

**STATE OF MICHIGAN**

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

\* \* \* \* \*

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

Case No. U-16166

DIRECT TESTIMONY AND EXHIBITS OF

LISA J. GAST, CPA

FOR

UPPER PENINSULA POWER COMPANY

June 30, 2010

**STATE OF MICHIGAN**

**BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION**

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**UPPER PENINSULA POWER COMPANY** )  
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Case No. U-16166

**QUALIFICATIONS  
OF  
LISA J. GAST, CPA  
PART I**

1 **Q. Please state your name, business address and position.**

2 A. My name is Lisa J. Gast. My business address is Integrys Business Support, LLC  
3 (“IBS”), 700 North Adams Street, P.O. Box 19001, Green Bay, WI 54307-9001. I am  
4 Manager, Financial Planning and Analysis in the Treasury Department of Integrys  
5 Energy Group, Inc (“Integrys”). Both IBS and Upper Peninsula Power Company  
6 (“UPPCO”) are wholly-owned subsidiaries of Integrys.

7

8 **Q. For whom are you providing testimony?**

9 A. I am providing testimony on behalf of UPPCO.

10

11 **Q. Please describe briefly your educational, professional, and utility background.**

12 A. I graduated from the University of Wisconsin – Green Bay in 1984 with a Bachelor’s  
13 Degree in Accounting. I received a Masters Degree in Business Administration  
14 (“MBA”) from the University of Wisconsin - Oshkosh in 1995. My professional  
15 designations are Certified Public Accountant (“CPA”) and Certified Treasury  
16 Professional (“CTP”). I joined the Treasury Department at Wisconsin Public Service  
17 Corporation (“WPS Corp”) in April of 2001. In my current position, I am responsible  
18 for the capital structure forecasts for each of Integrys’ regulated utilities.

1

2 **Q. Have you previously testified before any regulatory agency?**

3 A. Yes. I have filed testimony before the Michigan Public Service Commission  
4 (“MPSC”) on behalf of UPPCO in Case U-15988 and also on behalf of Michigan Gas  
5 Utilities Corporation (“MGUC”) in Case Nos. U-15549 and U-15990. I have also filed  
6 testimony before the Minnesota Public Utilities Commission on behalf of Minnesota  
7 Energy Resources Corporation (“MERC”) in Docket No. G007,011/GR-08-835. Both  
8 MGUC and MERC are sister companies to UPPCO.

**LISA J. GAST, CPA  
DIRECT TESTIMONY  
PART II**

1 **Q. What is the purpose of your pre-filed direct testimony?**

2 A. The purpose of my pre-filed direct testimony is to:

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1. Present UPPCO's capital structure and cost of capital for the 2009 historic test year,

2. Present UPPCO's capital structure and cost of capital for the 2011 projected test year,

3. Explain the differences in adjusted common equity between the 2009 historic test year and the 2011 projected test year,

4. Describe the required Common Equity Ratio for the 2011 projected test year, and

5. Describe the required Return on Common Equity ("ROE") for the 2011 projected test year.

19 **Q. Are you sponsoring any exhibits in this proceeding?**

20 A. Yes. I am sponsoring Schedules D1 through D5 of Exhibit A-4 (LJG-1) for the 2011  
21 projected test year, and Schedules D1 through D8 of Exhibit A-14 (LJG-2) for the  
22 2009 historic test year.

23

24 **Q. Were these exhibits prepared by you or under your direction and supervision?**

25 A. Yes, they were.

26

27 **Q. Please explain Schedules D1 through D5 of Exhibit A-4 (LJG-1).**

28 A. In general, Schedules D1 through D5 of Exhibit A-4 (LJG-1) support and calculate  
29 UPPCO's capital structure, cost of capital, and required rate of return for the 2011  
30 projected test year.

31

1 Schedule D1 develops UPPCO's 2011 projected test year overall rate of return of  
2 7.9346% based on UPPCO's 13-month average capital structure, and an 11.25%  
3 ROE, as shown on Line 22.

4  
5 Schedule D2 develops UPPCO's 2011 projected test year embedded cost of long  
6 term debt of 6.4393%, based on a 13-month average, as shown on Line 25. This  
7 cost includes a forecasted new debt issuance of \$15 million at 6.20% in December of  
8 2010. Integrys will likely be the lender.

9  
10 Schedule D3 develops UPPCO's 2011 projected test year cost of short-term debt of  
11 5.6184%, based on a 13-month average, as shown on Line 12.

12  
13 Schedule D4 indicates that UPPCO has no preferred equity outstanding, as shown  
14 on Line 2.

15  
16 Schedule D5 develops UPPCO's 13-month average balance of Adjusted Common  
17 Equity of \$88,680,305 for the 2011 projected test year, as shown on Line 16.

18 UPPCO requests an 11.25% ROE for the 2011 projected test year in this general  
19 rate case proceeding, as supported by Mr. Paul R. Moul's pre-filed direct testimony  
20 and exhibits.

21

22 **Q. Please explain Schedules D1 through D8 of Exhibit A-14 (LJG-2).**

23 A. In general, Schedules D1 through D8 of Exhibit A-14 (LJG-2) support and calculate  
24 UPPCO's capital structure, cost of capital, and required rate of return for the 2009  
25 historic test year.

26

1 Schedule D1 develops UPPCO's 2009 historic test year overall rate of return of  
2 7.5448% based on UPPCO's 13-month average capital structure, and a 10.75%  
3 ROE, as shown on Line 22.

4  
5 Schedule D2 develops UPPCO's 2009 historic test year embedded cost of long term  
6 debt of 6.7571%, based on a 13-month average, as shown on Line 25.

7  
8 Schedule D3 develops UPPCO's 2009 historic test year cost of short-term debt of  
9 1.8406%, based on a 13-month average, as shown on Line 12.

10  
11 Schedule D4 indicates that UPPCO has no preferred equity outstanding, as shown  
12 on Line 2.

13  
14 Schedule D5 develops UPPCO's 13-month average balance of Adjusted Common  
15 Equity of \$59,965,744 for the 2009 historic test year, as shown on Line 16.

16  
17 Schedule D6 provides the current and historic credit ratings along with the  
18 associated outlooks for senior unsecured debt, junior subordinated debt, and  
19 commercial paper for UPPCO's parent, Integrys, as published by Standard and  
20 Poor's ("S&P"), and Moody's Investors Service ("Moody's"). Integrys is not rated by  
21 Fitch Ratings, and has no senior secured debt. UPPCO is not rated by any service.

22  
23 Schedule D7 provides information for utility corporate bond issuances for the  
24 February – June 2010 timeframe. UPPCO's most recent long term debt issuance  
25 was completed April 30, 2010 at a rate of 5.041%, and a term of 10 years. This debt  
26 issuance was authorized by the Federal Energy Regulatory Commission ("FERC") in  
27 Docket No. ES09-40-000. Integrys was the lender. Another \$15 million issuance is

1 forecasted for December 2010 at a rate of 6.20% for a term of 10 years. UPPCO will  
2 be requesting FERC approval for this issuance.

3

4 Schedule D8 calculates financial metrics on both a financial and ratemaking basis for  
5 historic years 2005 – 2009, and the 2011 projected test year, with and without rate  
6 relief.

7

8 **Q. Does UPPCO present any other evidence on cost of capital?**

9 A. Yes, it does. Mr. Paul R. Moul of P. Moul & Associates provides evidence on  
10 UPPCO's cost of equity. He presents analytical studies employing various industry  
11 models.

12

13 **Q. Is UPPCO stock publicly traded?**

14 A. No, it is not. Integrys holds 100% of the common stock of UPPCO. Integrys is  
15 traded on the New York Stock Exchange under the symbol "TEG".

