S T A T E O F M I C H I G A N

BEFORE THE

MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the investigation, on the Commission's own motion, into the electric reliability plan of UPPER PENINSULA POWER COMPANY for 2012	Case No. U-16932

RESPONSE OF UPPER PENINSULA POWER COMPANY

SUMMARY

Upper Peninsula Power Company ("UPPCO") is engaged in the generation, distribution and sale of electric energy in the Upper Peninsula of Michigan. UPPCO serves various cities, villages and townships located in the counties of Alger, Baraga, Delta, Houghton, Iron, Keweenaw, Marquette, Menominee, Ontonagon and Schoolcraft.

UPPCO provides service to customers from a portfolio of generation resources located in the Upper Peninsula as well as with purchased power.

UPPCO is a member of the Midwest Reliability Organization ("MRO"), one of the North American Electric Reliability Corporation ("NERC") Regional Entities and of the Midwest Independent System Operator (MISO). MISO conducts summer, winter, and long-term regional reliability assessments with data submitted through its Module E Capacity Tracking Tool. MISO submits these assessments to the MRO. UPPCO is also required, by Module E of MISO's Open Access Transmission, Energy, and Operating Reserve Markets Tariff, to maintain a minimum reserve margin which is reported on a one-month forward-looking basis. For the 2012/13 planning year, MISO's Module E process has established a non-coincident planning reserve margin of 3.79% on an Unforced Capacity (UCAP) basis. UPPCO's forecast 2012 planning reserve margins on a UCAP basis for June, July, and August are 29.0%, 31.8%, and 47.0%, respectively.

UPPCO would like to also inform the Commission that Module E of the MISO Tariff has provisions to allow states to request the extent to which each Load Serving Entity (LSE) has met or has not met the resource adequacy requirements. Additionally, Module E requires MISO to inform applicable state authorities if the capacity resources are insufficient either for three consecutive months or for one month between June 1 and September 30.

UPPCO has reduced its firm load requirements by expanding its interruptible program. Currently, 13 customers participate in interruptible or real time pricing programs that comprise 56 MW of interruptible load, which is approximately 36% of the total UPPCO load.

GENERATION ADEQUACY

Exhibit 1 shows the adequacy of UPPCO's generation plan for the 2012 summer peak season, including the system's projected summer peak demand, generating capability, purchase capacity arrangements, and associated planning reserve margin.

1. Peak Demand

   UPPCO's forecast 2012 summer peak demand is 102.6 MW for the month of July. This peak demand represents UPPCO's total system load at the net design period. This load includes transmission and distribution losses and does not include serving any interruptible load. This value can be calculated by subtracting the Demand Resource from the Demand Forecast for the month of July on Exhibit 1.

2. Generation Resources
   a. Installed Capacity

Station	Fuel	Net Capability (MW)
Victoria	Hydro	10.5 MW
Prickett	Hydro	0.4 MW
Portage	Fuel Oil	0.0 MW
Gladstone	Fuel Oil	18.4 MW
McClure	Hydro	3.8 MW
Hoist	Hydro	1.4 MW
Total		34.5 MW

All of the above generation units are located in the state of Michigan.

In June 2010, the Portage unit experienced a forced-outage due to a mechanical failure. A subsequent energy and capacity value analysis determined that immediate repair was not cost effective. The decision was made not to repair the unit; therefore the Portage generator is currently unavailable. The Victoria hydroelectric facility will be unavailable due to a scheduled outage from June – August 2012. The remainder of the UPPCO System does not have any scheduled outages for the July through August peak period. Therefore, UPPCO does not believe that any extraordinary

coordination is required with other utilities in order to ensure that plants will be available to serve UPPCO customers' demand during the summer of 2012.

b. Capacity Purchases

Capacity resources have been contracted for the summer 2012 peak season. UPPCO has contracted a total of 90.5 MW from several counterparties. UPPCO has acquired the necessary firm network transmission to ensure delivery of the capacity and energy.

Source	**Net Capability (MW)**
Wisconsin Public Service Corporation	57.0 MW
White Pine	17.5 MW
NSP	15.0 MW
UP Hydro	1.0 MW
Total	90.5 MW

3. Reserve Margin

Exhibit 1 identifies peak load conditions projected for the 2012 summer season, and the reserve margins for each month. Interruptible load on the UPPCO system is not included in these reserve margins.

