STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Petition of THE DETROIT EDISON COMPANY to establish a revised procedure for future capacity solicitations	)))	Case No: U-12177

PETITION OF THE DETROIT EDISON COMPANY TO VACATE ORDER AND APPROVE ALTERNATIVE <u>CAPACITY SOLICITATION PROCESS</u>

The Detroit Edison Company ("Edison" or "Company") petitions the Commission to vacate its July 22, 1992 Opinion and Order in MPSC Case No. U-8869-DE/U-9798, rescind the process begun thereunder and approve an alternative capacity solicitation process. In support thereof, Edison says as follows:

1. On July 22, 1992 the Commission entered a final order in MPSC Case No. U-8869-DE/U-9798 adopting a competitive bidding framework for Edison for purchases from qualifying facilities. As part of the order, Edison was required to file a Request for Proposal ("RFP") by March 1, 1993. On March 1, 1993 Edison filed a settlement agreement and request to defer solicitation for new capacity until the year 2000. That case was docketed as Case No. U-10292 and on July 8, 1993 the Commission issued an order approving the settlement agreement and deferring capacity solicitation. Pursuant to the settlement approved in that case, the deadline for Edison to file an RFP case was extended until May 1, 1995. On May 1, 1995 Detroit Edison filed its solicitation plan which was docketed as MPSC Case No. U-10840.

2. Contemporaneously with this process, the Commission issued an opinion and interim order in MPSC Case No. U-10143/U-10176 remanding the case for the limited purposes of determining appropriate rates and charges for an experimental retail wheeling service. On June 19, 1995 the Commission issued an opinion and order after remand in that case which set rates, terms and conditions and other requirements for experimental retail wheeling service for Edison and Consumers Power Company.

3. In Case No. U-10840 the Company revised its 1994 Integrated Resource Plan to extend the need for capacity from the year 2000 to 2004. A Proposal for Decision was issued March 29, 1996 in MPSC Case No. U-10840. In 1998, Edison sought an exemption from the solicitation process to restart its Connors Creek Generating Plant. On April 14, 1998 the Commission issued an order in MPSC Case No. U-10840 granting the exemption to restart the Connors Creek Plant and requiring Edison to submit by April 24, 1998, a plan for meeting capacity needs identified by the Commission in its order. The Company subsequently filed its capacity plan for the summer of 1998, on April 24, 1998.

4. On March 8, 1999 the Commission issued an order in MPSC Case No. U-10840 approving a 90 MW experimental service rate for Edison. That program is currently subscribed and underway. The Company's main Electric Choice Plan is also underway and the first retail access bid solicitation has been completed. In addition, the Company filed a summer capacity plan for 1999 on February 5, 1999, docketed as MPSC Case No. U-11889.

5. The capacity solicitation framework approved by the Commission in 1992 anticipates the purchase of capacity for long-term periods under long-term contracts. The procedure involves contested case review of solicitation plans and utilizes a time-consuming, litigated process for capacity solicitation management by the Commission. Edison believes that the 1992 capacity solicitation process is not suited to the emerging restructuring of the electric industry and competition within the electric business in general. Electric suppliers must be capable of managing their short-term power needs and to react quickly to market conditions as opportunities present themselves. Moreover, with the introduction of generation competition it would be unfair to subject incumbent Michigan electric utilities to invasive review of their capacity planning while third party suppliers are immune from such process. Furthermore, the Commission has been moving away from such invasive review and is much more attuned to the needs of electric suppliers for confidentiality of competitively-sensitive power contracts and related data. This sensitivity has been demonstrated in the Commission's recent Act No. 69 licensing decisions, its emerging supplier certification process and in the Company's annual power supply cost recovery proceedings. Finally, recent judicial opinions limit the Commission's authority to regulate utility management business decisions.

