

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)
ALPENA POWER COMPANY for a power supply)
cost recovery reconciliation proceeding for the) Case No. U-12612-R
12-month period ended December 31, 2001.)
_____)

At the August 20, 2002 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. Laura Chappelle, Chairman
Hon. David A. Svanda, Commissioner
Hon. Robert B. Nelson, Commissioner

OPINION AND ORDER

On March 25, 2002, Alpena Power Company (Alpena) filed an application for a power supply cost recovery (PSCR) reconciliation for the 12-month period ended December 31, 2001.

Pursuant to due notice, a prehearing conference was held on May 7, 2002 before Administrative Law Judge James N. Rigas. Subsequently, the parties resolved all issues and submitted a settlement agreement.

According to the terms of the settlement agreement, attached as Exhibit A, Alpena incurred a total underrecovery, with interest through December 31, 2001, of \$174,397 through operation of its PSCR clause. This amount includes a prior year overrefund, plus interest, of \$3,733. The settlement agreement proposes that the underrecovery be collected from Alpena's non-industrial customers by use of a surcharge based upon projected consumption and that the underrecovery be collected from Alpena's industrial customers by use of a surcharge based upon historical

consumption. The non-industrial surcharge would be made over the three-month billing period of September through November 2002. The industrial surcharge would be made in the September 2002 billing period.

The Commission FINDS that:

- a. Jurisdiction is pursuant to 1909 PA 106, as amended, MCL 460.551 et seq.; 1919 PA 419, as amended, MCL 460.51 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq.; 1982 PA 304, as amended, MCL 460.6h et seq.; 1969 PA 306, as amended, MCL 24.201 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 as Exhibit A, is approved.
- B. Alpena Power Company is authorized to collect from its customers the underrecovery of its power supply costs during 2001, plus interest, by means of a surcharge factor of 0.765 mills per kilowatt-hour for industrial customers based upon historical 2001 usage in the September 2002 billing period and a surcharge factor of 2.67 mills per kilowatt-hour for non-industrial customers based on actual usage over the three-month billing period of September 2002 through November 2002, as set forth in the settlement agreement.
- C. Any balances, consisting of overcollected or undercollected amounts, should be carried forward with interest as an addition or offset to Alpena Power Company's future adjustment requirements in Account 242.
- D. Alpena Power Company shall, within 30 days, file with the Commission revised tariff sheets in conformity with the provisions of the settlement agreement and this order.

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.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ Laura Chappelle

Chairman

(S E A L)

/s/ David A. Svanda

Commissioner

/s/ Robert B. Nelson

Commissioner

By its action of August 20, 2002.

/s/ Dorothy Wideman

Its Executive Secretary

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
ALPENA POWER COMPANY for)
a Power Supply Cost Reconciliation)
proceeding for the 12-month period)
ended December 31, 2001.)
_____)

Case No. U-12612-R
(Power Supply Cost Reconciliation)

SETTLEMENT AGREEMENT

Alpena Power Company ("Alpena") by and through its attorney, James D. Florip, of the Law Firm of Gillard, Bauer, Mazrum, Florip, Smigelski and Gulden and the Michigan Public Service Commission Staff ("Staff") by and through its attorney, Assistant Attorney General Larry G. Watterworth, hereby present this following Settlement Agreement in resolution of the above matter.

1. On or about March 25, 2002, Alpena filed its application for a Power Supply Cost Recovery (PSCR) reconciliation proceeding for the 12-month period ended December 31, 2001, together with its prepared testimony and exhibits of its witnesses in support of the application. On March 27, 2002, the Michigan Public Service Commission ("Commission") issued its Notice of Hearing, setting this matter for a Preferring Conference on May 7, 2002. Pursuant to the Notice of Hearing, Alpena Mailed a copy of the Notice of Hearing to all cities, incorporated villages, townships and counties in its service area, published the substance of the notice in daily newspapers of general circulation within its service area, and mailed a copy to the Intervenor in Case No. U-12612, its 2001 PSCR Plan case. A prehearing conference was

conducted by Administrative Law Judge James N. Rigas. Staff conducted its audit on June 4-6, 2002. Based upon the audit, and discussions of the Staff and Alpena subsequent thereto, the Staff and Alpena enter this Settlement Agreement.

