

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
WOLVERINE POWER SUPPLY COOPERATIVE,)
INC., for authority to implement a transition)
cost surcharge.)
_____)

Case No. U-11335

At the June 25, 1997 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. John G. Strand, Chairman
Hon. John C. Shea, Commissioner
Hon. David A. Svanda, Commissioner

OPINION AND ORDER

On February 28, 1997, Wolverine Power Supply Cooperative, Inc., (Wolverine) filed an application requesting authority to implement a 3.76 mills per kilowatt-hour (kWh) surcharge to permit it to restructure its debt.

Pursuant to due notice, a prehearing conference was held on April 9, 1997 before Administrative Law Judge Daniel E. Nickerson, Jr. (ALJ). The ALJ granted the petition for leave to intervene filed by Attorney General Frank J. Kelley, but denied the petition filed by the Association of Businesses Advocating Tariff Equity (ABATE). ABATE filed an application for leave to appeal that ruling, which the Commission denies in another order issued today. The Commission Staff (Staff) participated in the case.

Subsequently, the parties reached a settlement agreement, attached to this order as Attachment A, resolving all issues in this case. According to the terms of the settlement, Wolverine should be authorized to implement a debt restructuring surcharge of 3.76 mills per kWh. When combined with the 6.0 mills per kWh currently included in Wolverine's rates to provide funds to retire the Fermi 2 related debt, the parties anticipate that Wolverine will be able to retire its Fermi 2 related debt in 2004 rather than 2025.

The Commission FINDS that:

- a. Jurisdiction is pursuant to 1909 PA 106, as amended, MCL 460.551 et seq.; MSA 22.151 et seq.; 1919 PA 419, as amended, MCL 460.51 et seq.; MSA 22.1 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq.; MSA 22.13(1) et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; MSA 3.560(101) et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1992 AACRS, R 460.17101 et seq.
- b. The settlement agreement is reasonable and in the public interest, and should be approved.

THEREFORE, IT IS ORDERED that:

- A. The settlement agreement, attached to this order as Attachment A, is approved.
- B. Wolverine Power Supply Cooperative, Inc., shall implement a debt restructuring surcharge of 3.76 mills per kilowatt-hour, consistent with the terms of the settlement agreement.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26; MSA 22.45.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ John G. Strand
Chairman

(S E A L)

/s/ John C. Shea
Commissioner

/s/ David A. Svanda
Commissioner

By its action of June 25, 1997.

/s/ Dorothy Wideman
Its Executive Secretary

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

**In the matter of the application of
WOLVERINE POWER SUPPLY
COOPERATIVE, INC., for authority to MPSC Case No. U-11335
implement a transition cost surcharge.**

SETTLEMENT AGREEMENT

On February 28, 1997, Wolverine Power Supply Cooperative, Inc. ("Wolverine") filed its application with the Michigan Public Service Commission ("MPSC" or "Commission") requesting authority to implement a transition cost surcharge ("TCS") of 3.76 mills per kWh.

On March 12, 1997, the Commission issued its Notice of Hearing, scheduling a prehearing conference for April 9, 1997. On March 20, 1997, Attorney General Frank J. Kelley ("Attorney General") filed a notice of intervention. On March 28, 1997, the Commission's Staff filed an appearance, and on April 2, 1997, the Association of Businesses Advocating Tariff Equity ("ABATE") filed a petition to intervene.

On April 4, 1997, Wolverine prefled direct testimony of its President and Chief Executive Officer, Thomas W. Stevenson. In addition, pursuant to Commission directive, Wolverine provided the requisite notice (Tr 4, 5).

A prehearing conference was held on April 9, 1997, Administrative Law Daniel E. Nickerson presiding. At the prehearing conference, the Commission Staff entered its appearance (Tr 3, 4), the Attorney General was granted intervenor status (Tr 6), but ABATE's petition to intervene was denied (Tr 29-31), then a schedule was set for the remainder of the proceedings (Tr 31-35).

On April 23, 1997, ABATE filed an application for leave to appeal denial of its petition to intervene. On May 7, 1997, Wolverine filed its response in opposition to ABATE's application for leave to appeal denial of intervention.

Wolverine plans to refinance and restructure its debts by obtaining MPSC approval of a debt restructuring charge ("DRC") of 3.76 mills per kWh surcharge in this case and by replacing existing debts owed to the Federal Financing Bank ("FFB") and the United States Department of Agriculture, Rural Utilities Service ("RUS") [formerly known as the Rural Electrification Administration] with new debts financed by the National Rural Utilities Cooperative Finance Corporation ("CFC"). This reduces the debt on Wolverine's books by the amount of \$80,254,506 as shown below.

