The Detroit Edison Company
2000 2nd Ave., Detroit, MI 48226-1279
Tel: 313.235.8000

Direct Dial No.:
(313) 235-7481

Detroit Edison

March 31, 1999

VIA ELECTRONIC MAIL

Ms. Dorothy Wideman
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
Lansing, Michigan 48909-7721

Re: **MPSC Case No. U-11956; True-up Proceeding**

Dear Ms. Wideman:

Please find enclosed for filing with the Commission an original and four copies of The Detroit Edison Company's Application for True-Up of Stranded Costs along with proof of service, for the above referenced matter.

Very truly yours,

Bruce R. Maters

Bruce R. Maters

BRM/sb
enclosure

cc: Service List

I

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Application of THE DETROIT EDISON COMPANY for authority to recover retail access program implementation costs and for approval of a true-up mechanism in connection with the recovery of stranded costs	)	Case No: U-11956

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss.
COUNTY OF WAYNE)

SUSAN BADDER, being duly sworn, deposes and says that on the 31st of March, 1999 she served a copy of **The Detroit Edison Company's Application for True-Up of Stranded Costs** upon those persons identified on the attached service list by depositing same in the United States mail bearing postage fully prepaid.

Susan Badder

Susan Badder

Subscribed and sworn to before me
this 31st day of March, 1999

Sherrin M. Shehan

Notary Public
SHERRIN M. SHEHAN
Notary Public, Wayne County, MI
My Commission Expires July 21, 2003

SERVICE LIST
MPSC Case No. U-11956

Indiana Michigan Power (AEP)

James A. Ault
Loomis, Ewert, Parsley, et al
232 S. Capitol Avenue, Suite 1000
Lansing, MI 48933
(517) 482-2400
(517) 482-7227 FAX

Marc E. Lewis, Esq.
One Summit Square
P.O. Box 60
Fort Wayne, IN 46801
(219) 425-2195
(219) 425-2112 FAX

MCAAA

Brian Coyer, Esq.
Knaggs, Harter, King & Brake
1375 S. Washington, Suite 300
Lansing, MI 48910
(517) 482-1659
(517) 482-2689 FAX

Michigan Independent Power Producers Association/NIPSCO

Ronald E. Russell, Esq.
Russell & Russell, P.C.
525 Okemos Road, Suite B
Mason, MI 48854
(517) 676-6400
(517) 676-3544 FAX

City of Detroit-PLD/MPPA

Peter Ellsworth, Esq.
Dickinson, Wright, Moon,
Van Dusen & Freeman
215 S. Washington Square, Suite 200
Lansing, Michigan 48933-1816
(517) 487-4710
(517) 487-4700 FAX

Shell Western

Glen Schmiege, Esq.
Foster, Swift, Collins & Smith, P.C.
313 S. Washington Square
Lansing, MI 48933-2122
(517) 371-8143
(517) 371-8200 FAX

Midland Cogeneration Venture

Stephen O. Schultz, Esq.
Foster, Swift, Collins & Smith, P.C.
313 S. Washington Square
Lansing, MI 48933
(517) 371-8152
(517) 371-8200 FAX

Michigan Public Service Comm.

Tonatsin M. Alfaro Garcia, Esq.
David A. Voges, Esq.
Assistant Attorney General
6545 Mercantile Way, #15
Lansing, MI 48911
(517) 334-7650
(517) 334-7655 FAX

Michigan Attorney General

J. Peter Lark, Esq.
Donald E. Erickson, Esq.
630 G. Mennen Williams Building
P.O. Box 30212
Lansing, MI 48909
(517) 373-1123
(517) 373-9860 FAX

SERVICE LIST
MPSC Case No. U-11956

<u>Midcon Gas Services Corp./MC</u>

Thomas J. Augspurger, Esq.
701 E. 22nd Street
Lombard, IL 60148-5072
(630) 691-2699
(630) 691-3827 FAX

<u>Michigan Public Service Comm.</u>

Jane E. Kelly
6545 Mercantile Way
P.O. Box 30221
Lansing, MI 48909
(517) 334-7259
(517) 882-5137 FAX