Alpena and Staff agree that Alpena's 2001 Power Supply Cost underrecovery amount of \$128,959 on its Non-Industrial customers (including interest to December 31, 2001 and the 2001 PSCR overrefund and interest thereon) and its underrecovery amount on its Industrial customers of \$45,438 (including interest to December 31, 2001) resulting in a total company underrecovery of \$174,397 including interest to December 31, 2001, and including the 2000 PSCR overrefund (and interest thereon) is reasonable. See Appendices 1, 2, 3, and 4. (Exhibit A-2, Schedules 1, 2, 3 and 4).

2. There are no power supply costs or charges which should be disallowed pursuant to Section j(13) of Act 304.

3.A. Alpena shall charge to its Non-Industrial customers a total underrecovery amount of \$128,959 plus interest to the first day of the month of the surcharge period plus interest on the average surcharge period balance. This charge will be applied over a three month billing period for the period of September, 2002 through November, 2002.

B. The surcharge will be made by applying a surcharge factor of 2.67 mills on a per kWh of usage basis which will be applied during the three month period described in 3.A.

C. Any over or undercollection shall be carried forward, with interest, and recognized in Alpena's future adjustment requirements in Account 242.

4.A. Alpena shall charge its Industrial customers for a total underrecovery of \$45,438 over the September, 2002 billing period plus interest to the first day of the month of the surcharge period plus interest on the average surcharge period balance.

B. The surcharge per kWh shall equal the underrecovery plus interest, divided by the 2001 historical kwh sales.

C. The surcharge will be made by applying a surcharge factor of 0.765 mills per kwh to historical 2001 usage in the September billing period.

5. The expenditures charged by Alpena for power supply costs for 2001 were consistent with the requirements of PA 304 of 1982.

6. This Settlement Agreement is intended for final disposition of this proceedings and the parties hereto join in respectfully requesting the Commission to grant prompt approval of the agreement.

7. This Settlement Agreement will become binding upon the parties only if the Commission accepts and approves the same without modification. If the Commission does not approve this Settlement Agreement without modification, this Agreement shall be withdrawn and shall not constitute any part of the record in the proceeding or be used for any purpose whatsoever.

8. This 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 discussions relating to this Agreement shall be considered privileged under MRE 408. If the Commission approves this Agreement without modification, the parties to this Agreement shall make no reference to or use of this Agreement or the order approving it as a 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 the Agreement and Order.

9. All parties waive Section 81 of the Administrative Procedures Act of 1969, as amended, MCL 24.181.

10. It is the opinion of the parties that this Settlement Agreement will aid the expeditious conclusion of this case, and will minimize the time and expense which would otherwise have to be devoted to this matter by the Staff and Alpena..

Dated:

MICHIGAN PUBLIC SERVICE COMMISSION

By: Larry G. Wattersworth ^{by William Derogostis} (P34245)
Assistant Attorney General

Dated: 7-9-02

ALPENA POWER COMPANY

By: James D. Florip
James D. Florip
Its: Attorney

ALPENA POWER COMPANY
 2001 PSCR Reconciliation
 Total Company

Month	Over/(Under) Recovery	Beginning Monthly Balance	Ending Monthly Balance	Average Monthly Balance	Interest Rate	Monthly Interest
January	(84,291)	0	(84,291)	(42,145)	9.00%	(316.10)
February	(21,810)	(84,291)	(106,101)	(95,196)	8.50%	(674.31)
March	(38,996)	(106,101)	(145,097)	(125,599)	8.33%	(871.86)
April	23,204	(145,097)	(121,893)	(133,495)	7.83%	(871.06)
May	(37,486)	(121,893)	(159,379)	(140,636)	7.25%	(849.68)
June	(3,343)	(159,379)	(162,722)	(161,050)	7.00%	(939.46)
July	(31,576)	(162,722)	(194,298)	(178,510)	6.75%	(1,004.12)
August	65,305	(194,298)	(128,993)	(161,645)	6.67%	(898.48)
September	(6,175)	(128,993)	(135,168)	(132,081)	6.28%	(691.22)
October	5,123	(135,168)	(130,045)	(132,607)	5.53%	(611.09)
November	1,467	(130,045)	(128,578)	(129,311)	5.10%	(549.58)
December	<u>(33,223)</u>	(128,578)	(161,801)	(145,189)	4.84%	<u>(585.60)</u>
Total	(161,801)					(8,863)
Total Over/(Under) Recovery			(161,801)			
Plan Year Total Interest			(8,863)			
Prior Year Balance: Over Refunded			<u>(3,733)</u>			
Total Principal Amount			<u>(174,397)</u>			
INDUSTRIAL						
Interest			(1,529)			
Surcharge - September 2002			<u>46,981</u>			
Remainder for Non Industrial			<u>(128,945)</u>			
NON INDUSTRIAL						
Interest			(4,892)			
Surcharge Sep-Nov 2002			<u>133,789</u>			
Remainder			<u>(48)</u>			