Wolverine has indicated that the principal balances of its current debt are:

CFC Notes	\$ 4,892,307
Fermi 2 Notes	171,149,012
RUS 2% Notes	8,186,984
RUS 5% Notes	33,957,067
FFB Notes	<u>17,267,593</u>
Total	<u>\$235,452,963</u>

Wolverine estimates that after its refinancing and restructuring new debt principal amounts will be:

CFC Notes	\$ 4,892,307
Fermi 2 Debt to CFC	93,832,728
RUS 2% Notes	10,852
Non-Fermi 2 Debt to CFC	54,912,570
CFC Capital Term Certificates	<u>1,550,000</u>
Total	<u>\$155,198,457</u>

From July 1997 through 2004, Wolverine has estimated that its debt service payments (principal plus interest) on its current debts would total \$136,662,295, while its debt service payments on the new debts would total \$170,765,861, which would increase the costs by \$34,103,566 during those years.

From 2005 through 2025, Wolverine has estimated that its debt service payments (principal plus interest) on its current debts would total \$422,352,825, while its debt service payments on the new debts would total \$72,283,385, which would decrease the costs by \$350,069,440 during those years.

Based on prior Wolverine estimates and as indicated below, the Staff projected an approximate net present value benefit totaling \$71,095,040 if debt restructuring and repayment takes place.

Wolverine's current and new creditors require MPSC approval of a new 3.76 mill per kWh charge as a condition precedent to the proposed refinancing and debt restructuring. When the proposed refinancing and restructuring is fully in place, which will occur no later than December 31, 1997, then Wolverine will no longer be subject to supervision of RUS.

Wolverine's counsel has advised the parties that if the proposed refinancing and restructuring occurs, then because Wolverine will no longer be subject to the supervision of RUS, Wolverine and its rates will become subject to the exclusive jurisdiction of the Federal Energy Regulatory Commission (FERC) -- unless Wolverine engages in future retail sales of electricity in Michigan and becomes subject to state regulation of such activities at any such future time. Wolverine has fully disclosed this opinion of counsel to its member cooperatives. Also, Wolverine intends to retain a small amount of RUS debt (\$10,852) until sometime between now and December 31, 1997, which Wolverine asserts would have the effect of postponing any loss of jurisdiction by the MPSC until that debt is extinguished on or before December 31, 1997.

Pursuant to Section 78 of the Administrative Procedures Act of 1969; MCL 24.278; MSA 3.560(178) and Rule 333 of the Rules of Practice and Procedure Before the Commission [1992 AACRS, R 460.17333], Wolverine and the Staff agree as follows:

A. Traditionally, rural electric cooperatives were created to serve areas not being served by investor-owned electric utilities, and the Commission has recognized that regulation of rural electric cooperatives is unique. In an opinion dated June 14, 1983, in Re Ontonagon County Rural Electrification Association TIER ratemaking, Case No. U-6652, the Commission said:

The characteristics of a cooperative, being owned by its customers, uniquely adapt themselves to this type of [TIER ratemaking] mechanism . (page 6)

In light of the financing and structural differences between rural electric cooperatives and investor-owned utilities, TIER ratemaking should apply only to rural electric cooperatives.(emphasis in original order) (page 11)

In addition, certain Michigan statutes recognize that regulation applicable to other utilities may not be appropriate for the regulation of rural electric cooperatives. For example, MCL 460.6j(17); MSA 22.13(6j)(17) authorizes the Commission to exempt cooperatives from one or more of the requirements of that section, while MCL 460.6m(6); MSA 22.13(6m)(6) exempts cooperatives from the funding requirements of that statute.

B. Wolverine should be authorized to implement a DRC of 3.76 mills per kWh on all kWh to enable Wolverine to restructure its current debts. Tariffs incorporating this DRC are attached as Exhibit A to this Settlement Agreement, and Wolverine agrees to propose the same substantive tariff provisions for adoption by the FERC.

C. Based on Wolverine's projected 1997 sales totaling 1,634,061 MWh, the DRC should generate approximately \$6.144 million annually.

D. Per the Commission's May 26, 1988 order in Case No. U-8994,¹ Wolverine's presently authorized rates include 6.0 mills per kWh² to facilitate retirement of Fermi 2 related debt over a 35 year period ending December 31, 2025. The DRC anticipated by this Settlement Agreement will increase the 6.0 mills per kWh to 9.76 mills per kWh. The MPSC approved the first of these increases to enable Wolverine to retire its Fermi 2 related debt by the Year 2025, and the second increase together with the 6.0 mills is planned to enable Wolverine to retire its Fermi 2 related debt over an accelerated seven year period ending in 2004.

E. To implement this Settlement Agreement and the MPSC order approving it, the parties agree that Wolverine shall utilize the accounting entries identified in Exhibit B attached to this Settlement Agreement. In addition, Wolverine shall annually provide a report to the Commission's Staff and the Attorney General containing the information described in Exhibit C attached to this Settlement Agreement.

