ICC STAFF EXHIBIT 1.0

OFFICIAL FILE
ILL. C. C. DOCKET NO. 00-0199 (corrected)
ICC Staff Exhibit No. 1.0
Witness
Date 4/5/01 Reporter CB

STATE OF ILLINOIS )
) SS
COUNTY OF SANGAMON )

AFFIDAVIT

Bruce A. Larson, being duly sworn upon his oath, deposes and states as follows:

1. I am employed by the Illinois Commerce Commission, as a Senior Energy Engineer in the Electric Section in the Engineering Department of the Energy Division.

2. I am assigned to Docket No. 00-0199 where I reviewed the data provided by WPS regarding the cost for Illinois utilities to hypothetically serve customers in WPS' service areas.

3. In its Verified Application ("Application") filed March 2, 2000, WPS Energy Services, Inc.("WPS") compared the cost for Illinois utilities to hypothetically serve customers in its service areas to the rates Wisconsin Public Service Corporation ("WPSC"), one of WPS's retail affiliates, which serves a defined geographic area in Wisconsin, charges those same customers. The analysis used three different estimates of costs to Illinois utilities; the Power Purchase Option ("PPO"), market index and incremental cost. Attachment C to the Application, p. 3. These were compared to the average cost to all industrial users (*Id.*, at 6), except that ComEd incremental costs were, in the original Application, compared to the system average for WPSC's generation and the same marginal cost of capacity. *Id.*, at 9.

4. I performed the analysis below in response to the Commission March 16, 2001, Order. The Order requested Staff to prepare a Report which states whether there are any other sets of assumptions which would assist the Commission in

determining whether either of WPS's retail affiliates serves a defined geographic area to which electric power and energy can be physically and economically delivered by the four electric utilities in whose service areas WPS sought to provide ARES service. This analysis considers the impact on other than the average customer of WPSC. In particular, since WPSC's retail rates contain demand charges, varying customer load factors can result in varying rates. The average rate concept does not consider the interplay of demand charges and customer load factors. The table below demonstrates this fact. The table is based on current WPS rates for the Cp-1 industrial rate class (Source: WPSC web site). I used the current WPSC rates because those are the only retail rates of WPSC currently available to me. WPSC's average rate for this class is $32.1 per MWh. However, the rate for lower load factor customers is very much higher than the average rate of $32.1 per MWh used by WPSC.

| Load Factor | Average Cost |
|---|---|
| 100% | 31.5 |
| 90% | 32.4 |
| 80% | 33.6 |
| 70% | 35.1 |
| 60% | 37.2 |
| 50% | 40.0 |
| 40% | 44.2 |
| 30% | 51.3 |

5. In the documentation accompanying its application, WPS calculated the cost that ComEd would face to serve these customers to be between $32.7 and $42.0 per MWh. ComEd's wholesale power costs do not vary as greatly with load factor as WPS retail costs because the retail costs include a demand charge and the wholesale costs do not. Assuming the spread of energy by time of day and by season stays the same with varying load factor, then ComEd's costs are invariant to load factor and WPS

retail costs vary as shown in the table. There are an unlimited number of combinations of load by time of day and season. Some will have higher costs and some lower. Based on calculations I have made comparing WPSC's current tariffed rates and the Market Value Index currently in place in the tariffs of Commonwealth Edison Company ("ComEd"), and otherwise using the same assumptions as were set forth in the WPS Application, ComEd's costs would range from $50.7 to $57.7 per megawatt-hour. ComEd could thus economically serve a WPSC retail customer in the Cp-1 rate class at load factors just above 30%, which is within the range of probable load factors for certain industrial customers.

6. In its response filed March 21, 2000, applicant provided cost comparisons for the other Illinois utilities territories for which it seeks certification. Applicant's analysis indicates the incremental cost for Illinois Power Company is $40.18 to $41.83 per megawatt-hour. For Central Illinois Public Service Company, the incremental cost is $36.48 to $38.13. For Central Illinois Light Company, the incremental cost is $41.40 to $43.05. In addition, if any of these electric utilities purchased electricity at wholesale in ComEd's service area, then based upon the same cost assumptions as are used in paragraph 5 of this Affidavit, these electric utilities would have the same ability to economically serve a WPSC retail customer in the Cp-1 rate class at load factors just above 30%.

7. The Commission's Order on reopening also requested that Staff not limit itself to considering the sale of electricity from generating resources owned or controlled by these four electric utilities. In accordance with this request, Paragraph 6 above includes the assumption that Illinois utilities other than ComEd purchase wholesale

electricity within ComEd's service area for resale to retail customers in WPSC's service area. My analysis has also included a review of the impact of an Illinois utility buying wholesale power in WPS's territory and reselling it at retail. While this would remove any physical barriers and reduce transmission costs, it does not necessarily reduce the cost of power and energy. I have seen no evidence that wholesale prices an Illinois utility would pay in Wisconsin are lower.

8. Given the above, ComEd, Illinois Power Company, Central Illinois Public Service Company and Central Illinois Light Company can economically sell to some of WPS's Cp-1 customers with load factors less than the class average.

FURTHER AFFIANT SAYETH NOT

Bruce A. Larson

BRUCE A. LARSON

Subscribed and sworn to before me
this 23rd day of March, 2001.

Frances J. Adcock

(Notary Public)

OFFICIAL SEAL
FRANCES J ADCOCK
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES:08/28/04