ALPENA POWER COMPANY
 2001 PSCR Reconciliation
 INDUSTRIAL CUSTOMERS
 Interest and Surcharge Calculation

Month	Over/(Under) Recovery	Beginning Monthly Balance	Ending Monthly Balance	Average Monthly Balance	Interest Rate	Monthly Interest
January	(20,385)	0	(20,385)	(10,193)	9.00%	(76.45)
February	(5,125)	(20,385)	(25,511)	(22,948)	8.50%	(162.55)
March	(10,051)	(25,511)	(35,562)	(30,536)	8.33%	(211.97)
April	4,583	(35,562)	(30,978)	(33,270)	7.83%	(217.09)
May	(8,924)	(30,978)	(39,902)	(35,440)	7.25%	(214.12)
June	(804)	(39,902)	(40,705)	(40,304)	7.00%	(235.10)
July	(7,142)	(40,705)	(47,848)	(44,276)	6.75%	(249.06)
August	14,308	(47,848)	(33,540)	(40,694)	6.67%	(226.19)
September	(1,698)	(33,540)	(35,238)	(34,389)	6.28%	(179.97)
October	1,225	(35,238)	(34,013)	(34,625)	5.53%	(159.56)
November	369	(34,013)	(33,643)	(33,828)	5.10%	(143.77)
December	<u>(9,564)</u>	(33,643)	(43,207)	(38,425)	4.84%	<u>(154.98)</u>
Total	(43,207)					(2,231)
Total Over/(Under) Recovery:			(43,207)			
Plan Year Total Interest:			<u>(2,231)</u>			
Total Principal Amount:			(45,438)			
Interest @ 4.75%--8 1/2 Month:			<u>(1,529)</u>			
Total To Be Surcharged			(46,967)			
Surcharge 9/02 @ 0.765 mills			<u>46,981</u>			
Over Surcharge (Transferred to Non-Industrial)			14			
			Sep-02			
Surcharge Factor Calculation:						
Total to be surcharged			(46,967)			
Historical KWH Sales			61,413,650			
Credit/(Surcharge) \$ Per KWH:			(\$0.000765)			

ALPENA POWER COMPANY
 2001 PSCR Reconciliation
 NON-INDUSTRIAL CUSTOMERS
 Interest and Surcharge Calculation

Month	Over/(Under) Recovery	Beginning Monthly Balance	Ending Monthly Balance	Average Monthly Balance	Interest Rate	Monthly Interest
January	(63,905)	0	(63,905)	(31,953)	9.00%	(239.65)
February	(16,685)	(63,905)	(80,590)	(72,248)	8.50%	(511.76)
March	(28,945)	(80,590)	(109,535)	(95,063)	8.33%	(659.89)
April	18,620	(109,535)	(90,915)	(100,225)	7.83%	(653.97)
May	(28,562)	(90,915)	(119,477)	(105,196)	7.25%	(635.56)
June	(2,540)	(119,477)	(122,017)	(120,747)	7.00%	(704.36)
July	(24,434)	(122,017)	(146,450)	(134,233)	6.75%	(755.06)
August	50,997	(146,450)	(95,453)	(120,952)	6.67%	(672.29)
September	(4,477)	(95,453)	(99,931)	(97,692)	6.28%	(511.25)
October	3,898	(99,931)	(96,033)	(97,982)	5.53%	(451.53)
November	1,098	(96,033)	(94,935)	(95,484)	5.10%	(405.81)
December	<u>(23,660)</u>	(94,935)	(118,594)	(106,764)	4.84%	<u>(430.62)</u>