F. The parties have reviewed RUS's most recent offer relative to Wolverine's proposed debt restructuring as set forth in RUS's April 17, 1997 letter which is attached to this Settlement Agreement as Exhibit D.

G. Wolverine will expend all proceeds from the 9.76 mills per kWh referenced in Paragraph D above solely toward repayment of its new Fermi 2 related debt, including but not limited to early principal payments, if any. In

¹ In the matter of the application of Wolverine Power Supply Cooperative, Inc. for authority to implement rate increases to take effect on January 1, 1988 and January 1, 1989, and to implement troubled debt restructuring.

² Case No. U-8994, *supra*, p 3.

addition to the revenues generated by the 6.0 mills per kWh previously authorized and the 3.76 mills per kWh to be approved as a result of this Settlement Agreement, Wolverine commits to using internally-generated funds resulting from savings due to closure of its generation facilities and its reduction in staffing to pay the projected new Fermi 2 debt service payments which are projected to total \$125,626,458.

H. The parties agree that they will not seek to modify or amend the terms and conditions for Wolverine's recovery of its Fermi 2 related debt as provided above. Except for the recovery of Wolverine's Fermi 2 related debt service requirements as provided above, neither the MPSC nor any party will be barred by this Settlement Agreement and the order approving it from seeking a reduction or an increase in any of Wolverine's other rates in any future case.

I. Exhibit E attached to this Settlement Agreement is the Commission Staff's comparative analysis of projected debt service costs totaling \$567,791,151, including Fermi 2 and non-Fermi 2 debt, with projected new debt service costs totaling \$246,591,259, including Fermi 2 and non-Fermi 2 debt. These are previous estimates provided by Wolverine. Exhibit E shows a present value savings of \$71,095,040 to Wolverine as a result of this projected debt restructuring.

J. The Board of Directors of Wolverine has executed a resolution committing Wolverine to elimination of 9.76 mills per kWh from its rate structure when its Fermi 2 related debt is paid off by no later than 2004, and that resolution is attached to this Settlement Agreement as Exhibit F. It is expected that Wolverine's member cooperatives will pass the 9.76 mill reduction through to their customers. All the new loan agreements and notes with CFC shall incorporate language requiring Wolverine to eliminate its 3.76 mill per kWh surcharge and to eliminate the amount of 6.0 mills per kWh from

its base rates via a negative surcharge until after its first rate case order following full payment of Wolverine's Fermi 2 related debt. All new loan agreements and any related notes with CFC shall provide that Wolverine will be considered in default if Wolverine fails to eliminate the 9.76 mills per kWh from its rates after 2004.

K. The parties jointly recommend that the Commission issue an Order Adopting Settlement Agreement.

L. This Settlement Agreement has been made for the sole and express purpose of reaching a compromise among the positions of the signatories without prejudice to their rights to take new and/or different positions in other proceedings. All offers of settlement and discussion relating to this Settlement Agreement shall be considered privileged under MRE 408. If the Commission approves this Settlement Agreement without modification, neither the parties to this Settlement Agreement nor the Commission shall make any reference to or use of this Settlement Agreement or the order approving it as reason, authority, rationale or example for taking any action or position or making any subsequent decision in any other case or proceeding; provided however, such references or use may be made to enforce this Settlement Agreement and the order approving it.

M. This Settlement Agreement is not severable. Each provision of this Settlement Agreement is dependent upon all other provisions of this Settlement Agreement. Failure to comply with any provision of this Settlement Agreement constitutes failure to comply with the entire Settlement Agreement. If the Commission rejects or modifies this Settlement Agreement or any provision of this Settlement Agreement, it shall be withdrawn and shall not constitute any part of the record of this proceeding or be used for any other purpose.

N. If the Commission approves this Settlement Agreement without modification, the parties waive any rights under MCL 24.281; MSA 3.560(181) and agree not to appeal or otherwise contest the Commission order approving this Settlement Agreement.

O. The Commission Staff, in signing this Settlement Agreement, certifies that it is reasonable and in the public interest.

WOLVERINE POWER SUPPLY
COOPERATIVE, INC.

Dated: June 20, 1997

By: Albert Ernst AK
Albert Ernst
DYKEMA GOSSETT PLLC
800 Michigan National Tower
Lansing, MI 48933
(517) 374-9155

MICHIGAN PUBLIC SERVICE COMMISSION
STAFF

Dated: June 20, 1997

By: Sharon L. Feldman
Sharon L. Feldman
Assistant Attorney General
6545 Mercantile Way, Suite 15
Lansing, MI 48911
(517) 334-7650

Statement of Non Objection

Pursuant to Rule 333(3) of the Commission's Rules of Practice and Procedure [1992 AACS, R 460.17333(3)], Attorney General Frank J. Kelley does not object to this Settlement Agreement so long as the Michigan Public Service Commission approves it without modifications or additional qualifications in its order approving this Settlement Agreement.