4. Reserve Margin Utilization

UPPCO will utilize its summer 2012 reserve margins to accommodate contingencies such as unplanned generating capacity outages or increases in demand resulting from the occurrence of extreme weather conditions. These contingencies represent events whose random nature is unpredictable.

If the amount of unplanned contingencies would exceed the reserve margin available to fully cover such contingencies, UPPCO would take appropriate action, depending on the severity of the situation, to deal with the capacity deficiency in order to avoid curtailment of firm load. This could involve utilizing interruptible loads and/or purchasing available capacity bilaterally or through MISO's Module E voluntary capacity auction process.

Based on the information provided in Exhibit 1 and the considerations mentioned above, the UPPCO System generation and capacity resources are expected to be adequate to meet its projected peak demand for the summer 2012 season and, at the same time, accommodate unexpected load levels and generation contingencies.

5. Regional Reliability Council Audit

UPPCO is a member of the Midwest Reliability Organization (MRO) Regional Entity, whose primary focus is developing and ensuring compliance with regional and international reliability standards and performing assessments of the grid's ability to meet the demands for electricity. UPPCO is also a member of MISO, who conducts summer, winter, and long-term regional reliability assessments with data submitted through the Module E Capacity Tracking Tool. MISO submits these assessments to the MRO.

As a load serving entity within MISO, UPPCO must also comply with the provisions of the MISO Open Access Transmission, Energy, and Operating Reserve Markets Tariff. Module E of the Tariff provides mandatory requirements to be met by load serving entities to ensure access to deliverable, reliable and adequate planning resources to meet load requirements on the transmission system. The requirements established by Module E recognize and are complimentary with the reliability mechanisms of the states and the Regional Entities within the MISO region. Module E establishes a minimum planning reserve margin for each LSE within the MISO footprint such that a loss of load expectation of no more than 1 day in 10 years is achieved.

On page 3 of the Michigan Public Service Commission's ('MPSC") November 2, 2000 order in Case No. U-12702, the MPSC directed utilities to respond to six questions. UPPCO's responses to those questions for 2012 are as follows:

Question 1:

What amount of Michigan transmission capacity does the incumbent utility and its affiliates own or control?

Response 1:

UPPCO does not directly own or control any transmission capacity. UPPCO is directly interconnected to the transmission system by the American Transmission Company LLC ("ATCLLC") and controlled by the Open Access Transmission, Energy, and Operating Reserve Markets Tariff provisions of MISO. Integrys Energy Group, the holding company over UPPCO, has financial ownership of a portion of the ATCLLC[1].

Question 2:

[1] In the April 16, 2004 rehearing order in docket RM01-10, Standards of Conduct, paragraph 37, FERC clarified that an entity that owns a financial interest in transmission facilities, but does not otherwise own, operate or control transmission facilities, is not a Transmission Provider, but if that ownership exceeds 10% it does make the entity an affiliate.

What amount of import transmission capacity does the incumbent utility and its affiliates own or control by type? If the capacity has been purchased or reserved, identify the amount, type, path, and duration. (For example, 100 MW of firm point-to-point transmission on the AEP to MECS path for 11/1/00 to 10/31/01.) Provide a chronology of each request to purchase or reserve capacity, whether successful or not, including dates of initial request, confirmation, and status at the time of filing these answers.

Response 2:

As indicated in Response 1, UPPCO does not directly own or control any transmission capacity and relies on the transmission systems of others. UPPCO primarily relies on the ATCLLC transmission system, under the control of MISO. To a lesser extent UPPCO may rely on transmission systems of others under the control of MISO and the Pennsylvania, New Jersey, Maryland (PJM) RTOs. UPPCO maintains Network Integration Transmission Service for its entire portfolio of network resources through the Open Access Transmission and Energy Markets Tariff of MISO and relies on Financial Transmission Rights ("FTR") allocations[2] and auction purchases from MISO to ensure economic transportation of its network resources.

Question 3:

Identify the amount of retail access load recognized in the capacity planning process for 2012. For purposes of planning system operation and purchases, is the retail open access load assumed to be totally off of the incumbent's system or is the incumbent planning to serve this load under certain circumstances?

