste. Marie (27 MW);

15 The U. S. Corp of Engineers' hydro plant (17 MW);

16 A firm power contract with Consumers Energy Company (Consumers
17 Energy) (20 MW);

18 A firm power contract with Wisconsin Electric Power Company (WEPCo)
19 (20 MW);

20 A Joint Operating Agreement (JOA) with WEPCo (35 MW forecasted for
21 2006).

22 Of the major sources, Edison Sault owns only its hydro plant in Sault Ste. Marie,
23 and this facility in 2004 supplied approximately 22% of Edison Sault's energy
24 requirements. The other major sources are with outside power supply sources, and
25
26
27

comprise approximately 78% of Edison Sault's energy requirements. Edison Sault's wholesale customer, Cloverland Electric Cooperative (Cloverland), receives an allocated share of the power from each purchase, at the same cost as Edison Sault.

Q₁₀ PLEASE DESCRIBE THE MAJOR CONTRACTS ASSOCIATED WITH THESE POWER SUPPLY RESOURCES.

A₁₀ Edison Sault owns its hydroelectric plant in Sault Ste. Marie, and the water for the plant is leased under a contract with the U. S. Corps of Engineers with tenure to December 31, 2050. However, the Secretary of the Army has the right to terminate the contract subsequent to December 2025 by providing at least a five-year termination notice.

Power is purchased under contract with the U. S. Corps of Engineers from its plant located within the Soo Locks complex in Sault Ste. Marie. This contract has tenure to November 1, 2040, and can not be terminated prior to November 1, 2030.

The contract with Consumers Energy has an initial term ending September 9, 2020, and from year to year thereafter until terminated. Edison Sault may cancel the contract as of September 9, 2010, or at the expiration of any yearly period thereafter, by providing at least sixty months notice. The contract provides for Edison Sault to purchase 20 MW of power for the balance of the contract.

The 20 MW firm power contract with WEPCo became effective on January 1, 1998, and continues for a period through December 31, 2007.

The JOA with WEPCo became effective on January 1, 2001, and continues in full force year to year until terminated upon twelve months notice. The JOA was amended to permit Edison Sault and WEPCo to jointly coordinate the purchase of power from renewable resources and to reflect the start-up of MISO's energy markets. The

incremental cost of any renewable energy purchased under the JOA is forecasted to be offset by the premium paid by any customers participating in Edison Sault's experimental renewable energy rider.

Q₁₁ DO THESE LONG TERM CONTRACTS CONTAIN CAPACITY CHARGES THAT ARE INCLUDED IN EDISON SAULT'S PSCR CLAUSE?

A₁₁ Yes. The Consumers Energy contract, the WEPCo contract, and the JOA all include capacity charges. The contract with the U. S. Corp includes payments for fixed costs and the Edison Sault hydro plant water lease contains minimum water lease payments. These capacity charges and payments for fixed costs are common in purchased power contracts and are included in Edison Sault's PSCR clause.

§6j(13)(b) of the PSCR Act provides that the Commission, in a power supply cost reconciliation proceeding, shall disallow any "capacity charges" associated with power purchased for periods in excess of six months *unless the utility has obtained prior approval from the Commission*. By this filing, Edison Sault is requesting approval (in the final order in this case) of all "capacity charges" in its power supply contracts, as addressed in Exhibit A-1. The Commission in Case Nos. U-13114, U-13586, U-13914 and U-14271 approved the inclusion of these capacity charges in the PSCR.

Q₁₂ DOES EDISON SAULT ALSO HAVE OTHER SOURCES OF POWER SUPPLY?

A₁₂ In addition to the major sources that I just mentioned, Edison Sault also has its own diesel generating units. Edison Sault also can purchase generation from the diesel generating units owned by Cloverland Electric Cooperative. These diesel units are operated periodically for testing, and are available for capacity peaking purposes. The diesel units can also be operated to support voltage or maintenance activities.

Q₁₃ HOW DOES EDISON SAULT TRANSPORT THE POWER SUPPLY RESOURCES INTO ITS SYSTEM?

A₁₃ Edison Sault arranges for power to be transported into its system using the transmission system of other companies. Edison Sault is a network transmission customer of the American Transmission Company (ATC) which provides for the transmission of power from Edison Sault's generation and purchased power sources. ATC is a member of the Midwest Independent System Operator (MISO) which directs the operation of the transmission system. Edison Sault is billed for the transmission services provided by ATC and MISO pursuant to their FERC approved tariffs. The MISO charges are initially billed to WEPCo, which makes the transmission reservations on behalf of Edison Sault, and then rebills Edison Sault. Certain ancillary transmission services are also provided by WEPCo.

Q₁₄ COULD YOU BRIEFLY EXPLAIN THE JOA WITH WEPCO?

A₁₄ Under the FERC approved JOA, the power supply resources and contracts of Edison Sault and WEPCo that were in effect on July 1, 2000, remained the responsibility of the utility to which they belonged. Capacity needs beyond the existing sources are to be jointly obtained and the costs of such capacity allocated to each party. Energy needs are met by jointly economically dispatching the generating resources that are available, with the price of any energy being delivered by either party at the market rates established by the MISO. As part of the JOA, Edison Sault pays a fee for services for a portion of WEPCo's power marketing operations. The JOA is for an initial term of one year and continues in effect until either party gives a one-year advance notice of cancellation.

1 **Q₁₅ HOW IS EDISON SAULT BILLED FOR TRANSMISSION SERVICES FROM**
2 **ATC?**

3 A₁₅ Edison Sault is a network customer of ATC, and is billed for its network load share of
4 ATC's annual revenue requirement. Costs for network transmission service were based
5 upon forecasts made by ATC.

6 **Q₁₆ HAVE YOU PREPARED AN UPDATED ANALYSIS OF LINE LOSSES**
7 **APPLICABLE TO EDISON SAULT'S RETAIL CUSTOMERS?**

8 A₁₆ Yes. In its 2005 PSCR plan, Edison Sault proposed that a moving 5-year historic
9 calendar year average be used in future cases, and a retail line loss factor of 6.1% based
10 on retail line losses over the years 1999 through 2003 was utilized in that proceeding.
11 Exhibit A-3 is an analysis of Edison Sault's line losses applicable to its retail customers
12 over the years 2000 through 2004. During that period, Edison Sault's line losses
13 applicable to its retail customers averaged 5.7%, and that retail line loss factor has been
14 included in this filing.

15 **Q₁₇ HAVE YOU PREPARED A FORECAST OF EDISON SAULT'S POWER**
16 **SUPPLY COSTS FOR THE 12 MONTH PERIOD ENDING DECEMBER 31,**
17 **2006?**

18 A₁₇ Yes. Exhibit A-1 shows Edison Sault's projected power supply sources and their costs
19 for the months of January 2006 through December 2006. As shown on page 2 of Exhibit
20 A-1, line 22, Edison Sault's PSCR costs for 2006 are projected to average \$0.04285 per
21 kWh, or 42.85 mills per kWh. Deducting the PSCR base of \$0.03040 per kWh (30.40
22 mills per kWh), which was approved in Case No. U-13085, results in a PSCR factor of

1 \$0.01245 per kWh (12.45 mills per kWh) for 2006. Edison Sault is requesting that it be
2 authorized to charge this factor of \$0.01245 per kWh (12.45 mills per kWh) for each
3 month of 2006.

4 **Q₁₈ HAVE YOU PREPARED A FORECAST OF EDISON SAULT'S POWER**
5 **SUPPLY COSTS ON AN ANNUAL BASIS FOR THE YEARS 2006 and 2007?**

6 A₁₈ Yes. The Commission in Case No. U-13114 approved a settlement agreement that
7 provided that Edison Sault should file two-year forecasts with its future PSCR plan
8 filings. Exhibit A-2 shows Edison Sault's projected power supply sources and their costs
9 on an annual basis for the years 2006 and 2007.

10 **Q₁₉ PLEASE DESCRIBE HOW THE POWER SUPPLY FORECAST WAS**
11 **PREPARED.**

12 A₁₉ Edison Sault's forecast for 2006 was prepared by first projecting the expected power
13 requirements of our customers, and then by obtaining power in the most economical
14 manner. Power requirements were forecast by taking historical usage and rates of growth
15 and taking into account any announced expansion plans by major customers.

16 Power was forecast to be obtained thorough the maximum use of available water
17 for generation, and then making purchases under existing contracts. Actual contract
18 prices were used when applicable. Historical prices and recent inflation factors were
19 used for contracts that did not have fixed prices. The amount of water available for hydro
20 generation was forecasted using the average level of water released in recent years.

21 The same procedures were used for forecasting the power supply requirements
22 and costs for 2007.

Q₂₀ HOW DO THE POWER SUPPLY COSTS FORECASTED IN THIS PLAN FILING COMPARE TO THE POWER SUPPLY COSTS FORECASTED IN THE 2005 PSCR PLAN FILING?

A₂₀ The power supply costs of \$0.04285/kWh forecasted in this plan filing (Exhibit A-1, page 2, line 22) is higher than the power supply cost of \$0.03339/kWh contained in the 2005 PSCR plan filing. Power supply costs are forecasted to be higher in the 2006 PSCR plan primarily due to increased costs for energy purchased under the JOA. Energy delivered by either party to the other under the JOA is priced at the MISO's locational marginal prices (LMPs) which have increased substantially as they have been impacted by higher prices for natural gas, oil and coal used for electrical generation. The MISO LMPs affect not only Edison Sault, but also any other buyer participating in the market. The 2006 PSCR forecast assumes that the level of JOA energy costs being experienced in 2005 will continue into 2006.

Q₂₁ PLEASE EXPLAIN ACTIONS TAKEN BY EDISON SAULT TO MINIMIZE POWER SUPPLY COSTS.

A₂₁ Edison Sault minimizes its power supply costs by maximizing its hydroelectric generation and by effectively contracting for the remaining power supply needs of its customers. Hydroelectric generation is maximized through the use of a "Most Economic Dispatch" computer model which allocates the amount of water that is available to the most efficient generating units at the Edison Sault Hydro plant. Hydroelectric generation is also maximized by reallocating any water that can not be used at either the U. S. Corp hydro plant or the Great Lakes Power (Canada) hydro plant to a plant where the water

1 can be used. This reallocation of water resources can occur during times of maintenance
2 work at the hydro facilities.

3 Power is purchased from other suppliers effectively through the use of both long
4 term and short-term commitments. For 2006, the Edison Sault has long term power
5 contracts in place with Consumers Energy and WEPCo, each at a level of 20 MW.
6 Energy under these contracts is scheduled to be taken 24 hours a day at favorable prices.
7 Almost all of Edison Sault's remaining power supply needs are purchased under MISO's
8 LMPs prices. The high cost diesel generation is available at times of peak needs, but is
9 needed for few hours over the course of the year.

10 **Q₂₂ DOES THE MIX OF HYDRO GENERATION AND OTHER PURCHASES**
11 **PERMIT EDISON SAULT TO OBTAIN ITS POWER SUPPLY RESOURCES IN**
12 **A REASONABLE AND PRUDENT MANNER?**

13 **A₂₂** Yes. The availability of hydro generation and the effective purchase of power are major
14 reasons why Edison Sault has electric rates that are among the lowest in Michigan.

15 **Q₂₃ PLEASE EXPLAIN EXHIBIT A-4.**

16 **A₂₃** Exhibit A-4 is the tariff sheet that lists the proposed PSCR factor for each month for the
17 period January 2006 through December 2006.

18 **Q₂₄ DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?**

19 **A₂₄** Yes, it does.

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STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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 EDISON SAULT ELECTRIC COMPANY for)
 authority to implement a power supply cost)
 recovery plan for the 12 month period ending)
 December 31, 2006.)

Case No. U-14703

PREFILED REBUTTAL TESTIMONY

LEROY M. BAATZ

ON BEHALF

OF

EDISON SAULT ELECTRIC COMPANY

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

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PREFILED REBUTTAL TESTIMONY
OF
LEROY M. BAATZ
ON BEHALF
OF
EDISON SAULT ELECTRIC COMPANY

Q₁ PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A₁ My name is Leroy M. Baatz. My business address is 725 East Portage Avenue,
 Sault Ste. Marie, Michigan 49783.

**Q₂ ARE YOU THE SAME LEROY M. BAATZ WHO FILED DIRECT TESTIMONY
 AND EXHIBITS IN THIS PROCEEDING?**

A₂ Yes, I am.

Q₃ WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A₃ James T. Selecky filed direct testimony in this proceeding addressing the level of
 costs that Edison Sault Electric Company (Edison Sault) has proposed to include
 in its 2006 Power Supply Cost Recovery (PSCR) plan. I will address that

1 testimony and recommend that the adjustments that he proposes to Edison
2 Sault's 2006 PSCR plan not be adopted by the Michigan Public Service
3 Commission (MPSC or Commission).

4
5 **Q₄ PLEASE CLARIFY THE RELATIONSHIP BETWEEN WISCONSIN ELECTRIC**
6 **POWER COMPANY (WEPCO) AND EDISON SAULT IN LIGHT OF MR.**
7 **SELECKY'S TESTIMONY THAT WEPCO'S ENERGY CHARGES TO EDISON**
8 **SAULT ARE UNNECESSARILY HIGH AND UNREASONABLE.**

9 **A₄** Both WEPCO and Edison Sault are owned by Wisconsin Energy Corporation.
10 However, they operate as separate, independent utility companies. The
11 agreements between the companies, namely the 20 MW firm purchase and the
12 Joint Operating Agreement (JOA), are arms-length agreements that have been
13 reviewed by various regulatory agencies (i.e. the Federal Regulatory
14 Commission (FERC), MPSC and the Public Service Commission of Wisconsin
15 (PSCW)). Since each company is regulated independent of the other, there is no
16 incentive for either party to engage in activity that would disadvantage the other.

17
18 **Q₅ PLEASE DESCRIBE THE JOA AND CHANGES THAT HAVE BEEN MADE TO**
19 **THE JOA IN LIGHT OF MR. SELECKY'S CHALLENGE TO THE COSTS**
20 **INCURRED UNDER THE JOA.**

21 **A₅** The JOA was signed on October 16, 2000, and was approved by FERC for use
22 beginning January 1, 2001. The JOA provides for WEPCO and Edison Sault to
23 jointly plan capacity additions and to dispatch their electric generation in order for
24 both utilities to achieve the most economical power supply costs. JOA

Amendment No. 1 was accepted by FERC and took effect on November 1, 2003, to allow WEPCO and Edison Sault to jointly coordinate the purchase of renewable energy. JOA Amendment 2 was accepted by FERC and took effect on April 1, 2005, to modify energy pricing in anticipation of WEPCO and Edison Sault participating in the MISO energy markets. There were no intervenors in the FERC filings.

Q₆ IS IT TRUE THAT EDISON SAULT “VOLUNTARILY TERMINATED AMENDMENT 1 TO THE JOA AND REPLACED IT WITH AMENDMENT 2”, AS MR. SELECKY CLAIMS?

A₆ Mr. Selecky’s assertion that Amendment 1 to the JOA was “terminated” is incorrect. Per the terms of the JOA, termination requires twelve months written notice from one party to the other. In this case neither WEPCO nor Edison Sault desired to terminate the JOA. Instead, it is more accurate to state that by mutual agreement and necessity, Amendment 1 to the JOA was superseded by Amendment 2, which includes the modifications described above.

Q₇ DID JOA AMENDMENT 2 [INCORPORATING THE START-UP OF THE MIDWEST INDEPENDENT TRANSMISSION SYSTEM OPERATOR, INC. (MISO) ENERGY MARKETS] SUBSTANTIALLY CHANGE THE INTENT OF THE JOA?

A₇ No. Prior to Amendment 2, energy pricing under the JOA was based on “System Incremental Costs”, which used the cost of the most expensive resources supplying energy in a given hour as the cost of JOA energy. The generators that

were operating during each hour were based on WEPCO's generator dispatch decisions. Once the MISO market started, decisions regarding generator dispatch shifted from WEPCO to MISO, and WEPCO was required to purchase all of its load from the MISO market. These changes made the "System Incremental Cost" an inaccurate measure of WEPCO's cost to provide JOA energy to Edison Sault and therefore a change to the JOA was required. Since the start of the MISO market, the Locational Marginal Price (LMP) at the Edison Sault load zone commercial pricing node represents the cost to provide JOA energy to Edison Sault. LMP is calculated by MISO on an hourly basis, and is defined as the market clearing price for energy at a given Commercial Pricing node which is equivalent to the marginal cost of serving demand at the Commercial Pricing node. LMP is what WEPCo pays to provide JOA energy, and it is clearly the direct replacement for System Incremental Cost.

Q₈ HAVE PURCHASES UNDER THE JOA BEEN INCLUDED IN PREVIOUS EDISON SAULT PSCR PLANS?

A₈ Yes. JOA purchases have been included in Edison Sault's 2002, 2003, 2004 and 2005 PSCR plans and the 2002, 2003, and 2004 PSCR reconciliations (with the 2005 PSCR reconciliation pending). The MPSC has not disallowed any of the costs incurred under the JOA, and has previously approved similar charges in at least 4 cases: Case Nos. U-13114, U-13586, U-13914, and U-14271.

1 **Q₉ DOES THE JOA CONTAIN PROVISIONS FOR BOTH CAPACITY AND**
2 **ENERGY PAYMENTS?**

3 A₉ Yes. There are separate schedules for both capacity and energy payments.
4 Schedule D of the JOA details the calculation of the Pricing of Pooled Capacity
5 Resources, and Schedule E explains the calculation for Energy Pricing. Both
6 Schedules D and E are attached as Exhibits A-5 and A-6. Pooled Capacity
7 Resources are those resources which WEPCo contracted for following the
8 effective date of the JOA, in order to meet the capacity needs of both WEPCo
9 and Edison Sault. The price of Pooled Capacity is the weighted average
10 capacity price of those contracts. The amount of capacity Edison Sault
11 purchases is based on its estimated peak load during the peak load month of
12 WEPCo for the year.

13 It is important to note that while specific capacity resources are utilized to
14 calculate the cost of pooled capacity, Edison Sault does not have direct rights to
15 the energy produced by these resources. It is not unusual in the energy industry
16 for a contract for capacity and energy to identify a specific resource for capacity
17 but to have the energy pricing provisions be unrelated to the capacity resource.
18 As an example, I understand that the energy pricing in the WEPCo contract for
19 the Ameren System purchase, which is a pooled capacity resource, is tied to a
20 published energy price index rather than any generating unit owned by Ameren.
21

1 **Q₁₀ WOULD YOU PLEASE ADDRESS MR. SELECKY'S STATEMENT THAT THE**
2 **JOA PURCHASES REPRESENT ONLY 24% OF EDISON SAULT'S POWER**
3 **SUPPLY IN MWH, BUT COMPRISES 49% OF THE NET POWER SUPPLY**
4 **COST?**

5 **A₁₀** As I discussed in my direct testimony, Edison Sault minimizes its PSCR costs by
6 first maximizing its hydro generation, and then purchasing power under two 20
7 MW contracts (one with Consumers Energy Company (Consumers) and one with
8 WEPCO). The JOA power is purchased to meet Edison Sault's power supply
9 requirements that remain after the hydro generation and the two 20 MW
10 contracts are utilized. In essence, the JOA power is taken to meet Edison Sault's
11 peak power needs while the other sources are used to serve Edison Sault's base
12 load. Power purchased at peak times is more costly than base load power as
13 MISO dispatches lower generating units first, and then turns to higher cost
14 generating units to serve the remaining load requirements. Also, the base load
15 generation includes Edison Sault's own hydro generation and hydro generation
16 purchased from the US Corps of Engineers. That hydro generation has low
17 costs which lowers the percentage of costs of the base load generation.

18 **Q₁₁ MR. SELECKY CLAIMS THAT THE COST OF JOA CAPACITY IS NOT**
19 **REASONABLE. DO YOU AGREE?**
20

21 **A₁₁** No. The capacity resources under contract to WEPCo are made up of both
22 short-term and long-term purchase contracts. This approach provides long-term

capacity price stability as well as the flexibility to participate in short-term capacity markets as needed to fulfill capacity requirements.

Q₁₂ PLEASE DISCUSS MR. SELECKY'S PROPOSAL TO REDUCE POOLED CAPACITY COSTS BY 50%.

A₁₂ Edison Sault's 2006 PSCR plan included capacity payments for 35 MW of capacity purchased under the JOA at an annual cost of \$2,520,000, with \$280,800 of that cost allocated to Cloverland Electric Cooperative (Cloverland). Mr. Selecky proposes to arbitrarily exclude 50% of those capacity costs, claiming that Edison Sault does not derive any benefit from any energy that is produced by the pooled capacity. In so doing, Mr. Selecky is mistakenly combining the JOA provisions for capacity and energy, and proposes to not allow Edison Sault to recover actual costs that it incurs under the JOA. Pooled capacity costs increased by just 2.5% [4% with Dynegy] between 2005 and 2006. However, JOA energy prices have increased significantly due to increases in fuel costs. Mr. Selecky is suggesting that the MPSC penalize Edison Sault for increases in fuel costs by reducing the amount it can recover for pooled capacity costs.

Q₁₃ CAN YOU DESCRIBE THE CONCEPT OF CAPACITY AS IT RELATES TO JOA CAPACITY PURCHASES?

A₁₃ Capacity represents a physical asset that is capable of generating electrical power. A capacity purchase requires the seller of the capacity to transfer capacity rights to the buyer of the capacity. For example, if Company A

purchases 50 MW of capacity from Company B, which has 50 MW of excess capacity. Once the capacity is sold, Company B cannot count the 50 MW for its own capacity, since Company A owns the rights to it.

A capacity purchase does not provide the buyer with rights to the energy from the physical asset. If the buyer wants to also own the rights to energy from the physical asset, separate provisions for energy purchases need to be included in the purchase agreement. Such provisions could include full and exclusive dispatch rights to a specific generator with the buyer providing the fuel, as is the case for WEPCo's Zion and Elgin power purchase agreements. Another example of energy purchase under a capacity agreement is a day-ahead call option on energy, which is utilized in WEPCO's Ameren System purchase.

Electric utilities maintain capacity reserve margins based on guidelines established by regional reliability councils. These guidelines ensure that sufficient capacity reserve margins exist within the region. This may facilitate capacity transactions within the region, such that companies with excess capacity may sell the excess to other companies that are capacity-deficient. While ownership of the physical asset does not change, the amount of physical capacity assets that exist in the region is adequate to provide the required capacity reserve levels.

Q₁₄ DOES EDISON SAULT MAINTAIN A 15% CAPACITY PLANNING RESERVE MARGIN? IF SO, IS THIS APPROPRIATE GIVEN THE EXISTENCE OF THE MISO MARKET?

A₁₄ Prior to 2006, the Mid-America Interconnected Network (MAIN), which was the regional reliability council for WEPCo, recommended a 15% planning reserve margin. On January 1, 2006, Reliability First Corporation (RFC) replaced MAIN as the reliability council for WEPCo and Edison Sault. RFC is in the process of establishing its capacity reserve margin requirement, and requires its members to continue to follow the planning reserve guidelines of their predecessor Council for 2006 and 2007. This means the recommended planning reserve margin from MAIN in 2005 will continue to apply to Edison Sault during 2006 and 2007.

Regarding the need for a 15% reserve margin given the existence of the MISO market, it is possible that planning reserves could be reduced sometime in the future. RFC will take the impact of the MISO market into account as it finalizes the planning reserve requirements to take effect in 2008.

Q₁₅ DOES THE JOA CAPACITY PROVIDE ANY BENEFITS TO EDISON SAULT AND ITS CUSTOMERS?

A₁₅ Yes. Maintaining adequate capacity ensures that there are sufficient generating resources available to meet expected customer demands for power within an acceptable level of risk that there will not be a shortfall. As I described earlier, Edison Sault is part of the RFC reliability council, and as a member of this group Edison Sault is responsible for maintaining adequate capacity reserves. Since RFC members all maintain the required amount of capacity reserves, the entire group benefits from a more secure energy supply within the region. If one or

1 more members decide to carry less than the required reserves, the entire group
2 could suffer.

3 I have attached to my testimony as Exhibit A-7 a Staff discovery request
4 that I responded to concerning the consequences of not having the JOA
5 capacity. My response would be the same if the discovery request asked about
6 the consequences of arbitrarily removing 50% of the JOA capacity. Without such
7 capacity, Edison Sault's customers would be subject to substantial risks of
8 increased costs and service interruptions.

9 Mr. Selecky's proposal to eliminate \$1.120 million in PSCR capacity
10 related costs would represent an approximate \$40 annual reduction per customer
11 for Edison Sault's approximate 23,000 customers. The consequences of being
12 exposed to service interruptions would be a high price to pay for those
13 customers.

14
15 **Q₁₆ PLEASE ADDRESS MR. SELECKY'S COMMENTS REGARDING ENERGY**
16 **FROM THE POOLED CAPACITY.**

17 **A₁₆** Mr. Selecky is incorrect when he states that Edison Sault pays a pooled capacity
18 charge but does not receive any energy-related benefits. The JOA has specific
19 provisions for capacity and energy, but the energy provisions of the JOA do not
20 correspond with generation from the capacity resources. It is not uncommon for
21 contracts with capacity and energy to utilize a physical resource, or a group of
22 resources, for capacity purposes, and to have the pricing for energy be unrelated
23 to the cost of generation from that resource. It is also important to note that the

JOA has a cost cap of \$100/MWH for energy, which protects Edison Sault against extreme energy prices in the event of even higher fuel cost increases.

Energy can be taken by WEPCO from the pooled capacity, but WEPCO is not required to take such energy. This is important because much of the pooled capacity is natural gas fired peaking generators, which tend to have an energy strike price that is higher than the market price.

Q₁₇ MR. SELECKY CLAIMS THAT SPECIFIC POOLED CAPACITY RESOURCES WERE NOT APPROVED BY FERC. IS THIS TRUE?

A₁₇ Schedule C currently lists the single pooled capacity resource that existed upon execution of the original JOA. While it has not been updated to include the most recent pooled capacity resources, Edison Sault is provided with a list of the pooled capacity resources on an annual basis when the pooled capacity price calculation is performed [and has provided this information upon request to the MPSC]. FERC has not approved the specific pooled capacity charges in any case; instead, FERC has accepted the methodology in which pooled capacity resource costs are calculated. It is disingenuous to claim that the pooled capacity costs should not be recovered by Edison Sault because they were not approved by FERC, as Mr. Selecky does in his testimony. In addition, the MPSC has previously approved capacity charges in cases U-13114, U-13586, U-13914, and U-14271. Edison Sault also is seeking approval for the capacity charges in this case, indicating that an annual approval by FERC of pooled capacity cost calculations is not required.

Q₁₈ TO YOUR KNOWLEDGE, HAS THE COMMISSION REQUESTED UTILITIES TO ASSESS THEIR GENERATING CAPACITY?

A₁₈ Yes. The MPSC has issued orders directing electric utilities in Michigan, including Edison Sault, to submit assessments of their ability to meet the capacity needs of its customers. Edison Sault and Cloverland have jointly filed the capacity assessments for the past three years. The 2006 capacity assessment submitted to the Commission in Case No. U-14728, of which I was the primary author, is attached as Exhibit A-8. The capacity assessments state that Edison Sault's projected capacity includes a 15% reserve margin. If Edison Sault was to reduce its JOA capacity purchases by 17.5 MW (50% of the 35 MW being purchased in 2006), it would have inadequate reserve margins, and as a result, would be less likely to have sufficient capacity to meet its peak load.

Q₁₉ PLEASE DISCUSS MR. SELECKY'S PROPOSAL CONCERNING JOA ENERGY PAYMENTS.

A₁₉ Mr. Selecky recommends that the MPSC should arbitrarily adjust Edison Sault's PSCR Plan costs to reflect 25% of the JOA energy being purchased at WEPCO's average cost. As I stated earlier, JOA energy costs have risen due to higher fuel costs, so the proposal would penalize Edison Sault for increases in fuel costs that are beyond its control. Mr. Selecky's proposal to purchase power at WEPCO's average cost is inconsistent with the FERC approved JOA since the JOA calls for the use of marginal costs, which I described earlier. Neither Edison Sault nor WEPCo ever interpreted the "at cost" provisions of the JOA to mean

“average cost”. Mr. Selecky’s proposal that Edison Sault purchase the energy at WEPCo’s average cost would require WEPCo to charge Edison Sault the average cost of generation for all generators on-line during each hour. This pricing methodology would effectively allocate a portion of WEPCO’s energy from lower cost generating units to Edison Sault. If this were to happen, WEPCO would likewise want to receive the benefits of Edison Sault’s low cost hydro generation. The JOA contains a provision for the companies to explore the appropriate timing for a transition to a system-wide pool. Edison Sault has not supported a full pooling of generating resources as it wishes to retain the benefit of its own lower cost hydro generation for its Company and customers.

Q₂₀ DID WEPCO AND EDISON SAULT DISCUSS THE IMPACT OF THE MISO ENERGY MARKETS PRIOR TO THE APRIL 1, 2005 COMMENCEMENT DATE?

A₂₀ Yes. The commencement of the MISO energy markets were discussed at the September 17, 2003 meeting of the JOA Operating Committee. At that time, it was anticipated that the MISO energy markets (then referred to the Midwest Market Initiative) would become operational in the spring of 2004. Edison Sault and Cloverland were advised at that time that the MISO energy markets “affects anyone who moves power across the system – really anyone who buys and sells electric power.” At the September 28, 2004 meeting of the JOA Operating Committee Edison Sault and Cloverland were advised that the commencement of the MISO energy markets had been extended to March 1, 2005. This turned

1 out to be a month before the MISO energy market actual start date. WEPCo and
2 Edison Sault had multiple meetings between the 2004 JOA Operating Committee
3 meeting and the start of the MISO energy market.

4
5 **Q₂₁ ARE THE DATES OF THOSE DISCUSSIONS IMPORTANT TO THE ISSUES**
6 **IN THIS PROCEEDING?**

7 **A₂₁** Yes. The JOA contains a Term of Agreement section that provides that either
8 party, WEPCO or Edison Sault, may terminate the agreement upon twelve month
9 written notice to the other party. Given the advance notices of the developing
10 MISO energy markets, either party, WEPCO or Edison Sault, had sufficient
11 opportunity to cancel the JOA if they thought it was in their best interest to do so.
12 Neither party to date has given notice to cancel the JOA.

13 Mr. Selecky apparently believes that Edison Sault should not have agreed
14 to the JOA Amendment 2, and should have forced WEPCO to continue to
15 provide service under JOA Amendment 1 until proper notification of cancellation
16 was given. Edison Sault believes that the JOA continues to provide power at
17 competitive prices, and is not aware of better alternatives in the market place to
18 meet its energy and capacity needs. Edison Sault does not intend to cancel the
19 JOA under its present terms and current regulatory cost recovery procedures.

