

**STATE OF MICHIGAN**

**BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION**

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In the matter of the application of )  
**UPPER PENINSULA POWER COMPANY** )  
for authority to increase retail electric rates. )  
\_\_\_\_\_ )

Case No. U-16417

**APPLICATION**

UPPER PENINSULA POWER COMPANY (“UPPCO”) requests authority from the Michigan Public Service Commission (“Commission”) to increase its rates for retail electric service, and in support thereof respectfully represents as follows:

**INTRODUCTION**

1. UPPCO is a public utility engaged in the generation, purchase, distribution and sale of electric energy to approximately 53,000 retail customers in 118 communities in the Upper Peninsula of Michigan. UPPCO serves certain cities, villages and townships located in the counties of Alger, Baraga, Delta, Houghton, Iron, Keweenaw, Marquette, Menominee, Ontonagon and Schoolcraft. UPPCO’s primary service area is known as its “Integrated System” serving, directly or indirectly, various communities and localities in each of the above-named counties except Iron County. In Iron County, UPPCO serves in and about the City of Iron River, such service area being known as its “Iron River System.”

2. UPPCO is a corporation organized under the laws of the state of Michigan, with its principal office located at 500 N. Washington Street, Ishpeming, Michigan 49849, and is authorized to transact business in the state of Michigan. UPPCO is a subsidiary of Integrys Energy Group, Inc. (“Integrys”), which prior to February 21, 2007, was known as WPS Resources Corporation (“WPSR”). UPPCO is a sister utility company to Michigan Gas Utilities Corporation and Wisconsin Public Service Corporation, both of which are also regulated by this Commission. UPPCO is also a sister utility company to, among others,

Minnesota Energy Resources Corporation, The Peoples Gas Light and Coke Company, and North Shore Gas Company, none of which are regulated by this Commission.

3. UPPCO's retail electric service business is subject to the jurisdiction of the Commission 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, 1999 AC, R 460.17101 et seq.

4. In its last general rate case for retail electric service, Case No. U-16166, UPPCO used a 2011 test year. A settlement was reached and approved by the Commission in its Order Approving Settlement Agreement dated December 21, 2010. This Order granted rate relief of \$8.9 million annually, based on a 10.30% return on common equity, effective January 1, 2011.

5. UPPCO's rates for retail electric service established in Case No. U-16166 do not reflect the current costs of providing retail electric service, and UPPCO requires further rate relief.

### **REQUESTED RELIEF**

6. For purposes of this case, UPPCO has undertaken a complete examination of its investments, expenses and revenues based on a 2012 test year. Using a 2012 test year, and a return on common equity of 10.75%, UPPCO calculates a jurisdictional base rate revenue deficiency of \$7,701,288 annually, or 7.65%. The key factors contributing to the revenue deficiency include:

- a. The capital investments associated with Federal Energy Regulatory Commission required replacements and upgrades of hydroelectric facilities,
- b. Reduced wholesale sales,
- c. The cost of employee benefits, and
- d. General inflation.

7. UPPCO represents that in order to establish rates for retail electric service which are just and reasonable, it is essential that the Commission order an increase in retail electric base rates that will produce additional revenues on an annual basis of approximately \$7,701,288 annually, or 7.65%.

8. UPPCO represents that its present return on investment is and will be below that required by sound regulation; that UPPCO's present retail electric rates and charges, if not increased, will produce increasingly inadequate retail electric service revenues to UPPCO and, thus, are unjust and unreasonable; that rate relief is required to permit UPPCO to continue to achieve its goal of rendering adequate retail electric service to the public; and that rate relief, effective in the near future, is necessary to protect the rights of UPPCO and to prevent it from being deprived of its property contrary to the Fourteenth Amendment of the Constitution of the United States of America and contrary to the provisions of the Constitution of 1963 of the State of Michigan.

### **RATE DESIGN, TARIFF AND OTHER PROPOSALS**

9. UPPCO's proposed rate increases by rate schedule are shown on Exhibit A-6 (JMB-1), Schedules F2 and F3. These rates are designed to recover the revenue deficiency, and result in the rate unification of the Integrated System and the Iron River System. Furthermore, in accordance with MCL 460.11(6), UPPCO has proposed a "rate realignment" plan. The proposed rate realignment plan will annually adjust UPPCO's rates for each rate schedule to equal the cost of providing service to that rate schedule by 2023, and replaces the rate realignment plan authorized by the Commission in Case No. U-16166. UPPCO requests Commission approval of the proposed rate realignment plan.

10. UPPCO also requests the authority from the Commission to update the parameters used in UPPCO's revenue decoupling mechanism ("RDM"), which was authorized by the Commission in Case No. U-15988, to be consistent with the instant

general rate case proceeding. The proposed updated parameters are found in the pre-filed direct testimony Mr. James M. Beyer, Exhibit A-6 (JMB-1), Schedule F3.