Response 3:

One alternative electric supplier (AES) is currently registered with UPPCO. The AES currently serves one customer that has an average load of approximately 0.9 MW. This customer began taking service from the AES on March 1, 2012 and the electric load for this customer is not included in UPPCO's plans for the remainder of 2012 and beyond.

Question 4a:

[2] On May 1, 2004 Commonwealth Edison turn control of its transmission system over to the Pennsylvania, New Jersey, Maryland RTO which operates a Locational Marginal Pricing market. Under this system transmission service is available to any party that is willing to pay the congestion costs. FERC has stated that LSEs, like UPPCO, will be provided adequate Financial Transmission Rights to cover congestion costs equal to their previous firm transmission rights.

Identify the transmission resources that are available to serve UPPCO's bundled retail customers in the incumbent utility's service territory.

Response 4a:

UPPCO relies on Network Integration Transmission Service from MISO to move its network resources to bundled retail customers. The terms, conditions, and provisions of the MISO Open Access Transmission, Energy, and Operating Reserve Markets Tariff and business practices govern UPPCO's access to and the availability of the MISO transmission system.

Question 4b:

Identify the transmission resources that are available to serve the loads of retail open access customers (located in Michigan) of the incumbent's affiliates.

Question 4c:

Identify the transmission resources that are available to serve all retail open access loads in the incumbent's service territory.

Question 4d:

Provide the details of transmission transactions by the incumbent and its affiliates that affect the availability of transmission resources to non-affiliated alternative electric suppliers.

Response 4b-d

UPPCO does not directly own or control any transmission capacity. The transmission systems that UPPCO relies on are owned by the ATCLLC and controlled by MISO.

Since MISO controls the transmission systems in Wisconsin and the Upper Peninsula of Michigan through its Open Access Transmission, Energy, and Operating Reserve Markets Tariff and business practices, all electric suppliers have equal and open access to available transmission capacity.

Question 5:

What effect does Section 10v of 2000 PA 141, MCL 460.10v; MSA 22.13 (10v) have on the planning process?

Response 5:

UPPCO serves less than 100,000 customers in the state of Michigan, therefore Section 10v of 2000 PA 141 does not apply.

Question 6:

If there are transmission constraints, physical or otherwise, what actions has the incumbent utility taken or does it plan to take, to alleviate those constraints and remove impediments to the ability of alternative electric suppliers to participate fully in Michigan's retail access market?

Response 6:

As indicated previously, UPPCO does not directly own or control any transmission capacity. UPPCO is directly interconnected to the transmission system owned and operated by the ATCLLC. Access to the ATCLLC transmission system is dictated by the terms and conditions within the MISO Open Access Transmission, Energy, and Operating Reserve Markets Tariff. As a customer of the ATCLLC and a stakeholder within the MISO Transmission Expansion Plan (MTEP) process, UPPCO has worked closely with the ATCLLC, MISO, and other stakeholders to identify the need for increased transmission capabilities into and within the Upper Peninsula of Michigan. ATCLLC and MISO have documented those needs and potential transmission reinforcement alternatives in the MTEP report, which is publicly available at the MISO website (www.midwestiso.org) under the Planning tab.

Exhibit 1

Line	Demand (MW)	Jun-12	Jul-12	Aug-12
1	Demand Forecast (incl. interruptible)	155.8	158.7	153.6
2	Direct Load Control Management	0.0	0.0	0.0
3	Demand Resource	56.1	56.1	55.7
4	Full Responsibility Purchases	57.0	57.0	57.0
5	Full Responsibility Sales	0.0	0.0	0.0
6	Adjusted Net Demand			
	(Line 1 - (Lines 2, 3, 4) + Line 5)	42.7	45.6	40.9
	Capacity Summary (MW)			
7	Planning Reserve Margin Requirement (Line 6 + 3.79% Reserve Margin Required)	44.3	47.3	42.4
8	Total Planning Resource Credits	55.1	60.1	60.1
	Planning Reserve Margin			
	Surplus or Deficit (Line 8-Line 7)	10.8	12.8	17.7
	Planning Reserve Margin (%)	29.0%	31.8%	47.0%