ATTORNEY GENERAL FRANK J. KELLEY

Dated: June 20, 1996

By:

Donald E. Erickson

Donald E. Erickson
Assistant Attorney General
630 Law Building
Lansing, MI 48909
(517) 373-1123

Schedule "A"

WHOLESALE SERVICE TO MEMBER DISTRIBUTION COOPERATIVES

AVAILABILITY:

Available to all Electric Cooperative Associations which are members of Wolverine Power Supply Cooperative, Inc. (Wolverine).

MONTHLY RATE:

Substation Charge
(per substation)

Permanent Steel Structure	\$1,435.00
Temporary Wood Structure	\$217.00

Demand Charge \$9.38/kW

Energy Charge 3.77¢/kWh

Debt Restructuring Charge 0.376¢/kWh

POWER SUPPLY COST RECOVERY CLAUSE AND FACTOR:

This rate schedule is subject to the Cooperative's Power Supply Cost Recovery Clause as set forth in Sheets Nos. 4.0 and 4.1.

BILLING DEMAND:

The Billing Demand shall be based on the Member's contribution to the highest hourly (clock hour) coincidental system peak demand of Wolverine for the month. However, during the months of November through April, on days in which load management is initiated, the Billing Demand shall be based on the Member's contribution to the highest hourly (clock hour) coincidental system peak demand of Wolverine for the month between the hours of 11:00 a.m. and 7:00 p.m.

EXPRESS FEEDERS:

Transmission extensions intended for temporary use as express distribution feeders will be provided for by means of specific supplemental contracts for each such extension. The charges for these feeders will be \$217.00 per month per mile. There will be no additional charge for each such extension in excess of five (5) miles. The maximum charge for each such extension will be \$1,085.00 per month.

Continued to Sheet No. 2.1

Issued:
By Tom Stevenson
General Manager
Cadillac, Michigan

Effective for all electric service rendered on and after

Issued under the authority of M.P.S.C. dated
in Case No. U-11335

Exhibit A, p 1

RIDER "HLF"

WHOLESALE SERVICE FOR HIGH LOAD FACTOR LOAD

AVAILABILITY:

Available to all Electric Cooperative Associations which are members of Wolverine Power Supply Cooperative, Inc. (Wolverine) for resale to their commercial and industrial member-consumers that qualify for service under the conditions set forth in this tariff. This rate schedule is not intended for seasonal loads.

MONTHLY RATE:

Except for the demand and energy charges, the monthly rate shall be the same as provided for under Schedule A, including the substation charge, the express feeder charge, the power supply cost recovery factor and all other applicable surcharges or credits. The demand charge and energy charges shall be as follows:

Demand Charge (per kW)	\$13.07
Energy Charge (per kWh)	3.115¢
Debt Restructuring Charge (per kWh)	0.376¢/kWh

BILLING DEMAND:

The Billing Demand shall be based on the Member's contribution to the highest hourly (clock hour) coincidental system peak demand of Wolverine for the month.

CONDITIONS FOR SERVICE FROM THIS SCHEDULE:

This service schedule shall be available for service (i) to any commercial or industrial customer taking service with a load which exceeds 500 kW or more of Maximum Billing Demand.

Continued on Sheet No. 8.01

Issued:
By Tom Stevenson
General Manager
Cadillac, Michigan

Effective for all electric service rendered on and
after

Issued under the authority of M.P.S.C. dated
in Case No. U-11335

EXHIBIT B

ENTRY #1

This entry will record the reduction to the existing Fermi II related debt by the amount of debt forgiveness.

Account No.		Dr.	Cr.
224141	Other Long Term Debt - Debt Restruct. Notes, Fermi II	xxx	
182100	Extraordinary Property Losses		xxx

ENTRY #2

This entry will record the establishment of a new Extraordinary Property Losses account.

Account No.		Dr.	Cr.
182195	Extraordinary Property Losses, Fermi II	xxx	
182100	Extraordinary Property Losses		xxx

ENTRY #3

This entry will record the extinguishment of the Fermi II related debt.

Account No.		Dr.	Cr.
224141	Other Long Term Debt - Debt Restruct. Notes, Fermi II	xxx	
131100	Cash, General Funds		xxx

ENTRY #4

This entry will record the prepayment of the RUS notes.

Account No.		Dr.	Cr.
224300	Other Long Term Debt - RUS Notes	xxx	
131100	Cash, General Funds		xxx

Exhibit B - contd.

ENTRY #5

This entry will record the prepayment of the FFB notes.

Account No.		Dr.	Cr.
224140	Other Long Term Debt - FFB Notes	xxx	
131100	Cash, General Funds		xxx

ENTRY #6

This entry will record the establishment of the new CFC Fermi II related debt. The amount of this initiating entry will mirror the cash component of entry #3. This debt will be maintained in separate subaccounts and will not be combined with any other debt(s).