20
21 **Q₂₂ DID THE START OF THE MISO MARKET CAUSE EDISON SAULT'S JOA-**
22 **RELATED COSTS TO INCREASE.**

23 **A₂₂** Along with the benefits the MISO market, there are some costs associated with
24 participation in the MISO energy markets. However, these costs are very minor

when compared to the impact of higher fuel costs, especially natural gas, which began to push energy prices higher around the same time as the start of the MISO energy markets. Fuel cost increases have been the primary driver for higher JOA energy costs since early 2005.

Q₂₃ WOULD MR. SELECKY'S PROPOSAL THAT EDISON SAULT BE ABLE TO PURCHASE WEPCO'S EXCESS ELECTRICITY AT WEPCO'S COST TO GENERATE BE BENEFICIAL TO WEPCO OR TO EDISON SAULT?

A₂₃ No. First of all, Edison Sault has no rights under the JOA to purchase excess energy from WEPCo, from either the pooled capacity resources or other resources. Mr. Selecky incorrectly references section 6.02 of the JOA as part of his proposal. Section 6.02 deals with capacity resources, and as I noted previously the JOA has always treated capacity and energy separately.

Second, if WEPCo were required to offer its excess energy to Edison Sault, WEPCO would be forced to sell energy to Edison Sault at rates lower than what it would pay to provide the JOA energy in the MISO market. Under such a requirement, Edison Sault would anticipate that WEPCO would terminate the JOA Agreement, resulting in Edison Sault having to make alternative power supply arrangements. Current electric markets indicate that alternative power supply arrangements would be more costly than what Edison Sault is now incurring, with an added detrimental feature of subjecting itself and its customers to the vagaries of not having a firm delivery contract in place.

1 **Q₂₄ ARE WEPCO'S AND EDISON SAULT'S RESPONSIBILITIES UNDER THE**
2 **JOA DIFFERENT THAN THEY ARE WITH RESPECT TO THE 20 MW**
3 **CONTRACT WITH WEPCO?**

4 **A₂₄** Yes, they are different types of contracts. The intent of the JOA is to minimize
5 the cost of new power supplies for both parties. The 20 MW WEPCO contract
6 was a negotiated contract for power and energy and was signed in 1996 when
7 Edison Sault and WEPCO were not affiliated, and its terms are very favorable to
8 Edison Sault when compared to present market conditions. The JOA capacity
9 and energy prices, on the other hand, are updated on an annual basis.
10 Comparing the two contracts in terms of capacity and energy prices would
11 provide no meaningful basis for claiming that the JOA prices are excessive.

12 Inquiries by Edison Sault to extend the terms and to purchase more power
13 at the rates contained in the 20 MW contract have not been successful as
14 WEPCO also realizes that the present rates are currently below market prices.
15 Edison Sault and WEPCO are considering various alternatives for replacing the
16 power when that contract expires at its December 31, 2007 scheduled completion
17 date.

18 **Q₂₅ DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**
19

20 **A₂₅** Yes, it does.

1 JUDGE FELDMAN: Who has cross-examination
2 questions for this witness? Mr. Waters?

3 MR. WATERS: I do.

4 JUDGE FELDMAN: Mr. Strong?
5 Mr. Odunlami, do you have any questions for Mr. Baatz?

6 MR. ODUNLAMI: None, your Honor.

7 JUDGE FELDMAN: Who would like to go
8 first?

9 MR. STRONG: I'll go first.

10 JUDGE FELDMAN: All right.

11 CROSS-EXAMINATION

12 BY MR. STRONG:

13 Q Mr. Baatz, good morning.

14 A Good morning.

15 Q Just so the record is straight, I would like to ask you a
16 couple questions about the organization of your company.

17 Who owns it?

18 A Edison Sault is a wholly-owned subsidiary of Wisconsin
19 Energy Corporation.

20 Q And Wisconsin Energy is -- does that --

21 A It is a holding company.

22 Q O.K. And it owns what else?

23 A It owns a number of subsidiaries, including Wisconsin
24 Electric Power Company, Edison Sault Electric Company and
25 a variety of other smaller companies.

- 1 Q And it has the power to control the board of directors of
2 your company; is that correct?
- 3 A Yes. They own the stock, they can elect the board of
4 directors.
- 5 Q And they do?
- 6 A Yes.
- 7 Q And so the board of directors then appoints your
8 officers, including yourself; is that correct?
- 9 A Yes, they do.
- 10 Q And if your company makes any profits, are those profits
11 sent to the holding company?
- 12 A Well, they are either retained as retained earnings
13 either with Edison Sault Electric Company or paid as
14 dividends to the parent company.
- 15 Q And who would control the dividend policy?
- 16 A The board of directors adopts the dividend policy.
- 17 Q And the board of directors is controlled by the holding
18 company?
- 19 A Yes.
- 20 Q And if the holding company doesn't like what your company
21 is doing, they can replace the board of directors and the
22 officers; is that correct?
- 23 A Yes.
- 24 Q And in connection with your company's dividend history of
25 sending money to your holding company, can you tell us

1 approximately on an annual basis over the last five years
2 how much has been sent up?

3 A I believe over the last five years Edison Sault has paid
4 an annual dividend up to a million dollars to Wisconsin
5 Energy Corporation, and it's paid in normally four
6 quarterly installments.

7 Q And that's been fairly level over that period of time?

8 A It's been level over that period.

9 Q And could you tell us, as a percentage of the total
10 profits, what that consists of?

11 A It would be in the neighborhood of probably 45 percent of
12 the annual earnings have been paid in the form of
13 dividends, and that's over -- I'd say that's a fairly
14 rough percentage.

15 Q Now, all of the profits of your company come from
16 business conducted here in Michigan?

17 A Edison Sault's operations are in Michigan. Edison Sault
18 also has other investments, primarily consisting of our
19 ownership interest in American Transmission Company;
20 Edison Sault owns approximately four percent of that
21 company. It's a -- and we get the, as a stockholder, we
22 get or we participate in the earnings of American
23 Transmission Company or ATC, as they're commonly called.

24 Q And ATC is primarily located in Wisconsin; is that
25 correct?

1 A Well, they have transmission assets throughout primarily
2 Wisconsin, but also in the Upper Peninsula of Michigan,
3 and then a limited extent of, I believe, of small
4 facilities in Illinois, perhaps some in Minnesota.

5 Q But perhaps 90 percent of their assets are located in
6 Wisconsin?

7 A I'm not sure of that. I'll agree with you the
8 predominant amount is in Wisconsin. I don't know what
9 the percentage of the Upper Peninsula transmission assets
10 represent of the total.

11 Q O.K.

12 A The high percentage would be Wisconsin, I'll agree with
13 you there, with that statement.

14 Q And what kind of dollars are coming to your company as a
15 result of your four-percent ownership in ATC?

16 A I don't have that information with me. We could check it
17 out in our financial records, but --

18 Q It's not much, right?

19 A I don't think I agree with your characterization it's not
20 much. It is -- our investment, Edison Sault's investment
21 in American Transmission Company is a substantial part of
22 our total capital, our total investments.

23 Q O.K. In terms of the \$2 million that you send to ATC --
24 or I'm sorry -- to Wisconsin in terms of the dividend,
25 what percentage or makeup is the dividends that you in

1 turn receive, and by you, I mean your company, receive
2 from ATC?

3 A I don't have that information. You know, it's -- I don't
4 have it here with me. It's not a part of the PSCR
5 proceedings that we're participating, so I don't have
6 that information readily available. But it could be
7 derived if needed.

8 Q O.K. But it probably is not that significant in terms of
9 the \$2 million that you send to Wisconsin each year?

10 A I wouldn't agree with that characterization. It's a
11 substantial part of Edison Sault's total income. And it
12 could be roughly, again, I'm -- our ownership interest in
13 ATC is in the neighborhood of probably maybe between 40
14 to 50 percent of Edison Sault's total investments.

15 Q Now --

16 A If I can explain. You want me to elaborate further?
17 Because when ATC was formed, Edison Sault took its
18 transmission assets, which were fairly substantial, and
19 contributed all those to American Transmission Company,
20 and in lieu thereof, Edison Sault received an ownership
21 interest. And the Edison Sault transmission assets were
22 a very substantial part of Edison Sault's total
23 operations, maybe roughly constituting 40 to 50 percent
24 of our investment. And then since that time, ATC,
25 they've made increased investments in the transmission

1 business, both from their own operations and their return
2 earnings, and ATC has also asked for additional capital
3 contributions from some of the owners, and Edison Sault
4 has participated in some of those additional capital
5 contributions. So our investment in ATC has continued to
6 grow over the years, even since the time that we
7 contributed the transmission assets to ATC.

8 Q Are you done elaborating?

9 A Yes.

10 Q O.K. In terms of your transmission assets, was one of
11 the major assets the line that goes from, you know, let's
12 say, Edison Sault service territory to the west, the big
13 line that was put in, let's say, within the last ten
14 years?

15 A Yes, that was one of the major investments, yes.

16 Q O.K. And that's now owned by ATC?

17 A Yes.

18 Q And ATC is part of MISO; is that correct?

19 A Yes, they are.

20 Q And MISO is the organization that basically goes to FERC
21 and sets the rates for transmission and ancillary
22 services?

23 A Yes, they do.

24 Q And your company pays whatever they have to in terms of
25 rates; is that correct?

1 A Well, there are certain fees that we pay according to
2 their tariffs. There's a -- there's other provisions
3 that are at issue in this case that we pay rates based
4 upon the MISO established charges.

5 Q O.K. And does that consist of roughly 32 schedules and
6 separate charges for each of those schedules?

7 A I know there are numerous schedules, I don't know the
8 exact number. And some, but not necessarily all of the
9 32 may pertain to Edison Sault's.

10 Q But whatever those schedules are, either 31, 35 or
11 whatever else, you pay those charges?

12 A And they're -- and those charges, can we say they are --
13 Wisconsin Electric Power acts on our behalf, on Edison
14 Sault's behalf as the market participant in MISO. Some
15 of those charges may be first paid, billed to Wisconsin
16 Electric Power, and Wisconsin Electric Power may in turn
17 charge Edison Sault for those amounts. So we pay them,
18 and we may pay them indirectly.

19 Q And then those charges get trued up, you know, 180 days,
20 90 days, whatever the provisions are, after the initial
21 bill is sent out, right?

22 A MISO has true-up procedures on some of their charges,
23 that's correct. And true-up charges can follow at a
24 later point in time.

25 Q And as far as 180 days after they've been actually

1 billed?

2 A MISO again has true-up procedures; I'm not familiar of
3 all the timing, all the dates, but they, it's my
4 understanding that they will issue bills for energy
5 basically very shortly after a day is transpired, then
6 we'll have another period or a week later they'll have
7 true-ups to that, and maybe a month later they'll have
8 further true-ups to that, and there's also then
9 opportunities for utilities or any market participant to
10 challenge the bills or ATC. So as long as it may take to
11 resolve any of those challenges, adjustments to the
12 billing process may be going on.

13 Q Now, there's an agreement between your company and the
14 Wisconsin Company which I think you refer to as the JOA?

15 A That's correct. The JOA stands for Joint Operating
16 Agreement.

17 Q And when was that first entered into?

18 A It was entered into the year, entered into during the
19 year 2000, and it became effective January 1, 2001.

20 Q And there have been certain amendments to that agreement,
21 correct?

22 A Yes, there have been two amendments.

23 Q And the first amendment was entered into when?

24 A I believe I have that in my testimony with the exact
25 date. But the first amendment was an amendment to allow

1 Edison Sault and Wisconsin Electric to jointly
2 participate in the purchase or the acquisition of
3 renewable energy, and it was designed to help -- Edison
4 Sault had filed with the Michigan Public Service
5 Commission a voluntary renewable energy tariff, and it
6 gave Edison Sault an opportunity to participate with WE
7 Energies in the purchase of renewable energy.

8 Q O.K. But the JOA basically said you could, in terms of
9 your company, could purchase energy from the Wisconsin
10 Electric Company at specified prices, correct?

11 A When you say specified prices, there was specified
12 pricing conditions.

13 Q Were any of those pricing conditions in effect at the
14 time that this original agreement was set up that
15 referred to MISO LMP pricing?

16 A No. The original one became effective in, like I said,
17 signed during the year 2000, became effective in 2001,
18 well before the MISO, before the MISO markets and others
19 became operational.

20 Q O.K. Just so the record is sort of complete, could you
21 explain MISO pricing and define in terms of Day 1 and
22 then Day 2, and in connection with Day 2, talk about the
23 first 60 days in terms of what pricing conditions were in
24 effect then. You want me to break that down to --

25 A Yeah, if you would.

1 Q O.K. MISO set up a market, an energy market, did it not?

2 A Yes. MISO set up an energy market approved by the
3 Federal Energy and Regulatory Commission, and it became
4 operational April 1, 2005.

5 Q Was that considered, or at least in the jargon of energy,
6 Day 1 pricing?

7 A There is, and actually I believe they call it Day 2
8 pricing, but it's, they're -- within the MISO, there is
9 pricing conditions for what they call both a day-ahead
10 market and a realtime market. And utilities -- the MISO
11 market pertains to both utilities and generators. Each
12 date MISO will have generators or owners of generating,
13 electric generating equipment can bid their available
14 generation into the market. Each day utilities or
15 load-serving entities, users of electricity, can bid
16 their requirements into the MISO market. MISO takes
17 those into account, both those bids and those requests
18 for energy, and resolves all the market price basically
19 for every hour of the day, and they will identify which
20 generators have, will be operating and which generators
21 will be not. That essentially is what they call a, MISO
22 calls the day-ahead market or the market for the
23 following day.

24 MISO then also operates what's called a
25 realtime market. A realtime market may be that electric

1 loads are not always exactly predictable, and if the
2 electric load is either higher or less than what a
3 utility has bid into the market, that either additional
4 generating requirement or maybe even excess will be
5 priced at a realtime market. Generators can maybe have,
6 may have bid their generation into the market, but
7 because of operating conditions or other things, they may
8 not be able to meet the load that they've qualified for,
9 so to the extent that they have variances in their
10 generation, the differences is made up in a realtime
11 market.

12 The realtime market is also run by the
13 MISO, it is essentially an economic dispatch of all the
14 generating resources within the MISO footprint. And the
15 MISO footprint is a broad midwest market, it considers
16 most of the generations of the states of Michigan,
17 Wisconsin, Minnesota, a good share of Iowa, a good chunk
18 of Illinois, Indiana, Kentucky, Missouri, the province of
19 Manitoba, so it's a very broad, a very broad generating
20 market.

21 Q And your testimony today is that prior to April 1st of
22 2005, there was no other MISO market; is that correct?

23 A No. The MISO market became operational April 1, 2005.

24 Q O.K. And what were the pricing provisions that applied
25 April 1 of 2005?

1 A Well, prices are established according to the
2 FERC-approved tariffs of MISO. The main MISO provision
3 is called a locational marginal price. Locational
4 marginal price is a marginal cost basing component, and
5 it's based upon the cost of generation in an area, and it
6 also consists of components for transmission, both
7 transmission losses and an analysis of transmission
8 congestion, and the sum of those three components becomes
9 the locational marginal price in any pricing area or
10 pricing node.

11 Q O.K. On April 1st, 2005, what could generators charge
12 for generation?

13 A The generators would bid their generation into the MISO
14 market as a -- MISO would make the determination of
15 which, what bids would be accepted and MISO would
16 establish a, based upon all the bids, would determine
17 which bids were accepted, which ones were not. The bids
18 that were accepted, everybody received the locational
19 marginal price. It's the marginal cost, and it's
20 essentially, it's the highest marginal cost of all the,
21 of all the lowest bids that were accepted.

22 Q In terms of the bids that were accepted, obviously they
23 were based upon the cost that was bid in. Could you tell
24 us, you know, was it based upon the last bid that was
25 accepted?

1 A It is a marginal cost basis, and MISO will accept the
2 last bid that was accepted and needed. What I mean by
3 that, there may be bids submitted that are both lower and
4 higher than the final bid. All the bids that were
5 submitted up to the final one selected would receive the,
6 basically the generation bid component of the locational
7 marginal price. Bids that were higher than the,
8 basically the clearing price would not be accepted.

9 Q O.K. But in terms of the clearing price, in other words,
10 the last price that was accepted in terms of the bid,
11 would everybody that had submitted offers that were lower
12 than that be paid that price?

13 A That's the way the MISO market as approved by FERC works,
14 yes.

15 Q O.K. And so did your company bid in your entire
16 resource, including the hydros?

17 A Wisconsin Electric on behalf of Edison Sault does submit
18 the Edison Sault generation into the bid, bids it into
19 the market, including our hydros are bid in.

20 Q And is there some agreement that you've given Wisconsin
21 Electric the power to bid in your generation?

22 A They are the MISO market participant. There was a
23 registration process at MISO, and we, Wisconsin Electric
24 was identified as the market participant, including for
25 the Edison Sault-owned generation.

1 Q O.K. So they basically, in terms of the interaction with
2 the market, control everything that you all own; is that
3 correct?

4 A I wouldn't say they control it, but they do, they do
5 submit the bids on our behalf.

6 Q Financially they control it; is that correct?

7 A Well, they're acting as our agent.

8 Q O.K. Do you have an agency agreement with them?

9 A We have a number of agreements. We have a number of
10 service agreements, and also beyond power agreements.
11 So -- and we, and it's even identified in our Joint
12 Operating Agreement that Edison Sault pays an operating
13 fee for WE Energies doing this work on our behalf.

14 Q So in other words, you pay Wisconsin Electric to bid in
15 Edison Sault's capacity to the market that is organized
16 and operated by MISO?

17 A That's one of the activities that they do on our behalf
18 and we pay a fee for.

19 Q And how much is that fee?

20 A It's roughly \$70,000 a year.

21 Q And then the JOA between Edison Sault and Wisconsin
22 Electric, that had a second amendment; is that correct?

23 A Yes.

24 Q And that amendment was approved by your board of
25 directors?

1 A It was signed by both Wisconsin Electric and Edison Sault
2 and filed with FERC. So it was a negotiated amendment.
3 And in return, filed with the Federal Energy Regulatory
4 Commission and subsequently approved by the FERC.

5 Q You said a negotiated amendment. If your board and your
6 officers in terms of Edison Sault are controlled by
7 Wisconsin Electric, how is that negotiated?

8 A Well, there is a JOA operating committee that reviews the
9 Joint Operating Agreement. When there has been a need to
10 amend the Joint Operating Agreement, the parties get
11 together, this may be done both in formal meetings or it
12 may be done through discussions, either by telephone or
13 e-mail or other conversation, and drafts of documents
14 will be prepared and circulated for comment, you know,
15 from both parties until an agreement can be reached.

16 Q O.K. And your board is serving at the discretion of
17 Wisconsin Electric, correct?

18 A Of Wisconsin Energy.

19 Q O.K. And that's the holding company?

20 A Yes, the holding company.

21 Q That controls both Wisconsin Electric and Edison?

22 A That's true.

23 Q Now, in your rebuttal testimony, you talk about, this is
24 on page 4, system incremental costs. And you testified,
25 or at least stated here, that that was an inaccurate

1 measure of WEPCo's cost to provide JOA energy to Edison
2 Sault. Do you see that?

3 A Yes.

4 Q Did WEPCo divest or sell its generation after the Day 2
5 pricing started?

6 A No.

7 Q So it controlled its own generation?

8 A Yes.

9 Q And it could sell it into the MISO market or sell it
10 someplace else if it chose, correct?

11 A When you say they control it, Wisconsin Electric Power is
12 also regulated by both the Michigan Public Service
13 Commission and the Wisconsin Public Service Commission.
14 You know, they may have to seek jurisdictional approval
15 before they, you know, take generating facilities that
16 are predominantly dedicated to serving retail and
17 wholesale customers, so they just can't take it and sell
18 it off system.

19 Q Why not?

20 A Well, they have an obligation to serve the customers.

21 Q O.K.

22 A And I think that obligation would take precedent before
23 they would sell it off to someone else. For example, if
24 Wisconsin Electric had identified a low-cost generating
25 unit and said, well, we just want to sell on the market,

1 I think they would likely require either the Michigan
2 Commission approval or the Wisconsin Public Service
3 Commission approval to do that. The commissions are
4 obviously going to be interested in whether the retail
5 customers are protected or not.

6 Q Mr. Baatz, in terms of the operating circumstances
7 surrounding owned generation, are there a couple of
8 options available to a company, such as self-scheduling
9 power or selling it into MISO and then buying back at
10 MISO prices?

11 A I'm not familiar with all of the MISO procedures, because
12 certain units are identified in different categories,
13 like plants may be identified, like the Edison Sault
14 hydro plant I understand is dedicated as a must-run
15 generating unit because it's hydro, we don't really
16 affect the output, even though the load is basically put
17 in and scheduled at MISO. Basically the plant will run,
18 it's designated a must run, but whatever output we have
19 will be considered in the market.

20 You know, I think your question got
21 into -- may I ask you to repeat your question?

22 Q Well, are there options available to market
23 participants -- and I understand that your company is
24 controlled, you have an agency agreement with Wisconsin
25 Electric. Can Wisconsin Electric choose to say we're

1 going to designate a couple of units or generation
2 resources as must run, can they self-schedule generation,
3 and can they sell it just into MISO?

4 A I'm not aware of all of the MISO requirements or
5 restrictions on generation. But basically the, all the
6 generation is really bid into the MISO market. I think
7 your question may kind of approach I think does Wisconsin
8 Electric have the ability to vary from the MISO any of
9 those schedules approved by MISO, and in that regard, I'm
10 not really familiar with all the details or any
11 restrictions that may pertain to generators. But
12 Wisconsin Electric does have the ability to bid whichever
13 generating units they want to put into the MISO system.

14 Q O.K. Looking at the generation owned by Edison Sault,
15 can you explain, have you just basically given Wisconsin
16 Electric total carte blanche authority to do whatever
17 they want to do within the parameters of whatever is set
18 up by MISO in terms of bidding that or dealing with the
19 generation?

20 A Well, we advised with them, consulted with them on what
21 is the best and most appropriate way to bid in the Edison
22 Sault generation, and the Edison Sault generation
23 consists of our hydro plant, which basically it's our
24 objective to maximize that generation because it's one of
25 the lowest cost resources. Edison Sault also does own

1 two very small diesel oil generating units which are very
2 high priced. We've consulted with Wisconsin Electric on
3 what's the appropriate price for those diesel generating
4 units to be bid in. And when oil prices rose
5 considerably last year, we had, Edison Sault consulted
6 with Wisconsin Electric, said we need to raise the price
7 because the cost of diesel fuel had increased
8 substantially and we had to raise the price which those
9 units were being bid at.

10 Q O.K. But I guess my point is, have you transferred
11 authority from Edison Sault to Wisconsin Electric to
12 basically bid in or in essence participate in the market
13 for all of the Edison Sault owned generation?

14 A Well, again, they are operating as our agent to get us
15 the most favorable prices for that. And your question is
16 saying, have you transferred the authority; and if we
17 ever thought that was, Wisconsin Electric was not
18 operating in our best interest, we could rescind that
19 authority or to not have them operate as our agent. We
20 have not had a need to do that.

21 Q Does the JOA transfer the authority from your control in
22 terms of being Edison Sault to Wisconsin Electric?

23 A I wouldn't characterize it as that. It's a way of, you
24 know, Edison Sault and Wisconsin Electric jointly
25 participating in purchasing, predominantly for purchasing

1 power to get the most favorable price for both entities.

2 Q And by the most favorable price, what do you mean?

3 A Well, both Wisconsin Electric and Edison Sault are net
4 purchasers. We identify the amount of basically capacity
5 we need to purchase each year. Wisconsin Electric then
6 goes out and bids that or purchases or acquires that
7 generation on behalf of both Edison Sault and themselves,
8 and then each party is allocated a percentage of that, of
9 the contracts that are purchased.

10 On the generating side, the electric
11 units or the generating of the energy is all operated on
12 a, basically on an incremental cost basis, now basically
13 under the operation or the direction of the MISO energy
14 markets. But it's also an attempt to acquire the energy
15 in the most favorable, you know, favorable way possible.

16 Q Now, would you, within the confines of Edison Sault, be
17 most familiar with the operation of the MISO tariff?

18 A Of the individuals at Edison Sault?

19 Q Yes.

20 A I would probably be, you know, among those who are
21 probably the most knowledgeable. I probably have more
22 working knowledge of it than any other employee at Edison
23 Sault.

24 Q Are you familiar with the term self-scheduling?

25 A That one, I'm not really. I've heard of that term, but

1 I'm not really familiar with the self-scheduling term.

2 Q Can you tell me what attachment to the MISO OATT Edison
3 Sault operates under?

4 A I can't give you a specific attachment number.

5 Q Do you -- well, let me ask this: Have you read the OATT
6 that is the overall blanket, if you will, for MISO
7 transactions?

8 A I've read various parts and summaries of their
9 procedures. I have not read their entire tariff.

10 Q And you can't tell us what attachment Edison Sault is
11 operating under?

12 A I don't know the name of the exact attachment, no.

13 Q Now, in the JOA, are there a number of specific Wisconsin
14 Electric units designated?

15 A The JOA basically took the, identified the generating
16 units that were owned by Wisconsin Electric and Edison
17 Sault as of a particular date, and I believe that date
18 was July 1 of the year 2000, and generating units that
19 were owned by Wisconsin Electric or power supply
20 contracts that were under the control of Wisconsin
21 Electric were assigned to Wisconsin Electric, generating
22 units that were owned by Edison Sault or power supply
23 contracts that were under the direction of Edison Sault
24 were assigned to Edison Sault.

25 Q Did those particular resources have a specific generation

1 output cost at that date?

2 A Yes, they would have.

3 Q And you could determine what the cost of energy would be
4 out of those particular specified units, correct?

5 A Well, we may have generating -- it may have been power
6 contract, but like, for example, Edison Sault owned its
7 hydroelectric plant. We can do calculations what the
8 power supply costs were coming out of the Edison Sault
9 hydro plant.

10 Q In dollars per megawatt hour?

11 A It would vary each year because you have your, with the
12 generating plant, you have capital costs, you have
13 operational costs, you have, in our case, water lease
14 payments. So the costs may vary from year to year, but
15 you can identify those costs.

16 Q But specifically in dollars per megawatt hour?

17 A And then you could do a calculation.

18 Q Yes or no?

19 A Well, you can do a calculation and determine a cost per
20 kilowatt hour. And we report that data every year to
21 both the FERC and Michigan Public Service Commission on
22 the Form 1. There's a calculation of operating costs per
23 kilowatt hour. The output may change from year to year,
24 so that would affect any of that cost calculation. So
25 the calculations can be done.

1 Q O.K.

2 A They are just not, they're not established or always
3 fixed, or they can vary from year to year, they can vary
4 from month to month or week to week, depending upon the
5 operation and output of a generating unit.

6 Q Understanding all of that, are you familiar with the term
7 system cost versus unit cost?

8 A Yes.

9 Q O.K. Can you determine a unit cost for the specified
10 generating sources in the JOA?

11 A The JOA did two things when you talk about the generating
12 resources identified. As of this date of, which I
13 believe was July 1, 2000, all the generating resources in
14 Wisconsin Electric were assigned to Wisconsin Electric
15 and all the generating resources of Edison Sault were
16 assigned to Edison Sault.

17 Q Can you determine a unit cost for those generating
18 sources?

19 A I don't have a need to. But those costs can be
20 determined, and I said they are determined and reported
21 to the commissions in the FERC Form 1 every year.

22 Q O.K. Were the actual unit costs of the generation
23 resources identified in the JOA lower than the costs or
24 the payments made by Edison Sault to Wisconsin Electric?

25 A Could I have that question reread?

1 Q Here, I can restate it. Starting I think you said July
2 1st, 2001, the resources identified in the Joint
3 Operating Agreement, did Edison Sault pay Wisconsin
4 Electric more than the actual costs incurred by those
5 units to generate electricity?

6 A First, the date of that assignment was July 1 of 2000, I
7 believe you said 2001. But basically what was identified
8 as the generating units that Wisconsin Electric owned
9 would stay with Wisconsin Electric, the generating that
10 Edison Sault owned would stay with Edison Sault. And let
11 me say, that works to Edison Sault's advantage because
12 Edison Sault has our low-cost hydroelectric plant, we
13 also purchase power from the U.S. Corps of Engineers
14 hydro plant, which is also very low cost, and we have two
15 other power supply costs which are, in today's terms, are
16 also very low. So those low-cost generating units and
17 low-cost contracts stayed with Edison Sault and to the
18 benefit of Edison Sault.

19 Now, Wisconsin Electric may have some of
20 its generating units. For example, Wisconsin Electric
21 owns the Point Beach nuclear unit; it's a nuclear unit
22 built many years ago, probably fairly well depreciated,
23 has low fuel costs, and probably I would identify now
24 it's probably a low-cost unit for Wisconsin Electric.
25 That unit stayed with Wisconsin Electric.

1 The power that was purchased under the
2 Joint Operating Agreement was not really those units, it
3 was the incremental needs of both Edison Sault and
4 Wisconsin Electric. The companies have identified their
5 additional power needs and go out and buy additional
6 capacity and allocate that to the two parties.

7 Q You state in your testimony that specific capacity
8 resources are utilized to calculate the cost of pooled
9 capacity; is that correct?

10 A Yes.

11 Q O.K. And what specific capacity resources are you
12 referring to?

13 A Well, and there's been a number of discovery, but of new
14 capacity that was required after this date of July 1 of
15 2000, and there are about five power supply contracts
16 that were listed, Wisconsin Electric went out and
17 acquired power from other entities, including there are
18 some contracts listed from, like they call the Zion
19 units, the Ameren system and others that they've
20 acquired.

21 Q O.K. And --

22 A And we provided that in the discovery in this case, what
23 the pooled capacity generating units were and their
24 capacity.

25 Q O.K. And you can't tell us on the stand what those units

1 are?

2 A I don't have the document up here, but we have it right
3 here in the hearing room.

4 Q O.K. And between 2000 and, say, to date, did any of
5 these specified power resources change ownership?

6 A There have been, of the contracts that have been
7 purchased from the company, both the volume as purchased
8 as the load requirements of Wisconsin Electric and Edison
9 Sault have increased, and so we've had new contracts
10 negotiated and with new parties.

11 Q O.K. What new parties?

12 A Well, one of the parties was the, Wisconsin Electric is
13 also now purchasing power from the, one of the combined
14 system generating units under the Power for the Future
15 program that was approved by the Wisconsin Public Service
16 Commission.

17 Q I wanted to go back to ownership. Did any of the
18 specified resources that were, let's say, referenced in
19 the JOA as of July of 2000 change ownership between now
20 and today?

21 A Well, there have been new parties -- of the units that
22 were identified, and there was a listing of the units
23 that were identified as of the year 2001, what were
24 identified as the intended system purchases back then,
25 those generating units may or may not have been, turned

1 ownership, because they were with outside suppliers. I
2 don't know all the ownership of all the outside
3 suppliers, so to the that extent, I don't know the answer
4 to your question.