Total (118,594) (6,632)

Total Over/(Under) Recovery: (118,594)
 Plan Year Total Interest: (6,632)
 Prior Year Balance:(Over Refunded) (3,733)

Total Principal Amount: (128,959)

Over Surcharge Transferred from Industrial 14

Total to be Collected (128,945)

Interest thru Aug 02 @ 4.75% (4,083)
 September 01, 2002 Balance (133,028)

Est. Surcharge 9/02 @ 2.67 mills 43,337
 Subtotal after surcharge (89,691)

Interest on avg balance @ 4.75% (441)
 Est. Sept 30, 2002 Balance (90,132)

ALPENA POWER COMPANY
2001 PSCR Reconciliation
NON-INDUSTRIAL CUSTOMERS
Interest and Surcharge Calculation

Balance Brought Forward	(90,132)
Est.Surcharge 10/02 @ 2.67 mills	<u>42,269</u>
Subtotal after surcharge	(47,863)
Interest on avg balance @ 4.75%	<u>(273)</u>
Est. Oct 31, 2002 Balance	(48,136)
Est.Surcharge 11/02 @ 2.67 mills	<u>48,183</u>
Subtotal after surcharge	47
Interest on avg balance @ 4.75%	<u>(95)</u>
Est. Nov 30, 2002 Balance	(48)

ALPENA POWER COMPANY
 2000 PSCR Over Refund
 Interest Calculation
 Non-Industrial Customers

Month	(Over)/Under Refund	Beginning Monthly Balance	Ending Monthly Balance	Average Monthly Balance	Interest Rate	Monthly Interest
September	(3,685)					
October	0	(3,685)	(3,685)	(3,685)	5.53%	(16.98)
November	0	(3,685)	(3,685)	(3,685)	5.10%	(15.66)
December	<u>0</u>	(3,685)	(3,685)	(3,685)	4.84%	<u>(14.86)</u>
Total	(3,685)					(48)
Total (Over)/Under Refunded:			(3,685)			
Plan Year Total Interest:			<u>(48)</u>			
Total Amount:			(3,733)			

ALPENA POWER COMPANY
 2001 PSCR Reconciliation
 Total Company

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December	<u>(23,660)</u>	(94,935)	(118,594)	(106,764)	4.84%	<u>(430.62)</u>
Total	(118,594)					(6,632)
Total Over/(Under) Recovery:			(118,594)			
Plan Year Total Interest:			(6,632)			
Prior Year Balance:(Over Refunded)			<u>(3,733)</u>			
Total Principal Amount:			(128,959)			
Over Surcharge Transferred from Industrial			<u>14</u>			
Total to be Collected			(128,945)			
Interest thru Aug 02 @ 4.75%			<u>(4,083)</u>			
September 01, 2002 Balance			(133,028)			
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Subtotal after surcharge			(89,691)			
Interest on avg balance @ 4.75%			<u>(441)</u>			
Est. Sept 30, 2002 Balance			(90,132)			

ALPENA POWER COMPANY
2001 PSCR Reconciliation
NON-INDUSTRIAL CUSTOMERS
Interest and Surcharge Calculation

Balance Brought Forward	(90,132)
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Est.Surcharge 11/02 @ 2.67 mills	<u>48,183</u>
Subtotal after surcharge	47
Interest on avg balance @ 4.75%	<u>(95)</u>
Est. Nov 30, 2002 Balance	(48)

ALPENA POWER COMPANY
 2000 PSCR Over Refund
 Interest Calculation
 Non-Industrial Customers

Month	(Over)/Under Refund	Beginning Monthly Balance	Ending Monthly Balance	Average Monthly Balance	Interest Rate	Monthly Interest
September	(3,685)					
October	0	(3,685)	(3,685)	(3,685)	5.53%	(16.98)
November	0	(3,685)	(3,685)	(3,685)	5.10%	(15.66)
December	0	(3,685)	(3,685)	(3,685)	4.84%	(14.86)
Total	(3,685)					(48)
Total (Over)/Under Refunded:			(3,685)			
Plan Year Total Interest:			<u>(48)</u>			
Total Amount:			(3,733)			