Account No.		Dr.	Cr.
131100	Cash, General Funds	xxx	
224195	Other LT Debt - CFC - Debt Restruct. Notes, Fermi II		xxx

ENTRY #7

This entry will record the establishment of the new CFC other debt.

Account No.		Dr.	Cr.
131100	Cash, General Funds	xxx	
224196	Other Long Term Debt - CFC - Other Debt		xxx

Exhibit B, p 2

Exhibit B - contd.

ENTRY #8

The Debt Restructuring Charge (DRC) will be collected from sales to Wolverine customers and electric transmission service related to retail wheeling/direct access customers, if applicable, based upon the kwhs delivered on a monthly basis and will appear on the bills as a separate calculation. The existing 6 mills will be detailed for each customer. The DRC will not be applicable to transmission service that is unrelated to retail wheeling/direct access. This entry will record the bills.

Account No.		Dr.	Cr.
142100	Customer Accounts Receivable, Electric	xxx	
447110-180	Sales for Resale, Members		xxx
456195	Other Electric Revenues, DRC + 6 Mill Proceeds		xxx

ENTRY #9

No later than five business days after the due date of the customer bills, Wolverine will deposit funds into a special account in an amount equal to the billed DRC revenues. Additionally, funds applicable to the existing 6 mills resulting from the Michigan Public Service Commission's (MPSC) Case No. U-8994 (or subsequent regulatory cases) will be contemporaneously transferred to the special account as well. In the event that Wolverine does not collect the full DRC + 6 Mill Proceeds per kwh for transmission serviced related to retail wheeling/direct access customers, Wolverine will nonetheless deposit the equivalent of the DRC + 6 Mill Proceeds into the special account.

This entry records DRC + 6 Mill Proceed transfers/deposits.

Account No.		Dr.	Cr.
128195	Other Special Funds, DRC + 6 Mill Proceeds	xxx	
131100	Cash, General Funds		xxx

ENTRY #10

Interest income applicable to this special account shall remain within the account. This entry records the monthly interest income earnings on the special account.

Account No.		Dr.	Cr.
128195	Other Special Funds, DRC + 6 Mill Proceeds	xxx	
419195	Interest and Dividend Income, DRC + 6 Mill Proceeds		xxx

Exhibit B - contd.

ENTRY #11

This entry records monthly interest expense applicable to the Fermi II related debt.

Account No.		Dr.	Cr.
427195	Interest on LT Debt, CFC - Debt Restruct. Notes, Fermi II	xxx	
237195	Interest Accrued, CFC - Debt Restruct. Notes, Fermi II		xxx

ENTRY #12

In the event that the amount available from the special account is insufficient to meet a required monthly or quarterly payment to CFC applicable to the Fermi II related debt, then the balance of that required payment will be recorded as follows.

Account No.		Dr.	Cr.
128195	Other Special Funds, DRC + 6 Mill Proceeds	xxx	
131100	Cash, General Funds		xxx

ENTRY #13

This entry will record the monthly or quarterly payment to CFC applicable to the Fermi II related debt from the special account (a/c 128195). The amount of this entry may exceed the required payment. This entry is linked to entries #9 - #12.

Account No.		Dr.	Cr.
224195	Other LT Debt, CFC - Debt Restruct. Notes, Fermi II	xxx	
237195	Interest Accrued, CFC - Debt Restruct. Notes, Fermi II	xxx	
128195	Other Special Funds, DRC + 6 Mill Proceeds		xxx

Exhibit B - contd.

ENTRY #14

The amortization of the Fermi II related extraordinary property loss will be accrued monthly. The monthly amount will be equal to one third (1/3) of the principal component of the next quarterly payment to CFC for the Fermi II related debt. If monthly debt payments are made to CFC this amortization amount will be equal to the monthly principal payment for the Fermi II related debt. This entry is linked to entry #13.

This entry is as follows:

Account No.		Dr.	Cr.
407195	Amortization of Property Losses, Fermi II	xxx	
182195	Extraordinary Property Losses, Fermi II		xxx

ENTRY #15

This entry records the transfer of additional Fermi II related debt payment monies into the special account.

Account No.		Dr.	Cr.
128195	Other Special Funds, DRC + Mill Proceeds	xxx	
131100	Cash, General Funds		xxx

ENTRY #16

This entry records the amortization of the extraordinary property loss and the payment of additional Fermi II related debt. This entry is linked to entry #15.

