STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of The Detroit Edison Company for certain determinations pursuant to Sections 32(c) and (d) of the Public Utility Holding Company Act of 1935 and for accounting approval for the transfer of certain assets	Case No. U-12266

ANSWER OF THE DETROIT EDISON COMPANY
TO THE ATTORNEY GENERAL'S PETITION FOR REHEARING

The Detroit Edison Company ("Edison" or "Company") by its attorneys, files this Answer to the Petition for Rehearing submitted by the Attorney General ("AG") on February 17, 2000, in this docket, and says:

1. On February 3, 2000 the Michigan Public Service Commission ("Commission") issued an Opinion and Order in this docket finding that: 1) transfer of the River Rouge Unit 1 power plant ("Rouge 1") from Detroit Edison to a generation affiliate is in the public interest as used in Sections 32(c) and 32(d) of the Public Utility Holding Company Act, 14 USC 79z-5a(c) and 5a(d)(2); and 2) accounting entries proposed by the Company associated with the transfer should be approved.

2. The AG has failed to allege a sufficient basis for rehearing in this case under Rule 403 of the Commission Rules, R460.17403 in that there is 1) no newly discovered evidence, 2) facts or circumstances arising subsequent to the close of the record in this case, or 3) unintended consequences resulting from compliance with the Commission's order that the AG has alleged in support of her Petition.

3. In paragraphs 5 and 6 of her Petition, the Attorney General argues that since Rouge 1 can be operated by Edison without transfer to an affiliate (presumably, an

affiliate with status as an exempt wholesale generator), there is no support for the Commission finding that operation of the plant by an affiliate is in the public interest. The real point is not whether Edison could restart Rouge 1 without transferring it to an affiliate, but rather, is the transfer in the interests of the Company's ratepayers and shareholders? Transfer and operation of the plant protects ratepayers because: a) additional stranded costs are not incurred by Edison; b) shareholders, not ratepayers assume the financial risks associated with restart of a 45 year old plant that hasn't run in 20 years; and c) transfer of Rouge 1 to an affiliated generation company is consistent with the national movement towards deregulation of electric generation.

4. In paragraphs 7 and 8 the AG argues that there is no evidence that the Rouge 1 power is either needed or useful to retail access suppliers. While the decision to restart Rouge is solely one of management prerogative, Edison would point out that recent filings in the Company's 2000 PSCR plan case, U-12121, as well as in the Summer capacity plan case, U-12292, support the decision to restart Rouge. Further, the addition of in-state generating capacity for use by retail access suppliers is squarely in the public interest, whether that capacity is utilized to serve retail access load, or as backup during high peak or constrained transmission periods. The AG's statement implying that limitations on Rouge 1 operation render the capacity useless is simply incorrect and ignores the realities of the products available in the wholesale market.

5. In paragraphs 10 through 17, the AG changes gears and alleges that the Rouge 1 transfer price is unreasonable. Based upon her rough calculation of estimated call option purchase prices over the next few summers, the Attorney General concludes that Rouge 1 is capable of generating some $98 million in revenues. First, the $98 million does not fairly characterize the economics of the transaction and ignores a) the costs

associated with the restart and transfer of the plant, as well as operating and refurbishment costs; and b) the risks and penalties associated with operation of the plant. The Attorney General's calculation also mistakenly assumes that the plant would be operated for 12 days at 24 hours a day when in fact, the plant may be operated for a limited number of days a year and primarily during the sixteen on-peak hours at varying loads. Second, successful operation of Rouge I without substantial additional costs is an unknown risk, and that risk is borne by DTE Energy shareholders, not Edison ratepayers. Thus, there is no detrimental impact to ratepayers, while conversely, there is a significant benefit for having the plant available to serve retail access load in Michigan.

6. This remaining substantive paragraphs of the AG's Petition are dedicated to a critique of the Commission's conditions for approval of the asset transfer accounting (as stated earlier, the decision to transfer the Rouge 1 plant to an affiliate does not require regulatory approval). The transfer price will be booked as a reduction to Edison's revenue requirement. Specifically, Edison has proposed to use the gain from the asset transfer to reduce its regulatory assets. This proposed accounting will benefit both bundled and retail access customers. The AG is simply incorrect in her assertion that the gain from the transfer will be capitalized as a regulatory asset.

WHEREFORE, for the reasons set forth above, Detroit Edison respectfully requests that the Attorney General's Petition for Rehearing be denied.

THE DETROIT EDISON COMPANY

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