

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)
WISCONSIN PUBLIC SERVICE CORPORATION)
for deferred accounting approval for costs related to)
the acquisition of the De Pere Energy Center.)
_____)

Case No. U-13621

At the February 20, 2003 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 November 6, 2002, Wisconsin Public Service Corporation (WPS Corp) filed an application requesting authorization to defer, for accounting purposes, the costs related to the acquisition of the De Pere Energy Center (DEC), a 180 megawatt natural gas-fired generating facility located in De Pere, Wisconsin from De Pere Energy, L.L.C. (De Pere), an indirect, wholly-owned subsidiary of Calpine Corporation (Calpine). WPS Corp represents that WPS Corp currently purchases all of the capacity and energy produced by the DEC from De Pere pursuant to a power purchase agreement (PPA), which was executed in 1996.

In support of its request for deferred accounting, WPS Corp states that, pursuant to the terms of the 1996 PPA, De Pere recently began planning a combined cycle conversion of DEC and that this conversion would result in significant cost increases. Thus, WPS Corp determined that it would be more cost effective to purchase the DEC and cancel the conversion. Accordingly, WPS

Corp, Calpine, and De Pere entered into definitive agreements by which WPS Corp will acquire the DEC for \$120.4 million. As part of the planned acquisition of the DEC, WPS Corp has represented that it will (1) cancel the existing PPA with De Pere and (2) enter into an agreement with Calpine that will entitle WPS Corp to approximately 235 MW of capacity for 10 years from a power plant, which will be built in Wisconsin by a Calpine subsidiary. For accounting purposes, the existing PPA has been accounted for as a capital lease.

Therefore, WPS Corp proposes that the DEC purchase price be split between retiring the outstanding capital lease obligation and a regulatory asset. As part of that proposal, the existing property under the capital lease balances recorded as utility plant will be transferred to plant in service. The existing capital lease obligation is approximately \$72 million. The balance, approximately \$48.4 million, would be recorded as a regulatory asset to reflect the cost of canceling or buying out the PPA. In its application, WPS Corp requests authority to defer as a regulatory asset the costs associated with buying out the De Pere PPA until new electric rates become effective following WPS Corp's next Michigan electric rate proceeding. WPS Corp states that the acquisition of the DEC and the cancellation of the De Pere PPA will result in lower costs to WPS Corp's customers over the remaining term of the PPA.

In its application, WPS Corp also represents that it sought and obtained rate treatment from the Public Service Commission of Wisconsin (PSCW) in connection with the acquisition of the DEC and cancellation of the PPA. In its October 31, 2002 Final Decision issued in Docket 6690-DR-I 05, the PSCW found it reasonable and prudent to cancel the existing PPA and authorized WPS Corp to recover the resulting regulatory asset of \$48.4 million over a 20-year amortization period.

WPS Corp further requests that the Commission authorize WPS Corp to defer for accounting purposes to Account 182 or 186 the jurisdictional costs associated with buying out the De Pere PPA until new rates become effective as established in WPS Corp's next Michigan rate proceeding. WPS Corp requests that these deferred expenses be subject to recovery in future rates, following a subsequent rate case or rate surcharge proceeding to be initiated by WPS Corp.

Finally, WPS Corp asserts in its application that because its request for deferred accounting does not increase rates, notice and a hearing are not necessary.

After a review of the application, the Commission finds that ex parte approval is appropriate. The Commission finds that WPS Corp's request for deferred accounting should be adopted.

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.; 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. It is reasonable to allow WPS Corp, for accounting purposes, to defer in Account 186, miscellaneous deferred debits, the jurisdictional costs associated with buying out the De Pere PPA, with recovery of reasonable and prudent costs to be considered in a future general rate proceeding.

c. Ex parte approval is appropriate.

THEREFORE, IT IS ORDERED that for, accounting purposes, Wisconsin Public Service Corporation is authorized to defer the jurisdictional costs from the buy-out of the De Pere Energy Center power purchase agreement in Account 186. This authority is for accounting purposes only. Rate recovery will be considered in a future general rate proceeding.

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 February 20, 2003.

/s/ Dorothy Wideman
Its Executive Secretary

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MICHIGAN PUBLIC SERVICE COMMISSION

Chairman

Commissioner

Commissioner

By its action of February 20, 2003.

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Suggested Minute:

“Adopt and issue order dated February 20, 2003 approving the proposal of Wisconsin Public Service Corporation with respect to deferred accounting for costs related to the acquisition of the De Pere Energy Center, as set forth in the order.”