Account No.		Dr.	Cr.
407195	Amortization of Property Losses, Fermi II	xxx	
224195	Other LT Debt, CFC - Debt Restruct. Notes, Fermi II	xxx	
182195	Extraordinary Property Losses, Fermi II		xxx
128195	Other Special Funds, DRC + Mill Proceeds		xxx

Exhibit B, p 5

EXHIBIT C

By April 30 following the end of each calendar year, Wolverine will file with the Michigan Public Service Commission and the Attorney General offices the following Annual Reporting Requirements:

1. **A schedule of calendar year billed Debt Restructuring Charges (DRC) segregated by month and (if applicable) also split between sales for resale and transmission revenues. Any adjustments will include an explanation.**

A schedule of calendar year billed 6 Mill Proceeds segregated by month and (if applicable) also split between sales for resale and transmission revenues. Any adjustments will include an explanation.

2. **A calendar year reconciliation of the Other Special Funds, DRC + 6 Mill Proceeds Account (a/c 128195). The reconciliation will include the initial balance and the actual month-end balances applicable to the Fermi II related debt. The monthly transactions will separately state:**

- a. **date and amount of the DRC deposit, and**
- b. **date and amount of the 6 Mill Proceeds deposit, and**
- c. **date and amount of general fund deposit necessary to accommodate the insufficient funds for the required Fermi II related debt service payment (entry #12), and**
- d. **date and amount of general fund deposit for additional Fermi II related debt service payment (entry #15), and**
- e. **deposit of interest earned, and**
- f. **date and amount of Fermi II related debt payments (entry #13).**

Any other transactions or adjustments applicable to the Fermi II related Other Special Funds Account will be fully explained and justified.

In the event that Special Funds also includes funds not applicable to the Fermi II related debt, then segregate the monthly book balances by each applicable other special fund.

Exhibit C - Annual Reporting Requirements - contd.

3. A calendar year reconciliation of the booked Fermi II related debt. The reconciliation will include the initial balance and the actual month-end balances. The monthly transactions will separately state:
- a. interest accrued (entry #11), and
 - b. debt payments from Other Special Funds (entry #13), and
 - c. additional principal payments (entry #16).

Any other transactions or adjustments applicable to the Fermi II related debt will be fully explained and justified. Differences (if any) between the book balances of Fermi II related debt and the applicable monthly or quarterly balances per the lender will be fully reconciled also.

4. A calendar year reconciliation of the Extraordinary Property Losses, Fermi II Account - 182195. The reconciliation will include the initial balance and the actual month-end balances applicable to the Fermi II related debt. The monthly transactions will separately state:
- a. the amortization applicable to the required Fermi II related debt payments (entry #14), and
 - b. the amortization applicable to additional Fermi II related debt payments (entry #16).

Any other transactions or adjustments applicable to the Fermi II related Extraordinary Property Loss will be fully explained and justified.

In the event that Extraordinary Property Losses also includes losses not applicable to the Fermi II related debt, then segregate the monthly book balances by each applicable extraordinary property loss.

5. A calendar year schedule of the Amortization of Property Losses, Fermi II Account - 407195.

In the event that Amortization of Property Losses also includes amortization not applicable to the Fermi II related debt, then segregate the monthly expense by each applicable amortization of property loss.

The logo for the United States Department of Agriculture (USDA) is displayed in white text on a black rectangular background.

April 17, 1997

United States
Department of
Agriculture

Rural Utilities Service

Washington, DC 20250-1600

Mr. Terry K. Lautner
President
Wolverine Power Supply Cooperative, Inc.
P.O. Box 229
Cadillac, Michigan 49601

Dear Mr. Lautner:

We have received a fax of your and Mr. Richard Walsworth's letter dated April 4, 1997, outlining Wolverine Power Supply Cooperative's (Wolverine) latest debt settlement proposal. At the last meeting between the Government and Wolverine on April 1, 1997, at the offices of the National Rural Utilities Cooperative Finance Corporation (CFC), the Government informed you and other representatives from Wolverine that it had set forth its last and final proposal to Wolverine. We are not, therefore, in a position to entertain a counter proposal from Wolverine. The purpose of this letter is to restate the Government's April 1, 1997, proposal for the settlement of Wolverine's outstanding indebtedness to the Government.

The terms of our final proposal are:

1. Scheduled A Note and B Note payments continue when and as due up to and including the closing date for this transaction. Payments will be applied in the normal fashion.
2. Scheduled payments on the 2 percent debt, 5 percent debt and Federal Financing Bank (FFB) unstructured debt continue when and as due up to and including the closing date for this transaction. Payments will be applied in the normal fashion.
3. At the closing date for this transaction:
 - A. The outstanding principal balance of the A Note with accrued interest will be paid.


Terry K. Lautner

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- B. The requirement for B Note payments, as described in No. 1 above, remains. However, if closing occurs in the interval between B Note payment obligations, a prorated payment obligation will be waived. In any event, at closing any future B Note obligation is extinguished.
- C. The 2 percent and 5 percent debt will be prepaid at a discount under Rural Utilities Service (RUS) regulations.
- D. The FFB unstructured debt will be repaid pursuant to the terms and conditions of the FFB notes.
- E. No RUS lending for 10 years. After a 10 year period, RUS lending will be considered under agency regulations and policies in effect at that time.
- F. The "\$62" loan will be terminated.
- G. No bonuses for employees or directors of Wolverine are to be paid in conjunction with the debt settlement transaction.
- H. RUS will release all claims against Wolverine.
- I. The ability of Wolverine's distribution systems to borrow from RUS will not be changed by this transaction.