5 Q With respect to the Wisconsin Electric specified units,
6 did those change ownership between 2000 and today?

7 A And I said -- I don't know. They were contracts with
8 some outside parties, and I don't know if the ownership
9 of these outside parties changed or not. There's been a
10 lot of -- nationally you read in the press there's been a
11 lot of changeover and sale and reorganization activities
12 of, let's say, outside generators, non-utility
13 generators, there's been a number of bankruptcy
14 proceedings of those non-utility generators, and I don't
15 know who ended up being the resultant owner of those
16 facilities.

17 Q O.K. Must be my fault, but I thought I asked a question,
18 and I'll try to rephrase it now. In terms of the
19 Wisconsin Electric specified units under the JOA as it
20 was initially drafted and put in place in year 2000, have
21 those units been sold or has there been a change in
22 ownership?

23 A Of the units that were identified for Edison Sault
24 ownership, none of those have changed ownership.

25 Q No. My question --

1 A Of the units designated by Wisconsin Electric that were
2 assigned to Wisconsin Electric, it is my understanding
3 that none of those have changed ownership. Some of them
4 may have been retired, because through the Power for the
5 Future Wisconsin program, Wisconsin Electric was retiring
6 several of their older generating units and building
7 newer, more modern generating facilities.

8 Q O.K. Let me try to rephrase it again. You talk about in
9 your testimony the pooled capacity. Do you recall that?

10 A Yeah. The pooled capacity now is another, you know, term
11 of generation. There are basically --

12 Q Have --

13 A I'm saying there's three camps here really, or assets of
14 generating units; one group that pertained to Edison
15 Sault, one group that pertained to Wisconsin Electric,
16 and both of those were assigned as of this date, July 1,
17 2000, and then additional requirements of the parties
18 beyond those two sets of generation were this pooled
19 capacity.

20 JUDGE FELDMAN: And it's the pooled
21 capacity resources that you say in your rebuttal
22 testimony were listed in this Schedule C of the JOA?

23 A Yeah. They were initially listed in a Schedule C for
24 that year, as of 2001, but the composition and the amount
25 of that will change from year to year as more capacity

1 may be needed.

2 Q (By Mr. Strong): Mr. Baatz, have any of the units --

3 A And then I'm saying --

4 Q -- in Schedule C changed ownership between 2001 --

5 A -- they were done --

6 JUDGE FELDMAN: Mr. Baatz, I'm sorry to
7 interrupt you, but you have to let Mr. Strong finish his
8 question before you attempt to answer, otherwise we'll
9 have a very muddled record.

10 A Thank you.

11 JUDGE FELDMAN: Mr. Strong, please
12 continue.

13 Q (By Mr. Strong): Have those units been sold or has there
14 been a change in ownership? That's a very simple
15 question.

16 A And I don't know exactly whether they have or have not.

17 Q And you're in charge of power supply for Edison Sault,
18 correct?

19 A I am for Edison Sault, that's correct.

20 Q Now, starting April 1st, 2005, would you agree that that
21 was the beginning of Day 2 pricing?

22 A Yes.

23 Q And prior to that, there was Day 1 pricing, correct?

24 A Well, for Edison Sault, prior to that we were purchasing
25 power from Wisconsin Electric under the terms of the

1 Joint Operating Agreement Amendment 1.

2 Q O.K. And that had absolutely no relationship to MISO
3 Day 1 pricing; is that correct?

4 A Other than we were to pay for some transmission-related
5 services that MISO would be preparing, like overall
6 coordination of the transmission system. We generally
7 weren't paying MISO-related charges or MISO-determined
8 charges prior to April 1 of 2005, with the exception of
9 the transmission services. But there are, MISO was not
10 operating the Day 2 power markets.

11 Q O.K. And can you tell us what the pricing provisions
12 were under Day 2 pricing beginning April 1st, 2005?

13 A Our contract with Wisconsin Electric was amended, filed
14 with FERC, and approved to reflect the, or reflect that
15 the locational marginal prices as determined by MISO,
16 particularly in their two markets, both the day-ahead
17 market and the realtime prices, would be used as the
18 marginal cost of energy that was purchased from or by
19 Edison Sault.

20 Q O.K. And were there, beginning April 1st, 2005, were
21 there any restrictions on the prices that could be bid
22 into the MISO market?

23 A The utilities have latitude to bid their units in. MISO
24 does have restrictions, they have what's called an
25 independent monitor to make sure that utilities don't,

1 well, I'll say don't rig the market. So that there are
2 limits on what utilities, you know, can and can not do as
3 far as bidding.

4 Q O.K. That being said, were there any restrictions that
5 you're aware of in terms of what the bid prices could be
6 between April 1st and June 30th of 2005?

7 A Between April 1 and June 30th of 2005, the utilities
8 could bid in their units at a price at which they're
9 willing to sell power for.

10 Q O.K. Fair enough.

11 JUDGE FELDMAN: This might be a good
12 place to take a morning break. We'll come back in 15
13 minutes.

14 (At 9:57 a.m., a 15-minute recess was taken.)

15 JUDGE FELDMAN: Back on the record.
16 Mr. Strong, you can continue.

17 Q (By Mr. Strong): Mr. Baatz, are there some firm source
18 power supply contracts that Edison Sault has with
19 Consumers Energy Company, with the Army Corps of
20 Engineers and with Wisconsin Electric?

21 A Yes. And I cited those in my direct testimony. We have
22 power supply contracts with each of those.

23 Q O.K. And those are at firm prices, in other words, it
24 doesn't fluctuate as opposed to some of the other sources
25 that you have?

1 A The prices can fluctuate somewhat. The firm supply power
2 contract with Wisconsin Electric, there's a price
3 established for each year of the ten-year contract, and
4 the contract with Consumers Energy currently has a firm
5 demand charge. The energy price varies depending upon
6 Consumers Energy's fuel costs. And the U.S. Corps of
7 Engineers' contract provides for an annual payment, but
8 there can be credits taken off that annual payment if the
9 individual generating units are out of service for any
10 prolonged period of time.

11 Q O.K. With those caveats, I mean those are pretty firm
12 prices versus the price that you all pay to Wisconsin
13 Electric that is pegged at the MISO LMP price, correct?

14 A Yeah, those contracts are all relatively fixed and they
15 are, I'll say they are very favorable prices to Edison
16 Sault and our customers.

17 Q Now, are there any times at which the amount of energy
18 that could be called upon under those firm or relatively
19 firm contracts is in excess of the amount needed by
20 Edison Sault?

21 A Yes, sir, it can be.

22 Q And so if there is an excess amount of capacity available
23 to Edison Sault over and above the actual demand needed
24 by Edison Sault, what happens with that energy?

25 A Edison Sault sells that energy back to Wisconsin Electric
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1 Power under the provisions of the energy pricing schedule
2 of the FERC-approved JOA agreement.

3 Q Now, when it sells it back, is there a credit that is
4 generated to the benefit of Edison Sault?

5 A Well, it's a sale, yes, and that sale acts as a credit in
6 the PSCR proceedings.

7 Q O.K. And where specifically is that credit noted in the
8 exhibits?

9 A Just give me one minute, please. If you refer to Exhibit
10 A-1, page 1, and line 22, there's an item captioned last
11 JOA interchange deliveries. Those amounts represent
12 Edison Sault's deliveries of power back to WE Energies.

13 Q And those figures are in dollars times --

14 A The amounts on Exhibit A-1, page 1 of 4, page 1 is
15 dollars, page 2, it's going to be in a different line on
16 page 2, is megawatt hours.

17 Q And are the prices or the amounts credited on line 22 of
18 Exhibit A-1, page 1 of 4, at MISO LMP prices?

19 A They are now, yes.

20 Q O.K. So in April of 2005 -- I'm sorry. Is that 2005 or
21 2006?

22 A That's a forecast for the year 2006. There's an amount
23 listed there of 0.5 or \$500 of energy is sold back.

24 Q And there's nothing for the first three months?

25 A Our forecast had nothing for the first three months,

1 that's correct.

2 Q And why is that, was there a change in the MISO pricing?

3 A No. It's more the operating characteristics of our
4 system. Edison Sault is a winter peaking electric
5 system, and our loads are generally higher in the
6 wintertime. Also during the wintertime is a time that we
7 have the least water available for hydroelectric
8 generation, so our own generation sources are generally
9 less. So our load is, from both the Edison Sault owned
10 generation plus the firm contracts that you mentioned are
11 not sufficient to carry a load, so we are purchasing
12 power from WE Energies under the Joint Operating
13 Agreement 24 hours a day for the entire month.

14 As we get into the later part of the
15 year, more particularly in the spring and summertime, a
16 couple events tend to happen: First, the Edison Sault
17 load is not as high; but secondly, we normally have more
18 water available for generation, so we're able to generate
19 more power. And what happens in our load is,
20 particularly on early in the morning, from maybe it could
21 be 1:00 in the morning, 2:00, 3:00, 4:00 in the morning,
22 the Edison Sault load is very low, but we're still able
23 to generate this power with the hydroelectric sources,
24 that our generation sources exceeds our needs, and during
25 those hours, the early hours of the morning or

1 particularly sometimes on the weekends when the Edison
2 Sault load is down, we have generation excess for our
3 needs and we sell that generation back to WE Energies.

4 Q O.K. And in terms of, let's say, this April date on
5 Exhibit A-1, page 1 of 4, that amount in terms of the
6 forecast was predicated on the MISO LMP price for that
7 particular month?

8 A The contract provides for that the energy pricing is set
9 at the JOA or the MISO LMP price. Prior to the MISO
10 operating market, we were taking the highest marginal
11 cost of energy purchased under our unit and using that as
12 the average cost. And because we're selling this power
13 back at very off-peak times, it's a relatively low
14 marginal cost, and I believe we continue to use the price
15 under our, that was established in our power supply
16 contract as a proxy for what the MISO LMP price would be.

17 Q So in other words, this is not based upon the MISO LMP
18 price?

19 A The forecast was prepared on an estimate of what that
20 number would be. The contract was changed again to be
21 effective July or April -- contract was changed to be
22 effective April 1 of 2005 to reflect that Edison Sault
23 would receive the locational marginal price as
24 established by MISO --

25 Q O.K. So --

1 A -- which is very close to, had been very similar to this
2 price. And as you can tell, these amounts are not very
3 significant, but whatever amount Edison Sault does
4 receive for that power, we do credit back through our,
5 through the PSCR process.

6 Q O.K. Let's assume that these prices are, or these
7 amounts are actual numbers. My question would be, are
8 they based upon the MISO LMP price or some other price?

9 A Well, our actual billings to Wisconsin Electric use the
10 MISO price.

11 Q So in other words, April is already past, right?

12 A Yeah, April of 2005, yes.

13 Q Well --

14 A And April of 2006, yes.

15 Q O.K. These are April 2006 amounts, right?

16 A Well, this was a forecast.

17 Q Right. It's a forecast for April 2006?

18 A Yes.

19 Q Now, in actuality, in April of 2006, did Edison Sault
20 bill or otherwise charge Wisconsin Electric a price for
21 excess capacity in energy that was based upon MISO LMP
22 pricing or not?

23 A There were -- your question talked about excess energy
24 capacity. These are only energy payments. In the month
25 of April 2006, Edison Sault did not make any deliveries

1 to WE Energies under the JOA interchange deliveries; we
2 did during the month of May, and in the month of May they
3 were billed out at a MISO locational marginal price.

4 Q At what node?

5 A At the node that is considered the WEC-ESE node. That
6 would be the, it's WEC-ESE node. That's a node that the
7 MISO has established for basically the Edison Sault
8 region.

9 Q O.K. And that node price was the price that was charged
10 by Edison Sault to Wisconsin Electric?

11 A Yes.

12 Q And it's Edison Sault's position that whatever that
13 amount is should be a total offset to the PSCR cost; is
14 that correct?

15 A Yes. Also we're reflecting this is basically the
16 established PSCR process, or as established by the
17 commission, takes into our power supply needs, and if
18 there's credits or what we call these net interchange
19 deliveries, it's appropriate through the PSCR process
20 that our customers receive the benefit of these credits.

21 Q Now, on page 9 of your rebuttal testimony you talk about
22 reliability or adequate capacity reserves, and you say
23 that Edison Sault is responsible for maintaining adequate
24 capacity reserves. Are you talking about mandatory
25 requirements there, and are you referring to just

1 operating reserves on an hourly basis, or are you talking
2 about planning reserves?

3 A These are planning capacity reserves. So when you
4 attempt to maintain a 15-percent reserve margin, your
5 question about are we required, as our participant, our
6 former participation in the MAIN power pool, Edison Sault
7 had an obligation to maintain the 15-percent planning
8 reserve.

9 Q Your testimony is that MAIN required you to have a
10 15-percent planning reserve margin?

11 A Yes, it did in the year, back in 2005. MAIN has now been
12 replaced or is -- MAIN went out of operation beginning
13 January 1 of 2006, and now has been replaced by
14 Reliability First, you know, coordinating council. It's
15 my understanding Reliability First has, at least in their
16 initial stage, has continued the planning reserve
17 requirements of the former coordinating agreements.

18 Q Were those goals or actual requirements?

19 A It is my understanding that MAIN requires a minimum
20 planning reserve.

21 JUDGE FELDMAN: A minimum planning
22 reserve of 15 percent?

23 A Yes, that's my understanding.

24 Q (By Mr. Strong): Was Edison Sault ever required to,
25 required to be a participant in MAIN?

1 A We became a MAIN participant when our control area
2 operations were transferred to the Wisconsin Electric
3 system. That would have been back in, I believe,
4 beginning the year 2001.

5 Q Well, I guess my question again is, were you required to
6 become a member of MAIN, or was it voluntary?

7 A Well, we believed it was to our best advantage to become
8 a member of MAIN. Prior that time, we were under the
9 control area basically of Consumers Energy, and Edison
10 Sault was a participant in basically the ECAR.

11 Q East Central Area Reliability Council. O.K. Are there
12 any standards regarding operating or planning reserves
13 that are currently mandatory in the United States?

14 A It is my understanding that the Wisconsin Public Service
15 Commission has required WE Energies to maintain an
16 18-percent reserve margin. The Michigan Public Service
17 Commission has not required Edison Sault to maintain a
18 particular margin, but as I indicated in my testimony,
19 the capacity planning reserves has been of a major
20 interest to this commission, that they've required all
21 the electric utilities in the state, subject to the
22 commission regulation, to file reports on their planning
23 reserve. And Edison Sault has done that, and that was
24 included as one of the rebuttal exhibits.

25 Q O.K. Has any regulatory body in the United States

1 published a requirement that Edison Sault has to maintain
2 a certain planning reserve margin?

3 A I'm not aware of any direct orders requiring Edison Sault
4 to maintain a 15-percent reserve margin, but as a MAIN
5 participant, we are obligated to file the, you know, the
6 Reliability Coordinating Council. And this is a matter
7 now that has been transferred to the Reliability First
8 organization, and I'm going to say under the recently
9 completed National Energy Act, the Federal Energy
10 Regulatory Commission has been designated far more powers
11 under, addressing electrical liability, and those matters
12 are now being under consideration, and I think those
13 matters will include the appropriate level of planning
14 reserves.

15 Q But that hasn't been resolved, has it?

16 A On a national stage, no.

17 Q And as far as the Reliability First Corporation, is that
18 a voluntary membership, if you will, on behalf of
19 utilities, or is that required?

20 A I'm not sure.

21 Q Now, you had earlier spoken about the kinds of markets
22 that were developed by MISO, and one was the day-ahead
23 market and the other was the hourly market; is that --

24 A The hourly realtime market.

25 Q And can Edison Sault buy in this realtime hourly market

1 if it wants to?

2 A Well, and we do through our, WE Energies submitting bids
3 in the realtime market on our behalf. It's done daily
4 and hourly.

5 Q O.K. You submit a bid to participate in the market if
6 you're a buyer?

7 A You submit, the generation is bid in, and then your load,
8 expected load or requirement is also, or your needs are,
9 the amount you want to purchase is submitted, and the
10 amount of Edison Sault's purchases are submitted for each
11 hour of the day by WE Energies.

12 Q Let's assume one of your generating units goes out, one
13 of the hydros just ceases to operate. Can you
14 participate just spontaneously in the realtime hourly
15 market by buying the power that you would have thought
16 you would have generated through your hydro that didn't
17 work?

18 A Yes, and we do. And as my rebuttal exhibit, the JOA
19 energy exhibit talks about both the amount of power
20 that's purchased under the day-ahead market and the
21 realtime market.

22 Q O.K. But could Edison Sault on its own buy power from
23 the realtime hourly market?

24 A Well, and when you say -- Edison Sault does buy it. WE
25 Energy submits that information for our pricing zone --

1 Q No, I meant --

2 A -- on our behalf.

3 Q I meant Edison Sault as your corporation, could it
4 individually buy without regard to WE Energy or Wisconsin
5 Electric Power in the hourly market?

6 A I'm sure we could. Edison Sault could have been listed
7 as a market entity. Administratively it would have been

8 much more expensive for Edison Sault to do it that way;
9 but there was no restriction on us not doing it.

10 Q So you could do it?

11 A If we wanted to incur the higher cost and if the
12 commission found those are reasonable.

13 Q And the higher cost, you said, was from an administration
14 standpoint?

15 A Yes. This MISO market is a complicated market.
16 Wisconsin Electric Power has a dedicated staff to follow
17 the MISO billing procedures, they have a staff I believe
18 of up to six or more individuals assigned full time just
19 to assure that the pricing is adequate. They have
20 full-time people assigned to follow the FERC proceedings
21 and the MISO tariffs. So they have people in expertise
22 doing those services. They act as Edison Sault's agent
23 in providing those services for us, also. We do
24 compensate WE Energies for those, as I mentioned earlier,
25 about \$70,000 a year. That's far more cost effective for

1 Edison Sault to have those services provided for us by an
2 outside entity as Edison Sault doing them ourselves.

3 Q So it's not like added fees that MISO would impose, it's
4 just sort of how you administer the purchases?

5 A Well, how we administer the purchases, how we submit our
6 daily bids, bidding all our generation, having the staff
7 and resources to do all that.

8 Q Okay. But it's not --

9 A We're talking like WE Energies has a 24-hour,
10 around-the-clock, you know, controlled area of operation
11 services. Edison Sault doesn't do that on our behalf.
12 You know, it could be done; it would be very expensive.
13 You're talking about building up a staffing resource to,
14 you know, not just a handful of employees, but multiple
15 more employees to be on duty 24 hours, around the clock,
16 you know, nights and weekends, to supply, keep in contact

17 with all the MISO, you know, the transmission experts,
18 the power coordination experts, what is called the load
19 following services that are being done.

20 JUDGE FELDMAN: Mr. Baatz, can I ask you
21 once again to try very hard not to interrupt Mr. Strong
22 when he's speaking. He believed you had completed your
23 answer, and I'm trying avoid having a muddled record.

24 Mr. Strong.

25 Q (By Mr. Strong): Could you turn to page 11 of your
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1 testimony.

2 MS. MASON SONERAL: Direct or rebuttal,
3 Mr. Strong?

4 MR. STRONG: Rebuttal.

5 Q (By Mr. Strong): There's a question, and it says
6 Mr. Selecky claims that specific pooled capacity
7 resources were not approved by FERC. Would you answer
8 the question whether that's true or not?

9 A The Joint Operating Agreement listed a schedule of the
10 pooled capacity resources for the initial year, and I
11 think it's very clear from our Joint Operating Agreement
12 that that schedule would be updated from year to year as
13 necessary.

14 Q Was it approved by FERC?

15 A Those updates are not submitted to FERC and, therefore,
16 have not been approved by FERC.

17 Q Thank you. Page 15 of your rebuttal testimony, lines 12
18 through 13, you talk about Section 2.0 (sic) dealing with
19 capacity resources. Would you agree that the most
20 important aspect of, let's say, the energy dealings of
21 Edison Sault is going to be the total as-delivered price
22 of electricity to its customers?

23 JUDGE FELDMAN: Mr. Strong, did you say
24 Section 2.0; did you mean 6.02?

25 MR. STRONG: Yes. I'm sorry, 6.02.

1 A Could I have the question reread or restated?

2 Q (By Mr. Strong): Well, you talk about, in Section 6.02
3 about capacity resources and that capacity and energy are
4 being treated separately. Isn't it true that the most
5 important aspect for your customers is the total
6 as-delivered price that would include both capacity and
7 energy?

8 A I would think the most important thing would probably be
9 reliability of supply, assurance that the power would be
10 delivered, and then the price would be the second most
11 important criteria.

12 MR. STRONG: O.K. Thank you. I have
13 nothing further.

14 JUDGE FELDMAN: Thank you, Mr. Strong.
15 Mr. Waters.

16 MR. WATERS: Thank you, your Honor.

17 CROSS-EXAMINATION

18 BY MR. WATERS:

19 Q Mr. Baatz, I'd like to begin by following up on a few
20 questions that Mr. Strong asked you. And during his
21 questioning you indicated that you do not know whether
22 the MISO rules permit a utility to self-schedule
23 generation; is that correct?

24 A I am just not familiar with those procedures.

25 Q Is it also true that you do not know whether the MISO

1 rules permit a utility to enter into financial bilateral
2 transactions?

3 A We can enter into financial bilateral transactions.

4 Q And if you enter into a financial bilateral transaction
5 under the MISO rules, is it true that the energy
6 component of LMP is settled outside of MISO?

7 A That's true.

8 Q Just yes or no.

9 A That's true.

10 Q Thank you.

11 A And that's what occurs with our contracts.

12 Q In order to move this along, what I'd like you to do is
13 just directly answer my question if you can answer it yes
14 or no; if you can't, you're entitled to tell the judge I
15 can't answer it yes or no. Your counsel will have the
16 opportunity to ask follow-up questions if she thinks that
17 that's necessary.

18 Can you take a look at Exhibit A-6 which
19 is attached to your rebuttal testimony.

20 A I have it.

21 Q Are you there?

22 A Exhibit A-6.

23 Q In the first paragraph toward the end there is a cap
24 specified of \$100 per megawatt hour. Do you see that
25 there?

1 A Yes.

2 Q And am I correct that that cap has never been invoked and
3 that \$100 per megawatt hour number has never been
4 exceeded?

5 A There were occasions where we thought it may have been
6 exceeded, and then after further checking and
7 clarification, decided it had not been exceeded.

8 Q So I am correct that that cap has never been exceeded?
9 Just yes or no.

10 A That's -- to date, that's correct.

11 (Document marked for identification by the court
12 reporter as Exhibit No. CMI-1.)

13 Q (By Mr. Waters): I've handed you what's been marked as
14 Exhibit CMI-1. Can you please review that document and
15 confirm that that is a true and accurate copy of Joint
16 Operating Agreement Amendment No. 1?

17 A Sir, you didn't give me a copy.

18 (Document handed to the witness.)

19 A So is the pending question, is this a copy of the --

20 Q (By Mr. Waters): Is it a true and accurate copy of Joint
21 Operating Agreement Amendment No. 1?

22 JUDGE FELDMAN: Please try to not both
23 speak at the same time.

24 A I see some language has been added about case and witness
25 and other things, but beyond that, it appears to be a

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1 true copy.

2 Q (By Mr. Waters): So you're just referring to the sticker
3 that marks it as an exhibit in this proceeding?

4 A Yes, it appears to be a true copy.

5 Q Mr. Strong asked you a series of questions about
6 locational marginal pricing. Am I correct that there is
7 a difference between WEPCo system incremental cost and
8 locational marginal pricing? It's yes or no.

9 A Your Honor, that's one, it's difficult to answer yes or
10 no in that.

11 JUDGE FELDMAN: Well, I don't think
12 that -- I don't think that Mr. Waters has asked you to
13 explain why it's difficult to answer yes or no. If you
14 can't answer it yes or no, you can so state, then it's
15 his turn to ask another question.

16 Q (By Mr. Waters): Can you answer that question yes or no?
17 And to repeat, the question is this: Are there some
18 differences between system incremental cost and
19 locational marginal pricing?

20 A I believe now that the --

21 Q Can you just answer the question yes or no? If you
22 can't, you can tell me that.

23 A I don't believe I can answer it just yes or no.

24 Q Do you have a copy of your deposition transcript in front
25 of you?

1 A No. It's here in the room.

2 (Document distributed to the witness and all

3 parties.)

4 Q (By Mr. Waters): Would you please turn to page 5, lines

5 19 through 24.

6 A That was page 9?

7 Q Page --

8 A Page 9?

9 Q Page 5, lines 19 through 24.

10 A Sir, there's page numbers both on the bottom, then

11 there's other page numbers throughout.

12 Q I'm not referring to the page in the lower left-hand

13 corner, I'm referring to the transcript page which is

14 contained in the upper right-hand corner. Go back one

15 more.

16 A Page --

17 Q Page 5, lines 19 through 24. Why don't you take a minute

18 and read that. Tell me when you've read it.

19 A I've read those lines.

20 Q And did I ask you the question:

21 "Question: Okay. But if they're both marginal --

22 I assume that system incremental cost is not the same

23 thing as locational marginal pricing?

24 "Answer: There are some differences. And prior to

25 April, our costs were calculated under a definition of

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1 WepCo's marginal costs."

2 Was that your answer then?

3 A That was my answer.

4 Q And was that answer true and accurate at the time you
5 gave it?

6 A To the best of my knowledge, at that time. And let me
7 explain.

8 Q Was that answer true and accurate at the time that you
9 gave that answer; yes or no?

10 A At the time, to the best of my knowledge, it was correct.

11 Q Is it also true that LMP and WEPCo's costs are not the
12 same thing? Just yes or no.

13 A They may now have become the same thing. So I --

14 Q But they don't necessarily need to be the same thing; is
15 that correct?

16 A Under the circumstances that WE Energies is now
17 operating, their generation is bid into the MISO
18 markets --

19 Q Mr. Baatz, I'm going to object as non-responsive. It's a
20 very direct, simple question.

21 JUDGE FELDMAN: O.K. Mr. Waters, direct
22 your objections to me. Let the witness complete his
23 sentence. You can always ask to strike his answer if
24 it's non-responsive, and we can handle it that way.

25 Mr. Baatz, please try very hard to listen

1 to the specific question that Mr. Waters is posing; and
2 if it calls for a yes or no answer, do your best to give
3 him that or to indicate that you are not able to or that
4 you don't understand the question.

5 Q (By Mr. Waters): Let me rephrase the question. Do
6 WEPCo's costs and LMP have to be the same thing; yes or
7 no? Or if you can't answer it yes or no, you can say
8 that.

9 A Could you define your question? What do you mean by
10 WEPCo's costs; their cost of what?

11 Q I'll define it in the same way they defined it as you
12 understood it on page 29 to 30 of your deposition
13 transcript, which was on the 16th day of January, 2005.
14 Why don't you take a look on page 29, down at the bottom,
15 beginning at line 25, carrying over to the top of page 30
16 through line 6.

17 A Could you give me those page references again?

18 Q Page 29, line 25, through page 30, line 6.

19 A O.K. I have referred to those pages. Now can you
20 restate the question?

21 Q Did I ask you the question:

22 "Okay. In your previous answer you referred to
23 both market price and WepCo's cost. Those two do not
24 have to be the same, do they?

25 "Answer: Market price and WepCo's cost?

1 "Question: Uh-huh (affirmative).

2 "Answer: No. They can be different, because MISO
3 is taking the cost --", and your answer stops.

4 JUDGE FELDMAN: Excuse me a minute,
5 Mr. Waters.

6 Mr. Odunlami, I hate to interrupt you,
7 but the court reporter is having difficulty hearing.

8 Q (By Mr. Waters): Have I accurately read the questions
9 that I asked you and your answers during your deposition
10 on January 16th, 2005 -- 2006? Pardon me. Have I
11 accurately read it into the transcript?

12 A I believe you have. But it's not clear to me whether the
13 transcript here is talking, on WEPCo's cost, whether it's
14 talking cost of generation or cost of purchases, so --

15 Q Your answer at the time didn't --

16 A And --

17 Q -- say that, did it?

18 A Well, you accurately read the transcript.

19 Q Was your answer at that time true and accurate to the
20 best of your knowledge?

21 A At that time, yes.

22 Q Do you know whether it's true whether MISO Tariff Sheet
23 93 defines LMP as a market clearing price?

24 A I don't know what sheet it's listed on, but I'll agree
25 that locational marginal price is a --

1 Q A market clearing price.

2 A -- market clearing price.

3 JUDGE FELDMAN: Mr. Waters, please don't
4 interrupt the witness.

5 MR. WATERS: I apologize, your Honor.

6 Q (By Mr. Waters): Is it also true that neither FERC nor
7 MISO specifies the price at which a generator bids power
8 into MISO?

9 A There are restrictions to prohibit gaming and other
10 characteristics, but the basic price bid in is subject to
11 the ability, or is under the control of the generators.

12 Q And neither FERC nor the MISO rules specify a formula the
13 generator must use to determine the price at which it
14 will bid power into MISO, correct?

15 A That's correct.

16 Q And in fact, isn't it true that neither FERC nor the MISO
17 rules require a generator to bid power into MISO in 2006
18 at cost?

19 A That's correct.

20 Q ESE and WEPCo did not have to enter into JOA No. 2 to
21 price power at LMP, they could have entered into a
22 financial bilateral contract; isn't that true?

23 A There were probably different options available; you
24 know, we chose to file the amendment to the JOA.

25 Q But I'm correct, ESE didn't have to enter into a Joint
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1 Operating Agreement No. 2 that required that the power
2 would be priced at LMP, did it?

3 A We were under no order or obligation to do it.

4 Q O.K. And in fact, Edison Sault voluntarily amended Joint
5 Operating Agreement No. 1 and replaced it with Joint
6 Operating Agreement No. 2; is that true?

7 A Yes. We believed it was the appropriate thing to do.

8 Q And is it also true that before amending Joint Operating
9 Agreement No. 1 and replacing it with Joint Operating
10 Agreement No. 2, Edison Sault did not calculate the
11 difference between system incremental cost under Joint
12 Operating Agreement No. 1 and LMP under Joint Operating
13 Agreement No. 2?

14 A Well, that data would not have been available. It was
15 not information of what -- you know, we were entering
16 into a new market, so we're not -- that definition of
17 what LMP prices were going to be --

18 Q You didn't do it, did you?

19 A No, we didn't do it.

20 Q Didn't make an estimate, did you? Just yes or no.

21 A No estimates were made available as part of our 2005 PSCR
22 plan.

23 Q Well, I was talking -- I wasn't talking about the PSCR
24 plan. Pardon me. I didn't mean to interrupt.

25 JUDGE FELDMAN: You were fine.

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1 Q (By Mr. Waters): I was talking about at the time you
2 modified JOA No. 1 and switched to JOA No. 2, you didn't
3 make an estimate of LMP, did you?

