

Date Mailed
February 2, 1999

BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application for Approval of an Affiliated Interest Agreement
Between Wisconsin Public Service Corporation and Upper
Peninsula Power Company

6690-AU-107

**FINDINGS OF FACT, CONCLUSIONS OF LAW,
AND ORDER**

Wisconsin Public Service Corporation (WPS) filed an application on October 19, 1998, under Wis. Stat. §§ 196.52 and 196.795, for authority to engage in affiliated interest transactions with Upper Peninsula Power Company (UPPCO). The application is granted subject to conditions.

FINDINGS OF FACT

THE COMMISSION FINDS:

WPS, 700 North Adams Street, Green Bay, Wisconsin 54307-9001, is a Wisconsin corporation engaged in rendering electric and gas utility service to the public and is a public utility as defined in Wis. Stat. § 196.01 and is a wholly subsidiary of WPS Resources Corporation (WPSR).

UPPCO is an electric utility serving about 48,000 customers in the Upper Peninsula of Michigan. It was the principal subsidiary of Upper Peninsula Energy Company (UPEN) prior to

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its merger with and into WPSR. WPS and UPPCO are therefore affiliated interests as defined by Wis. Stat. § 196.52.

Under the proposed agreement (Attachment A), WPS and UPPCO will share services, assets, and materials in order to realize synergy savings as a result of the merger. The agreement sets forth in general terms the services and products expected to be shared and the transfer pricing to be applied. Most services will be provided by WPS to UPPCO, but there will be some cases where UPPCO will furnish services to WPS.

Section 5 of the service agreement was revised by WPS on January 21, 1999, to address Commission staff's concerns about the provision of Capacity Energy and Transmission Services to UPPCO.

Section 4.1 indicates that office space, furniture and equipment, and the return on investment will be calculated at the weighted cost of capital authorized by the appropriate Commission. Based on discussions with WPS personnel, the ratepayer cost of capital will be substituted for the weighted cost in order to capture the income tax component and more accurately reflect the true cost of providing these assets.

Services provided under the attached agreement will be for utility purposes only. Utility assets and employees will not be shared for the purpose of providing non-utility services.

This is a Type III action under Wis. Admin. Code § PSC 4.10(3). No unusual circumstances suggesting the likelihood of significant environmental consequences have come to the Commission's attention. Neither an environmental impact statement under Wis. Stat. § 1.11 nor an environmental assessment is required.

CONCLUSION OF LAW

THE COMMISSION CONCLUDES:

It has jurisdiction under the provisions of Wis. Stat. §§ 196.02(1), 196.52, and 196.795, to approve the aforesaid contract between WPS and UPPCO, subject to the terms and conditions set forth below.

ORDER

THE COMMISSION ORDERS:

The affiliated interest agreement between WPS and UPPCO is approved subject to the following terms and conditions:

1. References to the weighted cost of capital in Section 4 of the service agreement shall be changed to refer to the ratepayer cost of capital.
2. A copy of the signed service agreement, revised per Order Point 1, shall be filed with the Commission within 30 days and placed in the case file.
3. WPS shall inform the Commission prior to the effective date of any suspension, modification, or termination of this agreement.
4. Services will not be provided under this agreement for non-utility purposes.
5. Approval of this agreement is not a determination by the Commission that the charges are just and reasonable.

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6. This order is expressly conditioned upon the reserve power of the Commission to revise and amend its terms and conditions to protect and promote the public interest as authorized in Wis. Stat. §§ 196.02, 196.52, and 196.795.

7. Jurisdiction is retained.

Dated at Madison, Wisconsin, _____

By the Commission:

Lynda L. Dorr
Secretary to the Commission

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See attached Notice of Appeal Rights

Notice of Appeal Rights

Notice is hereby given that a person aggrieved by the foregoing decision has the right to file a petition for judicial review as provided in Wis. Stat. § 227.53. The petition must be filed within 30 days after the date of mailing of this decision. That date is shown on the first page. If there is not date on the first page, the date of mailing is shown immediately about the signature line. The Public Service Commission of Wisconsin must be named as a respondent in the petition for judicial review.

Notice is further given that, if the foregoing decision is an order following a proceeding which is a contested case as defined in Wis. Stat. § 227.01(3), a person aggrieved by the order has the further right to file one petition for rehearing as provided in Wis. Stat. § 227.49. The petition must be filed within 20 days of the date of mailing of this decision.

If this decision is an order after rehearing, a person aggrieved who wishes to appeal must seek judicial review rather than rehearing. A second petition for rehearing is not an option.

This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

Revised 9/28/98