<u>Consultant for ABATE</u>

James Selecky
Brubaker & Associates, Inc.
1215 Fern Ridge Parkway
Suite 208
P.O. Box 412000
St. Louis, MO 63141-2000

<u>Consumers Energy Company</u>

Jon R. Robinson, Esq.
212 West Michigan Avenue
Jackson, MI 49201
(517) 788-0698
(517) 788-0768 FAX

<u>Residential Ratepayers Consortium</u>

David L. Shaltz, Esq.
Diane R. Royal, Esq.
Shaltz & Royal, P.C.
3303 W. Saginaw, Suite C-1
Lansing, MI 48917
(517) 321-7722
(517) 321-7738 FAX

<u>Energy Michigan</u>

Eric J. Schneidewind, Esq.
Varnum, Riddering, et al.
The Victor Center, Suite 810
201 N. Washington Square
Lansing, MI 48933
(517) 482-6237
(517) 482-6937 FAX

<u>ABATE</u>

Robert A.W. Strong, Esq.
Clark Hill
255 S. Woodward Avenue, Ste. 301
Birmingham, MI 48009
(248) 642-9692
(248) 642-2174 FAX

<u>Dow Elanco</u>

David E.S. Marvin, Esq.
Fraser, Trebilcock, Davis & Foster
1000 Michigan National Tower
Lansing, MI 48933
(517) 377-0830
(517) 482-0887 FAX

SERVICE LIST
MPSC Case No. U-11956

<u>Wisconsin PSC</u>

Sherri A. Wellman, Esq.
Loomis, Ewert, Parsley, et al
232 S. Capitol Avenue, Suite 1000
Lansing, MI 48933
(517) 482-2400
(517) 482-7227 FAX

<u>Ada Cogeneration</u>

Michael S. Ashton, Esq.
Fraser, Trebilcock, et al.
1000 Michigan National Tower
Lansing, MI 48933
(517) 482-5800
(517) 482-0887 FAX

<u>First Power, L.L.C./CUT</u>

William R. Ralls, Esq.
Butzel Long
118 West Ottawa Street
Lansing, MI 48933
(517) 372-6622
(517) 372-6672 FAX

<u>Grayling Generating Station Limited Partnership and Viking Energy of Lincoln, Inc.</u>

Thomas J. Waters, Esq.
Fraser, Trebilcock, et al.
1000 Michigan National Tower
Lansing, MI 48933
(517) 482-5800
(517) 482-0887 FAX

<u>The Detroit Edison Company</u>
William K. Fahey, Esq.
Foster, Swift, Collins & Smith, P.C.
313 S. Washington Square
Lansing, MI 48933
(517) 371-8150
(517) 371-8200 FAX

<u>Michigan Gas & Electric Assoc.</u>
Robert B. Nelson, President
636 Michigan National Tower
Lansing, MI 48933

<u>MPSC</u>

Thomas Stanton
MPSC – Electric Division
6545 Mercantile Way
Lansing, MI 48911
(517) 334-6264
(517) 882-5137 FAX

<u>Enron Corporation</u>

Janine Migden, Director
Governmental Affairs
400 Metro Plaza
Dublin, OH 43017

<u>Michigan Consolidated Gas</u>

Dennis O'Connell, Esq.
Senior Attorney
500 Griswold
Detroit, MI 48226

<u>Kraft Foods, Inc.</u>

Michael A. Stosser, Esq.
Heller Ehrman White & McAuliffe
815 Connecticut Ave., #200
Washington, DC 20006

SERVICE LIST
MPSC Case No. U-11956

MECA

Michael W. Peters
Executive Vice President
2859 Jolly Road
Okemos, MI 48864

NIPSCO Energy Services

Steve Etsler
801 E. 86th Avenue
Merrillville, IN 46410

Alpena Power Company

James D. Florip, Esq.
Gillard, Bauer, Mazrum, et al.
109 E. Chisholm Street
Alpena, MI 49707

Enstar Energy Group

Don Johns
525 Okemos Road, Suite B
Mason, MI 48854

MMEA

Gary Zimmerman
Executive Vice President
809 Centennial Way
Lansing, MI 48917

Wisconsin PSC & Wabash Valley Power Association, Inc.