16

17 **Q. Please explain why UPPCO's average long term debt increased from**  
18 **\$41,587,500 for the 2009 historic test year to \$69,287,500 for the 2011 projected**  
19 **test year.**

20 A. The net increase in long term debt of \$27,700,000 is primarily due to UPPCO's  
21 forecasted construction expenditures, as further described in the pre-filed direct  
22 testimony of Mr. Seth S. DeMerritt.

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24 Details of the actual and forecasted debt activity are as follows:

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**Actual and forecasted payments on the outstanding 9.32% mortgage bond issuances**

A \$900,000 payment is made annually in November on the 9.32% bonds, resulting in a 13-month average reduction from 2009 to 2011 of \$1,800,000. Also, on May 3, 2010, UPPCO paid-off \$500,000 of its outstanding 9.32% bonds with the proceeds from the sale of one of its assets.

**Actual and forecasted new intercompany long-term debt issuances**

On April 30, 2010, UPPCO issued \$15,000,000 of long term debt at 5.041%. The forecast for the 2011 projected test year also reflects a new long term debt issuance of \$15,000,000 at 6.20% in December 2010.

	<b>13-month Average Amount Outstanding</b>		
	<b><u>2011</u></b>	<b><u>2009</u></b>	<b><u>Change</u></b>
<b><u>1st Mortgage Bonds</u></b>			
9.32% Series	9,287,500	11,587,500	(2,300,000)
<b>Subtotal</b>	<b>9,287,500</b>	<b>11,587,500</b>	<b>(2,300,000)</b>
<b><u>Intercompany LT Debt</u></b>			
5.25% LT Note	15,000,000	15,000,000	0
6.059% LT Note	15,000,000	15,000,000	0
5.041% LT Note	15,000,000	0	15,000,000
6.20% LT Note	15,000,000	0	15,000,000
<b>Subtotal</b>	<b>60,000,000</b>	<b>30,000,000</b>	<b>30,000,000</b>
<b>Total</b>	<b>\$69,287,500</b>	<b>\$41,587,500</b>	<b>\$27,700,000</b>

The weighted average cost of long term debt is forecasted to decrease from 6.7571% per annum to 6.4393% per annum.

1 **Q. Does UPPCO issue external long-term debt?**

2 A. No. UPPCO borrows its long-term debt from Integrys. Financing via Integrys allows  
3 UPPCO to recognize the benefit of Integrys' size, investment grade credit rating, and  
4 more frequent debt issuances.

5

6 **Q. Is the 6.20% rate for UPPCO's proposed long-term debt issuance in December**  
7 **2010 reasonable?**

8 A. Yes, it is. The long-term debt rate is based on United States Treasury rates, plus a  
9 risk premium. UPPCO uses a forecast of Treasury rates from Economy.com and  
10 applies a risk premium based on similar issuances at the time of the forecast.  
11 Economy.com forecasts rates on 10 year Treasury securities to be 4.60% for  
12 issuances during the fourth quarter of 2010. Based on estimates of spreads for a  
13 hypothetical Integrys long-term debt issue received from banks prior to the forecast,  
14 a spread of 160 basis points was added to the forecasted Treasury rates. In  
15 addition, electric utility debt issuances from February 2010 to June 2010 are  
16 provided in Schedule D7 of Exhibit A-14 (LJG-2).

17

18 Prior to actually issuing long-term debt at UPPCO, estimates of spreads on a  
19 hypothetical Integrys long-term debt issue with similar terms are solicited from three  
20 investment banks. The average of the spreads is added to the applicable Treasury  
21 rate (i.e. 5 year, 10 year, etc.) on the date of issuance to arrive at the interest rate for  
22 the new debt.

23

24 **Q. How were interest rates on short-term debt forecasted?**

25 A. The monthly short-term interest rates are based on forecasted 1-month commercial  
26 paper rates from Economy.com as of February 11, 2010. These forecasted rates  
27 averaged 2.75% for the 2011 test year. The short-term interest rates also reflect

1 \$105,613 for UPPCO's allocation of the amortization of up-front costs of credit  
2 facilities held by Integrys. These costs equate to an interest rate of 2.87%, for a total  
3 forecasted short-term debt rate of 5.62%.

4  
5 **Q. How were the costs of Integrys' credit facilities allocated to UPPCO?**

6 A. Integrys' amortization of up-front costs for its credit facilities was initially forecasted  
7 to be allocated to its primary subsidiaries based on their proportion of total potential  
8 support from Integrys. Total potential support is defined as prior year ending  
9 adjusted equity balance (equity less goodwill), plus prior year ending intercompany  
10 long-term debt, plus intercompany short-term debt authorized. This methodology  
11 resulted in an allocation rate of 3.2% for UPPCO. The allocation rate was then  
12 applied to the estimated amortization of up-front costs for Integrys' credit facilities.

13  
14 **Q. Have you revised this allocation methodology since the forecast was**  
15 **completed?**

16 A. Yes. Beginning in 2011 Integrys' amortization of up-front costs for its credit facilities  
17 will be allocated to its primary subsidiaries based on their proportion of total short-  
18 term support from Integrys. Total short-term support is defined as intercompany  
19 short-term debt authorized plus average outstanding guarantees utilized. This  
20 methodology results in an allocation rate of 1.53% for UPPCO. This allocation rate  
21 results in an estimated allocation to UPPCO of \$54,978 and equates to an interest  
22 rate of 1.49%, for a total short-term debt rate of 4.24%.

23  
24 **Changes to UPPCO's Adjusted Common Equity from 2009 to 2011**  
25 **Q. Please explain why UPPCO's year end adjusted common equity increased**  
26 **from \$63,720,251 at December 31, 2009, to \$93,013,299 at December 31, 2011**  
27 **without rate relief, and to \$92,923,221 at December 31, 2011 with rate relief.**

1 A. Like long-term debt, the change in UPPCO's year end adjusted common equity is  
 2 primarily driven by UPPCO's forecasted construction expenditures. The increase in  
 3 equity is realized via equity infusions from Integrys and retained earnings. These  
 4 increases in equity are slightly offset by an increase in utility equity adjustments. A  
 5 summary of these changes with and without rate relief is included in the following  
 6 table.

<u>Common Equity</u>	<u>Without Rate Relief</u>	<u>With Rate Relief</u>
Actual 12/31/09	\$63,720,251	\$63,720,251
Equity Infusions	29,000,000	19,500,000
Retained Earnings	1,278,228	10,688,150
Utility Equity Adjustments	(985,180)	(985,180)
<b>Projected TY 12/31/11</b>	<b>\$93,013,299</b>	<b>\$92,923,221</b>

7 **Q. What is the reason for the equity infusions in the table above?**

8 A. Equity infusions are required to finance UPPCO's significant construction  
 9 expenditures in 2010 and 2011. While debt will be issued to cover a portion of the  
 10 cost of these expenditures, additional investments of equity capital are also needed  
 11 to maintain the targeted common equity ratio of 54.86%.

12  
 13 **Q. What is the basis for the Adjusted Common Equity reflected on Schedules D1  
 14 of Exhibit A-14 (LJG-2) and Exhibit A-4 (LJG-1)?**

15 A. These amounts reflect the average balances in common equity after adjustments for  
 16 non-utility investments net of their related deferred income taxes. These  
 17 investments are primarily UPPCO's investment in the American Transmission  
 18 Company ("ATCLLC"), and its investment in the Escanaba River hydroelectric  
 19 facilities held by UPPCO. These amounts are being excluded from the Common  
 20 Equity balances because these investments are assumed to be funded solely with  
 21 Common Equity capital. All UPPCO debt is assumed to support utility operations.

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**Q. What amount of equity in the capital structure do you feel is appropriate for UPPCO?**

A. A common equity ratio of 52% to 58% (after considering adjustments related to non-utility investments) is required to provide UPPCO the financial health and flexibility it requires to respond to the changes and challenges of the utility industry.