6. Under these circumstances, Edison believes that it is time to revisit the initial capacity solicitation process approved by the Commission and to substitute it with a more streamlined procedure which balances the need for reliable electric supply in Michigan with the emerging competitive dynamics of a

restructured electric market. Therefore, Edison respectfully requests that the Commission vacate its July 22, 1992 order in MPSC Case No. U-8869-DE/U-9798 and the process created thereunder, and replace it with a streamlined RFP process as follows:

A. As long as the Company has a need to procure summer capacity to serve native customers, Edison will file an annual report with the Commission outlining its expected summer generating capacity needs and the method by which it expects to meet those needs. The report could be similar to that filed in MPSC Case No. U-11889. Interested parties would have an opportunity to comment on the reports, but no hearings would be conducted. Edison management would continue to have the responsibility to provide adequate generating capacity, whether owned or operated, to serve its customers' needs.

B. To the extent Edison determines to meet its capacity requirements by executing contracts with a term longer than one year, the Company will utilize an RFP to solicit offers. A copy of a sample RFP is included as Appendix 1 to this Petition. It should be noted that this format was utilized recently by the Company to solicit offers for 1000 MW of capacity for the summer periods of 2000 and 2001. The Company anticipates that future solicitations will follow a similar format.

C. Edison will make available to the Commission Staff for its review under reasonable confidentiality arrangements all offers received and responses to the RFP and all contracts executed as a result thereof. Edison does not propose to disclose these materials to the public so as not to negatively influence the solicitation process. To the extent costs of purchased power are recovered from customers through an active power supply cost recovery clause, all power purchase contracts will continue to be reviewed for reasonableness and prudence for recovery of costs from customers.

7. Edison believes that the alternative capacity solicitation process described herein will provide the Commission with appropriate oversight while maintaining the Company's ability to meet its capacity needs and participate in a restructured electric market. The process described above is consistent with that filed by the Consumers Energy Company on September 30, 1999 and provides a uniform capacity solicitation process for the two largest electric utilities in Michigan. The process outlined above also is consistent with the evolution of federal energy regulatory policy as set forth in recent Federal Energy Regulatory Commission orders as well as the creation by federal statute of an Exempt Wholesale Generator class of electric suppliers who are exempt from the provisions of both the Federal Power Act and the Public Utility Holding Company Act.

8. Approval of the alternative solicitation process will not increase the rates or charges paid by Edison's customers and therefore should be approved without the necessity of a contested case hearing. The Company is not opposed to a procedure conducted by the Commission which will provide opportunity for comment by interested parties and responses to those comments by other parties, including Edison. The Company requests that the Commission approve the alternative solicitation process proposed by Edison in a final order.

WHEREFORE, The Detroit Edison Company respectfully requests that the Commission vacate its July 22, 1992 order in MPSC Case No.U-8869-DE/U-9798, rescind the process begun thereunder, and adopt and approve for use by Edison the proposed alternative capacity solicitation process described herein as expeditiously as possible and grant Edison any other applicable relief as may be appropriate.

Respectfully submitted,

THE DETROIT EDISON COMPANY

Bruce R. Maters

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Detroit, MI 48226
313/235-7481

Dated: October 25, 1999

«Company»
«Address1»
«Address2»
«City», «State» «PostalCode»

Attn: «Title» «FirstName» «LastName»
«JobTitle»

Request for Proposals for Energy and Capacity

Summary of Request for Proposals

Detroit Edison is evaluating capacity alternatives for meeting its anticipated peak load requirements for the summer periods _________________.

This Request for Proposals (RFP) is for the purchase of peaking electrical generating capacity and energy:

1) from facilities physically located within the Michigan Electric Coordinated System (MECS) (preferred), or

2) from sources able to deliver capacity and energy to MECS on a firm transmission path from the source generator to the MECS sink, or

3) from sources able to deliver capacity and energy "into Cinergy" on a firm transmission path from the source generator to the Cinergy delivery point.

The primary focus of the RFP is for unit or system sources of "dispatchable" or equivalent flexible call option equivalent summer peaking capacity. The capacity may be offered as unit contingent, system firm, or on a financially firm basis with liquidated damages.

Detroit Edison is seeking up to _____ MW of capacity, in preferred minimum bid size increments of ____ MW. Detroit Edison prefers offers of electrical generating capacity that is capable of supplying the Detroit Edison system within at least 6 hours of the time a request is made for delivery, but is willing to consider bids that may require notice to be given on a day ahead basis.