4 A There was an estimate provided to the commission on what
5 our expected energy prices were for the year 2005. We
6 did not expect a significant change going from JOA 1
7 based upon WEPCo's, you know, system incremental cost to
8 what the MISO locational margin price would be.

9 Q Well, that's not true. Isn't it true that you believe
10 that the implementation of MISO would lead to increased
11 costs, particularly in Wisconsin Electric's service
12 territory?

13 MS. MASON SONERAL: Your Honor, may I
14 strike the first part of Mr. Waters' question where he
15 made a commentary that "that's not true"?

16 JUDGE FELDMAN: Mr. Waters, do you have a
17 response? Do you want to withdraw that?

18 MR. WATERS: No, because I think that it
19 is part of the question. I'm trying to determine -- I'll
20 rephrase the question. I'll put it this way.

21 JUDGE FELDMAN: Thank you.

22 Q (By Mr. Waters): Isn't it true that prior to the
23 implementation of MISO, you expected that the MISO market
24 would increase costs, particularly in Wisconsin
25 Electric's areas, because it is more transmission

1 constrained? Just yes or no.

2 A We were aware of transmission constraints, yes.

3 Q And were you also aware that the implementation of MISO
4 would lead to increased costs; yes or no?

5 A With respect to because of the transmission costs, there
6 was that possibility, yes.

7 Q So you expected that the advent of MISO would lead to
8 increased costs?

9 A Not necessarily, because MISO also runs an energy market,
10 which may have offsetting savings to the increased
11 transmission costs.

12 Q Could you please look at page 31, lines 12 through 16, of
13 your deposition testimony. Actually, I'll refer you to
14 lines 9 through 16 of your deposition testimony. Tell me
15 when you've had a chance to read that. Have you had a
16 chance to read it?

17 A How far did you want me to read?

18 Q Just lines 9 through 16.

19 A Yes, I've read that.

20 Q O.K. And did I ask you there:

21 "And what did you think that would mean; the coming
22 of the MISO market?

23 "Answer: Well, a lot of increased complications
24 and billings.

25 "Question: Did you think it would also lead to

1 increased costs?

2 "Answer: The -- there was some expectation that
3 the MISO -- the coming of the MISO market may increase
4 costs particularly in the Wisconsin Electric area,
5 because it is more transmission constrained."

6 A Yes, that's my statement.

7 Q So you knew that the advent of MISO was going to lead to
8 increased costs, correct?

9 A Well, particularly with the transmission constraint, yes.

10 Q And you signed JOA No. 2 anyway?

11 A Yes.

12 (Document marked for identification by the court
13 reporter as Exhibit No. CMI-3.)

14 Q (By Mr. Waters): I'd like to hand you what has been
15 marked as Exhibit CMI-3.

16 MR. WATERS: And for the record, your
17 Honor, I will not be offering an exhibit that had
18 previously been marked as CMI-2, that is why I'm going
19 from Exhibit 1 to Exhibit 3.

20 Q (By Mr. Waters): That is a response from Edison Sault to
21 the City's Second Discovery Request, I think it's Request
22 No. 11. Do you recognize that document?

23 A You said Edison Sault's response, this is one page of --

24 Q It's one page.

25 A -- of a multi-page document. That is our response.

1 Q You are correct, it is one page out of a multi-page
2 response. I did not copy the whole thing because it's
3 quite substantial. So recognizing that, do you recognize
4 that page?

5 A Yes.

6 Q O.K. And is that a page that was prepared as -- strike
7 that.

8 Is that page part of a document that was
9 prepared by WEPCo?

10 A Yes.

11 Q And does the last line of that state, "properly bidding
12 our units will be critical to maximizing profits"; does
13 that state that?

14 A And it continues; it does say that, but it continues,
15 yes.

16 Q O.K. So at the time you amended -- strike that.

17 Do you recognize that document as
18 something Edison Sault received from WEPCo prior to the
19 time when it amended JOA No. 1 and replaced it with JOA
20 No. 2?

21 A We provided a series of documents and a series of reports
22 from these meetings. As you introduced this, I didn't
23 recall which meeting you said the notes were from, but
24 I'll accept that.

25 Q O.K. So Edison Sault amended JOA No. 1 and replaced it
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1 with JOA No. 2 knowing that WEPCo's goal was to maximize
2 its profits; is that true?

3 A Well, that properly bidding our units will be critical to
4 maximizing profits.

5 MR. WATERS: Objection. Non-responsive.

6 Q (By Mr. Waters): My question was, did Edison Sault amend
7 Joint Operating Agreement No. 1 and replace it with Joint
8 Operating Agreement No. 2 knowing that WEPCo's goal was
9 to maximize its profits?

10 A Looking at this, I would say properly bidding our units
11 is the criteria, and one of the offsets of that would be
12 maximizing profits. And this statement was provided to
13 us prior to the amending of the JOA.

14 MR. WATERS: Objection. Non-responsive.
15 I'd ask that the answer be stricken.

16 MS. MASON SONERAL: Your Honor, he was
17 provided in this exhibit just a partial sheet of a total
18 discovery response. I mean he's indicated that he
19 doesn't know the timing, he's accepting Mr. Waters'
20 representation that this was a handout before Amended JOA
21 No. 2. All he's doing is reading what's on this piece of
22 paper that was given to him, which is an incomplete
23 discovery response.

24 MR. WATERS: My response would be, your
25 Honor, very simply, when Edison Sault voluntarily amended
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1 JOA No. 1 and replaced it with JOA No. 2 to switch from
2 system incremental cost to LMP, they knew that WEPCo's
3 goal was to maximize its costs. And all I want him -- if
4 counsel has additional follow-up questions, she can
5 certainly ask those on redirect. The question is really
6 a very simple one.

7 JUDGE FELDMAN: I'm not sure the witness
8 understood your question, Mr. Waters.

9 MR. WATERS: I'll rephrase it.

10 JUDGE FELDMAN: If you can.

11 And, Mr. Baatz, I'll ask you one more
12 time to try very hard to determine before you start to
13 speak, determine whether you can answer the question yes
14 or no, and if not, so indicate.

15 Q (By Mr. Waters): Mr. Baatz, at the time Edison Sault
16 amended JOA No. 1 and replaced it with JOA No. 2, did
17 Edison Sault understand that WEPCo's goal was to maximize
18 WEPCo's profits?

19 A Maximizing profits would have been one of the goals.

20 Q Fine. Thank you. Is it also true that Edison Sault
21 amended JOA No. 1 and replaced it with JOA No. 2 without
22 determining if less expensive power was available in the
23 market?

24 A We were not aware of any less expensive power being
25 available. At that time, we didn't go out and do a

1 search or bid for less expensive power, if that's your
2 question.

3 Q So you didn't look to see if there was less expensive
4 power available, correct?

5 A We weren't aware of any and we didn't do a further
6 search.

7 JUDGE FELDMAN: O.K. Mr. Baatz, I'm
8 going to ask you one more time, please, I know the
9 questions sometimes can be confusing, but try to start
10 your response with yes or no if you can answer the
11 question yes or no.

12 Let's take a five-minute recess, shall
13 we.

14 (At 11:10 a.m., a 13-minute recess was taken.)

15 JUDGE FELDMAN: Back on the record.
16 Mr. Waters, you may continue.

17 MR. WATERS: Thank you, your Honor.

18 Q (By Mr. Waters): Mr. Baatz, is it also true that Edison
19 Sault amended JOA No. 1 and replaced it with JOA No. 2
20 and agreed to pay LMP without knowing what the strike
21 price was for the pooled capacity resources?

22 A That's correct.

23 Q I'd like to look at the pooled capacity resources. And
24 as I understand it, Edison Sault is asking permission, or
25 have the commission approve a pass-through to the

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1 customers of \$2.37 million for its share of capacity from
2 the pooled capacity resources, which I believe are Zion
3 Units 1, 2 and 3, Elgin Unit 3, the Ameren system
4 purchases -- Ameren is A-m-e-r-e-n -- White Water Excess,
5 Port Washington generating station and Dynegy. Have I
6 correctly identified those?

7 A I think your question included a misstatement.

8 Q What was that, please?

9 A In that I believe you included a reference that we
10 propose to recover \$2.37 million of costs, and there was
11 a data request where we particularly provided answers
12 what the various estimates were provided at that time and
13 what the actual costs were in Edison Sault's plan, and
14 there were slight variations of that. But the \$2.37
15 million, as I recall, was the estimate provided by WE
16 Energies during one of the September JOA meetings, and
17 the amount included by Edison Sault is slightly
18 different. There's one of the discovery requests that
19 identifies all those amounts.

20 Q I think I'm about to hand you that.

21 (Document marked for identification by the court
22 reporter as Exhibit No. CMI-5.)

23 MR. STRONG: And for the record, your
24 Honor, I have momentarily skipped over what is Exhibit
25 CMI-4.

1 Q (By Mr. Waters): Mr. Baatz, can you identify what has
2 been marked as Exhibit CMI-5 and handed to you?

3 A Yes. It is one of the pages from a report prepared by
4 Wisconsin Electric Power for one of our Joint Operating
5 Agreement meetings. And it's one of the pages that
6 Edison Sault provided in discovery.

7 Q And are those six resources that are listed the pooled
8 capacity resources?

9 A It is my understanding that No. 6, that Dynegy
10 100-megawatt purchase (being negotiated) did not enter
11 into or was not completed, but the other five are.

12 Q When you made your calculation of the amount of what I
13 think is, I'm going to say approximately \$2.37 million,
14 whatever is reflected in your exhibits for the pooled
15 capacity resources, did your calculation of that \$2.37
16 million number include any cost related to the Dynegy
17 contract that was then not entered into?

18 A The Edison Sault calculation was based upon an estimated
19 price of \$6.00 per kilowatt per month, or an average of
20 \$6.00 per kilowatt per month for 35 megawatts of capacity
21 that Edison Sault was expecting to purchase in the year
22 2006. The Edison Sault calculation did not get into the
23 specifics of the cost of each of the individual units or
24 ordinary cost; it was based upon more of a past
25 experience and past projections. So that's why our

1 number of \$6.00 per kilowatt per month was slightly
2 different than this forecast that was prepared in, or
3 that we received in September of 2005 from WE Energies.

4 Q And your calculation then did not include any cost for a
5 contract that was not in fact entered into and then
6 became a pooled capacity resource, correct?

7 A The Edison Sault estimate did not look at the individual
8 generating units or the individual purchases, nor did we
9 consider which contracts had already been signed and
10 which ones had not been signed.

11 Q O.K. But just to tie it all up, I just want to make
12 sure -- and again, I asked you a specific question, I'm
13 looking for a clear answer -- you didn't include any
14 costs in deriving your \$2.37 million figure from the
15 Dynegy project which was not in fact, that contract
16 wasn't signed; is that correct?

17 A I did not look at or project anything related to the
18 Dynegy contract.

19 Q O.K. Thank you.

20 (Document marked for identification by the court
21 reporter as Exhibit No. CMI-6.)

22 Q (By Mr. Waters): Mr. Baatz, I've handed you what has now
23 been marked as Exhibit CMI-6, and I'd ask you to take a
24 quick look at that and confirm that those are your work
25 papers and calculations related to the calculation of the

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1 estimated \$2.37 million figure.

2 A These documents were the basis of WE Energies' estimate
3 of that average of \$5.64 per kW of capacity which led to
4 their estimate of the \$2.37 million annual capacity
5 payments.

6 Q So these are not your work papers?

7 A They were documents prepared by WE Energies. Just
8 before -- Edison Sault did its own estimate, it came up
9 with this estimate of \$6.00 for this projection. WE
10 Energies was preparing estimates at a similar point in
11 time, and they derived this estimate of \$5.64.

12 Q O.K. Have I been given, provided your work papers for
13 the --

14 A Yes, they were provided during the --

15 Q I guess over the lunch hour I'd just ask you to look and
16 tell me exactly where those are. I understood these to
17 be your work papers; but I'd appreciate if you would just
18 find your work papers and let me take a quick look at
19 those.

20 A O.K. And may I respond, your Honor?

21 JUDGE FELDMAN: Is there a question
22 pending?

23 MR. WATERS: If the witness feels the
24 need to further explain his answer, I don't object.

25 JUDGE FELDMAN: Thank you, Mr. Waters.

1 A Well, the response --

2 JUDGE FELDMAN: You may --

3 A The response indicates exactly where our work papers, it
4 says see our response to ABATE Discovery Request 15 and
5 the particular numbers of the document.

6 Q (By Mr. Waters): If you could still see if you could
7 find that.

8 MS. MASON SONERAL: Your Honor, I'll
9 coordinate with Mr. Waters at the break, because they
10 were identified in this response. I think Mr. Waters
11 wants the actual work papers, which we should be able to
12 submit no problem.

13 JUDGE FELDMAN: Thank you very much.

14 MR. WATERS: Thank you, your Honor.

15 (Document marked for identification by the court
16 reporter as Exhibit No. CMI-7.)

17 Q (By Mr. Waters): Have you had a chance to take a look at
18 that?

19 A Yes.

20 Q O.K. And that is Edison Sault's answer to a discovery
21 request served upon it by the City of Mackinac Island.
22 Can you identify for the record who David Sims is?

23 MS. MASON SONERAL: Your Honor, before
24 the witness answers, may I ask Mr. Waters to clarify what
25 set of responses this response is from, because there

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1 were some responses, as your Honor knows, or some
2 requests to which Edison Sault objected, and then your
3 Honor ruled that they need to respond to that
4 information. And so I would just note, if this is one of
5 those responses that we produced under objection, I just
6 want to put that objection on the record again.

7 JUDGE FELDMAN: Certainly. Let's go off
8 the record for a minute to make sure everybody knows
9 where the exhibit is from.

10 (A discussion was held off the record.)

11 MS. MASON SONERAL: Your Honor, it was
12 one of the responses --

13 JUDGE FELDMAN: Hold on a second. Are we
14 now back on the record. O.K.

15 MS. MASON SONERAL: Your Honor, it was
16 one of the responses to which Edison Sault objected to
17 the request as being not relevant and slightly
18 prejudicial, but your Honor ruled that they needed to
19 answer this question, and they did. Edison Sault asserts
20 the same objections today that it did when it fought the,
21 when it opposed the motion to compel.

22 JUDGE FELDMAN: Thank you. I will let
23 you note your objection for the record. I will let
24 Mr. Waters proceed. You may proceed.

25 MR. WATERS: I was just going to say, my
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1 understanding is that that objection was overruled.
2 There were other documents that were provided with a
3 confidentiality provision at the top, this was not one of
4 them. And this clearly relates to the issues in this
5 case, because what it provides in part is, with respect
6 to the Joint Operating Agreement between Edison Sault and
7 WEPCo, Edison Sault has no right to the energy directly
8 produced by the pooled capacity resources. Those are the
9 same -- that's the first sentence of their response. And
10 that is, those are the same pooled capacity resources
11 which are at issue in the context of Edison Sault's
12 application of this case and request for a PSQR factor.

13 So I think that the company's objection
14 really goes to, you know, what weight should be given to
15 it, not to its relevance or to its admissibility. And I
16 believe I should be allowed to examine the witness.

17 JUDGE FELDMAN: All I was intending to
18 indicate to Ms. Mason Soneral was that she wasn't waiving
19 her right to protest any earlier rulings that I might
20 have made regarding relevance. She wasn't objecting to
21 your pending, to any question that you may have, and I
22 don't think you had a pending question other than who is
23 David Sims. So I think there's nothing to preclude you
24 from going ahead with your next question to this witness.

25 MS. MASON SONERAL: That's correct, your
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1 Honor, I was just reasserting the protest to the
2 question.

3 Q (By Mr. Waters): Mr. Baatz, do you know who David Sims
4 is?

5 A David Sims is an employee of Wisconsin Electric Power
6 Company, he works in their power marketing department.

7 Q All right. He works in WEPCo's power marketing
8 department or ESE's?

9 A In WEPCo's.

10 Q O.K. And the first line of Exhibit CMI-7 states, "With
11 respect to the Joint Operating Agreement between Edison
12 Sault and WEPCo, Edison Sault has no rights to the energy
13 directly produced by the pooled capacity resources." Is
14 that your understanding?

15 A Yes, sir.

16 Q Is it also your understanding that the contracts for the
17 pooled capacity resources specify one price or another at
18 which WEPCo/ESE may obtain electricity from those
19 resources?

20 A You use the term WEPCo/ESE; those are WEPCo contracts,
21 and those contracts provide prices that WEPCo can provide
22 energy.

23 Q Is it also your understanding that WEPCo has entered into
24 those pursuant to the provisions of the Joint Operating
25 Agreement whereby they're acting as your agent and

1 they're obtaining, you know, the right to power for ESE?

2 A WEPCo is obtaining the power for both itself and Edison
3 Sault. Edison Sault is not a party to those contracts.

4 Q Do each of the pooled capacity resources specify a price
5 at which WEPCo may obtain electricity from those
6 resources?

7 A My knowledge to these contracts are limited because these
8 are, again, WE Energies' contracts. I am aware that
9 there are strike prices in those contracts.

10 Q O.K. Now, when those resources are called upon to run,
11 ESE does not pay the strike price for the energy provided
12 by those units, it instead pays LMP; is that correct?

13 A Your question raises two scenarios; when those are called
14 to run, WE Energies would direct whether those energy
15 should be paid for out of those contracts or not. Edison
16 Sault pays for energy only under the terms of our, of our
17 Joint Operating Agreement No. 2.

18 Q So the pooled capacity resources are irrelevant to ESE?

19 A The source of the energy cost under those capacity
20 payments are, don't really impact Edison Sault directly,
21 it's only Edison Sault pays the locational marginal price
22 for energy.

23 Q So Edison Sault never pays the strike price under those
24 contracts; is that correct?

25 A Yeah, those contracts are not, do not involve Edison

1 Sault, so they're --

2 Q And if there's a positive --

3 A We don't have a right, as the question says, we don't
4 have the right to the energy.

5 Q But yet you're paying more than \$2 million for
6 capacity --

7 A We pay for capacity --

8 Q -- of the pooled capacity resource?

9 JUDGE FELDMAN: O.K. You can not
10 interrupt each other. Let's start over. Your question,
11 Mr. Waters.

12 Q (By Mr. Waters): You're paying more than \$2 million for
13 the pooled capacity resources, correct?

14 A We're paying for the capacity, yes.

15 Q Are you aware of any other contract -- or strike that.

16 Are you aware of any contract where a
17 utility has purchased capacity without the right to pay a
18 price and obtain the electricity from that facility when
19 it is needed? Just yes or no.

20 A Am I aware of any utility --

21 Q I think it was -- do you need me to repeat it?

22 A Yes, could you repeat it.

23 Q Are you aware of any contract where a utility has paid
24 for capacity from a generating plant but does not have

25 the right to obtain the electricity from that generating

1 plant by paying the strike price or some energy charge?

2 A Your Honor, I'm having difficulty with this question
3 again. If I --

4 JUDGE FELDMAN: You're not able to answer
5 it yes or no?

6 A Well, because if he could answer if whether we paid
7 directly or indirectly.

8 JUDGE FELDMAN: O.K. Because you think
9 that the question isn't clear?

10 A Yes, the question isn't clear.

11 Q (By Mr. Waters): And in what way is it not clear, if I
12 might ask?

13 A Well, WE Energies contracts for this capacity and WE
14 Energies has provision --

15 MR. WATERS: No. Objection.

16 JUDGE FELDMAN: O.K. Mr. Baatz, he needs
17 to know --

18 MR. WATERS: What part of my question is
19 not clear?

20 JUDGE FELDMAN: -- what part of his
21 question wasn't clear. You said to me something about
22 paying directly versus indirectly.

23 A Edison Sault does not pay directly for any of these
24 capacity costs, we pay them indirectly through our
25 capacity schedule under the Joint Operating Agreement.

1 JUDGE FELDMAN: O.K. With that
2 clarification, can you answer his question yes or no?
3 A No. And then --
4 Q (By Mr. Waters): I'm sorry.
5 A And then the question is, am I aware of any other, was
6 the word other in there or not?
7 Q No, I am not talking about the pooled capacity resources.
8 O.K. It's a simple question. Are you aware of any
9 contract where a utility has agreed to pay a price for
10 the capacity from a generating facility without obtaining
11 or getting the right to get the electricity from that
12 plant by paying the fuel price, the strike price, or some
13 additional charge?
14 A I'm not aware of any.
15 MR. WATERS: I think this is a good time
16 to break.
17 JUDGE FELDMAN: All right. We'll break
18 until 1:15 when Mr. Odunlami will be available again.
19 (At 11:46 a.m., the hearing recessed for lunch, to
20 reconvene at 1:15 p.m.)

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1 Lansing, Michigan

2 Tuesday, June 27, 2006

3 1:10 p.m.

4 - - -

5 (Hearing resumed after lunch recess.)

6 (Document marked for identification by the court
7 reporter as Exhibit No. CMI-10.)

8 JUDGE FELDMAN: If everybody is ready, we
9 can start any time.

10 MR. WATERS: Thank you, your Honor.

11 Q (By Mr. Waters): Mr. Baatz, do you know what WEPCo's
12 total capacity costs are for pooled capacity resources or
13 what they're estimated to be for 2006?

14 A I know it would be very large, but I don't know the exact
15 number.

16 Q And Edison Sault is proposing to include in its plan
17 \$2,520,000 of those capacity costs; is that correct?

18 A That's correct.

19 Q And am I correct that that is your calculation of Edison
20 Sault's share of the capacity costs under the contracts
21 for the pooled capacity resources?

22 A That's correct.

23 Q I've handed you what the court reporter has previously
24 marked as Exhibit CMI-10. And could you please review
25 that and identify it for the record?

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1 A Yes. This is Edison Sault's response to a discovery
2 request of the staff, and the staff in its request
3 identified one particular amount of payments, which we've
4 discussed earlier, which is slightly different than what
5 Edison Sault had in fact included in this case. So this
6 response clarifies what the source of those different
7 numbers were.

8 Q O.K. And the number, as I understand it, or the
9 difference between the two numbers -- strike that.

10 Edison Sault's estimate of its share of
11 the capacity costs under pooled capacity resources is
12 \$2.52, as you previously testified, correct?

13 A Yes.

14 Q And WEPCo had previously estimated that number at 2.37
15 million; is that correct?

16 A When you say previously --

17 Q Well, they had, WEPCo had estimated it?

18 A Yeah. Let me say, Edison Sault's PSCR case was filed on
19 or about September 30th of 2005, and with the lead time,
20 all our calculations were done ahead of time. On
21 September 27th, 2005, at our Joint Operating Agreement,
22 WE Energies provided us their estimate what the costs
23 were. And when you say previously, you know, they did
24 give this to us, this estimate at around the same time
25 our filing was in the process of being made, but long

1 after that, or not long, but at least after they had been
2 prepared.

3 Q O.K. Am I correct that the difference between the two
4 numbers is really the difference between \$5.64 per kW a
5 month and \$6.00 per kW a month?

6 A Yes.

7 Q And how did Edison Sault arrive at the estimate of \$6.00
8 per kW a month?

9 A It was based upon our past experience what the JOA
10 capacity had been running in previous years and the costs
11 we've had; and I believe that that average of \$6.00 per
12 kW per month was, I believe that was probably even
13 included in our planned forecast for the prior year.

14 Q O.K. Can you take -- I'm sorry. Are you con --

15 A And my knowledge that these capacity costs were not, you
16 know, were relatively stable in the market.

17 Q I'd like to try to get through some of this as quickly as
18 I can at this point. Can you go back to Exhibit CMI-6?

19 A Can you tell me which one that -- I have it.

20 Q And would you turn to page 3 of 4.

21 A Yes, I have that.

22 Q As I understand Edison Sault's calculation of its share
23 of the capacity costs for the pooled capacity resources,
24 you've estimated that at roughly \$6.00 per kW a month.
25 Edison Sault needs, am I correct, about 35 megawatts of
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1 capacity to satisfy its load and, in your opinion,
2 satisfy the 15-percent reserve margin that you've
3 identified, correct?

4 A That's not correct for all months. That is correct for
5 the month of July, and July is utilized in the
6 calculation because of when the Edison Sault load is
7 added to the WEPCo load, 35 megawatts is needed.

8 Q O.K. But then your --

9 A In other months, the calculation would be much more.

10 Q O.K.

11 A But under our Joint Operating Agreement, Edison Sault
12 does not have to pay additional amounts for those other
13 months.

14 Q You're paying for the 35 megawatts?

15 A We're paying for the 35 megawatts for all year round --

16 Q O.K.

17 A -- because that is -- well, I'll just end it there.

18 Q Why is that?

19 A A calculation is performed of how much of Edison Sault's
20 load will, when combined to the WEPCo load, will result
21 in a combined peak. Wisconsin Electric is much larger
22 than Edison Sault, Wisconsin Electric is a summer peaking
23 utility; and when our summer load is, which is not as
24 great at our winter load, is added to the WEPCo load, the
25 resulting peak of two combined companies occurs in the

1 summertime.

2 Q If you were not averaging with WEPCo, what amount of
3 capacity would you need to have over and above the 35
4 megawatts?

5 A And if I can quickly refer you to the rebuttal exhibit
6 that was filed, and it contains a -- and this would be
7 Exhibit A-8. In the last page of that exhibit, it sets
8 forth a calculation of our load for each month. That
9 exhibit is entitled Stand-Alone Capacity Requirements for
10 Edison Sault in 2006.

11 Q Which exhibit are you looking at again, please?

12 A It's Exhibit A-8, and it's labeled page 6 of 6. And
13 you'll see the, that exhibit contains a forecast for each
14 month. You'll see that the month of July of 2006 is
15 highlighted by having a rectangular box around it, and
16 you'll see under July, the last line item, total required
17 capacity is 35. That represents the 35 megawatts which
18 we are purchasing.

19 Q O.K. That's fine.

20 A But -- well, if I can complete my answer. The amount for
21 December 2006 shows a calculation at 54 megawatts. That
22 54 megawatts of capacity would be needed to meet our
23 load.

24 Q Are you done?

25 A Yes.

1 Q O.K. You're paying Edison Sault's portion of the
2 weighted average of the pooled capacity resources, which
3 I think we've previously identified as consisting of six
4 resources. And your maximum additional load or maximum
5 additional generation requirements to meet your load plus
6 your peak demand would be 54 megawatts that you've
7 identified in Exhibit A-8, correct?

8 A Could I have that either restated or reread?

9 Q Let me see if I can rephrase that. I'd really like to
10 try to get through some of this. The most you need is 54
11 megawatts in any given month, correct, that's projected?

12 A From a planning criteria, yes.

13 Q Take a look at Exhibit CMI-6, page 3 of 4. You're paying
14 for a share of all six or seven of those pooled capacity
15 resources, correct?

16 A Yes.

17 Q O.K. They have capacity costs which vary significantly,
18 from \$1.41 per kW a month up to \$7.34 per kW a month, and
19 when you average them out, you're paying, according to
20 your calculation, \$6.00, correct?

21 A Again, Edison Sault assumed an average of \$6.00. This
22 exhibit totaled to the \$5.64 that WE Energies estimated
23 at that time.

24 Q Mr. Baatz, did Edison Sault go out and look for capacity
25 from a different generator? If you only need 54

1 megawatts, one, two, three, four, five of the resources
2 that are listed on page 3 of 4 would be sufficient in and
3 of themselves to cover your capacity needs, and they vary
4 significantly in price. Did Edison Sault go out and say,
5 can we find cheaper capacity someplace else to satisfy
6 our need for the 54 megawatts? And if you can answer it
7 yes or no, that would be great.

8 A You had a lot of qualifiers in your question, all leading
9 into did Edison Sault go out and find a replacement for
10 the 54, and the answer to that part is no. But --

11 Q I'm not saying --

12 A Let me continue.

13 Q I'm sorry to interrupt. Go ahead.

14 A Even that 54 megawatts which you cited in your question
15 is a planning reserve criteria, which assumes that the
16 Edison Sault generating facilities will be available,
17 including that our diesel would be available and running,
18 and after purchasing 54 megawatts in the month of
19 December, we would still have a 15-percent reserve
20 margin. There's times during the month, because of
21 outages and other reasons, where we have to purchase much
22 more than 54 megawatts. We can purchase up to 100
23 megawatts under the JOA. But we reserve 35 on a
24 year-round basis. But because of our agreement and
25 because of other months, knowing that WE Energies may

1 have months when some of its units are done, we can
2 purchase much more. But the 35 for July and the 54 for
3 December are planning reserve criteria, and that's an
4 important factor, also.

5 JUDGE FELDMAN: Mr. Baatz, I'm going to
6 ask you again, please, in the interest of finishing this
7 proceeding today, just take the questions that Mr. Waters
8 gives you as each one comes. Mr. Waters may and your
9 counsel may give you an opportunity to link the
10 particular information that he's soliciting with the JOA
11 or with something else that's not included in the
12 question, but please try not to anticipate what
13 inferences might be drawn from the question, but just
14 focus on the question itself.

15 Q (By Mr. Waters): A very simple question: Did Edison
16 Sault go out and seek to determine if it could purchase
17 just a block of capacity to satisfy its capacity needs,
18 whatever they may be, rather than buy a portion of the
19 pooled capacity resources?

20 A No.

21 Q Thank you.

22 MR. WATERS: For the record, I need to
23 get into an exhibit that Edison Sault has claimed
24 contains some confidential privileged materials. How
25 would counsel and your Honor like to handle that?

1 MS. MASON SONERAL: Can you show me which
2 ones they are?

3 MR. WATERS: Yeah.

4 JUDGE FELDMAN: Let's go off the record.

5 MR. WATERS: Can we go off the record?

6 JUDGE FELDMAN: Yes, we can.

7 (A discussion was held off the record.)

8 (Document marked for identification by the court
9 reporter as Exhibit No. CMI-11.)

10 MR. WATERS: Back on the record, your
11 Honor.

12 JUDGE FELDMAN: Certainly. Do we need to
13 wait for Mr. Strong?

14 MR. WATERS: I think we're O.K.

15 Q (By Mr. Waters): Mr. Baatz, the court reporter has
16 handed you what's been marked as Exhibit CMI-11. Could
17 you take a minute and look at them.

18 A I have it before me, if you ask your next question.

19 Q Am I correct that during the period from April 1 through
20 December 31, 2005, the pooled capacity resources operated
21 a combined number of hours of 2,377?

22 A O.K. You said the dates April 1, 2005, through December
23 31, 2005, correct?

24 Q Correct. And I think that's reflected on page 3 of the
25 document you're looking at.

1 A Yes, I see it, 2,377 combined numbers of hours operated.

2 Q Is it also true, to your understanding, that two of those
3 five pooled capacity resources -- strike that.

4 Is it also true, to the best of your
5 understanding, that one of those pooled capacity
6 resources operated zero hours?

