

FEDERAL ENERGY REGULATORY COMMISSION
Washington, D. C. 20426

OFFICE OF ENERGY PROJECTS

Project No. 10854-085--Michigan
Cataract Hydroelectric Project
Upper Peninsula Power Company

Mr. Terry P. Jensky
Assistant Vice President – Energy Supply Operations
Upper Peninsula Power Company
700 North Adams Street
Green Bay, WI 54307-9001

JUL 14 2008

Reference: Article 403 - 2007 Annual Operation and Compliance Report

Dear Mr. Jensky:

We received your 2007 Annual Operation and Compliance Report, filed March 3, 2008, pursuant to the Commission's October 28, 1999 Order Modifying and Approving Operation and Compliance Plan¹ and its April 13, 2005 Order Approving Updated Operation and Compliance Plan.²

License Requirements

Paragraph (D) of the Commission's October 28, 1999 order requires annual reports summarizing hourly generation, headwater and bypass elevations, turbine flow, and streamflow data from the U.S. Geological Survey gage downstream at Princeton. The annual reports are to be filed by March 1 of the year following data collection with the Commission, Michigan Department of Natural Resources (MDNR), and U.S. Fish and Wildlife Service (FWS). Paragraph (F) of the October 28, 1999 order requires that measurements indicating deviations from the requirements of license Articles 401 and 402 be reported to the Commission within 30 days of any incident. The April 13, 2005 order approves a proposal by the licensee to continue the same reporting protocol for five more years.

¹ See 89 FERC ¶62,082 (1999).

² See 111 FERC ¶62,047 (2005).

License Article 401, in part, requires that you operate the project in a run-of-river mode, maintaining a target reservoir surface elevation of 1,173.5 feet mean sea level, +/-0.25 feet, when reservoir inflow is greater than 55 cubic feet per second (cfs) and less than 415 cfs. The project is not to be operated for power system load following when reservoir levels are between the high and low ends of the elevation range. When project inflow is 55 cfs or less, the project may continue to release up to 55 cfs from the powerhouse. Article 402 requires that you release, into the Middle Branch of the Escanaba River, a continuous minimum flow of 8 cfs.

Annual Operation and Compliance Report

Your 2007 Annual Operation and Compliance Report included the required information and provided details of periods for which hourly records indicate deviations from the requirements of license Articles 401 and 402. You submitted copies of the report to the MDNR and the FWS at the same time that you filed it with the Commission.

Regarding run-of-river operation, you identified five incidents in which reservoir level elevations were recorded that were outside of those required by license Article 401. Of those incidents, four occurred when water levels below 1173.25 feet were recorded during periods of inflow greater than 415 cfs, therefore not representing actual deviations from the requirements of Article 401. One incident occurred during an extended period of low inflow caused by dry conditions, from July 12 through July 25, 2006, resulting in reservoir levels less than 1173.75 feet. During this period, inflow to the reservoir was less than the minimum discharge from the turbine and bypassed reach. Because the combined outflow was greater than inflow, the reservoir elevation was drawn down below the allowable limit.

You identified six instances during the reporting period in which the project tripped off line because of local storms causing flows from the powerhouse to drop below the minimum license limit of 55 cfs. As you noted, these incidents were previously reported to the Commission, MDNR and the FWS.

You also identified instances where flow in the bypass was determined to be 5.5 cfs. The reduced flow was attributed to scheduled outage, penstock leaks, debris build up at the dam, and ice build up around the probe, and additional water was released from the reservoir to reestablish a flow of 8 cfs. The Commission, MDNR and the FWS were also notified of these incidents.

You reported that you will continue to consult with the resource agencies on day-to-day events that may result in deviations from the license requirements.

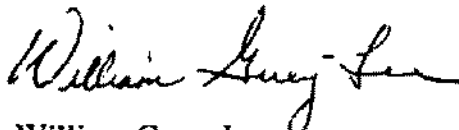
Project No. 10854-085

- 3 -

Your 2007 Annual Operation and Compliance Report satisfies the annual reporting requirement of paragraph (D) of the Commission's October 28, 1999 and April 13, 2005, orders.

Thank you for filing your report with the Commission. If you have any questions regarding this letter, please contact Patricia W. Gillis at (202) 502-8735.

Sincerely,

A handwritten signature in black ink, appearing to read "William Guey-Lee". The signature is written in a cursive style with a long, sweeping tail on the final letter.

William Guey-Lee
Chief, Engineering and Jurisdiction Branch
Division of Hydropower Administration
and Compliance