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Guiding Principles for Decision Making

ADAPTABILITY



Upper Peninsula Power – Recent Changes

- Exercise of Choice

- Michigan norm (2008 law): no more than 10% of load can leave a utility that must serve remaining customers in service territory
- UP (due to iron ore exception): approximately 85% of Michigan load can leave utility that must serve remaining customers in service territory
 - That is less than 10% of the company's overall load.

Mines' Assessment of Rate Impacts

- Cliffs spent \$120 million with We Energies last year
- Have said deal with Integrys (a multi-year deal) saves “tens of millions of dollars.”
 - Cliffs says 17% to 26% savings.
 - So very rough justice, \$25M in savings/yr.
Assuming a 3-yr deal, that is approximately \$75M

Note: all figures from press report; <http://www.jsonline.com/blogs/business/217814321.html>

WE Energies' Assessment of Impact

- Stated that this would cause company to reassess whether they needed the capacity at PIPP to stay up.
- Accounting order for cost deferral was requested.
 - Approx. \$50M over 18 months
- MI PSC granted it but indicated Michigan would only bear traditional costs for loss of load. Request for reconsideration

The Plant

- Deal between Wolverine and WE re PIPP
 - Up to \$140 million in all required pollution control upgrades in exchange for a approx. 1/3 interest
- Why good for all ratepayers (WI and MI):
 - Adaptable: Leave generation near load
 - Affordable: Allowed avoidance of somewhere between 700M and 250M of new transmission build, all for no cost to WE Energies company
 - Reliability: Long-term solutions needed; this is a much more certain one than long transmission lines
 - Environment: Substantial air quality improvements

Longer-Term View

- In order to get “SSR” payments from MISO (which allows some recovery of production costs for plants required to run for reliability), you must declare an intent to retire or suspend operations at that plant
- Awarding an SSR requires MISO to find an alternative to that plant remaining up
 - MISO can only order transmission solutions
 - MISO cannot order generation remain running, even if that requires fewer ratepayer dollars.

Transmission

- Two years ago, cost of transmission needed if PIPP was retired was estimated to be more than \$1B.
 - Two smaller “no regrets” lines were approved at a cost of approximately \$280M, though ATC had argued more than \$500M in new lines were needed.
- Therefore, approximately \$750M of transmission might be needed
- ATC more recent estimates are another \$250-\$350M
- <http://www.midwestenergynews.com/2012/08/24/miso-approves-scaled-down-transmission-expansion-for-up-critics-still-cry-foul/>; <http://www.jsonline.com/blogs/business/226340951.html#ixzz2hHO>

Wide Range of Possible Impacts to Remaining Customers

	WI/MI System	MI only
Short term (16 months SSR payments, 10 yr amortization), WEPCo analysis	0.1-0.2%	2.4-4.1%
Lost revenue contribution to fixed, embedded production cost of mines only (staff analysis)	2.7%	47%
Lost revenue contribution to fixed, embedded production costs of all choice customers	2%-4%	71%

Note: These numbers have a large number of assumptions baked in. They also do not include the rate impact of increased transmission that may be needed in the long term, or assume impacts to locational marginal pricing, etc..

Recap

- Savings of approx. \$100M for some have some cost implications for all
 - Short term, certain rate increase for remaining customers. Could be as small as less than 1% or as high as 70% depending on rate treatment.
 - Long term, could trigger requirement to build \$700M of transmission that everyone would have to bear
 - \$140M solution that is generation based and with little cost to existing ratepayers cannot be ordered by MISO

Administration's Position

- Solutions can be found. We are willing to support and work hard to implement *ANY* solution that does the following:
 - Keeps PIPP up
 - Are willing to look at fewer units, but not losing the plant.
 - Does not make rates unaffordable for all customers
- Adaptable. Affordable. Reliable. Environmentally protective.