7 MS. MASON SONERAL: Your Honor, may I
8 approach the witness?

9 JUDGE FELDMAN: Yes.

10 (Document handed to the witness by
11 Ms. Mason Soneral.)

12 A Yes, that's my understanding.

13 Q (By Mr. Waters): O.K. Is it also your understanding
14 that the combined revenues from the operation of the
15 pooled capacity resources during that period of time was
16 \$62,064,102?

17 A That's my understanding, yes.

18 Q And the combined cost of operating the pooled capacity
19 resources during that same period of time was
20 \$48,161,561; is that correct?

21 A That's my understanding.

22 Q And the difference between those two numbers, if I had
23 done my math right, is \$13,902,541; does that sound
24 approximately right?

25 A Yes.

1 Q And those are revenues which the pooled capacity
2 resources generated over and above their variable costs;
3 correct?

4 A I see a statement on the response that has a qualifier
5 right after the \$48 million.

6 Q That wasn't my question.

7 A So I -- I don't know if I can respond to your question or
8 not. But I agree, that is the difference between those
9 two numbers.

10 Q And Edison Sault allowed WEPCo to retain that entire
11 difference; is that correct?

12 A Edison Sault does not participate in those profits,
13 that's correct.

14 Q So the \$13,902,541 differential between the revenues for
15 the pooled capacity resources during that time minus the
16 variable costs were retained in their entirety by WEPCo,
17 correct?

18 A You used the word retained. They initially belonged to
19 WEPCo. How WEPCo treats those in its jurisdictional
20 filings, I'm not going to be, or I'm not -- I don't have
21 the expertise to answer. But those may have been in turn
22 then passed on by WEPCo to its customers. But when you
23 say retained, none of them went to Edison Sault.

24 Q Did Edison Sault even ever ask WEPCo to offset a portion
25 of the \$13 million difference between the operating

1 revenues and the operating costs to offset some portion
2 of the \$2.5 plus million of capacity payments that you're
3 asking to be passed through to the ratepayers? Just yes
4 or no if you can; if you can't, tell me.

5 A I can't answer that yes or no, but I can give you an
6 explanation. The treatment of excess profits was
7 discussed, the exact amounts which you are mentioning in
8 your question were not discussed.

9 Q And was it --

10 A So the concept was discussed, but not --

11 Q And so then it was agreed that WEPCo would retain the
12 excess profits?

13 A When the JOA Operating Agreement 1, or when the JOA
14 Agreement was filed, the initial one, that subject was
15 discussed.

16 Q And it was agreed that they could just retain the
17 profits?

18 A Yes.

19 Q So you didn't even ask to have a portion of the \$13
20 million differential credited back to you as an offset
21 against the portion of the pooled capacity resource
22 capacity charges that you're paying?

23 A We asked for other provisions in the contract that would
24 be favorable to Edison Sault.

25 JUDGE FELDMAN: Mr. Baatz, again, please
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1 listen to Mr. Waters' question and answer his question,
2 and don't try to go beyond the question that's been
3 asked.

4 Q (By Mr. Waters): Can you answer the question?

5 A O.K. The question is, did we ask?

6 Q Did Edison Sault ask WEPCo to offset a portion of the \$13
7 million differential against the \$2.5 or so million
8 capacity payment that you're paying for your share of the
9 pooled capacity resources?

10 A No, we did not ask for those amounts.

11 Q What were the other benefits that you tried to obtain
12 from WEPCo instead of having some portion of that
13 differential credited back to you?

14 A When the JOA agreement was being negotiated, we asked
15 what price guarantees or assurances that Edison Sault
16 would have under the contract. We were concerned that
17 basically there was no ceiling on the price as the
18 agreement was, initial drafts were being explored. The
19 discussion of WEPCo's opportunity to make sales to other
20 utilities and generate some margins was also discussed.

21 What WEPCo agreed to provide in our
22 contract was \$100 per megawatt ceiling that's contained
23 in the energy agreement; in return, Edison Sault would
24 not ask for any participation in any the profits obtained
25 by basically their entire energy trading arm. There were

1 other considerations, too, such as that the capacity for
2 all the individual months, that the capacity would be
3 based upon the peak demand for the month of July, as we
4 indicated, rather than all the other months.

5 So there was a, the JOA agreement was
6 being negotiated I think probably in its entirety, and
7 whether it was beneficial as opposed to whether there
8 would be compensation or participation in the energy
9 trading arm of the power marketing department.

10 Q O.K. But the \$100 megawatt hour cap you previously
11 testified, you know, has never been invoked, correct?
12 Just yes or no.

13 A It was questioned, and after determination, it was
14 determined that the price was under \$100.

15 Q So it's never been invoked?

16 A It's not been invoked to date.

17 Q Section 6.02 of I believe both JOA No. 1 and JOA No. 2
18 states that all the party's excess capacity resources
19 shall be offered for sale to the other party prior to
20 being included in an off-system sale. Excess capacity
21 resources shall be purchased by a party at cost. Are you
22 familiar with that provision?

23 A Yes.

24 Q O.K. Are you also aware that Section 1.21 of the
25 agreement defines off-system sales as meaning all sales

1 to a third party of energy or capacity?

2 A I believe you did an appropriate reading of the JOA
3 agreement.

4 Q So you're aware of that?

5 A Aware of those provisions there.

6 (Document marked for identification by the court
7 reporter as Exhibit No. CMI-9.)

8 Q (By Mr. Waters): I'd like to hand you -- am I correct
9 that Exhibit LMB-1 shows that Edison Sault anticipates
10 purchasing slightly more than 223,000 megawatt hours from
11 WEPCo in 2006 at LMP?

12 A Could I have the number you gave again; was it 223
13 million?

14 Q Well, no. I said 223,289.

15 A 223,289. My exhibit I believe says 223,284.

16 Q 284 is fine. Are you aware that WEPCo anticipates making
17 opportunity sales of 696,260 megawatt hours during 2006?
18 And that number is reflected on page 1 of 2 of Exhibit
19 CMI-9 on the line opportunity sales; do you see that
20 there?

21 A Yeah. I see on the exhibit less opportunity sales an
22 amount of 696,260 megawatt hours.

23 Q Did Edison Sault ask WEPCo to sell it any of that
24 electricity instead of making an opportunity sale?

25 A Well, Edison Sault did not ask.

1 Q I'm sorry, your answer?

2 A Edison Sault did not ask for -- no.

3 Q Edison Sault -- let me --

4 A The answer is no, Edison Sault did not ask for the
5 information to the question you just posed.

6 Q If Edison Sault forced WEPCo to sell some portion of the
7 696,000 megawatt hours of opportunity sales to WEPCo at
8 cost, am I correct that WEPCo would not then be able to
9 sell that power into MISO at LMP?

10 A You're asking Edison Sault to ask Wisconsin Electric to,
11 in my understanding, to violate a FERC-approved tariff.
12 You're basically asking us, if we asked them to break the
13 law, would they have less energy to sell. I can't answer
14 your question.

15 Q I'm not asking that.

16 A Well, when you're asking this --

17 JUDGE FELDMAN: O.K. Mr. Baatz, don't
18 argue with counsel.

19 A Well, his presumption --

20 JUDGE FELDMAN: Counsel, don't argue with
21 the witness. Mr. Waters, can you just go ahead and ask
22 another question?

23 MR. WATERS: I'll follow up with an
24 additional question.

25 Q (By Mr. Waters): If Edison Sault forced WEPCo to sell
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1 excess power at cost under Sections 1.21 and 6.02 of the
2 JOA at times when WEPCo's cost was less than LMP, then
3 WEPCo would be making less money than it would by selling
4 the power into FERC at -- or pardon me -- into MISO at
5 LMP; isn't that true?

6 A I think your question involved an interpretation that's
7 not consistent with our approved tariff. What -- if
8 there's some way Edison Sault could force WE Energies to
9 sell that power, and depending what time it was and if
10 that power was cheaper than we are buying at times at the
11 LMP cost, you know, if we could force someone to sell us
12 power at a more lower cost, you know, yeah, that would be
13 a benefit to Edison Sault.

14 Q And a detriment to WEPCo?

15 A Yes, it would be a detriment to WEPCo, both financially
16 and maybe legally.

17 Q But if you were selling it to WEPCo at cost, WEPCo would
18 still be recovering its costs, correct? Just yes or no.
19 If you can't answer that yes or no, you can tell me.

20 A Could you define cost?

21 Q At WEPCo's variable cost. I take it back. At WEPCo's
22 system incremental cost, which the contract defines as,
23 JOA No. 1 defines as fuel, variable O&M and emissions
24 allowances. If WEPCo sells --

25 A Prior to the adoption --

1 MR. WATERS: Objection. Non-responsive.
2 I just want a yes or a no. If he can't answer it, he can
3 tell me.

4 MS. MASON SONERAL: Your Honor, I think
5 he had a question pending that Mr. Baatz was trying to
6 answer, and I believe Mr. Waters then tried to pose
7 another question. If Mr. Waters wants to now pose
8 another question, that's fine. Otherwise, please allow
9 the witness to answer the pending question.

10 JUDGE FELDMAN: O.K. I think,
11 Mr. Waters, you paused with a question mark, you started
12 to clarify your question or restate it again. I don't
13 think it was a different question. I think the witness
14 may have been venturing on a non-responsive answer. We
15 didn't let him get too far. So if you can just start
16 over with your question, ask one question --

17 MR. WATERS: I will.

18 JUDGE FELDMAN: -- then we'll give the
19 witness an opportunity to respond. If you can answer yes
20 or no, answer yes or no; if not, simply state, Mr. Baatz,
21 that you can not answer yes or no.

22 Q (By Mr. Waters): Section 6.02 of the JOA requires that
23 excess capacity resources be offered to the other party
24 at cost, does it not? Just yes or no.

25 A Yes.

1 Q Section 6.02 of the JOA doesn't define what is meant by
2 at cost, does it?

3 A That's correct.

4 Q Assuming that ESE pays WEPCo whatever its costs are, then
5 WEPCo will be paid cost rather than LMP, assuming that
6 those two are not the same?

7 A You've jumped from capacity to energy, and 6.02 is
8 capacity cost.

9 MR. WATERS: Objection.

10 JUDGE FELDMAN: O.K. Mr. Baatz, the
11 rules that we're setting out here to try to expedite
12 proceeding this afternoon require that you simply answer
13 a question yes or no or indicate that you can not answer
14 it yes or no, and then wait for further instructions.

15 A O.K. No.

16 MR. WATERS: What was the question and
17 what was the answer? I guess I need it read back now,
18 because I think you finished with a no. Did you?

19 JUDGE FELDMAN: The answer was definitely
20 no, but whether there was a negative aspect to the
21 question, I can't say. If you'd like to have it reread
22 by the court reporter --

23 MR. WATERS: Please.

24 JUDGE FELDMAN: -- we can read it back.

25 (The record was read aloud as follows:

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1 "Q Assuming that ESE pays WEPCo whatever its costs
2 are, then WEPCo will be paid cost rather than
3 LMP, assuming that those two are not the
4 same?")

5 Q (By Mr. Waters): And your answer was no to that
6 question?

7 A I need to ask for clarification of cost.

8 Q I'll ask it. Haven't we agreed that Section 6.02 of the
9 contract that Edison Sault is a party to doesn't define
10 the term cost?

11 A And I believe the agreement, the provision you just cited
12 is discussing capacity cost, and then your question
13 addresses LMP energy cost.

14 Q No, because Section 1.21 of the agreement -- doesn't
15 Section 1.21 of the agreement state that off-system sales
16 means all wholesale sales to a third party of energy or
17 capacity?

18 A And could I have the document. It's here in the room.

19 Q There should be a copy. Sorry. I should have referred
20 to Section 1.19, not 1.21.

21 A Is there a question pending to me?

22 Q I'll move on. Can you give me an example with regard to
23 something that is significant of where WEPCo, where ESE
24 has ever told WEPCo, no, we will not do what you want?

25 A The JOA agreement provides that the parties shall

1 consider it a, I think it's called a pooling of
2 generation. Edison Sault has told WEPCo that we are not
3 interested in going to a pooling of generation.

4 Q Other than that?

5 A I recall the WEPCo was inquired whether we'd be
6 interested in more frequent billing than monthly, and we
7 said to them, no, we do not want that.

8 Q You state in your testimony that there were no
9 intervenors in the FERC filings. Did WEPCo notify the
10 City of Mackinac Island of the FERC filing? If you can
11 answer that yes or no, that will speed things up.

12 A Notice is provided, according to the Federal Register, to
13 all parties that agree to the Federal Register. No
14 specific notice was given to the City of Mackinac Island.

15 Q Did you give any notice to ABATE?

16 A Again, notice is given through the Federal Register, no
17 specific notice was given to ABATE.

18 Q What about the MPSC staff?

19 A That, I don't know. I believe the Michigan Public
20 Service Commission is served a copy; whether that reaches
21 the staff or not, I can't, you know, I can't address the
22 commission's procedures.

23 Q Did Edison Sault inform the MPSC or the MPSC staff that
24 if WEPCo generated more than \$13 million of, you know,
25 revenues over variable cost, that Edison Sault was simply

1 going to allow WEPCo to retain all of that \$13 million or
2 anything like that?

3 A That was not discussed.

4 Q Did Edison Sault call the staff and discuss the
5 implications of replacing JOA 1 with JOA 2?

6 A And your question, did Edison Sault? Edison Sault did
7 not.

8 (Document marked for identification by the court
9 reporter as Exhibit No. CMI-12.)

10 Q (By Mr. Waters): Very simple question. To the best of
11 your knowledge, is that a true and accurate copy of the
12 original JOA?

13 A No.

14 Q It is not?

15 A You also gave me a copy of Amendment 2 to the JOA.

16 Q Then I'll have that marked separately as Exhibit 13.

17 (Document marked for identification by the court
18 reporter as Exhibit No. CMI-13.)

19 Q (By Mr. Waters): Does Exhibit -- is it 12 you have in
20 your hand, Mr. Baatz?

21 A Exhibit 12, which is the original JOA.

22 Q O.K. Is Exhibit 13 a true and accurate copy of
23 Amendment 2?

24 A It appears to be, yes.

25 Q Can you turn to the exhibit, I should say Schedule C to
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1 Amendment No. 2.

2 A I see that, yes.

3 MS. MASON SONERAL: Your Honor, may I
4 ask, do you need additional copies of JOA No. 2, because
5 I have them if people need them?

6 MR. WATERS: Actually, yeah, that might
7 be helpful.

8 JUDGE FELDMAN: Let's go off the record
9 for a few minutes and to sort out the documents.

10 (A brief in-place recess was taken.)

11 Q (By Mr. Waters): Mr. Baatz, is Exhibit 13 an accurate
12 copy of what was submitted to FERC as Amendment No. 2 to
13 the JOA?

14 A Yes, it appears to be.

15 Q And am I correct that Exhibit C does not identify the
16 pooled capacity resources for which Edison Sault is
17 seeking to recover capacity costs in this PSCR
18 proceeding?

19 A That's not on Exhibit C, so you are correct.

20 MR. WATERS: Your Honor, if we could take
21 a break for five minutes. I think I may be done.

22 JUDGE FELDMAN: We can take a break for
23 five minutes.

24 (At 2:10 p.m., a 12-minute recess was taken.)

25 JUDGE FELDMAN: Any time you're ready,
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1 Mr. Waters.

2 MR. WATERS: O.K. Just a few questions,
3 your Honor, and I'll be done.

4 Q (By Mr. Waters): Does WEPCo have any new generation
5 coming on line?

6 A Does WEPCo --

7 Q Have any new generation coming on line?

8 A I believe the answer is no.

9 Q Are they planning for any new generation to come on line?

10 A They are planning to purchase generation coming on line
11 from another, from an affiliate party.

12 Q An affiliate of WEPCo?

13 A An affiliate.

14 Q Pardon me?

15 A Yeah, it would be an affiliated company.

16 Q Has ESE inquired into obtaining a portion of that
17 capacity?

18 A Yes, we have.

19 Q And do you expect to be able to do so?

20 A We have explored a number of pricing items that may or
21 may not include, you know, direct participation in that
22 capacity.

23 Q Have you explored actually purchasing an ownership
24 interest in a part of that plant?

25 A We have not explored an ownership interest.

1 Q Has an agreement been reached in principle as to what
2 will happen?

3 A Some proposals have been discussed; an agreement in
4 principle has not been reached.

5 Q When does your WEPCo firm contract expire?

6 A The 20-megawatt firm contract expires at the end of 2007.

7 Q And what are your plans -- pardon me. What are ESE's
8 plans to replace that power when that contract expires?

9 A Those are the options being considered, and they consist
10 of a variety of plans or a variety of options. They may
11 include, one, we could purchase the power under the terms
12 of the Joint Operating Agreement; we could explore a
13 bilateral contract with another power entity; we've
14 looked at a potential sharing of some of the costs of
15 participation in some format, likely not an ownership
16 share of the Power for the Future program of WE Energies;
17 and we've also explored where WE Energies should file a
18 broad wholesale FERC tariff for the sale of wholesale
19 power that may be available not only to Edison Sault, but
20 also other utilities.

21 Q Is one of the options you're considering the purchase of
22 power over a long period of time at a price other than
23 LMP?

24 A Yes.

25 Q Does ESE own or hold any FTRs?

1 A Again, there were -- Wisconsin Electric is our agent, and
2 there are FTRs, Financial Transmission Rights, that are
3 associated with the Edison Sault sales -- or the Edison
4 Sault purchases. Excuse me.

5 Q Does Edison Sault receive the financial benefit of those
6 FTRs?

7 A Yes.

8 Q Does ESE own or sell any renewable energy credits for its
9 hydro projects?

10 A Not currently.

11 Q Have you looked into doing so?

12 A There has been some inquiries, and we've addressed
13 whether the, whether we have a right to do so or not.

14 Q Do you understand --

15 A The State of Michigan has not yet enacted what basically
16 are called, what would essentially qualify for a
17 renewable energy credit and whether the Edison Sault
18 hydro plant would indeed qualify for a renewable energy
19 credit. So we don't know what the ground rules are.

20 Q So have you explored the possibility of selling renewable
21 credits into, for example, PJM and other markets where
22 there is a market for renewable energy credits?

23 A Yes.

24 Q And you haven't done that?

25 A We have not done that.

1 Q And why is that?

2 A We had a -- I received a phone call one day of whether
3 Edison Sault would be qualified to sell renewable energy
4 credits, so we investigated whether we had the right to
5 sell it or not, whether what any regulatory requirement
6 would be, so we did explore the option.

7 Q You do understand that renewable energy credits,
8 particularly PJM and some of the eastern markets, sell
9 for significant amounts of money?

10 A They can sell for significant amounts. It's not clear to
11 us whether our generation qualifies for a renewable
12 energy credit or not. In some states hydroelectric
13 plants are considering renewable energy credits; in some
14 states hydros have to be below a certain size limit; in
15 some states old hydroelectric plants aren't designated as
16 qualified, and other states they may qualify.

17 Q And the last question I have is this: In Response 11 to
18 the City's Third Discovery Request, you provided a number
19 of minutes. You don't have any documents in front of
20 you, so you don't need to look there. And the documents
21 that I was given, as best I can tell, don't contain any,
22 you know, minutes which were prepared after the meeting
23 of the JOA operating committee. To your knowledge, do
24 you know whether any were prepared?

25 A I believe in the discovery request one set of minutes was
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1 prepared and provided. In subsequent meetings, we didn't
2 designate a minute-taker, and to my knowledge, no minutes
3 were prepared.

4 MR. WATERS: Those are the only questions
5 I have, your Honor. And I would offer exhibits 1, 3,
6 4 -- pardon me -- 1, 3, 5, 6, 7, not 8, 9, 10, 11, 12 and
7 13.

8 JUDGE FELDMAN: O.K. Let's take up the
9 exhibits at the conclusion of the witness, if that's O.K.
10 with you.

11 MR. WATERS: That's fine.

12 MS. MASON SONERAL: Your Honor, before we
13 get off the topic of exhibits, with regard to Exhibit
14 No. 11, it is everyone's understanding that if admitted,
15 a revised version of 11 would be submitted to take out
16 two sentences.

17 JUDGE FELDMAN: I will allow the parties
18 to stipulate that a revised version of CMI-11 will be
19 admitted to be filed later in accordance with the
20 agreement that you've earlier, that you reached.

21 Mr. Odunlami.

22 MR. ODUNLAMI: Yes, your Honor. The only
23 thing staff has for getting this witness is to offer
24 exhibit already marked as S-1 into evidence, your Honor.
25 I'd like the opportunity to share that with the parties.

1 JUDGE FELDMAN: O.K. You've had that
2 opportunity.

3 MR. ODUNLAMI: O.K. Thank you.

4 (Document marked for identification by the court
5 reporter as Exhibit No. S-1.)

6 JUDGE FELDMAN: O.K. We will also defer
7 consideration of S-1 until we take up the remaining
8 exhibits.

9 Ms. Mason Soneral, do you have redirect
10 for this witness?

11 MS. MASON SONERAL: I do, your Honor.

12 JUDGE FELDMAN: Proceed when you are
13 ready.

14 REDIRECT EXAMINATION

15 BY MS. MASON SONERAL:

16 Q Mr. Baatz, could you please refer to Exhibit CMI-13,
17 which is Amendment 2 to the Joint Operating Agreement.

18 A I have that before me.

19 Q And specifically can you turn to Schedule C --

20 A Yes, I have Schedule C.

21 Q -- identified as pooled capacity resources. And you
22 stated in response to Mr. Waters' question that Exhibit C
23 did not identify specific pooled capacity resources; is
24 that correct?

25 A That's correct.

1 Q Why doesn't Exhibit C identify the specific capacity
2 resources?

3 A Well, Exhibit C listed the amount of purchase, and it
4 states, contract for purchase of 98 megawatts of capacity
5 beginning on October 1, 2000, and ending on September
6 30th, 2000. And I may say that those years were
7 actually, had included a typo. It should be September
8 30th, 2000. Schedule C has not been updated since that
9 time. The pricing parameters of capacity are on the
10 following exhibit, Schedule D.

11 Q And what is the significance of Schedule D?

12 A Well, Schedule D talks about the pricing component of
13 pooled capacity and that the, and it references that the
14 capacity resources may change from year to year, and
15 Schedule D has the, basically the formula to determine
16 Edison Sault's proportion of the total generation
17 capacity.

18 Q And is this formula followed regardless of the specific
19 resources?

20 A Yeah. It -- the formula discusses the methodology, you
21 know, and this is a formula, again, a part of the a
22 FERC-approved tariff. So if there's a, if there's a
23 suggestion that did FERC approve a listing of the
24 contract capacity, no listing is provided to FERC because
25 Schedule D provides for the terms of that pricing.

1 Q So are you -- in your 2006 PSCR plan with regard to the
2 capacity charges, did you follow this FERC-approved
3 formula --

4 A Yes.

5 Q -- in calculating those?

6 A Yes.

7 Q And turning your attention to CMI-10, Exhibit CMI-10,
8 which is Discovery Request 1 of the MPSC Staff.

9 A Yes, I have that.

10 Q Does the first paragraph of your response show the
11 application of that formula with regard to the 2006 PSCR
12 plan?

13 A It shows the formula for the amount of the costs
14 pertaining to Edison Sault, that for the year 2006 we
15 were reserving 35 megawatts capacity, we had projected an
16 average price of \$6.00 per kilowatt per month times the
17 12 months, which equals an amount of two thousand, five
18 hundred twenty thousand dollars (sic), which was included
19 in the Edison Sault power supply cost recovery plan. It
20 also goes on that there was a proportionate, a portion of
21 that power was assigned to Cloverland Electric
22 Cooperative in the amount of \$280,000, and it gives
23 references to the other discovery requests and individual
24 lines of work papers of the Edison Sault budget program
25 for the year 2006.

1 Q You were handed a series of Joint Operating Agreements,
2 the first one being Exhibit CMI-1, which was identified
3 as Joint Operating Agreement Amendment 1; Exhibit CMI-12,
4 which was designated original Joint Operating Agreement;
5 and then Exhibit CMI-13, which is identified as Joint
6 Operating Amendment No. 2. What is the effective Joint
7 Operating Agreement today between Edison Sault and WEPCo?

8 A The Joint Operating Agreement Amendment No. 2 is a
9 complete rewrite of the agreement, so JOA 2 is,
10 Amendment 2 is the appropriate contract that's in effect
11 today.

12 Q O.K. In both JOA Amendment 1 and JOA Amendment 2, were
13 there provisions regarding the pricing of energy?

14 A Yes, there were. There's a schedule in each document.

15 Q Where is that schedule found in JOA Amendment 1, which is
16 Exhibit 1?

17 A There is a particular schedule, it's called Schedule E.

18 Q And then what is the applicable schedule in JOA
19 Amendment 2, which is Exhibit CMI-13?

20 A And that is also Schedule E.

21 Q Referring to the Schedule E in JOA Amendment 1, as well
22 as the Schedule E in JOA Amendment 2, can you explain how
23 the pricing provisions for energy between those two
24 amendments is the same or is different?

25 A Under JOA Schedule 1, the energy pricing was based upon
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1 system incremental costs for Wisconsin Electric Power
2 Company, and it was based, it's incremental cost or
3 marginal cost basis. When the MISO markets became
4 operational on April 1, 2005, the incremental costs were
5 now being run through a market of the, of MISO, and
6 Schedule E was revised to reflect that the MISO
7 definition of marginal costs would now be followed, and
8 it pertained, and it also identified basically two
9 marginal cost methods, one that applies to the day-ahead
10 market, one that applies to the realtime market; because
11 the way MISO is operating, there can be two definitions
12 of marginal cost, depending which market you are
13 participating in.

14 Q And why did Edison Sault believe it had to amend
15 Schedule E in JOA No. 2?

16 A Well, the establishment of the day-ahead market price in
17 the MISO, well, basically did a number of things, but it
18 basically changed the definition of marginal costs.
19 Where in the past we are dealing with marginal cost,
20 marginal energy cost of Wisconsin Electric, which
21 included a number of factors, including the cost of
22 generation, but also a definition of any incremental cost
23 for their generation, applicable taxes and everything,
24 but it was a set definition. The MISO markets now are a
25 much broader market where all generators have an

1 opportunity to bid into the market and MISO declares or
2 establishes a market clearing price for every hour. WE
3 Energies and Edison Sault are participating in that MISO
4 market. So our MISO, the MISO prices are basically, and
5 the MISO pricing formula have basically replaced the
6 system marginal -- or system incremental cost of WE
7 Energies.

8 Q Where are the capacity provisions found in JOA
9 Amendment 1?

10 A In the capacity, the -- well, there's a series -- the
11 pricing terms of the pricing are on Schedule D where it
12 really kind of shows the example. There's other
13 schedules that list the embedded capacity resources: For
14 Wisconsin Electric, they're listed on Schedule B; for
15 Edison Sault, they're also listed on a continuation of
16 the Schedule B.

17 Q And where are those provisions found in JOA Amendment
18 No. 2?

19 A And they are in the same reference again. And the
20 pricing of capacity in essence did not change between
21 Amendment 1 and Amendment 2.

22 Q Mr. Waters asked you whether Wisconsin Electric is the
23 MISO market participant, and you testified, I believe,
24 that yes, Wisconsin Electric is the MISO market
25 participant and acts as an agent on behalf of Edison

1 Sault; is that correct?

2 A That's correct.

3 Q Would there be any benefits associated with Edison Sault
4 being designated its own MISO market participant?

5 A I'm not aware of any additional benefits that could
6 accrue to Edison Sault.

7 Q Would there be any costs of being designated a MISO
8 market participant?

9 A There could be substantial costs, particularly
10 administrative costs.

11 Q And what type of costs; give me some examples, please?

12 A It would be a significant amount of staffing costs
13 because you would need individuals to daily submit and
14 communicate bids to MISO, bids for generation, bid for
15 requirement, you need a staffing requirement to check the
16 invoices received from MISO. For each day, MISO will
17 send basically like a settlement for each day's
18 activities, which parties have an opportunity to
19 challenge; seven days later, they'll submit a revision of
20 that; several weeks later, they'll submit a final
21 revision, and there's also terms for contesting. That
22 would take a significant administrative staff to follow
23 that procedure. I'm aware that Wisconsin Electric alone
24 employs at least six people basically full time on the
25 administration of MISO billings. For a company like

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1 Edison Sault, that would be significant amount of
2 staffing. We have about 60 employees, and if we added
3 six people just in the building staff, that would be a
4 significant cost.

5 Wisconsin Electric also does control area
6 operations and will determine whether generating plants
7 are turned on or not; Edison Sault does not do those type
8 of staffing. So there can be very significant costs of
9 being a full MISO participant.

10 Q And am I understanding it correctly that you pay \$70,000
11 per year to have Wisconsin Electric act as your MISO
12 market participant?

13 A Well, that's for the JOA administrative fees, which
14 encompass those activities, as well as coordinating
15 purchases and others, that's the approximate cost we pay.

16 Q And do you believe that that \$70,000 fee is cost
17 effective for Edison Sault?

18 A Oh, I think it's very cost effective.

19 Q Just for clarity of the record, you'll want to let me ask
20 my questions and then answer them so that we're not
21 talking over each other.

22 JUDGE FELDMAN: I was just going to say
23 that.

24 MS. MASON SONERAL: Thank you.

25 Q (By Ms. Mason Soneral): What type of information, if
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1 any, does WEPCo provide to Edison Sault regarding its
2 agent activities?

3 A We get a variety of information from WEPCo. Each year we
4 have a meeting of our joint operating committee where we
5 provide a summary of what the, our costs that we have
6 incurred. It's been some of these whole series of
7 documents that were provided in discovery. They provide
8 monthly billing and detail of the billing, you know, what
9 monthly invoicing. They are available to answer our
10 questions about MISO activities, power contracts. They
11 provided assistance in responding to some of these
12 discovery requests that have been involved in this
13 proceeding.

14 Q And do you --

15 A So they are -- excuse me. They are there, you know,
16 available, and we found them very forthcoming in
17 responding to Edison Sault's questions.

18 Q Do you review, or someone at Edison Sault, do you review
19 the information that you're provided by Wisconsin
20 Electric?

21 A Yes, I review it and others review it. You know, we
22 exchange information. Edison Sault provides information
23 to WE Energies on our bills that may involve all the way
24 from monthly metering information that we can help check
25 the accuracy of our billings, we'll provide the Edison

1 Sault load information both on a projected daily basis
2 and the availability of our generating resources. So
3 there's a, there is more than a, really at least a daily
4 contact with Edison Sault through e-mails and the like of
5 passing information on to, information that is needed to
6 comply and administer with the MISO tariffs and the MISO
7 energy markets.

8 Q Could you please turn to page 5 of your prefled direct
9 testimony.

10 A I'm there.

11 Q Mr. Waters had asked you whether you had sources of firm
12 power. Does page 5 identify those sources of firm power?

