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
	)	

DIRECT TESTIMONY AND EXHIBITS OF

STEVEN J. DAAVETTILA

FOR

UPPER PENINSULA POWER COMPANY

June 30, 2011

STATE OF MICHIGAN

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QUALIFICATIONS
OF
STEVEN J. DAAVETTILA
PART I

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

A. My name is Steven J. Daavettila. My business address is Wisconsin Public Service Corporation ("WPS Corp"), 700 North Adams Street, P.O. Box 19001, Green Bay, WI 54307-9001. My position with WPS is Senior Energy Resource Planning Engineer – Generation Planning. WPS is a wholly-owned subsidiary of Integrys Energy Group, Inc. ("Integrys").

Q. For whom are you providing testimony?

A. I am providing testimony on behalf of Upper Peninsula Power Company ("UPPCO").

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

A. I graduated from Michigan Technological University in 1980 with a Bachelor of Science Degree in Electrical Engineering. I received a Master of Science Degree in Electrical Engineering with emphasis in power systems from the Ohio State University in 1981. I joined WPS Corp in 1981 as a Transmission Planner in the System Planning department. In 1991, I became a Senior Planning Engineer in Generation Planning. After a three year assignment in Electric Distribution

Department, I returned to Generation Planning in 2002 as a Senior Electric Resource Planner. I perform long range economic analysis of the WPS Corp generation system. I have testified before the Public Service Commission of Wisconsin five times in support of new generating units or major capital additions to generating units. I also support the WPS Corp Transmission group on issues related to generator interconnection at the Midwest Independent Transmission System Operator. I have been a registered Professional Engineer in Wisconsin since 1985.

STEVEN J. DAAVETTILA
DIRECT TESTIMONY
PART II

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

A. The purpose of my pre-filed direct testimony is to present the results of the economic analysis used to evaluate the "alternative management options" that UPPCO considered for the Cataract hydro-electric generation facility ("Cataract Facility"). The viable alternative management options, as discussed in Mr. Charles W. Severance's direct testimony, included:

1. Surrendering the Federal Energy Regulatory Commission ("FERC") license and abandoning the facility (Option 1),
2. Selling the facility to a party that would accept a transfer of the FERC license and continue to operate the facility (Option 3), and
3. Upgrading the facility to meet FERC standards, and continuing to own and operate the facility (Option 4).

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes, I am. I am sponsoring Exhibit A-9 (SJD-1), consisting of four pages.

Q. Was this exhibit prepared by you or under your direction and supervision?

A. Yes, it was.

Q. Please describe Exhibit A-9 (SJD-1).

A. Exhibit A-9 (SJD-1) is a summary of the financial assumptions, inputs and results of the alternative management options modeled for the Cataract Facility.

Q. What economic analysis method was used?

A. A net present value of revenue requirements ("PVRR") analysis for UPPCO customers, discounted to 2010, was developed for each alternative management option, taking into account the applicable costs, accounting treatment, and recovery period. The impacts of each alternative management option were considered through the year 2037, which corresponds to the expiration of the current Cataract Facility FERC license.

In addition, for Option 1 (Surrendering the FERC license and abandoning the facility), and Option 4 (Upgrading the facility to meet FERC standards, and continuing to own and operate the facility), a high cost case (worst case), and a low cost case (best case), was completed.

Q. Why was a PVRR analysis selected?

A. A PVRR analysis was selected because a PVRR analysis best models the cost impacts to UPPCO's customers over the life of the facility.

Q. What was the basis for the cost estimates used in the economic analysis for each option?

A. The cost estimates for Options 1 and 4 were provided to me by Integrys environmental and engineering personnel based on their knowledge and past experience with previous hydroelectric projects.

The costs for Option 3 are known with surety, as they are the costs associated with the then proposed purchase agreement between UPPCO and UP Hydro, as explained in the pre-filed direct testimony of Mr. Charles W. Severance.

Q. What were the results of your economic analysis?

A. The results are shown on Exhibit A-9 (SJD-1). In short, Option 3 (Selling the facility to a party that would accept a transfer of the FERC license and continue to operate the facility) resulted in the lowest PVRR at $4.14 million for the Base Case analysis.

Q. Did the results of the economic analysis change when a best case estimate was compared to Option 3?

A. Yes, they did. Option 1 (Surrendering the FERC license and abandoning the facility) had a slightly lower PVRR ($0.27 million) than Option 3 (Selling the facility to a party that would accept a transfer of the FERC license and continue to operate the facility) when using the "best case" assumptions. However Option 3 (Selling the facility to a party that would accept a transfer of the FERC license and continue to operate the facility) had much lower PVRR ($3.32 million) than Option 1 (Surrendering the FERC license and abandoning the facility) when using the "worst case" assumptions.

Q. What costs were included in Option 3?

A. In accordance with the signed Asset Sale Agreement with UP Hydro, the costs included in the analysis of Option 3 (Selling the facility to a party that would accept a transfer of the FERC license and continue to operate the facility) were:

1. $1.725 million that UPPCO would be required to pay UP Hydro as UPPCO's share of the cost to bring the Cataract Facility into FERC compliance,

2. $0.725 million that UPPCO would receive from UP Hydro for the sale of the Cataract Facility, and

3. The cost of the purchase power agreement that UPPCO would execute with UP Hydro.

Q. What costs were included in Option 1 and Option 4?

A. Exhibit A-9 (SJD-1) pages 3 and 4 detail the costs of Option 1 (Surrendering the FERC license and abandoning the facility) and Option 4 (Upgrading the facility to meet FERC standards, and continuing to own and operate the facility). The cost estimates for Options 1 and 4 were provided to me by Integrys environmental and engineering personnel based on their knowledge and past experience with previous hydroelectric projects.

Q. **What were your conclusions?**

A. Option 3 (Selling the facility to a party that would accept a transfer of the FERC license and continue to operate the facility) results in the lowest PVRR, and therefore results in the lowest costs to UPPCO's customers over the life of the project.

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

A. Yes, it does.