STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of **THE DETROIT EDISON COMPANY** to recover implementation costs for its direct access program for the period ended December 31, 1999.
_____/

Case No. **U-12359 (efile)**

BRIEF OF THE
MICHIGAN PUBLIC SERVICE COMMISSION STAFF

Background

This case was commenced on or about March 31, 2000 when the Detroit Edison Company (Detroit Edison or DECo) filed an application for authority to recover 1999 implementation costs associated with the implementation of the Retail Open Access Program. The application was filed in accordance with the Opinion and Order issued March 8, 1999 in Case Nos. U-11290, *et al.*

A prehearing was conducted by Administrative Law Judge Barbara Stump on June 19, 2000. Four parties filed petitions to intervene in the proceedings: Association of Businesses Advocating Tariff Equity (ABATE), Energy Michigan, Plastipak Packaging, Inc. (Plastipak) and the Michigan Attorney General (AG). The Michigan Public Service Commission Staff (Staff) also filed an appearance. All of the parties that filed petitions to intervene and appeared at the prehearing were allowed to intervene and participate in the proceedings (1 Tr 5). A second prehearing was held on June 27, 2000 to establish the schedule for these proceedings (2 Tr 13).

The record in this case consists of three volumes of transcripts totaling 48 pages. Presentation of testimony is contained in Volume 3 of the transcript. Volumes 1 and 2 of the transcript involve the prehearings related to discovery and scheduling matters.

Detroit Edison's direct case was presented by one witness: Joseph A. McCormick. Detroit Edison did not present rebuttal testimony.

ABATE presented direct testimony (revised) from one witness: James T. Selecky. ABATE did not present any rebuttal testimony.

Energy Michigan did not present any direct or rebuttal testimony.

The AG did not present any direct or rebuttal testimony.

Staff presented direct testimony from one witness: Nancy G. Katsarelas. Staff did not present rebuttal testimony.

A total of 3 exhibits were marked and admitted into evidence.

Argument

A. The implementation costs submitted by Detroit Edison must be adjusted.

Nancy G. Katsarelas, an auditor in the Audit Section of the Electric Division testified regarding the prudence of retail open access implementation costs filed by Detroit Edison (DECo). She testified that Staff performed an on site audit of DECo implementation costs for the twelve month period ending December 31, 1999 (3 Tr 46). Based on the staff audit, Ms. Katsarelas recommended a total reduction of $849,383 in the costs submitted by DECo, from $21,237,548 (Exhibit A-1) to $20,388,165 (Exhibit S-3).

1. Disallowed labor costs.

Ms. Katsarelas, citing an internal audit performed by DECo which determined that only 63% of the labor costs charged to implementation of the retail open access program were incremental, reduced the labor costs submitted by DECo by 37% to eliminate non-incremental

labor costs (3 Tr 47).[1] This adjustment resulted in a reduction of labor costs in the amount of $1,255,847 (Exhibit S-3, line 10).[2]

2. Disallowed carrying cost.

Staff also adjusted the carrying costs (cost of capital) submitted by DECo to reflect the fact that the costs submitted by DECo included non-incremental labor costs (3 Tr 47-48). Eliminating non-incremental labor costs from the cost of capital calculation reduced carrying costs by $106,477 from $1,962,412 (Exhibit A-1, line 37) to $1,855,935 (Exhibit S-3, line 12). Staff made an additional adjustment to the cost of capital submitted by DECo to reflect the difference between the method used by DECo to calculate carrying costs and the preferred method to calculate carrying costs (3 Tr 48).[3] The difference in method resulted in an additional $8,583 reduction in carrying costs (Exhibit S-3, line 13).

Conclusion

Staff requests that the retail access program implementation costs submitted by Detroit Edison be modified as Staff has recommended and be approved subject to the conditions set forth in the Commission Order issued November 2, 2000 in Case No. U-12478, and the

[1] Eliminating non-incremental labor costs is done to recognize the fact that some labor costs incurred by DECo are associated with its ongoing operating and maintenance expenses and do not represent additional costs to DECo resulting from the retail open access program. See: Opinion and Order dated October 24, 2000, pg. 9 in Case Nos. U-11955/11956.

[2] The reduction for non-incremental labor costs for 1998 was 45% or $521,524 (Case No. U-11956). DECo reduced its 1999 costs by $521,524 to reflect the 1998 adjustment (3 Tr 27; Exhibit A-1, line 38). Staff reversed this deduction in determining the recommended adjustments for 1999 (3 Tr 47; Exhibit S-3, line 9).

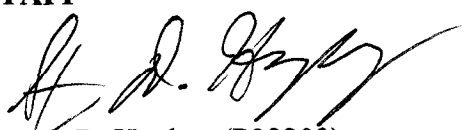
[3] The method employed to calculate carrying costs used a 12 month cumulative balance. The preferable accounting method to use would start with the beginning cumulative balance for implementation costs and add one-half of new additional costs for the year to determine a base amount. The company's rate of return (10.01%) would be applied to the base to arrive at the new carrying cost amount.

conditions set forth in the Commission Order issued October 24, 2000 in Case Nos. U-11955/U-11956.

Staff is willing to waive Section 81 of the Administrative Procedures Act of 1969, MCLA 24.281; MSA 3.560(181).

Respectfully submitted,

MICHIGAN PUBLIC SERVICE COMMISSION STAFF



Steven D. Hughey (P32203)
Assistant Attorney General
Public Service Division
6545 Mercantile Way, Suite 15
Lansing, MI 48911
Telephone: (517) 241-6680

DATED: January 12, 2001
12359/Brief

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Case No. **U-12359 (efile)**

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss
COUNTY OF INGHAM)

TINA L. BIBBS, being first duly sworn, deposes and says that on **January 12, 2001**, she served a true copy of **BRIEF OF THE MICHIGAN PUBLIC SERVICE COMMISSION STAFF** upon the following parties **via e-mail and** by depositing the same in a United States postal depository enclosed in an envelope bearing postage fully prepaid, plainly addressed as follows:

Representing DECo
BRUCE R MATERS
JON P CHRISTINIDIS
THE DETROIT EDISON COMPANY
2000 SECOND AVENUE, 688 WCB
DETROIT, MI 48226

Representing ABATE
ROBERT AW STRONG
CLARK HILL PLC
255 S OLD WOODWARD AVE
3RD FLOOR
BIRMINGHAM, MI 48009

Representing Attorney General
DONALD ERICKSON
ASSISTANT ATTORNEY GENERAL
SPECIAL LITIGATION DIVISION
6520 MERCANTILE WAY, STE 2
PO BOX 30218
LANSING, MI 48909

Administrative Law Judge
HON BARBARA A STUMP
ADMINISTRATIVE LAW JUDGE
MICHIGAN PUBLIC SERVICE COMM
PO BOX 30221
6545 MERCANTILE WAY, STE 14
LANSING, MI 48909

Representing Plastipak Packaging, Inc.
STEWART A BINKE
DONALD F TUCKER
MICHAEL J BROWN
HOWARD & HOWARD
THE PHOENIX BLDG
222 NORTH WASHINGTON SQUARE
SUITE 500
LANSING, MI 48933-1817

Tina L. Bibbs
TINA L. BIBBS

Subscribed and sworn to before me this **12th** day of **January, 2001.**

Mishelle R. Pagels
Mishelle R. Pagels, Notary Public
Clinton County, Michigan
My Commission Expires: 6-8-2001