Summary of Requirements

All capacity that is bid should be available on or before June 1, ____, and meet all of the requirements stated below. Offers not meeting one or more of these requirements may be considered by Detroit Edison, although the terms and conditions under which Detroit Edison is willing to offer a contract would differ from those described in this request.

A. General Requirements Common to all Bids

1. All capacity and energy must be:

    a) from facilities physically located within the MECS (preferred), or

    b) from sources able to deliver capacity and energy to MECS on a firm transmission path from the source generator to the MECS sink, or

    c) from sources able to deliver capacity and energy "into Cinergy" on a firm transmission path from the source generator to the Cinergy delivery point.

    (Note that in the future Detroit Edison may be willing to consider alternative delivery points at some other transmission interface should the Company be able to procure firm transmission from that delivery point to MECS. Future consideration will be given in this regard if a particular supplier will notify Detroit Edison that they have the capability to deliver to an alternative transmission interface, whether on the AEP system or some other location from which power can ultimately be delivered to MECS on a firm basis.)

2. The specific periods of interest for Detroit Edison to cover capacity needs are from ________ through and including _______________. A contract can be offered for the entire period from _____________ through _____________ if desired. Offers that may only include one or more months of June, July, and August of the defined summer periods are also acceptable.

3. Detroit Edison would consider an option to extend the contract to include _______________. Detroit Edison will provide a minimum of six months notice if it intends to extend the agreement.

4. Bidders may, at their discretion, specify some formula by which their capacity and/or energy price may be adjusted from the time they make their bid, until the time a contract is finalized, based on some type of referenced market price index. However, the formula used must allow the price to be both increased and decreased to accommodate any fluctuations in market price.

5. Performance guarantees will be included in the terms and conditions of the contract to cover delays of commercial operation past _____________ if applicable, and to cover instances of non-delivery when called upon during operation. Bidders are requested to submit proposals in this regard.

6. Detroit Edison reserves the full rights to utilize all of the capacity and energy accepted under this bid proposal in any manner, including resale into the wholesale market.

7. The contract will limit payments to the amounts approved by legislative, judicial, or regulatory bodies to which Detroit Edison is subject. If a payment reduction is necessary as a result of disallowances due to the actions of any legislative, judicial, or regulatory body, then the seller will have the option to cancel the contract after providing Detroit Edison with 30 days notice.

8. Successful bidders must be able to demonstrate creditworthiness commensurate with the level of their commitments.

B. Requirements for Dispatchable Power and Call Option Capacity

1. Any bids for capacity should be broken down by month. The bidder should specify the flexibility that Detroit Edison may have to pick only those months that may be of interest and refuse the other months.

2. The type of capacity being bid (i.e., unit contingent, system firm, FF/LD, etc) must be clearly identified. If the capacity involves a new unit, additional requirements will apply as defined in part C below.

3. Detroit Edison would prefer dispatchable power and call options that can be exercised with as little notice as possible. Please clearly specify all strike terms associated with exercising the option in the bid proposal.

4. Detroit Edison prefers call options that do not have to be exercised for a full 16 hours. Please specify if a shorter required take period is available.

5. The bid price for capacity must be specified for each period of operation, expressed in $/MW/month. Capacity payments will be prorated and paid on a monthly basis.

6. If the capacity is bid as system firm, information should be provided with regards to the amount of excess capacity available on the particular system and the amount of capacity previously committed to external sales under prior agreements.

7. In general, for unit or system capacity bids it is intended that a separate fixed energy price must be specified for each period, which will be paid based on the quantity of actual delivered energy each month. However, alternative energy pricing mechanisms (i.e., fuel index or “up to” pricing) will be considered.

C. Additional Requirements for potential new capacity sources

1. Successful bidders bidding new unit capacity will be responsible for obtaining all environmental permits and meeting all environmental requirements, including all costs, expenses, and risks associated with meeting these requirements, and for operating their facility in accordance with these requirements. Successful bidders will also be responsible for the costs they may incur with regards to SO_2 emissions.