13 A Yes, they do.

14 Q And approximately what percentage is the Joint Operating
15 Agreement with WEPCo of that firm power?

16 A The capacity provisions are listed as 35 megawatts, which
17 would be a little over probably 20 percent of the total.
18 On a total energy basis, it represents about 22 percent
19 of our energy requirements.

20 Q Mr. Waters asked you about the \$100 price cap that you
21 negotiated with WEPCo. Could you explain what that price
22 cap means and whether you believe it benefits Edison
23 Sault customers?

24 A Yes. It imposes a ceiling on the prices and provides us
25 upward price protection. Back when the initial JOA

1 agreement was being signed back in the year 2000, the
2 industry had just gone through the situation where the
3 power markets in the State of California had skyrocketed
4 and costs were well in excess in some markets of \$100. I
5 mean some even times approached \$1,000. As we were
6 negotiating this, we were asked, Edison Sault was
7 concerned, did we have any upward price protection under
8 these agreements, and that that price protection is one
9 of the items that was negotiated in the terms of the
10 contract.

11 Q And understanding that there may have been some perhaps
12 miscalculations where Edison Sault thought that the \$100
13 price cap had been reached, I believe your testimony was
14 that the \$100 price cap has not yet been reached; is that
15 correct?

16 A Yeah. We particularly inquired whether it had been
17 reached in the billing for September of 2005. The
18 initial bill calculation, the bill that was presented by
19 Wisconsin Electric, the price did exceed the \$100 cap.
20 After inquiring, it was determined that the Financial
21 Transmission Rights, which in that month served as a
22 credit, are an energy-related transaction, and after
23 deducting that credit, then the price came under \$100 per
24 megawatt. There were other instances where we came very
25 close to the \$100 cap. So it is -- while we have not,

1 after the adjustment we have not exceeded it year to
2 date, we may in the future.

3 Q O.K. And you have come close on occasion; is that
4 correct?

5 A Yes.

6 Q O.K. I don't remember exactly what exhibit it was, but
7 Mr. Waters asked you a question about the 35 megawatts
8 and how it was calculated, and you indicated that
9 35-megawatts' calculation was derived for the month of
10 July, correct?

11 A Yes.

12 Q Do you remember what exhibit that chart comes from so we
13 can turn our attention to that chart?

14 A On my rebuttal testimony, that is contained as part of
15 the last page of the Edison Sault and Cloverland Electric
16 Cooperative report to the commission on assessment of
17 ability to meet electric requirements. That is Exhibit
18 A-8, and was page 6.

19 Q O.K. I found that page. Thank you for the reference.

20 In the box under July '06, you have the
21 35 megawatts basically in a box there, and then you have
22 January through December listed, and you have different
23 megawatts identified for each of those months; some of
24 them are less than 35 megawatts, some of them exceed 35
25 megawatts. Can you explain to me how Edison Sault

1 benefits with a reservation of 35 megawatts as being
2 calculated in the month of July as opposed to, for
3 example, a 54 calculation in the month of December?

4 A Yes. And particularly if you look, you start looking at
5 the first line of the exhibit called ESE native load,
6 you'll see that Edison Sault's -- and these are loads
7 expressed in megawatts. Edison Sault is a winter peaking
8 utility, and we may peak either, traditionally either the
9 month of January or December. Our forecast for the year
10 2006 had us peaking in December of 2006 at a total of 146
11 megawatts.

12 Going through the schedule and
13 identifying the reserves, if Edison Sault was on a,
14 basically a stand-alone basis and had to purchase its own
15 capacity in the month, we would be required to meet the
16 full operating requirement for December of 2006 and
17 purchase basically 54 megawatts of additional capacity.
18 Because we participate through Wisconsin Electric in the,
19 through this Joint Operating Agreement, when we combine
20 the loads of Edison Sault and Wisconsin Electric, the
21 combined total operates, or results in a peak that occurs
22 during the month of July, and that occurs as Wisconsin is
23 a summer peaking utility. So Edison Sault gets, under
24 agreement, we get the benefit of that. We pay for the 35
25 megawatts of assigned capacity based upon our calculation

1 of our peak at the time of the annual combined peak of
2 Wisconsin Electric, we pay for 35 megawatts as opposed to
3 paying up to 54 megawatts if other months were used.

4 Q O.K. Thank you. Going back to Joint Operating Agreement
5 Amendment 2, which is Exhibit CMI-13, why did Edison
6 Sault agree to pay LMP for energy?

7 A Well, the MISO energy markets became operational on April
8 1, and they now represent both a real and probably the
9 best measurement of marginal energy costs that is
10 available. And it's, I may say, with the MISO market --
11 Wisconsin Electric and Edison Sault are participants in
12 the MISO market. The MISO has a number of objectives as
13 operating a regional transmission organization that they
14 are trying to establish reliable power at the lowest cost
15 for the broadest area of basically what they call their
16 footprint. The MISO market is -- well, and it's, one,
17 it's been approved by FERC, FERC has encouraged utilities
18 to transfer their transmission capability into these
19 regional transmission organizations to get viable energy
20 markets. The MISO market is intended to give price
21 signals not only to potential generators, but also to
22 potential users of electricity, that they either build
23 generation in the most appropriate locations as
24 determined by the MISO pricing experience and practices,
25 and that customers may locate in the areas where prices

1 are known and where prices may be available.

2 Q Mr. Waters asked you a question about strike prices in
3 connection with signing Amendment 2. Did you need to
4 know strike prices in order to execute Joint Amendment,
5 Joint Operating Agreement No. 2?

6 A No, Edison Sault did not need know the strike prices
7 because those, the strike prices were in agreements
8 between Wisconsin Electric and its, and the companies
9 that they were purchasing the power from. And Wisconsin
10 Electric was buying power on both its own behalf and
11 Edison Sault. Their power marketing department has an
12 objective of acquiring power at the most reasonable cost
13 it can for their organization. Edison Sault is
14 participating with them on that.

15 As shown in the exhibit for the current
16 year, Wisconsin Electric is acquiring in excess of 1,000
17 megawatts of capacity; Edison Sault's assigned portion
18 has been this 35 megawatts. So we, Edison Sault is
19 roughly getting two or three percent of the power, and we
20 have a, we are using the resources of the Wisconsin
21 Electric Power market department, which is trying to
22 achieve the lowest cost power, and Edison Sault is
23 benefitting from that and from their experience and
24 expertise.

25 Q Would you expect there to be any less expensive power out

1 there than what you currently have under JOA Amendment
2 No. 2?

3 MR. WATERS: Objection. Foundation.
4 This witness has testified he didn't go out to look, and
5 it would be pure speculation.

6 MS. MASON SONERAL: Your Honor, I believe
7 the witness, in response to this question, said that he
8 did not need to go out and look because of the basis of
9 knowledge that he had at the time, and I'm trying to
10 follow up on the basis of that knowledge.

11 MR. WATERS: Then may I voir dire the
12 witness as to what his actual knowledge is, or at least
13 request that Ms. Mason Soneral, before she gets into the
14 expression of the ultimate opinion, establish, you know,
15 the predicate foundational requirements that he's
16 actually gone out and looked and he knows what's there?

17 MS. MASON SONERAL: I can establish
18 foundation, your Honor.

19 JUDGE FELDMAN: I'll give you a chance to
20 do that. And you will get an opportunity for redirect.

21 But, Ms. Mason Soneral, would you also
22 ask this witness or try to structure your questions in a
23 way that the witness's answers are somewhat expected from
24 the question in order to give counsel an opportunity to
25 object so we don't have a lot of just free association

1 and explanation that isn't called for by your question.

2 MS. MASON SONERAL: O.K.

3 JUDGE FELDMAN: Thank you.

4 MS. MASON SONERAL: Thank you.

5 Q (By Ms. Mason Soneral): Mr. Baatz, are you generally
6 familiar with what power is available in seeking to find
7 power for Edison Sault?

8 A Yes.

9 Q Is that something you monitor as part of your job
10 responsibilities?

11 A Yes.

12 Q O.K. And I believe your testimony was that Edison Sault
13 did not actively solicit bids before it signed JOA
14 Amendment No. 2; is that correct?

15 A That's correct.

16 Q And were you generally familiar with the power situation
17 at the time you signed JOA Amendment No. 2?

18 A Yes.

19 Q And were you aware of any less expensive power than what
20 was available under JOA Amendment No. 2 at the time you
21 executed -- or excuse me -- Edison Sault executed JOA
22 Amendment 2?

23 A I was not aware of any available power at a lower price.

24 Q Thank you. Can you please turn your attention to
25 exhibit -- it was the one exhibit that had the Power

1 Point presentation put together by WEPCo.

2 JUDGE FELDMAN: Is that CMI-3 per chance?

3 MR. WATERS: I think that was 5.

4 MS. MASON SONERAL: I do believe it's 3.

5 Thank you.

6 Q (By Ms. Mason Soneral): Could you please turn your
7 attention to Exhibit CMI-3.

8 A I'm confused. You want CMI-3?

9 Q Yes. Which is Edison Sault's Response to City's Second
10 Discovery Request No. 11.

11 A Is this the one how a plant operation is affected?

12 Q Yes.

13 A I have that.

14 Q O.K. To your knowledge, does Wisconsin Electric's, any
15 attempts by Wisconsin Electric to maximize its profits,
16 does that necessarily work to the detriment of Edison
17 Sault?

18 A No. I would expect them to attempt to maximize their
19 profits under the situation.

20 Q And why don't you believe it would operate to the
21 detriment of Edison Sault?

22 A Well, the schedule talks about properly bidding the
23 units. All generators under the MISO market would have
24 an objective to properly bid their generating units into
25 the market. Each generator would want to bid his markets

1 in there to recover and bid them in at a price to recover
2 their marginal cost of operation, including marginal cost
3 of fuel and any other operations. Once a price is bid
4 in, the bidder has no control over the actual price
5 received. The actual price received under the
6 MISO-approved tariff is a strike price of the highest bid
7 that's been selected. So there's really no opportunity
8 for a utility to really, let's say, game the process. If
9 a -- and let me just give you an example. If a utility
10 believed that its operating costs were at, say, \$35 a
11 megawatt hour and they bid it in, and if the resultant
12 strike price was \$50, they would benefit and achieve that
13 price. If their costs were \$35 and they bid a much
14 higher price, let's say they bid \$60, and the market
15 settled at 50, they would not be called on to run, and as
16 a result, they would forego that opportunity to make that
17 profit during that time.

18 So the objective of MISO is to have all
19 the utilities properly bid in their cost, knowing that
20 the ultimate outcome or ultimate price you receive is not
21 under the control of that utility.

22 Q And if they improperly bid, then they take the chance
23 that their unit is not picked up for use, correct?

24 A Their unit may not be picked up, or if they, if their
25 costs were higher, they may incur a loss.

1 Q O.K. Mr. Waters asked you a question about whether
2 Edison Sault anticipated prior to executing Joint
3 Amendment No. 2 that certain aspects of MISO would be
4 more costly, and I believe you responded that you, that
5 Edison Sault at least anticipated the transmission costs
6 might be more costly because of constraints.

7 MR. WATERS: Objection. Mischaracterizes
8 the witness's answer. What the witness said is that, no,
9 we didn't think MISO was going to make it more expensive,
10 and when impeached on cross-examination with his
11 deposition testimony, only then was forced to admit that,
12 oh, yeah, I did realize ahead of time that MISO was going
13 to be more expensive.

14 MS. MASON SONERAL: Your Honor,
15 Mr. Waters interrupted my question. I was going to ask
16 Mr. Baatz if that was an accurate characterization of his
17 testimony, and I was going to refer to the specific
18 portion of his deposition referred to by Mr. Waters.

19 JUDGE FELDMAN: You can ask your
20 question.

21 MS. MASON SONERAL: O.K. Could you read
22 the question back, please.

23 (The record was read aloud as follows:

24 "Q O.K. Mr. Waters asked you a question about
25 whether Edison Sault anticipated prior to
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1 executing Joint Amendment No. 2 that certain
2 aspects of MISO would be more costly. And I
3 believe you responded that you, that Edison
4 Sault at least anticipated the transmission
5 costs might be more costly because of
6 constraints.")

7 Q (By Ms. Mason Soneral): Is that a correct
8 characterization of what your testimony was? And a yes
9 or no, because I'll ask follow-up questions. I mean did
10 I characterize what you testified --

11 A I believe you did, yes.

12 Q -- correctly? O.K. Could you please turn to page 31 of
13 your deposition. And specifically, Mr. Waters asked you
14 about lines 9 through 16, and he read you your testimony
15 that was given on January 16th, 2006, and you agreed that
16 he correctly stated your testimony. When at lines 9
17 through 16, or even lines 9 through 19, are you referring
18 only to transmission costs at MISO, or are there other
19 costs that you were referring to?

20 A There are also other costs that I was referring to.

21 The -- do you want me to go on?

22 Q Yes. Because I need to understand what Edison Sault
23 anticipated would increase and what it thought wouldn't
24 increase.

25 A Well, let me explain the -- under the MISO, we would be
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1 paying a locational marginal price, and the locational
2 marginal price consists of three basic components; one is
3 the market clearing price for generation, and then
4 there's two components related to transmission,
5 transmission losses and transmission congestion. We had
6 concern in Wisconsin, particularly in the Wisconsin
7 Electric area, and the broader area of Wisconsin, and
8 maybe to a lesser extent in the Edison Sault area, that
9 certain areas of the -- or Wisconsin is generally
10 considered a transmission constrained state, and the
11 transmission pricing component of the LMP may adversely
12 impact Wisconsin Electric. The basic market clearing
13 price is another matter, and that, by having a broader
14 market, more participants and more established bidding
15 rules, and particularly over a period of time, I think
16 the expectation would be that there would be lower costs
17 associated with the market clearing price.

18 So when all these factors are taken into
19 account, and when Edison Sault did its projection, its
20 energy costs to be incurred under the JOA, and this is
21 back when we were submitting our 2005 PSCR plan, which we
22 had submitted in September of 2004, we had expectations
23 that the MISO market would become operational. We didn't
24 know the exact timing of it because there were, MISO did
25 experience delays in the extension date. But Edison

1 Sault did not project an increase in the total price of
2 energy as a result of entering into the MISO markets.

3 Q O.K. Mr. Waters asked you questions concerning
4 approximately \$2.5 million that Edison Sault projects
5 paying for pooled capacity charges. Would you please
6 turn your attention to Exhibit Staff 1, S-1.

7 A I have that.

8 Q Does Edison Sault's response to S-1 set forth the
9 benefits that Edison Sault expects to receive for the
10 pooled capacity charges it incurs?

11 A Yes.

12 Q O.K. Mr. Waters or Mr. Strong, perhaps it was
13 Mr. Strong, asked you a series of questions about your
14 participation, or Edison Sault's participation in MAIN
15 and the 15-percent reserve requirement for capacity. Do
16 you believe it's prudent for utilities to have reserve
17 requirements?

18 A Oh, yes, most definitely.

19 Q And to your knowledge, why is Edison Sault following a
20 15-percent reserve requirement if it's not mandated by
21 FERC or the PSC?

22 A It would be good utility practice to have adequate
23 amounts of power to supply service to our customers.
24 Without adequate generation, and generation either owned
25 or purchased, we may not be able to meet the peak load

1 requirements for our customers. Reserves are needed
2 because generating equipment may be removed from service,
3 maybe operational needs or maintenance needs or units
4 will break down and need repair from time to time, so you
5 need reserves of generating capacity to cover those
6 instances when a unit is removed from service.

7 Q And if -- I'm sorry. Are you finished?

8 A Why don't you ask the next question.

9 Q O.K. If there was a FERC order or a PSC order that
10 ordered Edison to reduce its research requirements, or if
11 it came out with a percentage that it recommends as a
12 reserve requirement and it was lower than 15 percent,
13 would Edison Sault reduce to that recommended percentage?

14 A I would expect that we would seek and we would follow the
15 guidelines.

16 Q And in reporting to the MPSC for year 2006, what did you
17 report your reserve requirements to be?

18 A We reported that we had included the 15-percent reserve
19 margin in our calculation of our expected capacity needs.

20 Q Can you please turn to your deposition testimony at page
21 5, lines 19 through 24.

22 A O.K. I see those.

23 Q I believe this is a section of your testimony that
24 Mr. Waters referenced earlier and asked you questions
25 about; is that correct?

1 A Yes.

2 Q And you seem to indicate that this information was
3 accurate at the time you were deposed on January 16,
4 2006. And then you seemed to indicate that you might
5 have a different answer today. Would you please state
6 whether you do have a different answer, and if so, why is
7 your answer different?

8 A Yeah. I may have a difference. On the answer that's
9 beginning on line 22 where I indicated there are some
10 differences, and I would change my answer. If advised
11 today, it would be somewhat different. Since the time of
12 the deposition back in January, I've been involved in, I
13 made a trip to the MISO headquarters, I inspected, toured
14 their facilities, met with the managers, got a better,
15 broader understanding of the MISO markets, also by
16 participating through the discovery in this case, learned
17 much more about the MISO markets, and we just have more
18 experience with the MISO markets now as opposed to
19 January.

20 One of the things I learned is that the
21 utilities bid both all of their generation and all of
22 their load serving requirements into the MISO markets.
23 For a company like Wisconsin Electric, they are buying
24 power now every hour of the day, 24 hours of the day. I
25 was not specifically aware of that back in January when I

1 testified. That in turn could impact how -- what the
2 system incremental cost is as to find out under the old
3 JOA Amendment No. 1 where we were paying WEPCo's
4 incremental cost. Incremental cost is fairly easy to
5 calculate if you are buying energy and that's your
6 highest cost source, and that's generally what would be
7 happening under the MISO markets. If you are, prior to
8 the implementation of the MISO markets, if you're looking
9 at top incremental costs and you're just generating, it
10 takes a variety of calculations, the main one being fuel
11 costs, but incremental operation and maintenance expense
12 on generating units, applicable taxes, all the items that
13 went into the calculation and determination of WEPCo's
14 system incremental costs as defined under the JOA
15 Amendment 1 would be in consideration.

16 Q O.K. Mr. Waters asked you whether you were aware of any
17 contract where a utility would purchase capacity without
18 retaining the rights to obtain electricity; do you
19 remember that series of questions?

20 A Yes.

21 Q And you testified that, I believe, if I'm correct, that
22 you were not aware of any such contracts. Was that your
23 testimony?

24 A Yes.

25 Q Why did Edison Sault set up the joint amendment -- or
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1 excuse me -- the Joint Operating Agreement Amendment
2 No. 2 in this manner if you're not aware of any other
3 contracts that are set up this way?

4 A The utility contracting for the capacity and getting the
5 rights for energy under the pooled capacity agreements is
6 Wisconsin Electric, it is not Edison Sault Electric
7 Company. Edison Sault purchased our capacity and our
8 energy under the terms of the Joint Operating Agreement.
9 Once this -- once there's sufficient capacity for the
10 combined operations of Wisconsin Electric and Edison
11 Sault, the normal procedure is to always operate those
12 units in the, you know, in an economic dispatch order,
13 that economic dispatch order is now determined and
14 controlled by the MISO markets, but you would always want
15 to operate and bid in your lowest generating units first
16 and so that those could be utilized.

17 It's not to Edison Sault's advantage to,
18 or to particularly assign any power under the, that may
19 be received from those pooled capacity resources if
20 there's lower cost generation available. So it's not an
21 Edison Sault responsibility to get the energy out of
22 those pooled capacities, it's WE Energies operating
23 through the MISO markets which is intending to get
24 the lowest cost power available for every hour of the
25 day, week, month or year.

1 Q And you believe that's beneficial to Edison Sault?

2 A Yes.

3 Q I believe Mr. Waters asked you a question of whether or
4 not Edison Sault tried to purchase blocks of capacity
5 rather than entering into the agreement for pooled
6 capacity resources. Why wouldn't Edison Sault try to
7 purchase the blocks of capacity as opposed to entering
8 into this agreement with Wisconsin Electric?

9 A Edison Sault did attempt to purchase blocks of capacity
10 at a prior date, basically in the year 2000, and we were
11 unsuccessful in doing so. There wasn't, you know,
12 sufficient generation in the immediate vicinity that we
13 could either buy power or that a generator could ship
14 power through the transmission system so it could arrive
15 to Edison Sault. So we were limited in our generation.
16 And my knowledge of the power markets, new generation in
17 the vicinity of Edison Sault has not been completed since
18 that time.

19 Q Could you please turn your attention to CMI, Exhibit
20 CMI-11.

21 A May I ask which exhibit is No. 11?

22 Q That is the one titled Edison Sault Discovery Responses
23 the City of Mackinac Island's Sixth Discovery Request.

24 A O.K. I have that.

25 Q And I wanted to clarify the record. I believe

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1 Mr. Waters, when he was asking you questions, correctly
2 avoided using the word profit, but did the calculations
3 referring to the terms revenue and cost. And one of your
4 answers to Mr. Waters' questions, you used the term
5 profit when referring to the difference between revenue
6 and variable costs. I'm sorry, do you have that in front
7 of you?

8 A Yeah, I haven't been able to locate it yet.

9 Q I'll give you mine.

10 MS. MASON SONERAL: May I approach the
11 witness, your Honor?

12 JUDGE FELDMAN: Yes, of course.

13 (Document provided to the witness.)

14 A Yes.

15 Q (By Ms. Mason Soneral): Was it incorrect for you to term
16 that differential profit?

17 A Well, within -- I would say yes.

18 Q O.K.

19 A And within the response, there's a paragraph that states,
20 it is important to note that revenue minus variable cost
21 does not equate to profit. WEPCo also pays MISO to serve
22 its load, and revenue from generation typically offsets
23 the cost to serve the load.

24 Q O.K. Thank you. Mr. Waters asked you a series of
25 questions concerning Edison's, Edison Sault's ability to,
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1 and the term was force WEPCo to sell some portion of its
2 696 megawatt hours at cost to Edison Sault.

3 A Yes.

4 Q And you responded in part by stating Edison Sault could
5 not force Wisconsin Electric to do so. Can you please
6 explain why Edison Sault could not force Wisconsin
7 Electric to sell "at cost"?

8 MR. WATERS: Objection. Foundation.
9 This witness is not qualified as a lawyer. They
10 apparently didn't obtain a legal opinion. The contract,
11 you know, speaks for itself, and that is all argument
12 that should be reserved for the briefs. This witness is
13 clearly not qualified to answer that question.

14 JUDGE FELDMAN: Are you asking him as a
15 matter of law, Ms. Mason Soneral?

16 MS. MASON SONERAL: No. As a matter of
17 his personal opinion why he believes that's not feasible
18 or possible.

19 JUDGE FELDMAN: With that clarification,
20 the witness can answer the question.

21 A Well, the JOA amendments contain specific schedules
22 related to pricing, and we have followed those schedules.
23 What Mr. Waters was asking about was, they say certain
24 areas, including it's like definitions or clarifications,
25 and using the statement there as an assertion, or at

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1 least his assertion that we can obtain power from
2 Wisconsin Electric in a manner that's not consistent with
3 the established pricing schedule.

4 Q (By Ms. Mason Soneral): O.K. I believe you testified
5 that Section 6.02 of the Joint Operating Agreement
6 Amendment 2 does not define the term at cost. Was that
7 your testimony?

8 A Yes.

9 Q Do you have an understanding of what that term means
10 within the contract, even though it's not explicitly
11 defined?

12 A In paragraph 6.02 --

13 MR. WATERS: Objection. He can answer
14 that question yes or no. And if Ms. Mason Soneral wants
15 to go beyond that, I want it done question by question.

16 MS. MASON SONERAL: That's fine.

17 JUDGE FELDMAN: Thank you.

18 Mr. Baatz, do you understand that you
19 have to answer yes or no?

20 A I understand. Can I have the question restated or
21 reread?

22 Q (By Ms. Mason Soneral): Sure. Although there's no, I
23 believe your testimony was there's no explicit definition
24 of "at cost" in Section 6.02; is that correct?

25 A That's correct.

1 Q Do you understand those terms to have a meaning even
2 though they're not explicitly defined?

3 A Yes.

4 Q And what would your understanding of that meaning be?

5 MR. WATERS: Objection. I think you need
6 to establish how he came to that understanding.

7 MS. MASON SONERAL: I can do that. That
8 will be my question after he answers this.

9 JUDGE FELDMAN: I think Mr. Waters is
10 suggesting you start with that question --

11 MR. WATERS: I am.

12 JUDGE FELDMAN: -- how do you happen to
13 have come to have that understanding.

14 Q (By Ms. Mason Soneral): Do you perform duties related to
15 the Joint Operating Amendment, or Joint Operating
16 Agreement Amendment No. 2?

17 A Yes.

18 Q And are you familiar with the course of conduct between
19 the parties under the Joint Operating Agreement?

20 A Yes.

21 Q And historically, how have you interpreted the term at
22 cost?

23 MR. WATERS: Objection. How he's
24 interpreted it is irrelevant. The question is how the
25 parties interpreted it.

1 MS. MASON SONERAL: Your Honor, I'm well
2 within my rights to ask this witness how he interprets
3 the term at cost.

4 JUDGE FELDMAN: I understand you have
5 elicited from this witness some foundational questions.
6 It seems that he has explained that he has administered
7 this agreement or been responsible for administration of
8 the agreement. I think one unresolved issue is whether
9 in the course of administering that agreement he has
10 needed to have an understanding of how that phrase is to
11 be interpreted.

12 Q (By Ms. Mason Soneral): O.K. Mr. Baatz, in the course
13 of administering this Joint Operating Agreement
14 Amendment 2, have you had to have an understanding of
15 what the term at cost means?

16 A For purposes of administering this contract, the term at
17 cost --

18 Q Actually, my question is different. Do you have to have
19 an understanding of what those terms are in order to
20 administer this contract?

21 A There have been no excess capacity resources that would
22 be purchased at cost, so therefore, the issue at cost
23 under this agreement has, for capacity, has not arisen.
24 I know what costs are, and I can interpret costs.

25 Q I think we're trying to get at something different.

1 MR. WATERS: No. I think the witness
2 just answered the question. And I think he should stop
3 right there because he just conceded that there is no
4 pattern of conduct or practice between the parties with
5 regard to cost. I object to any further opinions.

6 MS. MASON SONERAL: Your Honor, I still
7 would like him to answer directly whether or not he has
8 had to have an understanding of at cost in administrating
9 this contract, and I don't think he has answered that.
10 And if his answer is no, I have not had to have any type
11 of understanding, then we can move on; but I don't think
12 he's answered the question that was posed.

13 JUDGE FELDMAN: Mr. Baatz, once again,
14 it's a yes or no question. Can you answer
15 Ms. Mason Soneral's question yes or no? And if you can
16 not answer it yes or no, you may so state.

17 A Can I have the question rephrased?

18 Q (By Ms. Mason Soneral): Yes. In administering this
19 Joint Amendment No. 2, have you had to have an
20 understanding of what the term at cost means?

21 A Yes, with respect to costs in general.

22 JUDGE FELDMAN: But what about with
23 respect to Section 6.02?

24 A 6.02 is --

25 JUDGE FELDMAN: Yes or no with respect to
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1 6.02, please, Mr. Baatz. I'm sorry to interrupt you.

2 A 6.02, the answer is no.

3 Q (By Ms. Mason Soneral): I believe your answer was --

4 JUDGE FELDMAN: When I'm talking, I get
5 to talk. I'm sorry. It's rude, I know, but there are a
6 few perks that go with this; at the moment, that's one of
7 them.

8 We're getting kind of bogged down in
9 this. If you're willing to accept that answer and move
10 on.

11 MS. MASON SONERAL: Yes. I believe his
12 answer was no. Thank you.

13 JUDGE FELDMAN: Certainly.

14 Q (By Ms. Mason Soneral): Has there ever been an occasion
15 where Edison Sault has taken energy under the capacity
16 schedule?

17 A We have not taken energy under the capacity schedule.

18 Q And does Edison Sault have energy rights under the
19 capacity schedule?

20 A We don't have rights under the capacity schedule.

21 Q O.K. Mr. Waters asked you whether or not you conferred
22 with the PSC staff before you executed Joint Operating
23 Agreement Amendment 2, and I believe your answer was you
24 did not confer with PSC staff; is that correct?

25 A That's correct.

1 Q Have your prior PSCR plans filed with the MPSC disclosed
2 the existence of the JOA, including the various
3 amendments?

4 A Yes, they have.

5 Q O.K. And have those contracts been available for
6 inspection by the PSC?

7 A Yes.

8 MS. MASON SONERAL: O.K. Your Honor, I
9 have no further questions for this witness.

10 JUDGE FELDMAN: Thank you,
11 Ms. Mason Soneral.

12 Mr. Odunlami, do you have questions for
13 this witness?

14 MR. ODUNLAMI: Yes, your Honor, two
15 questions.

16 JUDGE FELDMAN: O.K.

17 CROSS-EXAMINATION

18 BY MR. ODUNLAMI:

19 Q Good afternoon, Mr. Baatz.

20 A Good afternoon.

21 Q I'm sure you've testified about your knowledge about MISO
22 market operations. Do you know what the MISO market
23 monitor does?

24 A Yes.

25 Q Could you please explain what it does?

1 A MISO has an independent system monitor who monitors the
2 bids and electrical conditions and issues a report
3 basically to determine that there is no artificial
4 pricing gimmicks or gaming of the market.

5 Q Is it also one of the responsibilities of the MISO market
6 monitor is to make sure that market participants offer
7 all their generation into the MISO market?

8 A Yes, as generation is available, that generators are not
9 withholding generation for gaming or other reasons.

10 Q O.K. Do you know if the market monitor in MISO
11 operations, if they do have authority to impose sanctions
12 on any participant that withholds generation?

13 A That, I'm not familiar.

14 MR. ODUNLAMI: O.K. Thank you. I have
15 no further questions.

16 JUDGE FELDMAN: Mr. Strong.

17 MR. STRONG: A few questions.

18 RECROSS-EXAMINATION

19 BY MR. STRONG:

20 Q In connection with Edison Sault's 2005 PSCR plan case,
21 was Amendment 2 to the Joint Operating Agreement
22 disclosed in that filing?

23 A No.

24 Q Thank you. Now, in connection with reserve margins, is
25 there anything in Michigan that requires Edison Sault to
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1 maintain a particular reserve margin for planning
2 purposes?

3 A It is my understanding that there is not a requirement or
4 an established requirement by the Michigan Public Service
5 Commission.

6 Q Now, would you agree that planning reserve margins can be
7 different for different companies as a result of, let's
8 say, factors such as unit size, type of equipment used?

9 A It could be, yes.

10 Q And could it also be different from company to company
11 based upon what kind of loss of load probability they are
12 willing to accept?