11. In addition, UPPCO proposes various revisions to its electric service rules, extension rules, regulations and tariffs, including changes to customer extension allowances.

### **IMPLEMENTATION OF RATES**

12. In accordance with MCL 460.6a(1), if the Commission has not acted on UPPCO's application within 180 days of the filing, UPPCO intends to self-implement rates for service rendered on and after January 1, 2012, up to the amount of the proposed annual rate request through equal percentage increases applied to all rates.

### **TESTIMONY AND EXHIBITS**

13. UPPCO is filing herewith written testimonies, exhibits and work papers in support of the requested rate increase and related approvals requested herein. UPPCO is also filing a Motion seeking a Protective Order to govern the release, use, and disclosure of certain testimony and exhibits relating to confidential and Critical Energy Infrastructure Information. Protective treatment of these materials has been granted in past rate proceedings.

14. The direct testimony of Joylyn C. Hoffman Malueg addresses costs of service issues as required by Order Point "K" of the Commission's December 21, 2010 Order Approving Settlement Agreement in Case No. U-16166.

15. The direct testimony of James M. Beyer addresses rate consolidation issues as required by Order Point "N" of the Commission's December 21, 2010 Order Approving Settlement Agreement in Case No. U-16166.

16. The direct testimony of Seth S. DeMerritt addresses employee compensation issues as required by Order Point "O" of the Commission's December 21, 2010 Order Approving Settlement Agreement in Case No. U-16166.

17. UPPCO represents that the proposals contained in this Application, testimonies, exhibits and work papers are just, reasonable and in the public interest.

WHEREFORE, UPPER PENINSULA POWER COMPANY requests that this Commission:

- A. Set an early hearing date on this Application for rate relief;
- B. Find and determine that UPPCO's existing rates and charges for retail electric service are unreasonably low, inadequate, and should be increased;
- C. Authorize UPPCO to file and make effective, at the earliest possible date, its proposed final rates and charges for retail electric service, resulting in the rate unification of the Integrated System and the Iron River System;
- D. Authorize UPPCO to adjust its existing retail electric service rates so as to produce a return on common equity of not less than 10.75%;
- E. Authorize UPPCO to file and make effective, at the earliest possible date, its proposed rate realignment plan;
- F. Authorize UPPCO to file and make effective, at the earliest possible date, its proposed increases to charges for miscellaneous services associated with retail electric service, including customer extension allowances, and approve other modifications to the rates, rules, and regulations as are described in the testimony and exhibits that accompany this Application;
- G. Authorize UPPCO to update the parameters used in its existing approved revenue decoupling mechanism to be consistent with the instant general rate case filing;
- H. Grant UPPCO such other and further relief and authorizations as may be lawful and proper.

Respectfully submitted,

UPPER PENINSULA POWER COMPANY

Dated: June 30, 2011

By: \_\_\_\_\_

One of Its Attorneys  
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Attorneys for  
Upper Peninsula Power Company

MICHIGAN PUBLIC SERVICE COMMISSION

CASE NO. U-16417  
Date: June 30, 2011

GENERAL APPLICATION FOR  
CHANGE IN ELECTRIC UTILITY RATES  
BEFORE MICHIGAN PUBLIC SERVICE COMMISSION  
CLASS A & B UTILITIES

COMPANY NAME: Upper Peninsula Power Company

ADDRESS: 500 N. Washington Street, Ishpeming, Michigan 49849

TELEPHONE: AREA CODE (920) NUMBER 433-2926

COMPANY OFFICIAL TO BE CONTACTED  
PERTAINING TO RATE CASE MATTERS: Seth S. DeMerritt

FILING DATE: June 30, 2011

TITLE OF AUTHORIZED OFFICER: Rate Case Consultant

\*\*\* COMMISSION ONLY \*\*\*

DATE RECEIVED BY COMMISSION: \_\_\_\_\_

DOCKET NUMBER ASSIGNED: \_\_\_\_\_

RECEIVED BY: \_\_\_\_\_

DATE ACCEPTED: \_\_\_\_\_

ACCEPTED BY: \_\_\_\_\_

NOTIFICATION DATE(S): \_\_\_\_\_

SCHEDULED PRE-HEARING DATE: \_\_\_\_\_

**STATE OF MICHIGAN**

**BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION**

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**CERTIFICATION OF SETH S. DEMERRITT**

Seth S. DeMerritt, Rate Case Consultant for Integrys Business Support, LLC, states that he has provided the data required pursuant to Rate Case Filing Requirements established by the Commission's Orders dated December 23, 2008 and February 20, 2009 issued in Case No. U-15895, and pursuant to these requirements, certifies the data so provided.



Dated: June 30, 2011

Seth S. DeMerritt