UPPCO is currently targeting a common equity ratio of 54.86% for the 2011 projected test year. During the 2009 historic test year, UPPCO maintained an average 55.26% common equity ratio.

Business risk is greater today than in earlier decades and this increased business risk is reflected in the more stringent benchmarks now being used by the various credit rating agencies. Business risk can be offset somewhat with decreased financial risk by maintaining a lower debt ratio which in turn increases interest coverage.

**Q. What benefits does a capital structure with a higher equity ratio provide?**

A. An adequate equity ratio provides the ability to resist negative financial pressures and creates a buffer to protect against unexpected adverse developments so that distortions can be quickly remedied without impairing either the orderly conduct of the business, or the credit quality of present or future securities issues. This will help ensure that UPPCO has access to capital at reasonable rates when UPPCO needs it, thereby benefiting its customers.

1           **The Required ROE**

2           **Q.    What is UPPCO's recommendation for the cost of equity capital for UPPCO?**

3           A.    UPPCO is requesting an 11.25% ROE for the 2011 projected test year as described  
4           in the pre-filed direct testimony of Mr. Paul R. Moul.

5

6           **Q.    Is the market responsive to alternative investment opportunities?**

7           A.    Yes, it is. Investors have a vast array of investment choices. Investors can choose  
8           the stock market or other markets such as bonds, treasury securities, money funds,  
9           real estate, etc. If investors choose the stock market, they may elect a utility stock or  
10          a stock from one of the many other industries available. If investors prefer utilities,  
11          they have many to select from within the utility industry. Therefore, it is imperative to  
12          provide a competitive return to the shareholder. The return on a utility's stock must  
13          be competitive given its risk profile as compared to other investment alternatives.

14

15          An adequate ROE is of major importance and benefit to customers. Adequate  
16          returns on UPPCO's common equity would help to ensure continued reliable utility  
17          services, and would assure these services are provided at the lowest overall rates  
18          through the lowest overall cost of capital. This can only be maintained with an  
19          adequate ROE.

20

21          **Q.    What effect would a fair return on common equity have on the other future  
22          securities of UPPCO?**

23          A.    An adequate ROE would permit UPPCO to raise capital when needed, at reasonable  
24          rates, especially during periods of "tight" credit markets. An adequate ROE is a  
25          positive way of ensuring UPPCO's ability to continue to provide safe, reliable and  
26          cost effective energy services to its customers.

27

1 **Q. In summary, what is your recommendation regarding the required common**  
2 **equity ratio and the required ROE for the 2011 projected test year?**

3 A. UPPCO recommends that the average common equity ratio be set at 54.86% with an  
4 ROE of 11.25%. These values are recommended because:

- 5 1. They are necessary to provide a fair return to investors commensurate  
6 with competitive investment vehicles available,  
7  
8 2. There is a notable increase in business risk associated with the increased  
9 uncertainty in the utility industry, and  
10  
11 3. They recognize that UPPCO has delivered, and will continue to deliver,  
12 reliable service at a reasonable cost to its customers. Therefore, the  
13 shareholder should be properly compensated for delivering on its  
14 commitment to those customers.  
15

16 **Q. Does this complete your pre-filed direct testimony?**

17 A. Yes, it does.

**Schedule D1**

Michigan Public Service Commission  
 Upper Peninsula Power Company  
 Actual Rate of Return Summary  
 Actual 12 Month Period Ending, December 31, 2011

Case No.: U-16166  
 Exhibit No.: A-4 (LJG-1)  
 Schedule: D1  
 Page: 1 of 1  
 Witness: Lisa J. Gast

Line No.	(a) Description	(b) Capital Structure			(e) Cost Rate %	(g) Weighted Cost			(i) Pre-Tax Return	(j) Percent Capital Incl ST	(k) Weighted Cost Incl ST
		(b) Amount (1)	(c) Percent Capital	(d) Percent of Total Capital		(f) Capital	(g) Total Cost %	(h) Conversion Factor			
1											
2	Long-Term Debt	\$ 69,287,500	43.86%	39.39%	6.4393% (2)	2.82%	2.5366%		2.5366%	42.86%	2.7601%
3											
4	Preferred Stock	\$ -	0.00%	0.00%	0.0000% (4)	0.00%	0.0000%		0.0000%	0.00%	0.0000%
5											
6	Adjusted Common Equity	\$ 88,680,305	56.14%	50.42%	11.2500% (5)	6.32%	5.6720%	1.637	9.2851%	54.86%	6.1717%
7											
8	Total Capital	<u>\$ 157,967,805</u>	<u>100.00%</u>			<u>9.14%</u>					
9											
10	Short-Term Debt	\$ 3,680,682		2.09%	5.6184% (3)		0.1176%		0.1176%	2.28%	0.1279%
11											
12	Job Development - ITC - Debt										
13	Job Development - ITC Equity										
14	Total Job Development - ITC	\$ -		0.00%							
15											
16	Deferred Investment Tax Credit	\$ 2,062,468		1.17%		9.06%	0.1062%		0.1062%		
17											
18	Deferred Income Taxes (Net) - Federal	\$ 21,844,431		12.42%		0.00%	0.0000%		0.0000%		
19											
20	Capital Structure Adj	\$ (9,665,231)		-5.50%		9.06%	-0.4978%		-0.4978%		
21											
22	Total	<u>\$ 175,890,155</u>		<u>100.00%</u>			<u>7.9346%</u>		<u>11.5477%</u>	<u>100.00%</u>	<u>9.0597%</u>

- (1) See Exh. A-2, Sch. B1
- (2) See Exh. A-4, Sch. D2
- (3) See Exh. A-4, Sch. D3
- (4) See Exh. A-4, Sch. D4
- (5) See Exh. A-4, Sch. D5



**Schedule D2**

Michigan Public Service Commission  
 Upper Peninsula Power Company  
 Cost of Long-Term Debt  
 Actual 12 Month Period Ending, December 31, 2011

Case No.: U-16166  
 Exhibit No.: A-4 (LJG-1)  
 Schedule: D2  
 Page: 1 of 1  
 Witness: Lisa J. Gast

Line No.	(a) Description	(b) Original Issue Date	(c) Stated Maturity Date	(d) Interest Rate (%)	(e) Amount of Offering	(f) Price to Public	(g) Underwriting & Financing Expenses (%)	(h) Net Proceeds to the Company (%)	(i) Cost Based on Net Proceeds (%)	(j) Amount Outstanding	(k) Annual Cost
1											
2	<b>Mortgage Bonds</b>										
3		11/21/1991	11/1/2021	9.32%	3,000,000	3,000,000	37,500	2,962,500	9.44%	900,000	84,942
4		11/21/1991	11/1/2021	9.32%	15,000,000	15,000,000	187,500	14,812,500	9.44%	8,387,500	791,610
5										-	
6										-	
7										-	
8	Total Mortgage Bonds									\$ 9,287,500	\$ 876,551
9											
10	<b>Other Long-Term Debt</b>										
11		8/1/2003	7/1/2013	5.25%	15,000,000	15,000,000	-	15,000,000	5.32%	15,000,000	798,438
12		10/1/2007	10/1/2017	6.06%	15,000,000	15,000,000	-	15,000,000	6.14%	15,000,000	921,473
13		4/30/2010	4/30/2020	5.04%	15,000,000	15,000,000	-	15,000,000	5.04%	15,000,000	756,150
14		12/1/2010	12/1/2020	6.20%	15,000,000	15,000,000	-	15,000,000	6.20%	15,000,000	930,000
15											
16	Total Other Long-Term Debt									\$ 60,000,000	\$ 3,406,061
17											
18	Reconcile Bond Interest										\$ 179,004
19	Total Interest										4,461,616
20	Total Long-Term Debt									\$ 69,287,500	
21											
22	Unamortized Debt Discount,										
23	Premium and Expense									-	
24											
25	Total Long-Term Debt Balance									\$ 69,287,500	6.4393%