We believe this proposal represents significant benefits to Wolverine. Both RUS and CFC, whom we believe has approved financing for this proposal subject to certain conditions outlined to you, consider this proposal to be a viable resolution to Wolverine's situation. If the terms of the Government's proposal are acceptable to Wolverine, we will expeditiously process this settlement for administrative approval.

Sincerely,


WALLY BEYER
Administrator

cc:

Thomas W. Stevenson, Manager
Richard Walsworth, Senior Vice President
National Rural Utilities Cooperative Finance Corporation,
John List
Department of Justice, James G. Bruen
Office of General Counsel- Michael W. Kelly

Wolverine Power Supply Cooperative, Inc.
Financial Forecast
Existing Debt

Interest Rate 0.075

RUS 2% Notes Debt Service	RUS 5% Notes Debt Service	Fixed Obligation Mortgage Note Debt Service	FFB - Notes Debt Service	CFC - Notes Debt Service	Load Growth Note Debt Service	Debt Service Total	Present Value	
1,388,043	2,972,942	8,148,000	1,934,667	506,872	2,601,538	17,552,062	17,552,062	1
1,385,819	2,974,139	8,148,000	1,906,125	496,630	3,019,547	17,930,260	16,679,312	2
1,341,007	2,956,023	8,148,000	1,877,868	484,587	3,375,306	18,182,791	15,734,162	3
1,277,362	2,942,374	8,148,000	1,700,188	476,057	3,654,961	18,198,942	14,649,431	4
670,130	2,926,994	8,148,000	1,971,524	465,695	3,945,185	18,127,528	13,573,903	5
668,344	2,910,968	8,148,000	1,794,261	455,312	4,259,370	18,236,255	12,702,621	6
669,041	2,893,144	8,148,000	1,766,843	443,382	4,585,116	18,505,526	11,990,869	7
579,644	2,879,161	8,148,000	1,739,790	434,439	4,921,928	18,702,962	11,273,302	8
569,489	2,863,534	8,148,000	1,536,273	423,928	5,268,086	18,809,310	10,546,422	9
435,966	2,847,677	8,148,000	1,676,557	413,364	5,623,861	19,145,425	9,985,937	10
292,791	2,830,057	8,148,000	1,850,036	401,530	5,989,527	19,511,941	9,467,075	11
187,562	2,815,741	8,148,000	1,710,918	392,135	6,365,366	19,619,722	8,855,228	12
116,505	2,787,440	8,147,999	1,681,044	378,595	6,751,670	19,863,253	8,339,669	13
0	2,554,320	8,148,000	1,649,227	370,669	7,148,739	19,870,955	7,760,840	14
0	2,288,022	8,148,001	1,381,277	358,904	7,545,611	19,721,815	7,165,201	15
0	1,784,302	8,148,000	1,821,054	349,008	7,941,515	20,043,879	6,774,150	16
0	1,475,856	8,147,999	1,380,179	338,065	8,335,655	19,677,754	6,186,430	17
0	1,464,332	8,148,000	1,348,527	327,071	8,739,348	20,027,278	5,857,038	18
0	1,448,213	8,148,000	932,607	315,353	9,152,826	19,996,999	5,440,170	19
0	1,299,372	8,148,000	342,952	304,901	9,576,325	19,671,550	4,978,262	20
0	748,608	8,147,999	336,772	293,679	10,010,088	19,537,146	4,599,301	21
0	696,237	8,148,000	330,588	282,400	10,454,363	19,911,588	4,360,418	22
0	653,512	8,148,000	324,510	270,684	10,909,405	20,306,111	4,136,572	23
0	500,209	8,148,000	216,273	184,130	11,375,475	20,424,087	3,870,330	24
0	492,601	8,148,001	166,405	174,590	11,852,840	20,834,437	3,672,642	25
0	485,002	8,148,000	160,158	165,063	12,341,773	21,299,996	3,492,753	26
0	477,522	8,148,001	154,013	155,586	12,842,554	21,777,676	3,321,938	27
0	469,925	8,148,000	147,375	146,183	13,355,469	22,266,952	3,159,601	28
0	383,771	5,702,904	0	69,462	13,880,814	20,036,951	2,644,811	29
0	0	0	0	0	0	0		
9,581,703	54,821,998	233,846,904	33,838,011	9,878,274	225,824,261	567,791,151	238,770,448	

