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November 18, 1999



Ms. Dorothy **Wideman**
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
Lansing, MI 48911

Dear Ms. **Wideman**:

Re: Case Nos. U-11290, et al

Enclosed for filing in the above matter please find an original along **with** fifteen copies of Comments of The **Detroit** Edison Company to the Staff Report on Bid Cycle One, together with a Proof of Service.

Very truly yours,

FOSTER, SWIFT, COLLINS & SMITH, P.C.

A handwritten signature in cursive script, appearing to read 'William K. Fahey'.

William K. Fahey

WKF/jkc
Enclosures

cc(w/encl): All Parties of Record

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STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter, on the Commission's own motion,
to consider the restructuring of the electric
utility industry.

Case No. U-I 1290

In the matter of the application of
THE DETROIT EDISON COMPANY for
authority to suspend implementation of its
power supply cost recovery clause
and related relief.

Case No. U-I 1449

In the matter of the request of
CONSUMERS ENERGY COMPANY
for approval of a retail open access tariff.

Case No. U-I 1451

In the matter of the request of
THE DETROIT EDISON COMPANY for
approval of direct access tariff.

Case No. U-I 1452

In the matter of the request of
CONSUMERS ENERGY COMPANY for authority
to suspend its power supply cost recovery clause
and related relief.

Case No. U-I 1453

In the matter of the request of
CONSUMERS ENERGY COMPANY and
THE DETROIT EDISON COMPANY
for approval of a true-up mechanism
in connection with the recovery of
stranded costs.

Case No. U-I 1454

In the matter of the request of
CONSUMERS ENERGY COMPANY for
approval of a performance-based ratemaking
mechanism and changes in standby rates.

Case No. U-I 1456

COMMENTS OF THE DETROIT EDISON COMPANY
TO THE STAFF REPORT ON BID CYCLE ONE

November 18, 1999

On October 28, 1999, the Michigan Public Service Commission ("Commission") issued a scheduling order providing an opportunity for interested parties to comment on Staff's October 20, 1999 Report on Bid Cycle One. The report constitutes Staff's analysis of the first bidding cycle completed September 20, 1999, under Detroit Edison's retail open access program. Detroit Edison hereby submits the following comments to the Staff Report.

Minimum Bid

Detroit Edison recommends that the one-half cent (0.5¢) minimum bid be reinstated for bid cycles three through five. The bid amount, which is the interim Transition Charge, serves two purposes. First, it provides some contribution to recover the costs associated with the implementation of Retail Access Service and the Company's stranded costs arising from implementation of Retail Access Service. Second, it provides a phase-in cost signal to those participating in direct access during the two year transition to full open access, after which time the Transition Charge is estimated to be approximately 1.2¢/kWh. Without the 0.5¢ minimum bid requirement, those participating in direct access could be faced with as much as a 1.2¢/kWh increase in Transition Charge beginning in 2002. With the 0.5¢ minimum bid requirement, this potential impact is reduced to 0.7¢/kWh. The 0.5¢ minimum bid provides the lowest reasonable cost signal for the interim Transition Charge.

In reviewing the results of the first bid cycle, two-thirds of the 670MW's bid were below 0.535 cents, suggesting that in future bid cycles, without an established floor, the bids and resulting transition revenue will fall below the half-cent value. If this were to occur, the emerging electric market would be artificially distorted by

continuing a subsidy of retail access. Further, when full retail access begins in 2002, Edison's costs may be under collected, thereby requiring even larger transition charges to be levied in the future.

Finally, not having the 0.5¢ minimum bid requirement creates an opportunity for successful bidders with high bids to bid lesser amounts in subsequent bid cycles for the purpose of forfeiting their high bid capacity. The 0.5¢ minimum bid requirement greatly reduces this potential.

Clarification of Voluntary Bid Forfeiture

The description of the involuntary bid forfeiture provision (caused by failure to meet the 180 day deadline to enroll customers, for example) was clearly set out in the bidding requirements. If a capacity owner held multiple bids within the same bid cycle, the forfeited capacity was always deemed to be the lowest-priced capacity held by the capacity owner. Likewise, customers were presumed to be enrolled in the highest priced capacity held by a capacity owner. Together these rules prevented using involuntary forfeiture to "game" the bid process, by forfeiting to lower cost bids by the same bidder.

The same logic was applied to voluntary bidding. Unfortunately, the explanation offered in cycle one was not as clear as Detroit Edison had hoped it would be. Changes were made to the Electric Choice Supplier Handbook (including the web-site version) and to the bid rules that appear on the bid application itself for the second bid cycle.

The following further clarification is offered for the rules governing voluntary retail access capacity forfeiture:

If a capacity owner chooses to voluntarily forfeit any of its retail access capacity, it will be presumed to be at the lowest priced bid capacity. This forfeiture also invalidates any non-winning bids the capacity owner may have in that same bid cycle

If a capacity owner specifies that it is voluntarily forfeiting any retail access capacity, other than its lowest priced capacity, then all remaining capacity priced below the forfeited capacity, as well as any non-winning bids in that same bid cycle, are also forfeited. A partial forfeiture at a given price also has the same effect on all lower priced capacity and non-winning bids within that bid cycle held by that capacity owner.

These clarifications are needed to ensure that potential capacity owners understand they cannot “forfeit” their way to a more attractive price.

Reciprocity

Detroit Edison’s interpretation of the Electric Choice reciprocity requirements is that reciprocity applies to the marketer who brings the power to the distribution system and sells it, directly or indirectly, to customers. Enforcing reciprocity requirements at the generation source - which may be a unit located outside the state, or owned and operated by an entity other than the Marketer was deemed unworkable by the Commission in a ruling in Consumers Energy Case Nos. U-I 0685 et al.

The current reciprocity policy protects Michigan utilities from direct participation by utilities and utility affiliates that haven’t opened their systems to at least in the same proportion as Michigan utilities. This provides a reasonable degree of protection and fairness.

While Detroit Edison is legitimately concerned about enforcing Michigan’s reciprocity requirements to the greatest extent possible, it does not believe the reciprocity issue extends to bidding. Therefore, Detroit Edison disagrees with Staff’s

suggestion that "bids from non-qualifying utilities and their affiliates would not be accepted." Edison's reasoning is that ownership of retail access capacity rights is totally independent of how that capacity is used in the market. A capacity owner might be a supplier interested in serving customers with this capacity, which is the case Staff presumably had in mind by their comment. But capacity owners may also be bidding to use the capacity to serve their own uses, to assist an independent marketer with whom they have a relationship, or simply to speculate in the capacity market. Since reciprocity requirements only extend to capacity owners serving Michigan loads, putting reciprocity restrictions on bidding is not justified.

Such a restriction on bidding is also likely to be largely ineffective against potential violators. It stands to reason that, if a utility or utility affiliate is willing to serve customers through a "sham" marketer (as opposed to an independent one), that same utility or affiliate would most likely be willing to also use a "sham" bidder.

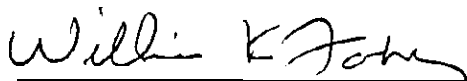
Relief

The Detroit Edison Company respectfully requests that the Commission adopt its comments for incorporation in future retail access bid cycles.

Respectfully submitted,

FOSTER, SWIFT, COLLINS & SMITH, P.C.
Attorneys for The Detroit Edison Company

Dated: November 18, 1999

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