Harvey J. Messing, Esq.
Sherri A. Wellman, Esq.
Loomis, Ewert, Parsley, et al
232 S. Capitol Avenue, Suite 1000
Lansing, MI 48933

Wolverine Power Supply Coop.

Albert Ernst, Esq.
Dykema, Gossett
800 Michigan National Tower
Lansing, MI 48933

Upper Peninsula Power Company

Burton C. Arola
Vice President – Finance
600 Lakeshore Drive
P.O. Box 130
Houghton, MI 49931

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Application of THE DETROIT EDISON COMPANY for authority to recover retail access program implementation costs and for approval of a true-up mechanism in connection with the recovery of stranded costs	))))))))	Case No: U-11956

APPLICATION FOR TRUE-UP OF STRANDED COSTS

THE DETROIT EDISON COMPANY (“Edison” or “Company”), pursuant to the March 8, 1999 Order of the Michigan Public Service Commission (“Commission”) in Case No. U-11290 et al., requests that the Commission initiate a proceeding to approve Edison’s stranded cost true-up proposal, and in support says as follows:

1. Edison is a Michigan investor-owned electric public utility engaged in the generation, transmission, distribution and sale of electricity to approximately 1.9 million customers in southeastern Michigan and is a public utility subject to the jurisdiction of the Commission.

2. The Commission’s January 14, 1998 Order in Case No: U-11290 et al. estimated Edison’s stranded costs based upon a 2.9 ¢/kWh market price (escalated thereafter) and recognized that actual retail access service customer volume and actual market prices would require that stranded costs be

recalculated in an annual true-up proceeding based upon actual retail access program experience. Specifically, as indicated in the Commission's January 14, 1998 Order, the true-up mechanism should reflect differences: 1) in sales volumes for both retail access and bundled service customers from those volumes used in the initial calculation of stranded costs; 2) in market price from the assumptions used in the initial calculation of stranded costs; and 3) between the actual bid amounts during the transition period and actual stranded costs. Actual experience may reveal that Edison's stranded costs are either greater than or less than the Commission's best estimate. (MPSC Case No. U-11290 et al., Order dated January 14, 1998 pp. 14, 17-18)

3. The Commission's January 14, 1998 Order contemplated the establishment of a bidding process for retail access capacity from 1999 through 2001. The revenues associated with the Commission's bidding process would be compared to actual stranded costs based upon the actual sales volumes and actual market price for each year, and the difference would be added to or subtracted from the (existing) stranded cost amount, as appropriate. Any costs found to be imprudent in a PSCR case or other rate proceeding could require an adjustment to (existing) stranded costs, pursuant to the Commission's Order. (MPSC Case No. U-11290 et al., Order dated January 14, 1998 pp. 17-18)

4. In addition, the Commission ordered that Edison recover its prudently-incurred costs for implementation of electric utility industry restructuring. (MPSC Case No. U-11290 et al., Order dated January 14, 1998,

p. 17-18) Such costs clearly include the reasonable "start-up costs" of the Company's retail access program.

5. The Commission reaffirmed its commitment to address Edison's implementation costs along with other policy issues in its March 8, 1999 Order. (MPSC Case No. U-11290 et al., Order dated March 8, 1999, p. 28)

6. Edison has and is presently incurring implementation costs to further restructuring of the electric utility industry and to provide retail access service to electric customers. Because significant implementation costs will be necessary to complete restructuring of the electric utility industry, Edison proposes that the Commission conduct these stranded cost true-up proceedings in two phases.

7. Phase One of these proceedings should involve *only* a prudency review of incurred implementation costs, approval of forecasted implementation spending and allocation of implementation costs among customers and the timing of cost recovery. The initial phase of the proceeding should be expedited to provide resolution of true-up issues prior to initiation of the 1999-2000 true-up case and ensure timely recovery of prudently incurred costs by the Company. Edison proposes that the Commission conduct a separate hearing on these issues and then read the record of that hearing, eliminating the need for a Proposal for Decision. Edison would be prepared to file its direct testimony for this portion of the proceeding on May 31, 1999.