WOLVERINE POWER SUPPLY COOPERATIVE, INC.
RESTRUCTURED DEBT

Interest Rate 0.075

Year Ending	Fermi 2 Debt Debt Service	Refinanced Non-Fermi 2 Debt Service	Current CFC - Notes Debt Service	Debt Service Total	Present Value	
1997	- 16,869,300	5,512,000	506,872	22,888,172	22,888,172	1
1998	17,317,750	5,512,000	496,630	23,326,380	21,698,958	2
1999	17,890,700	5,512,000	484,587	23,887,287	20,670,448	3
2000	17,926,600	5,512,000	476,057	23,914,657	19,250,356	4
2001	18,028,300	5,512,000	465,695	24,005,995	17,975,702	5
2002	18,913,250	5,512,000	455,312	24,880,562	17,330,770	6
2003	19,503,000	5,512,000	443,382	25,458,382	16,496,052	7
2004	0	5,512,000	434,439	5,946,439	3,584,245	8
2005	0	5,512,000	423,918	5,935,918	3,328,282	9
2006	0	5,512,000	413,364	5,925,364	3,090,572	10
2007	0	5,512,000	401,530	5,913,530	2,869,209	11
2008	0	5,512,000	392,135	5,904,135	2,664,791	12
2009	0	5,512,000	381,420	5,893,420	2,474,377	13
2010	0	5,512,000	370,669	5,882,669	2,297,547	14
2011	0	5,512,000	358,904	5,870,904	2,132,979	15
2012	0	5,512,000	349,008	5,861,008	1,980,822	16
2013	0	5,512,000	338,065	5,850,065	1,839,184	17
2014	0	5,512,000	327,071	5,839,071	1,707,654	18
2015	0	5,512,000	315,353	5,827,353	1,585,327	19
2016	0	5,533,270	304,901	5,838,171	1,477,461	20
2017	0	0	293,679	293,679	69,136	21
2018	0	0	282,400	282,400	61,842	22
2019	0	0	270,684	270,684	55,141	23
2020	0	0	184,130	184,130	34,892	24
2021	0	0	174,590	174,590	30,776	25
2022	0	0	165,063	165,063	27,067	26
2023	0	0	155,586	155,586	23,733	27
2024	0	0	146,183	146,183	20,743	28
2025	0	0	69,462	69,462	9,169	29
Total	126,448,900	110,261,270	9,881,089	246,591,259	167,675,408	

WOLVERINE POWER SUPPLY COOPERATIVE, INC.

BOARD OF DIRECTORS RESOLUTION

JUNE 12, 1997

WHEREAS, Wolverine Power Supply Cooperative, Inc. ("*Wolverine*") has filed an application before the Michigan Public Service Commission ("*Michigan Commission*") in Case No. U-11335; and

WHEREAS, said application requests authority to implement a 3.76 mills per kWh surcharge for the purpose of accelerating the pay off of Wolverine's Fermi 2 related debt; and

WHEREAS, Wolverine and the other parties to Case No. U-11335, *i.e.*, Attorney General Frank J. Kelley and the Michigan Commission Staff, are in the process of finalizing a settlement agreement in said docket; and

WHEREAS, if the settlement agreement is approved by the Michigan Commission, Wolverine's rates will include 9.76 mills per kWh in its rates for Fermi 2 related debt, *i.e.*, 6.00 mills per kWh approved by the Michigan Commission in its May 26, 1988 order in Case No. U-8994 plus the 3.76 mills per kWh to be authorized in pending Case No. U-11335; and

WHEREAS, it is the intent of Wolverine and its six member systems that the 9.76 mills per kWh referenced in the prior paragraph be discontinued and removed from Wolverine's rates immediately upon the pay off of Wolverine's Fermi 2 related debt; and

WHEREAS, the proposed settlement agreement in Case No. U-11335 includes the following language:

"The Boards of Directors of Wolverine and its member cooperatives have executed resolutions committing Wolverine to elimination of 9.76 mills per kWh from its rate structure when its Fermi 2 related debt is paid off by not later than 2004, which resolutions are attached as Exhibit F, and Wolverine's member-cooperatives shall pass the 9.76 mill reduction through to their customers. All the new loan agreements and notes with CFC shall incorporate language requiring Wolverine to eliminate its 3.76 mills per kWh surcharge and to eliminate the amount of 6.0 mills per kWh from its base rates via a negative surcharge until after its first rate case order following full payment of Wolverine's Fermi 2 related debt. All new loan agreements and any related notes with CFC shall provide that Wolverine will be considered in default if Wolverine fails to eliminate the 9.76 mills per kWh from its rates after 2004." (emphasis added; ¶J of June 11, 1997 draft).

NOW, THEREFORE, BE IT RESOLVED THAT the Wolverine Board of Directors endorses the substance of the above quoted paragraph and adopts said commitment as its own.

Corporate Secretary

Dated: June 12, 1997

Exhibit F, p 1