

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)	
UPPER PENINSULA POWER COMPANY)	Case No. U-13104-R
for authority to reconcile its power supply)	
costs and revenues for the 12-month period)	
ended December 31, 2002.)	

SETTLEMENT AGREEMENT

As provided in Section 78 of the Administrative Procedures Act of 1969 ("APA"), as amended MCL 24.278, and Rule 333 of the Rules of Practice and Procedure Before the Commission, 1992 AACS, R 460.17333, Upper Peninsula Power Company ("UPPCO") and the Michigan Public Service Commission Staff ("Staff") have resolved through settlement discussions the contested issues regarding this proceeding.

1. On March 27, 2003, UPPCO filed with the Michigan Public Service Commission ("Commission") an application, with supporting testimony and exhibits, seeking authority to reconcile its power supply costs with its power supply revenues for the 12-month period ending December 31, 2002.

2. On April 18, 2003, the Commission's Executive Secretary issued the Notice of Hearing. As directed by the Executive Secretary, UPPCO mailed and published the Notice and submitted the requisite proofs at the prehearing conference held on May 13, 2003.

3. Administrative Law Judge ("ALJ") Barbara A. Stump presided over the prehearing conference. UPPCO and the Staff participated in the proceeding. There were no intervenors.

4. Following Staff's audit of UPPCO's books and records, the parties agreed as follows:

a. The power supply costs subject to this proceeding were incurred under reasonable and prudent policies and practices, and were consistent with the 2002 PSCR plan as reviewed by the Commission in U-13104-R.

b. For the Integrated System, during the 12-month period ending December 31, 2002:

1) UPPCO sold 667,969,071 kWh subject to a PSCR billing factor.

2) UPPCO collected \$16,800,329 in PSCR revenues, and had \$16,171,829 of power supply costs.

3) The difference between amounts collected and costs is \$628,500 and represents an overcollection. Interest booked on monthly under and overrecoveries during the 2002 PSCR period and for the months of January through March 2003 totals \$154,369 thereby resulting in a total overcollection of \$782,869. The total 2002 overcollection is netted against net underrecovered balances, inclusive of interest, from the 2000 PSCR reconciliation, MPSC Case No. U-12126-R and the 2001 PSCR reconciliation, MPSC Case No. U-12604-R, totaling \$32,675, thereby resulting in a net overcollection of \$750,194.

4) UPPCO refunded the net overcollection of \$750,194 to its Integrated System customers in the months of February and March 2003 by implementing a credit of \$0.0639 per kWh for all standard tariff meters subject to the power supply cost recovery clause. The

parties agree that the refund made by UPPCO during February and March should be approved.

c. For the Iron River System, during the 12-month period ending December 31, 2002:

- 1) UPPCO sold 46,139,992 kWh subject to a PSCR billing factor.
- 2) UPPCO collected \$1,354,003 in PSCR revenues, and had \$1,524,419 of power supply costs.
- 3) The difference between the amounts collected and the costs is \$170,416 and represents an undercollection. Interest booked on monthly under and overrecoveries during the 2002 PSCR period and for the months of January through August 2003, totals \$3959, thereby resulting in a total undercollection of \$174,375. The total 2002 undercollection is then netted against net overrecovered balances, inclusive of interest, from the 2000 PSCR reconciliation, Case No. U-12126-R and the 2001 PSCR reconciliation, Case No. U-12604-R, totaling \$24,851, thereby resulting in a net undercollection of \$149,524.
- 4) UPPCO should be authorized to collect the net undercollection of \$149,524 from its Iron River System customers in the months of September through December 2003 by implementing a surcharge of \$0.01043 per kWh for all standard tariff meters subject to the power supply cost recovery clause.

d. An overrefunded or underrefunded amount shall be carried forward, with interest, as an addition or offset to UPPCO's future refund requirements. Interest will be calculated in accordance with MCL 460.6j (16).

5. It is the opinion of all signatories that this settlement agreement will result in the expeditious conclusion of this case.

6. This settlement agreement is intended for a final disposition of this proceeding. Each signatory agrees not to appeal, challenge or contest the Commission's order accepting and approving this settlement agreement without modification. If the Commission does not accept the settlement agreement without modification, the agreement shall be withdrawn and shall not constitute any part of the record in this proceeding or be used for any other purpose whatsoever.

7. The settlement agreement and all offers of settlement and discussions are privileged and shall not be used in any manner, nor be admissible, for any other purpose in connection with this proceeding or any other proceeding except so as to prove the contents herein.

8. All signatories agree to waive Section 81 of the APA, as amended MCL 24.281, as it applies to the issues in this proceeding.

UPPER PENINSULA POWER COMPANY

Dated: July 17, 2003

By: Sherril A. Wellman
One of Its Attorneys

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