**Schedule D3**

Michigan Public Service Commission  
Upper Peninsula Power Company  
Cost of Short-Term Debt  
Actual 12 Month Period Ending, December 31, 2011

Case No.: U-16166  
Exhibit No.: A-4 (LJG-1)  
Schedule: D3  
Page: 1 of 1  
Witness: Lisa J. Gast

	(a)	(b)	(c)
Line No.	Month	Balance Outstanding	Total Cost
1			
2	Commercial Paper	\$ -	\$ -
3			
4	Inter-Company Loans	\$ 3,680,682	\$ 206,794
5			
6	Letter of Credit	\$ -	\$ -
7			
8	Other	\$ -	\$ -
9			
10	Total	<u>\$ 3,680,682</u>	<u>\$ 206,794</u>
11			
12	Average Cost of Short-Term Debt		<u>5.6184%</u>







**Schedule D5**

Michigan Public Service Commission  
Upper Peninsula Power Company  
Cost of Common Shareholders' Equity  
Actual 12 Month Period Ending, December 31, 2011

Case No.: U-16166  
Exhibit No.: A-4 (LJG-1)  
Schedule: D5  
Page: 1 of 1  
Witness: Lisa J. Gast

<u>Line No.</u>	<u>Description</u>	<u>Adjusted Common Equity</u>	<u>Return On Equity</u>
1			
2	December	88,157,518	
3	January	88,521,070	
4	February	87,199,447	
5	March	87,031,670	
6	April	87,428,757	
7	May	87,302,953	
8	June	86,857,813	
9	July	90,157,419	
10	August	89,920,473	
11	September	89,584,249	
12	October	89,869,560	
13	November	89,704,835	
14	December	93,013,299	
15			
16	Average	88,680,305	11.2500%



**Schedule D1**

Michigan Public Service Commission  
 Upper Peninsula Power Company  
 Actual Rate of Return Summary  
 Actual 12 Month Period Ending, December 31, 2009

Case No.: U-16166  
 Exhibit No.: A-14 (LJG-2)  
 Schedule: D1  
 Page: 1 of 1  
 Witness: Lisa J. Gast

Line No.	(a) Description	(b) Amount (1)	Capital Structure		(e) Cost Rate %	(f) Capital	Weighted Cost		(i) Pre-Tax Return	(j) Percent Capital Incl ST	(k) Weighted Cost Incl ST
			(c) Percent Capital	(d) Percent of Total Capital			(g) Total Cost %	(h) Conversion Factor			
1											
2	Long-Term Debt	\$ 41,587,500	40.95%	34.72%	6.7571% (2)	2.77%	2.3463%		2.3463%	38.33%	2.5898%
3											
4	Preferred Stock	\$ -	0.00%	0.00%	0.0000% (4)	0.00%	0.0000%		0.0000%	0.00%	0.0000%
5											
6	Adjusted Common Equity	\$ 59,965,744	59.05%	50.07%	10.7500% (5)	6.35%	5.3824%	1.637	8.8109%	55.26%	5.9409%
7											
8	Total Capital	<u>\$ 101,553,244</u>	<u>100.00%</u>			<u>9.11%</u>					
9											
10	Short-Term Debt	\$ 6,954,167		5.81%	1.8406% (3)		0.1069%		0.1069%	6.41%	0.1180%
11											
12	Job Development - ITC - Debt										
13	Job Development - ITC Equity										
14	Total Job Development - ITC	\$ -		0.00%							
15											
16	Deferred Investment Tax Credit	\$ 677,716		0.57%		8.65%	0.0489%		0.0489%		
17											
18	Deferred Income Taxes (Net) - Federal	\$ 15,286,535		12.76%		0.00%	0.0000%		0.0000%		
19											
20	Capital Structure Adj	\$ (4,704,428)		-3.93%		8.65%	-0.3397%		-0.3397%		
21											
22	Total	<u>\$ 119,767,234</u>		<u>100.00%</u>			<u>7.5448%</u>		<u>10.9733%</u>	<u>100.00%</u>	<u>8.6486%</u>

- (1) See Exh. A-2, Sch. B1
- (2) See Exh. A-4, Sch. D2
- (3) See Exh. A-4, Sch. D3
- (4) See Exh. A-4, Sch. D4
- (5) See Exh. A-4, Sch. D5



**Schedule D2**

Michigan Public Service Commission  
 Upper Peninsula Power Company  
 Cost of Long-Term Debt  
 Actual 12 Month Period Ending, December 31, 2009

Case No.: U-16166  
 Exhibit No.: A-14 (LJG-2)  
 Schedule: D2  
 Page: 1 of 1  
 Witness: Lisa J. Gast

Line No.	(a) Description	(b) Original Issue Date	(c) Stated Maturity Date	(d) Interest Rate (%)	(e) Amount of Offering	(f) Price to Public (%)	(g) Underwriting & Financing Expenses (%)	(h) Net Proceeds to the Company (%)	(i) Cost Based on Net Proceeds (%)	(j) Amount Outstanding	(k) Annual Cost
1											
2	<b>Mortgage Bonds</b>										
3		11/21/1991	11/1/2021	9.32%	3,000,000	3,000,000	37,500	2,962,500	9.44%	900,000	84,960
4		11/21/1991	11/1/2021	9.32%	15,000,000	15,000,000	187,500	14,812,500	9.44%	10,687,500	1,008,900
5										-	
6										-	
7										-	
8	Total Mortgage Bonds									\$ 11,587,500	\$ 1,093,860
9											
10	<b>Other Long-Term Debt</b>										
11		8/1/2003	7/1/2013	5.25%	15,000,000	15,000,000	-	15,000,000	5.32%	15,000,000	798,000
12		10/1/2007	10/1/2017	6.06%	15,000,000	15,000,000	-	15,000,000	6.14%	15,000,000	921,000
13											
14											
15											
16	Total Other Long-Term Debt									\$ 30,000,000	\$ 1,719,000
17											
18	Reconcile Bond Interest										\$ (2,762)
19	Total Interest										2,810,098
20	Total Long-Term Debt									\$ 41,587,500	
21											
22	Unamortized Debt Discount,										
23	Premium and Expense										
24										-	
25	Total Long-Term Debt Balance									\$ 41,587,500	6.7571%



**Schedule D3**

Michigan Public Service Commission  
 Upper Peninsula Power Company  
 Cost of Short-Term Debt  
 Actual 12 Month Period Ending, December 31, 2009

Case No.: U-16166  
 Exhibit No.: A-14 (LJG-2)  
 Schedule: D3  
 Page: 1 of 1  
 Witness: Lisa J. Gast

Line No.	(a) Month	(b) Balance Outstanding	(c) Total Cost
1			
2	Commercial Paper	\$ -	\$ -
3			
4	Inter-Company Loans	\$ 6,954,167	\$ 127,996
5			
6	Letter of Credit	\$ -	\$ -
7			
8	Other	\$ -	\$ -
9			
10	Total	<u>\$ 6,954,167</u>	<u>\$ 127,996</u>
11			
12	Average Cost of Short-Term Debt		<u>1.8406%</u>







**Schedule D5**

Michigan Public Service Commission  
Upper Peninsula Power Company  
Cost of Common Shareholders' Equity  
Actual 12 Month Period Ending, December 31, 2009

Case No.: U-16166  
Exhibit No.: A-14 (LJG-2)  
Schedule: D5  
Page: 1 of 1  
Witness: Lisa J. Gast

<u>Line No.</u>	<u>Description</u>	<u>Adjusted Common Equity</u>	<u>Return On Equity</u>
1			
2	December	57,609,388	
3	January	58,708,057	
4	February	61,291,392	
5	March	60,643,667	
6	April	59,163,937	
7	May	58,661,448	
8	June	58,064,710	
9	July	58,942,494	
10	August	58,911,692	
11	September	58,297,156	
12	October	62,934,640	
13	November	63,304,917	
14	December	63,720,251	
15			
16	Average	59,965,744	10.7500%