2. Successful bidders bidding new unit capacity will be responsible for costs associated with connecting their generating facilities to the transmission system within MECS, if located within the MECS system.

3. Successful bidders bidding new unit capacity must show that they have obtained, or are able to obtain, secure sources of fuel, transportation of the fuel to the site, and adequate fuel storage.

4. Bidders bidding new unit capacity will be required to pay for any transmission related study costs that may be required.

5. It is preferred that for any bids involving new unit capacity, all capacity and energy should be available for scheduling/dispatching on an hourly basis, once the unit has demonstrated full net generating capacity pursuant to the terms of the contract.

Submission of Proposals

Please submit the attached bid form (Attachment A), or equivalent, by ______________ ________________________ to:

The Detroit Edison Company
Attn: ___________________
2000 Second Avenue
Detroit, Michigan, 48226-1279

Telephone: (313) _________
Fax: (313) _________

Faxed copies of proposals will be conditionally accepted, pending receipt of a signed original document.

Evaluation and Acceptance of Offers

Detroit Edison expects to evaluate the offers and notify the parties submitting proposals that merit further discussion by _________________. It is the intent of Detroit Edison to have any contracts finalized by the end of ____.

Detroit Edison reserves the right to evaluate all offers in any manner it believes provides for a reasonable cost of obtaining capacity and energy. Detroit Edison may accept one or more offers or may decline to accept any offers. Acceptance of any offer will be accomplished through a written contract, which will contain requirements related to delivery and performance guaranties and other terms and conditions. The Bidder shall indicate any deviations to the definitions and terms used in this solicitation at the time the offer is made.

Additionally, the Bidder shall indicate its legal name, the state in which it is registered to conduct business, its business address, the name and title of the person or persons authorized to obligate the Bidder to agreements of this nature and magnitude, and the name, address, phone number and Fax number of the person authorized to receive communications regarding this matter.

Detroit Edison will hold all bids received as confidential and will not disclose such information unless required to do so by regulatory or legal bodies.

This letter does not constitute an offer to purchase power, and is merely a solicitation of offers, which may or may not be accepted.

Conclusion

If you have any questions regarding this matter, please contact ______________at (313) ________, Fax at (313) ________, or e-mail at _________________________. We look forward to hearing from you.

Sincerely yours,

Attachment

Attachment A

Detroit Edison Proposal Bid Form

1. Bidder Information:

    Company: ______________________________

    Contact Person: _________________________

    Telephone: _____________________________

    Fax Number: ____________________________

2. Please provide a detailed description of the product being offered. In this description, please include, as a minimum, the period the capacity is being offered, call option strike terms(i.e., business or calendar day ahead notification, and number of must take hours when exercised), the type (system firm, unit contingent, FF/LD, etc) of capacity being offered, and any other information not included elsewhere that is pertinent to this offer (additional information may be provided on separate sheets as needed):

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3. Capacity Source:

    Located in MECS: ______

    Delivered to MECS on firm transmission path: ______

    Delivered ‘into Cinergy” on firm transmission to delivery point: ______

4. Capacity quantity and pricing:

    MW available: ______________

    Capacity cost: ______________ ($ MW-month, or specifically another unit as appropriate)

5. Energy Bid

    a. In the event you wish to use some sort of alternative energy pricing mechanism, please describe the mechanism below, and attach an illustrative example.

Description of alternative energy bid price mechanism:

____
____
____
____
____

    b. If an alternative mechanism not used, please provide the fixed energy price:

Energy price/call option strike price: __________________ $/MWh

6. Additional information that applies to unit capacity bids:

    Is the unit Dispatchable: Yes ____ No ____

    Cold start time to synchronization ______________ hours

    Description of proposed capacity:

____
____
____

7. Authorized Signature: ____
(person authorized to bind the bidder to a contract)

8. Contact person: Forward all questions and the Bid Form to:

Detroit Edison
Telephone: (313) __________
Attn: ________________________
Fax: ________________________
2000 Second Avenue
Detroit, Michigan 48226-1279