13 A Yes.

14 Q Does your company make any kind of analysis of what the
15 appropriate reserve margin would be?

16 A We have utilized the 15 percent, we believe it is
17 reasonable --

18 Q I'm talking about analytical tool.

19 A Edison Sault has not.

20 Q O.K. Now, in connection with bills that you receive from
21 Wisconsin Electric, do you review those yourself?

22 A Yes, I do.

23 Q And are there any supporting details, such as the actual
24 bills by MISO to Wisconsin Electric attached?

25 A A variety of information is attached. The actual

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1 billings from MISO are not attached, but information
2 regarding the hourly prices under the LMP.

3 Q So how do you verify that the bills that you receive from
4 Wisconsin Electric accurately reflect the amount charged
5 by MISO?

6 A I review them and, you know, and based upon my experience
7 and knowledge of following the MISO market LMP prices, I
8 try to at least get a consensus in my mind whether
9 they're reasonable. One of the things I do, and what I
10 do is MISO has a website where the, where the locational
11 marginal prices are updated on a, basically an every
12 five-minute basis, and through the course of the month, I
13 frequently observe that to get a good feeling or
14 indication of where the market, the MISO market prices
15 would be.

16 Q Has Edison Sault ever audited any of these bills for
17 accuracy?

18 A We have proposed adjustments, yes.

19 Q Have you actually gone back to the source documents to
20 determine whether or not the bills that you do receive as
21 a company are accurate?

22 A We have challenged the bills. I haven't done an audit
23 going back to all the original documents.

24 Q O.K. That was my question.

25 Now, in connection with the, prior to the
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1 start of the Day 2 market at MISO, which would be April
2 1st, 2005, was there anything that in MISO's operation
3 regulations, FERC-approved tariff that would preclude
4 Edison Sault from entering into a bilateral contract with
5 Wisconsin Electric?

6 MS. MASON SONERAL: Your Honor, I'm going
7 to object to that question as being outside the scope of
8 redirect.

9 JUDGE FELDMAN: Mr. Strong, I don't
10 recall that question coming up on redirect. I do recall
11 your asking about the Day 1 pricing in your
12 cross-examination.

13 MR. STRONG: Well, I think it came up in
14 the context of whether or not she asked a question of
15 this gentleman whether or not he could enter into
16 contracts. And it bears on that.

17 MS. MASON SONERAL: Your Honor, I
18 didn't --

19 MR. STRONG: He testified that he could
20 not find his source; and I just want to know whether or
21 not there was any reason other than he couldn't find it,
22 such as being precluded by MISO.

23 JUDGE FELDMAN: I think he was talking
24 about the year 2000 at the point that he was answering
25 her questions. I mean MISO Day -- do you mean any time

1 prior to April of 2005?

2 MR. STRONG: I just wanted to ask two
3 questions about whether or not there was anything prior
4 to that date or anything after that date that would
5 preclude a bilateral contract between Wisconsin Electric
6 and Edison Sault.

7 JUDGE FELDMAN: Ms. Mason Soneral.

8 MS. MASON SONERAL: And, your Honor,
9 again, I think that's outside the scope of my redirect.

10 JUDGE FELDMAN: I think as you just
11 recently phrased the question, Mr. Strong, that seems to
12 be within the appropriate latitude for
13 recross-examination, given the scope of redirect. So you
14 may ask questions along the lines that you just
15 explained. But I'm sustaining her objection to what I
16 understood to be your question initially.

17 Q (By Mr. Strong): O.K. Mr. Baatz, did you understand my
18 restatement of the question?

19 A Could you restate it again.

20 Q Was there anything in terms of MISO regulations or FERC
21 tariff that would have precluded Edison Sault from
22 entering into a bilateral contract with Wisconsin
23 Electric either prior to April 1st of 2005 or after April
24 1st, 2005?

25 A Edison Sault is not precluded from entering into a
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1 bilateral contract.

2 MR. STRONG: Thank you. I'm done.

3 JUDGE FELDMAN: Thank you.

4 MR. WATERS: Thank you, your Honor. Just
5 a few questions.

6 RE CROSS-EXAMINATION

7 BY MR. WATERS:

8 Q Mr. Baatz, on redirect you testified for
9 Ms. Mason Soneral that WEPCo is trying to obtain the
10 lowest cost power and ESE is benefitting from WEPCo's
11 experience. Do you remember that testimony?

12 A Yes.

13 Q Except under the pooled capacity resources, isn't it true
14 that WEPCo is paying the pooled capacity resources
15 whatever the strike price is under those contracts,
16 correct?

17 A That would be correct whenever energy is taken.

18 Q And when you take the energy, when you take energy that
19 would be associated with the pooled capacity resources,
20 you're paying LMP?

21 A We pay LMP, that's correct.

22 Q So you're not benefitting from WEPCo's experience,
23 they're getting the benefit of the lower price of the
24 strike price while you pay the higher LMP; isn't that
25 true? Just yes or no.

1 A I can't answer that yes or no. There's more
2 clarification.

3 Q Ms. Mason Soneral asked you a series of questions about
4 what you meant in answering some of my questions with
5 regard to page 31 and whether ESE expected or knew that
6 its costs would increase with the advent of MIS0. Do you
7 remember those questions?

8 A Yes.

9 MR. WATERS: Your Honor, rather than read
10 this into the record, I would simply request --

11 Q (By Mr. Waters): Do you have a copy of what is pages 30
12 to 33 of your deposition testimony with you?

13 A Yes, sir.

14 MR. WATERS: Your Honor, rather than read
15 those four pages into the record, because I think they
16 make clear that Mr. Baatz has completely changed his
17 testimony, I would simply propose that those four pages,
18 which is one page of the compressed transcript, be
19 admitted into the record. Alternatively, I can read the
20 entire thing word for word; it seems like a waste of
21 time. And I would propose to just have that marked as an
22 exhibit and admitted.

23 MS. MASON SONERAL: Your Honor, I have no
24 problem admitting those pages into the record.

25 MR. WATERS: Thank you.

1 Q (By Mr. Waters): Lastly, Ms. Mason Soneral asked you
2 some questions about the locational marginal pricing,
3 your testimony that MISO prices LMP on an hourly basis.
4 Do you remember that series of questions?

5 A Yes.

6 Q O.K. Isn't it true that MISO calculates settlement
7 statements on a weekly basis, or do you know?

8 A I believe it's a daily basis.

9 Q So if it's a weekly basis, then you'd be wrong, right?

10 A I answered to the best of my belief that it's on a weekly
11 basis -- or a daily basis, and if it's weekly, then I
12 would be mistaken.

13 Q Isn't it also true that in calculating its settlement
14 statements, which I'm quite confident are calculated on a
15 weekly basis, MISO merely nets injections and
16 withdrawals?

17 MS. MASON SONERAL: Your Honor, I'm going
18 to object to this line of questioning as being outside
19 the scope of my redirect. I didn't get into settlement
20 statements.

21 MR. WATERS: Actually, she did, because
22 she asked this witness -- this witness testified as to
23 WEPCo would have to pay the LMP price because for every
24 hour they paid, for every hour that they purchased
25 electricity through the MISO markets, they were required

1 to pay the MISO market a net hourly fee, and that is
2 clearly an incorrect understanding of what happens with
3 MISO.

4 JUDGE FELDMAN: O.K. Ms. Mason Soneral,
5 he did talk about how his understanding of certain hourly
6 transactions may have, would change his answer to some of
7 the questions he was asked in early January. With the
8 understanding that --

9 MR. WATERS: I've just got a very few
10 questions.

11 JUDGE FELDMAN: -- Mr. Waters is
12 following up on those answers.

13 MS. MASON SONERAL: O.K. Thank you.

14 Q (By Mr. Waters): MISO merely nets injections and
15 withdrawals; isn't that true, or do you know?

16 A Can I ask for clarification of what you call injections
17 and withdrawals?

18 Q Its capacity into MISO and withdrawals of -- strike that.
19 Its electricity into MISO and electricity
20 out of MISO.

21 A Let me start with my term, and then I can answer yes or
22 no. By injections, I'm using the term and understanding
23 that that would be all generators bidding their
24 generation into the MISO markets --

25 Q O.K. Then let me clarify my question.

1 A -- and withdrawals --

2 JUDGE FELDMAN: Mr. Baatz, Mr. Waters is
3 now convinced that you misunderstood the question, so let
4 him ask a new one in the interest of time.

5 Q (By Mr. Waters): For WEPCo, for any one of WEPCo's
6 nodes, including the ESE node, O.K., when WEPCo receives
7 a settlement statement from MISO, isn't it true that
8 those settlement statements simply net the injections of
9 electricity into MISO at that node and the withdrawals of
10 electricity from MISO at that node?

11 A I know there can be netting.

12 Q Fine. All right. And isn't it also true that WEPCo only
13 pays a fee to MISO if its net withdrawals exceeds its net
14 injections? Just yes or no.

15 A Are you talking volumes or dollars? There could be a
16 difference.

17 Q Well, either megawatt hours or dollars.

18 A Well, if it's megawatt hours, it wouldn't be on netting
19 because the megawatt hours may be at different prices at
20 different hours.

21 Q Do you have personal experience with settlement
22 statements from MISO?

23 A No.

24 Q O.K. So you really don't know exactly what MISO does for
25 settlement statements, do you? If you don't, that's

1 fine.

2 A I've I have limited knowledge of it.

3 Q O.K.

4 (Documents marked for identification by the court
5 reporter as Exhibit Nos. CMI-4 and CMI-14.)

6 MS. MASON SONERAL: Can you tell me what
7 those pages were?

8 MR. WATERS: Pages 30, 31, 32 and 33?

9 Q (By Mr. Waters): I've handed you what's been marked
10 Deposition Exhibit No. 4, and that is Exhibit A-1 from
11 WEPCo's 2005 PSCR plan case. Can you please turn to page
12 3 of 4.

13 A And I think you said 2005 PSCR plan, this is --

14 Q I'm sorry, I did say 2005.

15 A I have the 2006 plan, page 3 of 4.

16 Q You're correct. Does page 3 of 4 reflect that even WEPCo
17 nets its MISO transactions? In fact, I have a category
18 called net MISO transactions.

19 MS. MASON SONERAL: Your Honor,
20 Mr. Waters previously asked this question, asked this
21 witness whether it has any personal knowledge of
22 settlement statements and how to conduct it, and he said
23 no, so it seems a little bit specious for Mr. Waters now
24 to be trying to ask this witness about settlements.

25 MR. WATERS: I'm actually not asking
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1 about settlement statements. This isn't is a settlement
2 statement. This witness also testified to what WEPCo
3 does, and I think a misunderstanding there -- his
4 understanding there is also incorrect. And this is my
5 last question, my last exhibit. In fact, WEPCo itself
6 nets these transactions.

7 JUDGE FELDMAN: If he knows and can
8 answer the question, he may do so.

9 Q (By Mr. Waters): Can you tell from that exhibit?

10 A I can tell from the exhibit that there's a category
11 called net MISO transactions.

12 MR. WATERS: No further questions.

13 JUDGE FELDMAN: All right. Mr. Baatz,
14 you are excused.

15 MS. MASON SONERAL: Your Honor, I
16 actually --

17 JUDGE FELDMAN: Hold on.

18 MS. MASON SONERAL: -- have just a few
19 re-redirect.

20 JUDGE FELDMAN: You know, this witness
21 has already gone a long time past the estimates of his
22 testimony. We don't always permit re-redirect. Is there
23 a compelling case? Because if I allow you to do it, we
24 have to go through cross, recross, re-recross by all
25 counsel.

1 MS. MASON SONERAL: Yeah. I only
2 actually have just like three questions, but I can't
3 imagine that they would generate much re-recross.

4 MR. WATERS: Can we have the three
5 questions identified?

6 JUDGE FELDMAN: Let's go off the record.
7 We're going to take a short break. I know everybody
8 probably needs one.

9 (At 4:02 p.m., a ten-minute recess was taken.)

10 JUDGE FELDMAN: On the record.
11 Ms. Mason Soneral, off the record you indicated that you
12 do not have additional questions for Mr. Baatz, so
13 Mr. Baatz has been excused; is that correct?

14 MS. MASON SONERAL: Yes, your Honor.

15 (The witness was excused.)

16 JUDGE FELDMAN: And Mr. Strong is calling
17 Mr. Selecky, correct?

18 MR. STRONG: Yes. Did you want to --

19 JUDGE FELDMAN: We need to take up the
20 exhibits.

21 MR. ODUNLAMI: Exhibits, yes, your Honor.

22 JUDGE FELDMAN: So you're a little
23 premature, Mr. Selecky, but have a seat.

24 MR. SELECKY: Thank you, your Honor.

25 MR. WATERS: Your Honor, can I make one

1 suggestion?

2 JUDGE FELDMAN: Yes, you may.

3 MR. WATERS: Why don't we take up the
4 exhibits after Mr. Selecky, because I assume he has
5 travel plans.

6 MR. SELECKY: No, I'm here for tomorrow.

7 MR. WATERS: Well, then I stand
8 corrected.

9 JUDGE FELDMAN: O.K. We can still defer
10 consideration of the exhibits, but while they're fresh in
11 everybody's minds, I think it makes more sense to take
12 them up.

13 Are there any objections to Exhibits A-1
14 through A-8?

15 MR. ODUNLAMI: None, your Honor.

16 MR. WATERS: I will, depending on what
17 objections that exist to mine, I may have an objection to
18 8 only.

19 JUDGE FELDMAN: O.K. You can't do it
20 that way.

21 MR. WATERS: Fine. I'll let it go.

22 JUDGE FELDMAN: Thank you.

23 MR. STRONG: No objections.

24 MS. MASON SONERAL: Your Honor, I don't
25 have any objections. I'm just noting that we're going to

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1 be doing the Revised Exhibit 11. And I would also note
2 just for the record that two of the exhibits were hearing
3 exhibits sponsored by Wisconsin Electric, and Mr. Baatz
4 was able to have a conversation about them, but he was
5 merely taking those documents at face value.

6 JUDGE FELDMAN: Those were CMI-9 and
7 CMI-4, I believe.

8 MR. WATERS: I believe your Honor is
9 correct.

10 MS. MASON SONERAL: Yes, CMI-4 and CMI-9,
11 that is correct.

12 JUDGE FELDMAN: So with
13 Ms. Mason Soneral's comments, are there any objections to
14 the admission of CMI-1, CMI-3, CMI-4, CMI-5, CMI-6,
15 CMI-7, CMI-9, CMI-10, CMI-12 or CMI 13 or CMI-13 or
16 CMI-14?

17 MR. WATERS: Did you miss 11?

18 JUDGE FELDMAN: We're going to take up 11
19 in just a second to clarify.

20 MR. WATERS: Thank you.

21 JUDGE FELDMAN: So no objections. CMI-1,
22 3, 4, 5, 6, 7, 9, 10, 12, 13 and 14 are admitted.

23 With regard to CMI-11, I am, based on
24 what I understand to be the agreement of the parties, and
25 I will try to summarize it, the parties are going to make
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1 some minor modifications to that exhibit as it currently
2 exists and submit it at the close of today's hearing or
3 following Mr. Selecky's testimony by agreement.

4 MR. WATERS: With one clarification. I
5 prefer just to have a clean copy. If we could have till
6 tomorrow to generate that clean copy and submit it, that
7 would be better.

8 JUDGE FELDMAN: That's fine. That was
9 what I thought your original request was. I thought you
10 changed your approach. By the end of the week, by
11 agreement, the parties will get an Exhibit CMI-11 that
12 filed with the commission.

13 MR. WATERS: Thank you, your Honor.

14 JUDGE FELDMAN: And we'll hold that open
15 for it. And as I said, if it has the agreement of the
16 parties, it is admitted.

17 And we also have Exhibit S-1. Any
18 objections to the admission of Exhibit S-1? Hearing
19 none, Exhibit S-1 is admitted.

20 Thank you all very much for your patience
21 and cooperation in working out the exhibits.

22 Now, anything further, Ms. Mason Soneral,
23 before we turn to Mr. Strong?

24 MS. MASON SONERAL: No, your Honor.

25 JUDGE FELDMAN: Mr. Strong.

1 MR. STRONG: Call Mr. Selecky to the
2 stand and ask that he be sworn.

3 J A M E S T. S E L E C K Y
4 was called as a witness on behalf of Association of
5 Businesses Advocating Tariff Equity and The City of
6 Mackinac Island and, having been duly sworn to testify
7 the truth, was examined and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. STRONG:

10 Q Mr. Selecky, would you please state your full name and
11 business address.

12 A Yes. My name is James T. Selecky. My business address
13 is 1215 Fern Ridge Parkway, Suite 208, St. Louis,
14 Missouri.

15 Q On whose behalf are you testifying today?

16 A I'm testifying on behalf of the Association of Businesses
17 Advocating Tariff Equity, commonly known as ABATE, and
18 the City of Mackinac Island.

19 Q Did you cause to be prepared and filed with the
20 commission a document entitled Revised Direct Testimony
21 of James T. Selecky consisting of a cover page, nine
22 pages of questions and answers and a three-page appendix?

23 A Yes, I did.

24 Q Do you have any changes or corrections to make to that
25 testimony?

1 A I have none.

2 Q Do you adopt it as your sworn testimony for the purposes
3 of this case?

4 A Yes, I do.

5 Q And is it true that you did not prepare any exhibits for
6 this case?

7 A That's correct.

8 MR. STRONG: Your Honor, I move to bind
9 in his testimony and tender him for cross.

10 JUDGE FELDMAN: Mr. Selecky's testimony
11 will be bound into the record.

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Before the
Michigan Public Service Commission
Case No. U-14703

EDISON SAULT ELECTRIC COMPANY

(Revised)
Direct Testimony of
James T. Selecky

On Behalf of
Association of Businesses Advocating Tariff Equity
and
The City of Mackinac Island

May 17, 2006
Project 8475



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1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A James T. Selecky; 1215 Fern Ridge Parkway, Suite 208; St. Louis, Missouri, 63141.

3 **Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?**

4 A I am a consultant in the field of public utility regulation and a principal in the firm of
5 Brubaker & Associates, Inc., energy, economic and regulatory consultants.

6 **Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

7 A These are set forth in Appendix A to this testimony.

8 **Q ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

9 A I am presenting testimony on behalf of the Association of Businesses Advocating
10 Tariff Equity ("ABATE") and the City of Mackinac Island. The member company of
11 ABATE, the City of Mackinac Island and their residents and business community are
12 substantial purchasers of electricity from Edison Sault Electric Company ("Edison
13 Sault" or "Company").

1 **Q HAVE YOU PRESENTED TESTIMONY IN PRIOR PROCEEDINGS BEFORE THE**
2 **MICHIGAN PUBLIC SERVICE COMMISSION (“COMMISSION” OR “MPSC”)?**

3 A Yes. I have presented testimony before this Commission in numerous proceedings.

4 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

5 A The purpose of my testimony is to address the level of costs that Edison Sault is
6 proposing to include in its Power Supply Cost Recovery (“PSCR”) Plan for the twelve-
7 month period ending December 31, 2006. Specifically, I will address certain costs
8 that result from the Joint Operating Agreement (“JOA”) between Wisconsin Electric
9 Power Company (“WEPCo”) and Edison Sault. It is important to note that the JOA-
10 related costs are significant. Although the JOA purchases only represent 24% of the
11 net power supply in MWh, it comprises 49% of the net power supply cost. The fact
12 that I have not addressed an issue should not be construed as an endorsement of an
13 Edison Sault position.

14 **Q PLEASE BRIEFLY EXPLAIN THE JOA.**

15 A The JOA is an agreement that Edison Sault has with WEPCo regarding power supply
16 resources. WEPCo and Edison Sault are subsidiaries of Wisconsin Energy
17 Corporation. The JOA initially went into effect July 1, 2000.

18 The JOA allows for capacity needs beyond each utility’s existing resources to
19 be jointly obtained and the costs of such capacity allocated to each party. Energy
20 needs are to be met by economically dispatching generating units. Edison Sault
21 witness Leroy Baatz also briefly describes the JOA in his direct testimony.

22 Edison Sault voluntarily terminated Amendment 1 to the JOA and replaced it
23 with Amendment 2. On April 1, 2005, Amendment 2 was put into place. Edison Sault

1 contends that participation in the MISO energy markets by WEPCo and Edison Sault
2 required changes to the calculation of the price of energy and therefore a required
3 new Amendment was implemented.

4 **Q PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.**

5 A My conclusions and recommendations can be summarized as follows:

- 6 1) Edison Sault's proposed PSCR costs are excessive and unreasonable.
- 7 2) The recently signed JOA between WEPCo and Edison Sault as applied
8 unnecessarily increases costs to Edison Sault's ratepayers.
- 9 3) Under the JOA, Edison Sault should be able to purchase excess WEPCo
10 electricity at WEPCo's cost to generate. The proposed PSCR Plan assumes
11 that Edison Sault will purchase all of its JOA energy at the MISO prices.
- 12 4) The MPSC should adjust the PSCR Plan costs to reflect 25% of the JOA
13 energy being purchased at WEPCo's average cost. This would reduce the
14 JOA energy costs by \$2.371 million and the Edison Sault ratepayer's costs by
15 \$1.793 million.
- 16 5) The MPSC should require Edison Sault and WEPCo to track Edison Sault's
17 energy purchases under the JOA and WEPCo's opportunity sales for
18 purposes of reconciling Edison Sault's 2006 actual energy costs.
- 19 6) The MPSC should exclude from the PSCR costs 50% of Edison Sault's
20 pooled capacity charge of \$2.520 million. This would reduce the PSCR costs
21 that are passed on to ratepayers by \$1.120 million.
- 22 7) The pooled capacity costs should be reduced because Edison Sault derives
23 no benefit from any energy that is produced by the pooled capacity.
- 24 8) In total, the MPSC should reduce Edison Sault's estimated PSCR Plan costs
25 by \$2.913 million. This reduces the PSCR factor from Edison Sault's
26 proposed 12.45 mills per kWh to 7.87 mills per kWh.

27 **Q DO YOU HAVE ANY COMMENTS TO MAKE ABOUT THE POWER COSTS THAT**
28 **RESULT FROM THE JOA?**

29 A Yes. The power costs that result from the JOA purchases are excessive. In addition,
30 the charges that result from the JOA have not been approved for inclusion in utility

1 rates. Finally, as I will show later, the charges that Edison Sault is proposing to
2 include in the PSCR are inconsistent with the terms and conditions of the JOA.

3 The JOA energy price projection in 2006 is estimated to be \$67 per MWh.
4 This price projection for the JOA energy is an estimate of the locational marginal
5 prices ("LMP") for the MISO market clearing prices. The LMP includes energy,
6 marginal losses and marginal congestion components. In addition, Edison Sault is
7 required to pay an estimated pooled capacity resource charge of \$2.520 million per
8 year, or approximately \$6.00 per kW-month, while not receiving any energy-related
9 benefits. These capacity and energy charges make the price of purchased power
10 under the JOA unreasonable.

11 **Q DO YOU BELIEVE THAT THE JOA JUSTIFIES THE ENERGY PRICES THAT**
12 **EDISON SAULT IS FORECASTING?**

13 **A** No. The JOA allows both WEPCo and Edison Sault to purchase power from one
14 another at cost, before excess power purchases are offered in the wholesale market.
15 Specifically, the JOA states the following:

16 "6.02 Disposition of Excess Capacity Resources. All of the Parties
17 Excess Capacity Resources shall be offered for sale to the other Party
18 prior to be included in an Off-System Sale. Excess Capacity
19 Resources shall be purchased by a Party at cost." (Emphasis added)

20 The JOA defines Off-System Sales to mean all wholesale sales to a third party of
21 energy and/or capacity. (Paragraph 1.21)

22 All of the energy that Edison Sault purchases under the JOA is priced at MISO
23 LMP. Edison Sault is not purchasing any energy from WEPCo under Amendment 2
24 of the JOA at WEPCo's cost to generate. That is, Edison Sault does not receive any
25 JOA energy from WEPCo at WEPCo generation cost even though WEPCo has

1 excess capacity available to make opportunity sales. As a result, WEPCo's energy
2 charges to Edison Sault are unnecessarily high and unreasonable.

3 **Q DOES WEPCO SELL ANY EXCESS ENERGY IN THE WHOLESALE MARKET?**

4 A Yes. In WEPCo's 2006 PSCR Plan case, Case No. U-14707, WEPCo witness
5 Thomas Lorden sponsored an exhibit that compares the PSCR Plan costs for years
6 2005 and 2006. That exhibit shows that WEPCo is forecasting opportunity sales of
7 696,260 MWh in 2006. (Case No. U-14707, Exhibit A-7 (TPL-7)). These sales are
8 being sold into MISO at an estimated price of approximately \$73 per MWh.

9 In this Edison Sault proceeding, by contrast, Mr. Baatz's Exhibit A-1 (LMB-1),
10 Page 2 of 4 shows that in 2006, Edison Sault intends to purchase from WEPCo
11 223,284 MWh under the JOA. It should be noted that these MWh that are purchased
12 under the JOA are priced out at a MISO price of \$67 per MWh. However, Edison
13 Sault will not be purchasing any of this power at WEPCo's actual generation cost. As
14 a result, Edison Sault is purchasing the JOA power at a cost significantly greater than
15 WEPCo's 2006 average fuel and purchased power cost of \$24.48 per MWh.

16 **Q WHAT IS YOUR RECOMMENDATION REGARDING THE JOA ENERGY COSTS**
17 **THAT THE MPSC SHOULD INCLUDE IN EDISON SAULT'S PSCR RELATED TO**
18 **THE JOA?**

19 A My recommendation is that the MPSC should reduce the cost associated with
20 WEPCo's JOA sales. For purposes of establishing the PSCR factor in this case, the
21 MPSC should price 25% of Edison Sault's purchases under the JOA at WEPCo's
22 average fuel and purchased power price of \$24.48 per MWh. I have utilized the 25%
23 figure because it is unknown at this time how much of the JOA purchases will be

1 made at WEPCo's cost to generate and the exact cost of those purchases is also
2 unknown. Therefore, this represents a conservative estimate. In addition, the MPSC
3 should instruct Edison Sault and WEPCo to keep track of the hourly purchases that
4 Edison Sault makes under the JOA and the opportunity sales that WEPCo makes so
5 the actual cost for the JOA can be tracked. This is necessary to accurately establish
6 the JOA energy costs that are included in the 2006 PSCR cost reconciliation hearing
7 that will take place in 2007.

8 Making this adjustment would reduce Edison Sault's net power supply cost by
9 approximately \$2.371 million and the PSCR costs by \$1.793 million. All of the net
10 power supply costs are not passed on to the Michigan jurisdictional ratepayers. A
11 portion of the net power supply costs is passed on to Cloverland Electric Cooperative.
12 Therefore, the PSCR customers only see a portion of the cost reduction.

13 **Q DO YOU HAVE A SECOND RECOMMENDATION TO MAKE REGARDING**
14 **EDISON SAULT'S PROPOSED PSCR FACTOR?**

15 A Yes. Included in the PSCR cost is a pooled capacity charge of \$2.520 million, or
16 \$6.00 per kW-month. Although this cost is not specifically included in the JOA,
17 Edison Sault is seeking to pass on this cost as a result of the JOA.

18 **Q PLEASE BRIEFLY DESCRIBE THE POOLED CAPACITY COSTS.**

19 A Specifically, Amendment 2 of the JOA addresses the pooled capacity as follows:

20 "6.03 Pooling of Capacity Requirements. The Capacity Requirements
21 of each Party over and above each Parties' Embedded Capacity
22 Resources shall be pooled."

23 "6.04 Designation of Pooled Capacity Resources. All Pooled Capacity
24 Resources shall be set forth in Schedule C of this agreement which
25 shall be updated from time to time as required."

1 A review of Schedule C does not indicate that there are any capacity
2 requirements. In fact, Schedule C states the following:

3 "1. Contract for the purchase 98 MW of capacity, beginning on
4 10/1/2000 and ending on 9/30/2000."

5 It is clear from the review of Schedule C and the JOA that the specific pooled
6 capacity charges sought by Edison Sault were not approved by the FERC. Moreover,
7 it is also clear that these capacity charges are associated with power purchased in
8 excess of six months.

9 **Q DO YOU THINK THAT THE COST ASSOCIATED WITH THE POOLED CAPACITY**
10 **IS REASONABLE?**

11 A No. Edison Sault does not derive any low-cost energy from the capacity that
12 comprises the pooled capacity. Edison Sault pays for its portion of the pooled
13 capacity resources, and then pays an LMP price for energy. In addition Edison Sault
14 states that this capacity is needed to maintain a 15% reserve margin. Finally, it is
15 unclear that Edison Sault requires this capacity given that the energy that Edison
16 Sault is purchasing under the JOA is coming from MISO. I do not believe that MISO
17 has any requirements in place that establish a 15% reserve margin. Participation in
18 MISO should reduce planning reserve margins downward from previous levels.

19 **Q YOU INDICATED THAT THE COST ASSOCIATED WITH THE POOLED**
20 **CAPACITY IS EXCESSIVE. WHAT IS YOUR RATIONALE?**

21 A As I indicated, the estimated pooled capacity charge is \$6.00 per kW-month. The
22 associated energy is at the MISO price, which is estimated to be approximately \$67
23 per MWh. As a means of comparison, Edison Sault has in place a firm purchase of
24 20 MW from WEPCo that contains a capacity cost of \$6.50 per kW-month but the

energy cost is \$23.90 per MWh in 2006. Logically, if a high capacity cost exists, then a lower energy cost should be expected. It is clear that together the pooled capacity cost and associated energy cost are excessive.

Q DO EDISON SAULT'S CUSTOMERS DERIVE ANY ENERGY-RELATED BENEFITS FROM THE POOLED CAPACITY?

A No. Edison Sault's customers do not benefit from any energy generated and sold as a result of the pooled capacity agreement. Any opportunity sales that are made as a result of this pooled capacity are retained by WEPCo and not passed on to Edison Sault ratepayers. In fact, in response to City of Mackinac Island's Fifth Discovery Request, Question No. 3, Edison Sault responded as follows:

"With respect to the Joint Operating Agreement (JOA) between Edison Sault and WEPCo, Edison Sault has no rights to the energy directly produced by Pooled Capacity Resources. Therefore there is no impact if the generator offer is lower than the LMP. The price paid by Edison Sault for energy provided under the JOA is clearly described in Schedule E of the JOA. The Pooled Capacity Resources are those capacity resources contracted for by WEPCo to meet the capacity requirements of WEPCo and Edison Sault. While the capacity contracts that WEPCo has for the Pooled Capacity Resources do contain energy provisions, the cost of energy from these resources are not relevant to the JOA energy calculation. This was also the case prior to the start-up of the MISO market."

It is clear from this response that Edison Sault does not benefit from any energy produced as a result of the Pooled Capacity Resources.

Q WHAT IS YOUR RECOMMENDATION REGARDING THE POOLED CAPACITY COSTS?