8. In Phase One of these proceedings, Edison will file testimony supporting recovery of approximately $10 million for implementation costs

incurred and booked during 1998, and approximately $4 million incurred during the first Quarter of 1999. The Company's testimony will also support a proposal for recovery of the implementation costs from customers, including when, from whom, and in what amount. Edison will also file testimony in support of approximately $100 million of planned expenditures for the 1999-2001 period related to the implementation of customer choice. These costs are related to: customer servicing, supplier servicing, communication and education, and customer usage determination.

9. On March 8, 1999, the Commission issued an order to establish a state-wide customer education program on electric utility restructuring (CHOICE). Among other things, the Commission sought to develop a funding mechanism for the program through consultation with interested parties and the Staff. In the event that Edison is required to fund some portion of this program, the Company will present such costs for recovery in this proceeding.

10. While the Company is not requesting specific approval in this proceeding for other potential implementation costs such as: 1) automated meter reading system costs, 2) new systems costs needed to meet requirements at the MEPCC, 3) ISO participation costs, 4) transmission system upgrade costs, and 5) employee transition costs, the Company believes that consideration of these costs would be appropriate in future true-up proceedings if incurred or planned.

11. Phase Two of this proceeding should be structured to address remaining true-up issues including: a) the appropriate stranded cost balances; b) the appropriate level of the transition charge; c) the establishment of the

mechanics of the true-up and stranded cost recovery processes; and d) to address policy issues raised by the Commission in its March 8, 1999 Order at p. 28 such as Edison's billing and metering rights and obligations in a restructured electric utility industry.

12. In its testimony and exhibits, the Company will revise the stranded cost balances and transition charge, which the Commission estimated at $2,483 million and 1.25¢kWh respectively in its January 14, 1998 Order. The Company will also file testimony and exhibits describing the process to true-up market clearing prices, sales, retail access bids, retail access reciprocity and stranded cost mitigation. Edison would be prepared to file its direct testimony for this portion of the proceeding by July 15, 1999.

13. Phase Two of this proceeding should, likewise, be conducted on an expedited basis. Expediting Phase Two of this proceeding will help establish greater certainty among market participants, clear the way for subsequent annual true-up proceedings and further the development of a fully functioning marketplace for electric energy. Again, Edison requests that the Commission conduct a separate hearing and read the record, eliminating the need for a Proposal for Decision. Phase Two of this proceeding should be conducted in parallel with Phase One, and on an expedited basis, but because of the greater breadth and complexity of the issues, the parties should be permitted more time to prepare their positions.

14. It is the Company's further understanding that the Commission intends to conduct an "Electronic Filing Pilot Program" in the context of this case.

As the rationale for such a pilot is to streamline and expedite filing procedures, creating an expedited schedule will help test the efficacy of an electronic filing process. Thus, the Commission's "Electronic Filing Pilot Program" provides yet another reason to expedite these proceedings.

WHEREFORE, Edison respectfully requests that this Commission:

A. Accept for filing this Application to initiate a Stranded Cost True-Up proceeding;

B. Give such notice to interested parties as may be required by statute or the Commission's rules;

C. Approve recovery of prudently incurred implementation costs as specified in this Application and described in the testimony and exhibits of Edison's witnesses;

D. Approve Detroit Edison's plan for future implementation spending;

E. Establish a methodology to recover collect prudently incurred implementation costs;

F. Approve Edison's current stranded cost balances and components and transition charge level as described in the testimony and exhibits of Edison's witnesses;

G. Approve the true-up methodology proposed in the testimony and exhibits of Edison's witnesses;

H. Enter an order authorizing Edison's reasonable and prudent proposals that will be filed in this proceeding resolving policy issues raised by the Commission such as determination of Edison's billing and metering rights and obligations in a restructured electric utility industry; and

I. Grant Edison such further relief as the Commission may deem suitable or appropriate.

THE DETROIT EDISON COMPANY

By: Bruce R. Maters

Bruce R. Maters (P28080)
Jon P. Christinidis (P 47352)
Attorneys for Applicant
2000 Second Ave., 688 WCB
Detroit, Michigan 48226
(313) 235-7481

Dated: March 31, 1999