**Upper Peninsula Power Company**

**Credit Rating Data for Parent, Integrys Energy Group, Inc.**

**S&P Credit Ratings**

	<b>Senior Unsecured</b>	<b>Junior Subordinated</b>	<b>Commercial Paper</b>	<b>Outlook</b>
26-Jan-2010	BBB	BBB-	A-2	Stable
5-Mar-2009	BBB	BBB-	A-2	Negative
25-Nov-2008	BBB+	BBB	A-2	Negative
13-Nov-2007	BBB+	BBB	A-2	Stable
21-Feb-2007	BBB+	BBB (c)	A-2	Negative
10-Jul-2006	A/Watch Negative	-	A-1/Watch Negative	Watch Negative
17-Jan-2006	A	-	A-1	Negative
22-Sep-2005	A/Watch Negative	-	A-1/Watch Negative	Watch Negative
26-Jan-2005	A	-	A-1	Negative

**Moody's Credit Ratings**

	<b>Senior Unsecured</b>	<b>Junior Subordinated</b>	<b>Commercial Paper</b>	<b>Outlook</b>
27-May-2010	Baa1	Baa2	Prime-2	Stable
9-Jun-2009	Baa1	Baa2	Prime-2	Negative
9-Mar-2009	A3	Baa1	-	Negative Review
9-Mar-2009	-	-	Prime-2	Stable
21-Feb-2007	A3	Baa1 (c)	Prime-2	Stable
28-Sep-2005	A1	-	Prime-1	Negative
25-Nov-2003	A1	-	Prime-1	Stable

- (a) Ratings are for Integrys Energy Group Inc. on and after 21-Feb-2007. Ratings are for WPS Resources Corporation prior to 21-Feb-2007.
- (b) Ratings listed are those in effect as of June 30, 2005 and subsequent ratings changes only. Affirmations are not included.
- (c) Initially rated BBB+ by S&P and A2 by Moody's when issued on 28-Nov-2006.
- (d) UPPCO is not rated by any agency.
- (e) Integrys is not rated by Fitch.
- (f) Integrys has no Senior Secured Debt.



**Upper Peninsula Power Company**

**Utility Bond Issuances - February 2010 through June 2010**

Issue Date	Issuing Company	Offering Type	Offering Amount (millions)	Coupon Rate	Maturity Date	Offering Structure	Moody/S&P Ratings	Gross Spread	Reoffer Spread
2/3/2010	Florida Power & Light	First Mortgage Bonds-Secured	\$500	5.690%	3/1/2040	30 NC/L	Aa2/A	0.875%	+110
2/3/2010	Wisconsin Electric Power Company	Senior Notes-Secured	\$275	6.090%	2/11/2040	25.73YR WAL	A1/A-	N/A	+145
2/3/2010	Wisconsin Electric Power Company	Senior Notes-Secured	\$255	5.209%	2/11/2030	12.13YR WAL	A1/A-	N/A	+150
3/2/2010	Public Service Electric & Gas Co.	Senior Notes-Secured	\$300	5.500%	3/1/2040	30 NC/L	A2/A-	N/A	+95
3/3/2010	Western Mass Electric Co.	Senior Notes-Unsecured	\$95	5.100%	3/1/2020	10 NC/L	Baa2/BBB	0.650%	+150
3/3/2010	Puget Sound Energy	Senior Notes Fallaway Bonds-Secured	\$325	5.795%	3/15/2040	30 NC/L	Baa1/A-	0.875%	+120
3/3/2010	Southwestern Electric Power Co.	Senior Notes-Unsecured	\$350	6.200%	3/15/2040	30 NC/L	Baa3/BBB	0.875%	+160
3/4/2010	TECO Finance, Inc.	Senior Notes-Unsecured	\$300	5.150%	3/15/2020	10 NC/L	Baa3/BBB	0.650%	+160
3/4/2010	TECO Finance, Inc.	Senior Notes-Unsecured	\$250	4.000%	3/15/2016	6 NC/L	Baa3/BBB	0.600%	+180
3/8/2010	Southern California Edison	First Mortgage Bonds-Secured	\$500	5.500%	3/15/2040	30 NC/L	A1/A	0.875%	+90
3/9/2010	Georgia Power Company	Series 2010A Floating Rate Senior Notes-Unsecured	\$350	3mL+32	3/15/2013	3NC2	A2/A	0.350%	3mL+32
3/9/2010	Transalta	Senior Notes-Unsecured	\$300	6.500%	3/15/2040	30 NC/L	Baa2/BBB	Not Available	+190
3/11/2010	Columbus Southern Power	Series A Floating Rate Senior Notes-Unsecured	\$150	3mL+40	3/16/2012	2 NC/L	A3/BBB	0.250%	3mL+40
3/11/2010	NSTAR Electric Co.	Senior Notes-Unsecured	\$300	5.500%	3/15/2040	30 NC/L	A1/A+	0.875%	+90
3/15/2010	Entergy Louisiana	Retail First Mortgage Bonds-Secured	\$150	6.000%	3/15/2040	30 NC5	A3/A-	3.150%	+137
3/17/2010	Narragansett Electric	Senior Notes-Unsecured	\$300	5.638%	3/15/2040	30 NC/L	A3/A-	N/A	+108
3/17/2010	Narragansett Electric	Senior Notes-Unsecured	\$250	4.534%	3/15/2020	10 NC/L	A3/A-	N/A	+90
3/22/2010	Duke Energy Corporation	Senior Notes-Unsecured	\$450	3.350%	4/1/2015	5 NC/L	Baa2/BBB+	0.600%	+95
3/22/2010	Progress Energy Florida, Inc.	First Mortgage Bonds-Secured	\$350	5.650%	4/1/2040	30 NC/L	A1/A-	0.875%	+110
3/22/2010	Progress Energy Florida, Inc.	First Mortgage Bonds-Secured	\$250	4.550%	4/1/2020	10 NC/L	A1/A-	0.650%	+90
3/26/2010	Pacific Gas & Electric	Senior Notes-Unsecured	\$250	5.800%	3/1/2037	30 NC/L	A3/BBB+	0.875%	+115
3/29/2010	PSEG Power LLC	Senior Notes-Unsecured	\$406	5.125%	4/15/2020	10 NC/L	Baa1/BBB	Not Available	+130
3/29/2010	PSEG Power LLC	Senior Notes-Unsecured	\$300	2.500%	4/15/2013	3 NC/L	Baa1/BBB	Not Available	+90
4/6/2010	Gulf Power Company	Series 2010A Senior Notes-Unsecured	\$175	4.750%	4/15/2020	10 NC/L	A2/A	0.650%	+80
4/14/2010	SEMCO Energy Inc.	Senior Notes-Secured	\$300	5.150%	4/21/2020	10 NC/L	A3/BBB+	Not available	+130
5/10/2010	San Diego Gas & Electric	First Mortgage Bonds-Secured	\$250	5.350%	5/15/2040	30 NC/L	Aa3/A+	0.875%	+95
5/10/2010	Xcel Energy, Inc.	Senior Notes-Unsecured	\$550	4.700%	5/15/2020	10 NC/9.5	Baa1/BBB	0.650%	+120
5/13/2010	FPL Group Capital	Senior Notes-Unsecured	\$250	2.550%	11/15/2013	3.5 NC/L	Baa1/BBB+	0.350%	+115
5/17/2010	Public Service Electric & Gas Co.	Senior Notes-Secured	\$300	2.700%	5/1/2015	5 NC/L	A2/A-	0.500%	+539
5/18/2010	Entergy Texas, Inc.	Senior Secured Mortgage Bonds	\$200	3.600%	6/1/2015	5 NC/L	Baa2/BBB+	0.600%	+150
5/19/2010	Appalachian Power	Senior Notes-Unsecured	\$300	3.400%	5/24/2015	5 NC/L	Baa2/BBB	0.600%	+137
5/24/2010	Georgia Power Company	Senior Notes-Unsecured	\$600	5.400%	6/1/2040	30 NC/L	A2/A	0.880%	+135
5/24/2010	Empire District Electric	First Mortgage Bonds-Secured	\$100	4.650%	6/1/2020	10 NC/L	A3/BBB+	0.650%	+145
6/2/2010	Duke Energy Carolinas LLC	Senior Secured First and Refunding Mortgage Bonds	\$450	4.300%	6/15/2020	10 NC/L	A1/A	0.65%	+100
6/2/2010	Consolidated Edison Co. of NY	Senior Notes-Unsecured	\$350	4.450%	6/15/2020	10 NC/L	A3/A-	0.65%	+115
6/2/2010	Consolidated Edison Co. of NY	Senior Notes-Unsecured	\$350	5.700%	6/15/2040	30 NC/L	A3/A-	0.88%	+150
6/3/2010	Oklahoma Gas & Electric	Senior Notes-Unsecured	\$250	5.850%	6/1/2040	30 NC/L	A2/BBB+	0.88%	+162.5
6/3/2010	Tri-State Generation & Transmission Association, Inc.	First Mortgage Bonds-Secured	\$400	6.000%	6/15/2040	30 NC/L	Baa1/A	Not Available	+187.5
6/10/2010	Wisconsin Power & Light	Senior Notes-Unsecured	\$150	4.600%	6/15/2020	10 NC/L	A2/A-	0.65%	+135
6/10/2010	Interstate Power & Light	Senior Notes-Unsecured	\$150	3.300%	6/15/2015	5 NC/L	A3/BBB+	0.60%	+130
6/24/2010	Puget Sound Energy	Senior Notes-Secured	\$250	5.764%	7/15/2040	30 NC/L	Baa1/A-	Not Available	+167.5