A My recommendation is that a significant portion of this capacity cost of \$2.520 million should be excluded from the PSCR cost calculations. A portion of the cost should be excluded because:

- 1 1) The pooled capacity cost is excessive since it is not a source of reasonable
2 cost energy.
- 3 2) Edison Sault's ratepayers do not benefit from any energy that is produced by
4 this capacity.
- 5 3) The capacity cost is not required by any provisions contained in the JOA.
- 6 4) As a means of comparison, capacity cost in the PJM pool is less than \$1.00
7 per MWh. The MISO capacity market is not transparent so comparable
8 capacity cost information is unavailable. In any event, the PJM costs do
9 provide a basis for establishing an appropriate figure for pooled capacity cost
10 to include in the PSCR.

11 **Q WHAT IS YOUR SPECIFIC RECOMMENDATION REGARDING THE LEVEL OF**
12 **POOLED CAPACITY COSTS THAT SHOULD BE INCLUDED IN THE PSCR COST**
13 **CALCULATIONS?**

14 A As previously indicated, it is my position that the cost of \$6.00 per kW-month is
15 excessive given that there are no energy benefits associated with this capacity.
16 Although it is somewhat arbitrary, I am recommending that the Commission reduce
17 the Pooled Capacity Costs by 50%. This would produce a pooled capacity cost of
18 \$3.00 per kW. This would reduce the PSCR cost by \$1.260 million, and the costs
19 that flow through to ratepayers by \$1.120 million.

20 **Q WHAT IS YOUR RECOMMENDATION REGARDING EDISON SAULT'S**
21 **PROPOSED 2006 PSCR PLAN FACTOR?**

22 A Edison Sault's 2006 PSCR Plan costs should be reduced by \$2.913 million. This
23 would reduce the 2006 PSCR factor from 12.45 mills per kWh to 7.87 mills per kWh.

24 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?**

25 A Yes.

Qualifications of James T. Selecky

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A James T. Selecky. My business mailing address is P. O. Box 412000, 1215 Fern
3 Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000.

4 **Q PLEASE STATE YOUR OCCUPATION.**

5 A I am a consultant in the field of public utility regulation and am a principal with the firm
6 of Brubaker & Associates, Inc. (BAI), energy, economic and regulatory consultants.

7 **Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL
8 EMPLOYMENT EXPERIENCE.**

9 A I graduated from Oakland University in 1969 with a Bachelor of Science degree with a
10 major in Engineering. In 1978, I received the degree of Master of Business Admin-
11 istration with a major in Finance from Wayne State University.

12 I was employed by The Detroit Edison Company (DECo) in April of 1969 in its
13 Professional Development Program. My initial assignments were in the engineering
14 and operations divisions where my responsibilities included evaluation of equipment
15 for use on the distribution and transmission system; equipment performance testing
16 under field and laboratory conditions; and troubleshooting and equipment testing at
17 various power plants throughout the DECo system. I also worked on system design
18 and planning for system expansion.

19 In May of 1975, I transferred to the Rate and Revenue Requirement area of
20 DECo. From that time, and until my departure from DECo in June 1984, I held
21 various positions which included economic analyst, senior financial analyst,

1 supervisor of the Rate Research Division, supervisor of the Cost-of-Service Division
2 and director of the Revenue Requirement Department. In these positions, I was
3 responsible for overseeing and performing economic and financial studies and book
4 depreciation studies; developing fixed charge rates and parameters and procedures
5 used in economic studies; providing a financial analysis consulting service to all
6 areas of DECo; developing and designing rate structure for electrical and steam
7 service; analyzing profitability of various classes of service and recommending
8 changes therein; determining fuel and purchased power adjustments; and all aspects
9 of determining revenue requirements for ratemaking purposes.

10 In June of 1984, I joined the firm of Drazen-Brubaker & Associates, Inc.
11 (DBA). In April 1995 the firm of Brubaker & Associates, Inc. (BAI) was formed. It
12 includes most of the former DBA principals and staff. At DBA and BAI I have testified
13 in electric, gas and water proceedings involving almost all aspects of regulation. I
14 have also performed economic analyses for clients related to energy cost issues.

15 In addition to our main office in St. Louis, the firm also has branch offices in
16 Phoenix, Arizona; Chicago, Illinois; Corpus Christi, Texas; and Plano, Texas.

17 **Q HAVE YOU PREVIOUSLY APPEARED BEFORE A REGULATORY COMMISSION?**

18 A Yes. I have testified on behalf of DECo in its steam heating and main electric cases.
19 In these cases I have testified to rate base, income statement adjustments, changes
20 in book depreciation rates, rate design, and interim and final revenue deficiencies.

21 In addition, I have testified before the regulatory commissions of the States of
22 Colorado, Connecticut, Georgia, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland,
23 Massachusetts, Missouri, New Hampshire, New Jersey, North Carolina, Ohio,
24 Oklahoma, Tennessee, Texas, Utah, Washington, Wisconsin, and Wyoming, and the

1 Provinces of Alberta, Nova Scotia and Saskatchewan. I also have testified before the
2 Federal Energy Regulatory Commission. In addition, I have filed testimony in
3 proceedings before the regulatory commissions in the States of Florida, Montana,
4 New York, Oregon and Pennsylvania and the Province of British Columbia. My
5 testimony has addressed revenue requirement issues, cost of service, rate design,
6 financial integrity, accounting-related issues, merger-related issues, and performance
7 standards. The revenue requirement testimony has addressed book depreciation
8 rates, decommissioning expense, O&M expense levels, and rate base adjustments
9 for items such as plant held for future use, working capital, and post test year
10 adjustments. In addition, I have testified on deregulation issues such as stranded
11 cost estimates and rate design.

12 **Q ARE YOU A REGISTERED PROFESSIONAL ENGINEER?**

13 **A** Yes, I am a registered professional engineer in the State of Michigan.

1 JUDGE FELDMAN: Mr. Odunlami, do you have
2 any questions?

3 MR. ODUNLAMI: No, your Honor.

4 JUDGE FELDMAN: Ms. Mason Soneral.

5 MS. MASON SONERAL: Thank you.

6 CROSS-EXAMINATION

7 BY MS. MASON SONERAL:

8 Q Mr. Selecky, how many times have you testified on behalf
9 of ABATE, approximately?

10 A Twenty, I would guess.

11 Q O.K. And how many times have you testified before the
12 Federal Energy Regulatory Commission?

13 A Three, I believe, three or four.

14 Q O.K. And what was the nature of those proceedings?

15 A Those were gas cases, pipeline gas cases, revenue
16 requirement-related issues.

17 Q O.K. And do you have a copy of the exhibits in front of
18 you that were used for cross-examination of Mr. Baatz?

19 A No.

20 Q O.K.

21 MS. MASON SONERAL: Your Honor, could I
22 ask the court reporter to provide Mr. Selecky -- thank
23 you.

24 Q (By Ms. Mason Soneral): Mr. Selecky, could you please
25 turn your attention to the exhibit marked CMI-13, which
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1 is titled Amendment 2 of the Joint Operating Agreement
2 between Wisconsin Electric Power Company and Edison Sault
3 Electric Company.

4 A Yes, I have that.

5 Q And you reviewed this agreement in conjunction with the
6 filing of your direct testimony, correct?

7 A Yes, I did.

8 Q And my sole limited question with regard to this exhibit
9 is whether, to your knowledge, this exhibit -- or excuse
10 me -- this Joint Operating Agreement was filed with FERC?

11 A It is my understanding it was filed with FERC.

12 Q O.K. And are you aware that the Michigan Public Service
13 Commission has required regulated electric utilities to
14 file annual reports concerning the adequacy of their
15 capacity to meet customer needs?

16 A Yes, I believe that's true for major utilities.

17 Q Are you also aware that the commission has expressed
18 concern about reliability of electric service in
19 Michigan?

20 A Yes. I think more on a going-forward basis is what
21 there's been concern about, adequate generation going
22 forward relative to load growth.

23 Q And in your opinion or experience, do you believe it's
24 disruptive, can it be disruptive to homes and businesses
25 if they lose electric power because of inadequate

1 capacity?

2 A Yes.

3 Q And would you also agree that businesses can experience
4 economic loss if they are without electric power for a
5 substantial period of time?

6 A Yes, they can.

7 Q And would you agree that it's good utility practice to
8 make certain that the utility has adequate capacity to
9 serve customers?

10 A That the utility has access to adequate capacity. The
11 utility itself doesn't have to own the capacity.

12 Q O.K. Thank you. And to your knowledge, is the City of
13 Mackinac Island a tourist destination?

14 A The only time I've been there was as a tourist.

15 MS. MASON SONERAL: O.K. I have no
16 further questions for this witness.

17 JUDGE FELDMAN: Thank you very much.

18 Mr. Strong, any redirect?

19 MR. STRONG: No redirect.

20 JUDGE FELDMAN: Well, you were all true
21 to your words, that was very quick.

22 Thank you very much, Mr. Selecky. Thank
23 you for your patience and for being here today. And you
24 are excused.

25 A Thank you.

1 (The witness was excused.)

2 JUDGE FELDMAN: Mr. Strong, anything
3 further?

4 MR. STRONG: I have nothing further, your
5 Honor.

6 JUDGE FELDMAN: Mr. Waters, are you going
7 to offer Mr. Lorden's testimony, and should we take up
8 the motion to strike?

9 MR. WATERS: I am indeed.

10 JUDGE FELDMAN: Ms. Mason Soneral, we
11 have had some testimony here this morning about Power of
12 the Future and what generation resources are available to
13 Wisconsin Electric. Do you still wish to argue your
14 motion to strike?

15 MS. MASON SONERAL: Yes, your Honor.

16 JUDGE FELDMAN: Is there anything you
17 want to add to the motion that you filed?

18 MS. MASON SONERAL: Yes, your Honor.
19 First, I would note that the Power for the Future
20 information was derived on cross-examination, it was not
21 presented in direct testimony, and Mr. Lorden is offering
22 this testimony as rebuttal to Edison Sault.

23 I would also note that on page, it's
24 marked page 89 in the upper right-hand corner of
25 Mr. Lorden's testimony, and it looks like it's his own

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1 page 42 of his testimony, he indicates that, "In order to
2 assure adequate generation is built to meet the projected
3 load growth on its system ...", therefore, this testimony
4 really relates to Wisconsin Electric and its system; it
5 does not discuss any other utilities, and in particular,
6 it does not discuss Edison Sault. Therefore, if you go
7 back to the response to my motion to strike, the city
8 argued that this testimony is relevant because it shows
9 that a failure to build and operate generating plants or
10 enter into long-term power purchase agreements is not
11 reasonable or not prudent, and that is not what this
12 testimony portrays. It just discusses the power program
13 with regard to its own system and doesn't opine about
14 other utilities.

15 I also thought I made it clear in the
16 motion to strike that Edison Sault was relying on the
17 basis of relevance or prejudicial testimony, not the
18 hearsay exception. The only reason that that last
19 paragraph was put in was Edison Sault otherwise would
20 have objections, but they did not want to have the hassle
21 of Mr. Lorden being subpoenaed; he's out of state and an
22 out-of-state subpoena is difficult to achieve,
23 particularly in an administrative agency.

24 And so the, to the extent that the ALJ
25 determines this is relevant, then we would bind it in.

1 JUDGE FELDMAN: Thank you. I appreciate
2 that. I think with all prefiled testimony, the
3 understanding is it's not intended to be hearsay because
4 it's going to be adopted by a witness in the hearing.
5 And so for reasons of convenience to the parties and
6 third-parties' counsel can agree that witnesses don't
7 need to be present to bind in their testimony, the
8 commission has allowed that. But relevance does seem to
9 be the question of the day.

10 Mr. Waters.

11 MR. WATERS: Thank you, your Honor. I
12 think this is very relevant. One of the city's primary
13 concerns with what's happening here in this PSCR case and
14 what is going to happen in upcoming PSCR cases is Edison
15 Sault's claim, we think that what his, you know, that in
16 part what we are experiencing is a function, you know, of
17 a complete lack of planning. Their idea of planning --
18 they knew about the change, you know, to the MISO Day 2
19 markets years ahead of time, and they did nothing. Their
20 idea of planning was, O.K., we're just going to, you
21 know, accept LMP. By definition, LMP is the most costly
22 power on the market anywhere. And what Mr. Lorden's
23 testimony makes clear in part, on page 42 or 89,
24 depending on how you're going to look at it, in lines 8
25 through 14, is that -- and the reason that I'm offering

1 WEPCo's own testimony is WEPCo, under the JOA, is Edison
2 Sault's own agent. I mean they recognize that they need
3 their own capacity, purchased power capacity, a diverse
4 mix of fuels, and that goes precisely, you know, to what
5 Edison Sault hasn't done in this case. And, you know,
6 more appropriately, it goes directly to what should they
7 do into the future. If their idea is to simply sit
8 around and say, O.K., we're going to buy power at LMP
9 through WEPCo, that is, by definition, the most expensive
10 power, and they have condemned the citizens of Mackinac
11 Island to the highest price power there is. And there
12 are two major contracts that are going to expire, the
13 WEPCo firm contract at the end of next year and the
14 Consumers firm contract I think maybe five years after
15 that. This goes to their planning, for the lack of
16 planning, and if nothing else, it goes to what should the
17 commission tell Edison Sault to do perhaps not in this
18 PSCR case, but what should it tell it to do by way of
19 planning for the next one and the ones after it so they
20 simply don't go out and say, oops, O.K., we're going to
21 buy at LMP.

22 And that I think is plainly relevant to
23 this proceeding, if for no other reason, they've got a
24 2000 -- they've got 2006 and 7 projections, if I'm right,
25 in their testimony. The statute requires, although it's

1 been apparently modified by virtue a settlement
2 agreement, that there be some analysis of what will
3 happen in the future. Exhibit A-8 to Mr. Baatz'
4 testimony addressed this very issue. Oh, we did our
5 planning. And that's why, you know, they want A-8, and
6 it was admitted.

7 Well, you could have done more and you
8 should have done more, and certainly from this point
9 forward into the future, you need to do more or we're
10 stuck with LMP for the rest of history.

11 MS. MASON SONERAL: Excuse me, your
12 Honor. Mr. Waters is getting a little hostile and he's
13 looking at me directly while he's making his speech.

14 JUDGE FELDMAN: Well, let's gloss over
15 that, shall we.

16 MR. WATERS: I don't mean to be hostile.
17 I am frustrated with that. That's as much as I have to
18 say.

19 Ms. Mason Soneral, I apologize if I was
20 somewhat, if I appear hostile toward you. I did not mean
21 to be.

22 JUDGE FELDMAN: These days should not be
23 taken personally by you, please, Ms. Mason Soneral. But
24 if you have more that you want to add on the question of
25 the relevance of this testimony, you may.

1 MS. MASON SONERAL: I do. I mean first I
2 obviously disagree with some of his characterization of
3 what he believes the purported facts are to be,
4 particularly about LMP being the highest cost energy.

5 Second of all, there is nothing in
6 Mr. Lorden's testimony that speaks to an utter lack of
7 planning by Edison Sault or any other utility. Again, it
8 just says this is what we are doing for our system. It
9 doesn't opine on the value of this planning or the value
10 of this program, which again is a Wisconsin program, for
11 any other utility. And the mere fact that they might
12 recognize a need doesn't affect whether Edison Sault or
13 some other utility should follow the same path.

14 MR. WATERS: Actually, your Honor, if I
15 could quickly respond, and then I'll let it go.

16 JUDGE FELDMAN: You may.

17 MR. WATERS: The testimony actually isn't
18 just limited to, you know, to WEPCo's system. If nothing
19 else, Mr. Baatz testified that they're actually in, you
20 know, negotiations with WEPCo, you know, over Power of
21 the Future and possible capacity additions on WEPCo's
22 system, which are one of the alternatives they're looking
23 at to decide what they're going to do into the future.
24 And so they have in part raised the issue themselves, and
25 it is relevant.

1 MS. MASON SONERAL: And, your Honor, just
2 quick rebuttal. I would note that Mr. Baatz was asked
3 those questions on cross-examination. It was not a part
4 of his direct testimony, it was not a part of his
5 rebuttal testimony.

6 JUDGE FELDMAN: I understand,
7 Ms. Mason Soneral.

8 I am going to let the testimony in.
9 However, in significant part I think the introductory
10 pages contained here, pages 34 to 47, just add confusion,
11 so I think we should leave those out. I think the
12 standards or threshold for relevance is not very high. I
13 think that it is not going to unduly burden these
14 proceedings, admittedly in part by the posture, the
15 cooperative posture that the company has taken that the
16 witness does not need to be called; also, because we
17 have, you know, concluded the testimony of the other
18 witnesses. I think that this is an affiliate, this is an
19 affiliate of Edison Sault's with whom they have a
20 contract that is, you know, in significant dispute here
21 in this proceeding. I don't think that it would be
22 anything other than speculative based on what I've seen
23 so far for the City of Mackinac Island to argue that
24 Edison Sault should have its own generation at this
25 point.

1 But nonetheless, the standards for
2 relevance are not, are not particularly burdensome; and I
3 believe based on Mr. Baatz' answers to questions already
4 on cross-examination today identifying his program is
5 based on the fact that WEPCo's generation resources to
6 the extent that they are or are not included in the JOA
7 may bear on how the benefit of that bargain is evaluated.
8 And as I said, simply because they are an affiliate, I'm
9 going to allow the testimony to be presented.

10 MS. MASON SONERAL: And, your Honor, did
11 you say you were allowing all pages or selected pages?

12 JUDGE FELDMAN: The first pages, you
13 know, 34, 35, 43, 44, 45, 46 and the cover page 47 from
14 the other proceeding, those just add confusion, I
15 believe, to this record. The point is is to determine
16 what questions, if Mr. Lorden were called as a witness
17 here, he could truthfully adopt as his testimony in this
18 proceeding. And while I think it is clear on the record
19 that Mackinac, the City of Mackinac Island has excerpted
20 Mr. Lorden's testimony from the record in Case No.
21 U-14707, I don't believe those pages are appropriate for
22 binding into a transcript, and I doubt that Mr. Waters
23 will object.

24 MR. WATERS: No, I have no objection.
25 Would your Honor prefer that I put a line through them as

1 such or should I just rip them out and offer 48 through
2 the end?

3 JUDGE FELDMAN: You may do it any way you
4 choose.

5 MR. WATERS: Then I prefer just to do it
6 that way, which is to say just have pages 48, 49, 88, 89,
7 90, 91 bound in. And should I leave the certification on
8 or off?

9 JUDGE FELDMAN: I would leave it off.
10 You had already, I thought -- no, maybe not. I would
11 leave it off.

12 MR. WATERS: I just attached that to make
13 clear it was a true and accurate copy of the record of
14 those proceedings.

15 JUDGE FELDMAN: I appreciate it, and you
16 gave the parties the additional information so they could
17 evaluate it, see if there were any corrections or
18 something that wasn't included, but after looking at it,
19 I don't think we need it.

20 MS. MASON SONERAL: And, your Honor, I
21 don't contest the authenticity of the testimony.

22 JUDGE FELDMAN: Thank you.

23 MR. STRONG: That would be marked as an
24 exhibit, your Honor?

25 JUDGE FELDMAN: No. The testimony is
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1 going to be bound into the record as if Mr. Lorden were
2 called as a witness, because that's my understanding of
3 the I think somewhat gracious concession that Edison
4 Sault has made to expedite these proceedings and to spare
5 Mr. Lorden the trouble of a journey here.

6 MR. WATERS: And to be clear, your Honor,
7 I actually called him two weeks ago. I didn't want to
8 put Mr. Lorden to the trouble of the subpoena and bring
9 him. I called him two weeks as ago and asked
10 Ms. Mason Soneral how we would like to handle this,
11 because for this small amount of testimony, it didn't
12 seem necessary to subpoena him all the way in, although I
13 did want to avoid that with all --

14 JUDGE FELDMAN: So Mr. Lorden's testimony
15 is going to be bound into the record. There may be some
16 administrative details we need to take into account, so
17 let's go off the record a minute and get those
18 straightened out.

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48
Thomas P. Lorden

WISCONSIN ELECTRIC POWER COMPANY

Before the Michigan Public Service Commission

Direct Testimony of Thomas P. Lorden

1 Q. Please state your name and business address.

2 A. Thomas P. Lorden, 231 West Michigan Street, Milwaukee,
3 Wisconsin 53203.

4 Q. What is your present employment?

5 A. I am employed by Wisconsin Electric Power Company, d/b/a We
6 Energies ("Wisconsin Electric" or "Company") as a Senior
7 Project Specialist in the Regulatory Affairs and Policy
8 Department. In this position, I am responsible for fuel
9 filing and reporting to the various regulatory agencies.

10 Q. Please describe your qualifications and background.

11 A. I earned a Bachelor of Arts Degree in Business Administration
12 from the Marquette University with a specialization in finance
13 in 1980.

14 I joined Wisconsin Electric in 1968. From 1968 to 1975, I
15 worked in the Plant Accounting Division. From 1975 until
16 1980, I held various positions in the Load Research area of
17 the Corporate Planning Department.

18 From 1980 to 1998, I was in the Rates Section. While in
19 the Rates Section, I was involved in the development of
20 numerous cost-of-service studies to support the Company's rate

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- 2 -

Thomas P. Lorden

1 and regulatory needs. In my previous position, as Team Leader
2 for Fossil Fuel, Nuclear and Purchase Power Accounting, I was
3 responsible for fuel accounting and reporting. I have
4 previously testified before the Michigan Public Service
5 Commission ("MPSC" or "Commission") on cost-of-service in Case
6 Nos.U-7592, U-10000 and U-10183. I have also provided
7 testimony for the 2005 Power Supply cost Recovery ("PSCR")
8 plan in Case No. U-14264, 2004 PSCR reconciliation in Case No.
9 U-13907-R, 2004 PSCR plan in Case No. U-13907, 2003 PSCR plan
10 in Case No.U-13556, 2003 PSCR reconciliation in Case No.U-
11 13556-R, 2002 PSCR plan in Case No.U-13107, 2002 PSCR
12 reconciliation in Case No.U-13107-R, 2001 PSCR plan in Case
13 No.U-12615, 2001 PSCR reconciliation in Case No.U-12615-R, the
14 1995 PSCR plan in Case No.U-10707 and the 1994 PSCR
15 reconciliation Case No.U-10428-R.

16 Q. What is the purpose of your testimony in this proceeding?

17 A. The purpose of my testimony is to develop the power supply
18 cost recovery factors for the period covered by the Company's
19 2006 power supply cost recovery plan. To do this, I developed
20 the average power supply costs using the projected costs for
21 January through December, 2006. The factors were calculated
22 using the base power supply costs from the generation and
23 purchased power requirements and costs as ordered by the
24 Commission in its Opinion and Order issued in Case No. U-
25 12725, on September 16, 2002. In addition, my testimony
26 describes the procurement of fossil fuel, nuclear fuel and
27 related fuel cycle services and the components involved in the
28 calculation of nuclear fuel expense.

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Thomas P. Lorden

~~economy will allow. Wisconsin Electric strongly supports a permanent national disposal facility at the Yucca Mountain site and continues to work with the Nuclear Energy Institute and the Nuclear Management Company towards the licensing and development of this site. The Company has also filed for damages in the U.S. Court of Claims for DOE's failure to begin accepting spent nuclear fuel in 1998 in accordance with the Standard Contract.~~

POWER THE FUTURE (PTF)

Q. What is the Company's PTF proposal?

A. On November 29, 2000, Wisconsin Energy Corporation ("WEC") filed an application with the PSCW regarding its PTF proposal to assure reliable, economical and environmentally responsible electric power. Based on input from customer groups and others, WEC withdrew its original PTF proposal on February 23, 2001, and replaced it with a modified proposal that employs innovative "leased generation contracts" instead of traditional PPAs. This modified proposal was filed because the crisis in the California power market and other problems involving electric power market deregulation had raised grave concerns about excessive reliance on PPAs, which are subject to federal rather than PSCW regulation. Using the lease model, instead of PPAs, allows WEC to proceed with the construction of approximately 2,900 megawatts of new generation projects, while ensuring oversight by the PSCW to protect customers' interests. The plants will include two 545-megawatt combined cycle natural gas-fired units identified as the Port Washington Generation Station ("PWGS") at the Port Washington Power Plant site. And

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Thomas P. Lorden

1 three 600-megawatt coal-fired power units identified as the Elm
2 Road Generation Station ("ERGS") are planned for the Oak Creek
3 Power Plant site.

4 Q. Why is the Company proposing to build new power plants?

5 A. In order to assure adequate generation is built to meet the
6 projected load growth on its system, the Company will need to
7 either build new power plants or continue to purchase
8 increasing amounts of power each year. The Company recognizes
9 that using a diverse fuel mix of nuclear, coal, gas, hydro and
10 renewable sources, along with purchased power will ensure
11 adequate, reliable and affordable power. Diverse fuel sources
12 for power plants enhance long-term fuel price stability and
13 provide customers with a stable, less costly electricity
14 supply.

15 Q. What is the status of the Company's PTF proposal?

16 A. The PWGS portion of the PTF initiative received approval from
17 the PSCW on December 20, 2002 in Docket No. 05-CE-117. PWGS
18 will be an intermediate load plant, providing electricity
19 during periods of heavy demand. Earlier this year, Units 4, 5
20 and 6 of the Port Washington Power Plant were demolished to
21 make room for the first new PWGS unit. Groundbreaking for the
22 first unit took place in July 2003, and the unit achieved
23 commercial operation on July 16, 2005. Demolition of units 1,
24 2, and 3 of the Port Washington power plant is underway to make
25 room for the second PWGS unit. Construction of the second unit
26 is scheduled to commence in earnest in early 2006. This unit
27 will be ready for service by the summer of 2008.

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Thomas P. Lorden

1 The ERGS portion of the PTF initiative received approval from
2 the PSCW for two supercritical pulverized coal ("SCPC")
3 generating units on November 10, 2003 in Docket No. 05-CE-130
4 and received an Air Pollution Control Construction Permit from
5 the Wisconsin Department of Natural Resources on January 14,
6 2004. Approval for the Integrated Gasification Combined Cycle
7 (IGCC) generating unit was not received. The CPCN for the SCPC
8 units was vacated by a Circuit Court on November 29, 2004. On
9 June 28, 2005 the Supreme Court of Wisconsin reinstated the
10 CPCN. All major permits and approvals needed to commence
11 construction were obtained by June 28, 2005. A Mobilization
12 Notice was issued to Bechtel Power Corporation on June 29, 2005
13 and site activities commenced on the same day. Full Notice to
14 Proceed was issued to Bechtel on July 29, 2005. The first SCPC
15 unit is expected to be in service in 2009 and the second unit
16 in service in 2010. Therefore the SCPC units will contribute
17 fuel costs towards system energy costs starting in 2009.

18 Q. Are the projected fuel costs of the new units associated with
19 PTF included in the PSCR forecast?

20 A. Yes. The projected system fuel costs for 2006 - 2010
21 incorporate the cost of natural gas and coal associated with
22 the new PTF units in the same manner as the cost of fuel at
23 existing Company power plants. With the advent of the PTF
24 units, power supply costs starting in 2006 will increase at
25 lower rates than if the Company met its increasing load serving
26 obligations through additional purchase of power from IPP
27 facilities, as the PTF units provide more cost effective supply
28 of power to serve load. Lower projected fuel costs are driven

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Thomas P. Lorden

1 by the PTF design basis for adding fuel diverse, efficient and
2 low overall cost of new sources of generation. To illustrate
3 this impact, as shown on Exhibit A-6 (TPL-6), total system
4 energy costs actually decrease by about \$2.77/MWh in 2008
5 (decrease from 2007) reflecting operation of the second unit at
6 PWGS for half a year.

7 Q. Is there any additional information available regarding PTF?

8 A. Yes. Additional information is available on the Web site at
9 www.wepowerthefuture.com.

10 ~~TRANSMISSION COSTS~~

11 ~~Q. Will the Company's participation in ATC improve transmission~~
12 ~~access and reliability?~~

13 ~~A. Yes. The transfer of the Company's transmission facilities to~~
14 ~~ATC, together with ATC's participation in the MISO, will~~
15 ~~benefit customers by improving reliability through the~~
16 ~~institution of a comprehensive, long-term planning process for~~
17 ~~making needed transmission enhancements and upgrades on a~~
18 ~~regional basis.~~

19 ~~Q. Is the Company active in reviewing transmission service rate~~
20 ~~proceedings by ATC and MISO?~~

21 ~~A. Yes. The Company is active in reviewing transmission rate~~
22 ~~proceedings and where/when appropriate files intervention at~~
23 ~~FERC.~~

24 ~~Q. What is the amount of transmission costs the Company is~~
25 ~~proposing to include in its 2006 PSCR plan costs?~~

26 ~~A. The 2006 PSCR plan includes the 2006 transmission costs for ATC~~
27 ~~and MISO of \$152,123,000. Exhibit A-6 (TPL-6) contain the~~
28 ~~forecasted ATC and MISO costs for the period 2006 through 2010.~~

1 (A discussion was held off the record.)

2 JUDGE FELDMAN: O.K. Back on the record.

3 Mr. Odunlami, you're gesturing and
4 pointing. What do you need to add to this record?

5 MR. ODUNLAMI: No, no, no. I'm fine,
6 your Honor.

7 JUDGE FELDMAN: You're sure?

8 MR. ODUNLAMI: Yes, your Honor.

9 JUDGE FELDMAN: Speak now, as they say.

10 MR. ODUNLAMI: Yes.

11 JUDGE FELDMAN: O.K. We need to set a
12 schedule for briefing. Have the parties had an
13 opportunity to confer on that?

14 MS. MASON SONERAL: No, we have not
15 discussed that.

16 JUDGE FELDMAN: Let's go off the record
17 and talk about that for a minute.

18 (A discussion was held off the record.)

19 JUDGE FELDMAN: All right. Everybody,
20 back on the record. We've agreed that initial briefs
21 will be due on or before August 4th, 2006, reply briefs
22 due on or before August 18th, 2006.

23 Is there anything further from anybody?
24 Does anybody have anything that I've overlooked,
25 forgotten, failed to consider, anything that we need to

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1 take up before we adjourn?

2 Thank you all very much for your patience
3 today. I know it got a little rushed and hectic there at
4 the end. I apologize for that. And I look forward to
5 getting your briefs.

6 MR. WATERS: Thank you, your Honor.

7 JUDGE FELDMAN: We're adjourned.

8 (Proceedings concluded at 4:43 p.m.)

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C E R T I F I C A T E

I, Lori Anne Penn (CSR-1315), do hereby
certify that I reported in stenotype the proceedings had
in the above-entitled matter, that being Case No.
U-14703, before Sharon Feldman, J.D., Administrative Law
Judge with SOAHR, at the Michigan Public Service
Commission, 6545 Mercantile Way, Lansing, Michigan, on
Tuesday, June 27, 2006; and do further certify that the
foregoing transcript constitutes a true and correct
transcript of my stenotype notes.

**LoriAnne
Penn**

Lori Anne Penn, CSR-1315
33231 Grand River Avenue
Farmington, Michigan 48336

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