Upper Peninsula Power Company

Historical and Projected Financial Metrics - Financial Basis  
(000s)

Line	Description [A]	Historical Source / Comment [B]	Rate Relief	No Rate Relief	Historical Year Ended					
			Test Year Ending 12/31/2011 [C]	Test Year Ending 12/31/2011 [D]	12/31/2009 [E]	12/31/2008 [F]	12/31/2007 [G]	12/31/2006 [H]	12/31/2005 [I]	
1	<b>A EBIT Interest Coverage</b>									
2	Total Operating Income	FERC - Income Statement	\$ 13,762	\$ 4,355	\$ 3,702	\$ 7,080	\$ 8,854	\$ 7,274	\$ 5,879	
3	Other Income and Deductions, net	FERC - Income Statement [417 - 426.5]	279	279	234	(1,059)	1,761	1,042	4,818	
4	Federal and State Income Taxes	FERC - Income Statement [409.1- 411.4]	6,000	(39)	1,067	1,903	3,562	2,009	3,415	
5	AFUDC Equity Funds Portion	N/A	-	-	-	-	-	-	-	
6	EBIT	Sum of Lines 2-4, - Line 5	\$ 20,041	\$ 4,595	\$ 5,003	\$ 7,923	\$ 14,176	\$ 10,326	\$ 14,113	
7	Total Interest Charges	FERC - Income Statement [427 - 431]	\$ 4,666	\$ 4,668	\$ 2,975	\$ 3,269	\$ 2,969	\$ 3,064	\$ 2,585	
8	<b>EBIT Interest Coverage</b>	<b>Line 6 / Line 7</b>	<b>4.3</b>	<b>1.0</b>	<b>1.7</b>	<b>2.4</b>	<b>4.8</b>	<b>3.4</b>	<b>5.5</b>	
9	<b>B EBITDA Interest Coverage</b>									
10	Total Operating Income	Line 2	\$ 13,762	\$ 4,355	\$ 3,702	\$ 7,080	\$ 8,854	\$ 7,274	\$ 5,879	
11	Depreciation and Amortization	Line 21	9,024	9,024	6,188	5,786	5,803	5,553	5,198	
12	Other Income and Deductions, net	Line 3	279	279	234	(1,059)	1,761	1,042	4,818	
13	Federal and State Income Taxes	Line 4	6,000	(39)	1,067	1,903	3,562	2,009	3,415	
14	AFUDC Equity Funds Portion		-	-	-	-	-	-	-	
15	EBITDA	Sum of the Above	\$ 29,066	\$ 13,620	\$ 11,191	\$ 13,709	\$ 19,979	\$ 15,878	\$ 19,311	
16	Total Interest Charges	Line 7	\$ 4,666	\$ 4,668	\$ 2,975	\$ 3,269	\$ 2,969	\$ 3,064	\$ 2,585	
17	<b>EBITDA Interest Coverage</b>	<b>Line 6 / Line 7</b>	<b>6.2</b>	<b>2.9</b>	<b>3.8</b>	<b>4.2</b>	<b>6.7</b>	<b>5.2</b>	<b>7.5</b>	
18	<b>C FFO Interest Coverage</b>									
19	<u>Funds from Operations</u>									
20	Net Income	Income Statement	\$ 9,375	\$ (35)	\$ 961	\$ 2,751	\$ 7,646	\$ 5,253	\$ 8,113	
21	Depreciation and Amortization		9,024	9,024	6,188	5,786	5,803	5,553	5,198	
22	Deferred Income Tax and Investment Tax Credits		(383)	(383)	4,485	1,236	(93)	144	1,738	
23	Other Operating Cash Flow		(4,781)	(4,781)	(6,777)	(267)	1,900	674	5,922	
24	Total Funds from Operations	Sum of the Above	\$ 13,235	\$ 3,825	\$ 4,857	\$ 9,507	\$ 15,256	\$ 11,624	\$ 20,971	
25	Total Interest Charges	Line 7	4,666	4,668	2,975	3,269	2,969	3,064	2,585	
26	Funds from Operation plus Interest	Sum of the Above	\$ 17,901	\$ 8,494	\$ 7,832	\$ 12,776	\$ 18,224	\$ 14,687	\$ 23,556	
27	Total Interest Charges	Line 7	\$ 4,666	\$ 4,668	\$ 2,975	\$ 3,269	\$ 2,969	\$ 3,064	\$ 2,585	
28	<b>FFO Interest Coverage</b>	<b>Line 26 / Line 27</b>	<b>3.8</b>	<b>1.8</b>	<b>2.6</b>	<b>3.9</b>	<b>6.1</b>	<b>4.8</b>	<b>9.1</b>	
29	<b>D Overall Fixed Charge Coverage:</b>									
30	Net Income	Line 20	\$ 9,375	\$ (35)	\$ 961	\$ 2,751	\$ 7,646	\$ 5,253	\$ 8,113	
31	Total Interest Charges (Gross Interest)	Line 7	4,666	4,668	2,975	3,269	2,969	3,064	2,585	
32	Net Income plus Gross Interest	Sum of the Above	\$ 14,042	\$ 4,634	\$ 3,936	\$ 6,020	\$ 10,614	\$ 8,316	\$ 10,698	
33	Total Interest Charges (Gross Interest)	Line 7	\$ 4,666	\$ 4,668	\$ 2,975	\$ 3,269	\$ 2,969	\$ 3,064	\$ 2,585	
34	Preferred Dividends	N/A	-	-	-	-	-	-	-	
35	Gross Interest plus Preferred Dividends	Sum of the Above	\$ 4,666	\$ 4,668	\$ 2,975	\$ 3,269	\$ 2,969	\$ 3,064	\$ 2,585	
36	<b>Overall Fixed Charge Coverage</b>	<b>Line 32 / Line 35</b>	<b>3.01</b>	<b>0.99</b>	<b>1.32</b>	<b>1.84</b>	<b>3.58</b>	<b>2.71</b>	<b>4.14</b>	
37	<b>E Cash Flow Coverage of Dividends</b>	N/A UPPCO doesn't pay dividends								
38	<b>F Common Dividend Payout Ratio</b>	N/A UPPCO doesn't pay dividends								

Note - the above ratios are on a financial basis

Upper Peninsula Power Company

Historical and Projected Financial Metrics - Financial Basis  
(000s)

Line	Description [A]	Historical Source [B]	Rate Relief	Test Year	Historical Year Ended					
			Test Year Ending 12/31/2011 [C]	Ended 12/31/2011 [D]	12/31/2009 [E]	12/31/2008 [F]	12/31/2007 [G]	12/31/2006 [H]	12/31/2005 [I]	
1	<b>G Permanent Capitalization Balances &amp; Percentages</b>									
2	<u>Capital Structure</u>									
3	Long-term Debt	GLN5117M	69,288	69,288	41,588	42,488	31,513	29,288	30,188	
4	Preferred Stock	N/A								
5	Unadjusted Common Equity	GLN5117M	\$ 104,080	\$ 104,022	\$ 72,231	\$ 66,283	\$ 64,985	\$ 64,456	\$ 63,940	
6	Unadjusted Total Capital	Sum of Lines 3 - 5	\$ 173,367	\$ 173,309	\$ 113,818	\$ 108,770	\$ 96,497	\$ 93,744	\$ 94,128	
7	<u>Capital Structure Ratios - Financial</u>									
8	Long-term Debt Ratio	Line 3 / Line 6	39.97%	39.98%	36.54%	39.06%	32.66%	31.24%	32.07%	
9	Preferred Stock Ratio	Line 4 / Line 6	-	-	-	-	-	-	-	
10	Common Equity Ratio	Line 5 / Line 6	60.03%	60.02%	63.46%	60.94%	67.34%	68.76%	67.93%	
11	<b>H Return on Equity (ROE)</b>									
12	Financial ROE	Line 20 from Page 1 / Line 5	9.01%	-0.03%	1.33%	4.15%	11.77%	8.15%	12.69%	
13	Authorized ROE				10.75%	10.75%	10.75%	11.40%	11.40%	
14	<b>I Total Capitalization Balances &amp; Percentages</b>									
15	Short-term Debt	GLN5117M	3,623	7,548	6,954	2,389	11,894	12,790	9,725	
16	Long-term Debt	Line 3 Above	69,288	69,288	41,588	42,488	31,513	29,288	30,188	
17	Preferred Stock	Line 4 Above	-	-	-	-	-	-	-	
18	Unadjusted Common Equity	Line 5 Above	104,080	104,022	72,231	66,283	64,985	64,456	63,940	
19	Unadjusted Total Capital	Sum of Lines 15 - 18	\$ 176,990	\$ 180,858	\$ 120,772	\$ 111,159	\$ 108,391	\$ 106,533	\$ 103,853	
20	<u>Capital Structure Ratios - Financial</u>									
21	Short-term Debt Ratio	Line 15 / Line 19	2.05%	4.17%	5.76%	2.15%	10.97%	12.01%	9.36%	
22	Long-term Debt Ratio	Line 16 / Line 19	39.15%	38.31%	34.43%	38.22%	29.07%	27.49%	29.07%	
23	Preferred Stock Ratio	Line 17 / Line 19	-	-	-	-	-	-	-	
24	Common Equity Ratio	Line 18 / Line 19	58.81%	57.52%	59.81%	59.63%	59.95%	60.50%	61.57%	

Note (1): The above ratios are on a financial basis.

Note (2): Data is presented on a 13-month average basis.

Upper Peninsula Power Company

Historical and Projected Financial Metrics - Ratemaking Basis  
(000s)

Line	Description [A]	Historical Source / Comment [B]	Rate Relief Test Year Ending 12/31/2011 [C]	No Rate Relief Test Year Ending 12/31/2011 [D]	12/31/2009 [E]	12/31/2008 [F]	Historical Year Ended		
							12/31/2007 [G]	12/31/2006 [H]	12/31/2005 [I]
1	<b>A EBIT Interest Coverage</b>								
2	Total Operating Income	Jurisdictional Models	\$ 13,889	\$ 4,483	\$ 3,805	\$ 6,835	\$ 8,456	\$ 7,384	\$ 5,960
3	Other Income and Deductions, net		-	-	-	-	-	-	-
4	Federal and State Income Taxes	Jurisdictional Models	\$ 6,088	\$ 48	\$ 1,103	\$ 2,510	\$ 3,111	\$ 1,461	\$ 877
5	AFUDC Equity Funds Portion	N/A	-	-	-	-	-	-	-
6	EBIT	Sum of Lines 2-4, - Line 5	\$ 19,977	\$ 4,532	\$ 4,908	\$ 9,344	\$ 11,566	\$ 8,845	\$ 6,837
7	Total Interest Charges	Jurisdictional Models	\$ 5,077	\$ 5,080	\$ 3,243	\$ 3,430	\$ 2,886	\$ 2,810	\$ 2,573
8	<b>EBIT Interest Coverage</b>	<b>Line 6 / Line 7</b>	<b>3.9</b>	<b>0.9</b>	<b>1.5</b>	<b>2.7</b>	<b>4.0</b>	<b>3.1</b>	<b>2.7</b>
9	<b>B EBITDA Interest Coverage</b>								
10	Total Operating Income	Line 2	\$ 13,889	\$ 4,483	\$ 3,805	\$ 6,835	\$ 8,456	\$ 7,384	\$ 5,960
11	Depreciation and Amortization	Line 21	9,024	9,024	6,188	5,674	5,682	5,462	5,119
12	Other Income and Deductions, net	Line 3	-	-	-	-	-	-	-
13	Federal and State Income Taxes	Line 4	6,088	48	1,103	2,510	3,111	1,461	877
14	AFUDC Equity Funds Portion		-	-	-	-	-	-	-
15	EBITDA	Sum of the Above	\$ 29,002	\$ 13,556	\$ 11,096	\$ 15,018	\$ 17,248	\$ 14,307	\$ 11,956
16	Total Interest Charges	Line 7	\$ 5,077	\$ 5,080	\$ 3,243	\$ 3,430	\$ 2,886	\$ 2,810	\$ 2,573
17	<b>EBITDA Interest Coverage</b>	<b>Line 15 / Line 16</b>	<b>5.7</b>	<b>2.7</b>	<b>3.4</b>	<b>4.4</b>	<b>6.0</b>	<b>5.1</b>	<b>4.6</b>
18	<b>C FFO Interest Coverage</b>								
19	<u>Funds from Operations</u>								
20	Net Income	Jurisdictional Models	\$ 8,812	\$ (596)	\$ 562	\$ 3,405	\$ 5,570	\$ 4,575	\$ 3,387
21	Depreciation and Amortization	GLN5250M	9,024	9,024	6,188	5,674	5,682	5,462	5,119
22	Deferred Income Tax and Investment Tax Credits	GLN5250M	(385)	(385)	4,696	1,359	(115)	125	1,467
23	Other Operating Cash Flow		(4,781)	(4,781)	(6,777)	(267)	1,900	674	5,922
24	Total Funds from Operations	Sum of the Above	\$ 12,670	\$ 3,262	\$ 4,668	\$ 10,171	\$ 13,036	\$ 10,836	\$ 15,896
25	Total Interest Charges	Line 7	5,077	5,080	3,243	3,430	2,886	2,810	2,573
26	Funds from Operation plus Interest	Sum of the Above	\$ 17,747	\$ 8,341	\$ 7,911	\$ 13,601	\$ 15,922	\$ 13,646	\$ 18,469
27	Total Interest Charges	Line 7	\$ 5,077	\$ 5,080	\$ 3,243	\$ 3,430	\$ 2,886	\$ 2,810	\$ 2,573
28	<b>FFO Interest Coverage</b>	<b>Line 26 / Line 27</b>	<b>3.5</b>	<b>1.6</b>	<b>2.4</b>	<b>3.97</b>	<b>5.52</b>	<b>4.86</b>	<b>7.18</b>
29	<b>D Overall Fixed Charge Coverage:</b>								
30	Net Income	Line 20	\$ 8,812	\$ (596)	\$ 562	\$ 3,405	\$ 5,570	\$ 4,575	\$ 3,387
31	Total Interest Charges (Gross Interest)	Line 7	5,077	5,080	3,243	3,430	2,886	2,810	2,573
32	Net Income plus Gross Interest	Sum of the Above	\$ 13,889	\$ 4,483	\$ 3,805	\$ 6,835	\$ 8,456	\$ 7,385	\$ 5,960
33	Total Interest Charges (Gross Interest)	Line 7	\$ 5,077	\$ 5,080	\$ 3,243	\$ 3,430	\$ 2,886	\$ 2,810	\$ 2,573
34	Preferred Dividends	N/A	-	-	-	-	-	-	-
35	Gross Interest plus Preferred Dividends	Sum of the Above	\$ 5,077	\$ 5,080	\$ 3,243	\$ 3,430	\$ 2,886	\$ 2,810	\$ 2,573
36	<b>Overall Fixed Charge Coverage</b>	<b>Line 32 / Line 35</b>	<b>2.7</b>	<b>0.9</b>	<b>1.2</b>	<b>2.0</b>	<b>2.9</b>	<b>2.6</b>	<b>2.3</b>
37	<b>E Cash Flow Coverage of Dividends</b>	N/A UPPCO doesn't pay dividends							
38	<b>F Common Dividend Payout Ratio</b>	N/A UPPCO doesn't pay dividends							

Note - the above ratios are on a ratemaking basis

Upper Peninsula Power Company

Historical and Projected Financial Metrics - Ratemaking Basis  
 (000s)

Line	Description [A]	Historical Source [B]	Rate Relief Test Year Ending 12/31/2011 [C]	Test Year Ended 12/31/2011 [D]	12/31/2009 [E]	12/31/2008 [F]	Historical Year Ended		12/31/2006 [H]	12/31/2005 [I]
							12/31/2007 [G]			
<b>1</b>	<b>G Permanent Capitalization Balances &amp; Percentages</b>									
2	<u>Capital Structure</u>									
3	Long-term Debt	Jurisdictional Models	69,288	69,288	41,588	42,488	31,513	29,288	30,188	
4	Preferred Stock	N/A								
5	Common Equity - Ratemaking	Jurisdictional Models	<u>88,738</u>	<u>88,680</u>	<u>59,966</u>	<u>54,188</u>	<u>45,766</u>	<u>47,939</u>	<u>44,844</u>	
6	Ratemaking Total Capital	Sum of Lines 3 - 6	<u>\$ 158,026</u>	<u>\$ 157,968</u>	<u>\$ 101,553</u>	<u>\$ 96,675</u>	<u>\$ 77,278</u>	<u>\$ 77,226</u>	<u>\$ 75,031</u>	
7	<u>Capital Structure Ratios - Ratemaking</u>									
8	Long-term Debt Ratio	Line 3 / Line 6	43.85%	43.86%	40.95%	43.95%	40.78%	37.92%	40.23%	
9	Preferred Stock Ratio	Line 4 / Line 6	-	-	-	-	-	-	-	
10	Common Equity Ratio	Line 5 / Line 6	56.15%	56.14%	59.05%	56.05%	59.22%	62.08%	59.77%	
<b>11</b>	<b>H Return on Equity (ROE)</b>									
12	Ratemaking Net Income	Page 1 Line 20	\$ 8,812	\$ (596)	\$ 562	\$ 3,405	\$ 5,570	\$ 4,575	\$ 3,387	
13	<b>Ratemaking ROE</b>	Jurisdictional Models	<b>11.45%</b>	<b>0.85%</b>	<b>2.33%</b>	<b>7.95%</b>	<b>12.04%</b>	<b>9.47%</b>	<b>7.45%</b>	
14	<b>Authorized ROE</b>				<b>10.75%</b>	<b>10.75%</b>	<b>10.75%</b>	<b>10.75%</b>	<b>11.40%</b>	
<b>15</b>	<b>I Total Capitalization Balances &amp; Percentages</b>									
16	Short-term Debt	Jurisdictional Models	3,623	3,681	6,954	2,389	11,894	12,790	9,725	
17	Long-term Debt	Line 3	69,288	69,288	41,588	42,488	31,513	29,288	30,188	
18	Preferred Stock	Line 4	-	-	-	-	-	-	-	
19	Common Equity - Ratemaking	Line 5	<u>88,738</u>	<u>88,680</u>	<u>59,966</u>	<u>54,188</u>	<u>45,766</u>	<u>47,939</u>	<u>44,844</u>	
20	Total Capital	Line 7 Above	<u>161,648</u>	<u>161,648</u>	<u>108,507</u>	<u>99,064</u>	<u>89,172</u>	<u>90,016</u>	<u>84,756</u>	
21	Job Development - ITC - Debt		-	-	-	-	-	-	-	
22	Job Development - ITC - Equity		-	-	-	-	-	-	-	
23	Total Job Development - ITC		-	-	-	-	-	-	-	
24	Deferred Investment Tax Credit	Jurisdictional Models	2,062	2,062	678	697	700	814	940	
25	Deferred Income Taxes (Net) - Federal	Jurisdictional Models	21,844	21,844	15,287	16,044	15,396	16,462	16,390	
26	Capital Structure Adjustment	Jurisdictional Models	(9,665)	(9,665)	(4,704)	(3,544)	-	-	-	
27	Ratemaking Total Capital	Sum of Lines 20 - 26	<u>\$ 175,890</u>	<u>\$ 175,890</u>	<u>\$ 119,767</u>	<u>\$ 112,261</u>	<u>\$ 105,267</u>	<u>\$ 107,293</u>	<u>\$ 102,086</u>	
28	<u>Percent Capital</u>									
29	Short-term Debt Ratio	Line 16 / Line 20	2.24%	2.28%	6.41%	2.41%	13.34%	14.21%	11.47%	
30	Long-term Debt Ratio	Line 17 / Line 20	42.86%	42.86%	38.33%	42.89%	35.34%	32.54%	35.62%	
31	Preferred Stock Ratio	Line 18 / Line 20	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
32	Common Equity Ratio	Line 19 / Line 20	54.90%	54.86%	55.26%	54.70%	51.32%	53.26%	52.91%	
	<u>Percent of Total Capital</u>									
29	Short-term Debt Ratio	Line 16 / Line 27	2.06%	2.09%	5.81%	2.13%	11.30%	11.92%	9.53%	
30	Long-term Debt Ratio	Line 17 / Line 27	39.39%	39.39%	34.72%	37.85%	29.94%	27.30%	29.57%	
31	Preferred Stock Ratio	Line 18 / Line 27	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
32	Common Equity Ratio	Line 19 / Line 27	50.45%	50.42%	50.07%	48.27%	43.48%	44.68%	43.93%	
33	Job Development - ITC Ratio	Line 23 / Line 27	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
34	Deferred Investment Tax Credit Ratio	Line 24 / Line 27	1.17%	1.17%	0.57%	0.62%	0.66%	0.76%	0.92%	
35	Deferred Income Taxes (Net) - Federal - Ratio	Line 25 / Line 27	12.42%	12.42%	12.76%	14.29%	14.63%	15.34%	16.06%	
36	Capital Structure Adjustment	Line 26 / Line 27	-5.50%	-5.50%	-3.93%	-3.16%	0.00%	0.00%	0.00%	

Note (1): The above ratios are on a ratemaking basis.  
 Note (2): Data is presented on a 13-month average basis.