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 the period ended December 31, 2000. ______________________________________/	Case No. **U-12892** BOH No. 2001-435

BRIEF OF THE
MICHIGAN PUBLIC SERVICE COMMISSION STAFF

This case involves the application of Detroit Edison Company ("Edison") to review implementation costs for the period ended December 31, 2000. The Michigan Public Service Commission Staff ("Staff") submitted the testimony of Nancy G. Katsarelas, an auditor with the Commission, to describe the audit performed on the retail open access program costs for the year ended December 31, 2000 and to present Staff's position relating to year-end costs. TR 25. Ms. Katsarelas further explained that the scope of her audit did not include an evaluation of the electric choice program, and was performed on financial data only. The purpose of her audit, she explained, "was to determine if the amounts booked for implementation costs by Detroit Edison and presented by the Company witness, Mr. Joseph McCormick, are fair and reasonable." TR 27.

Staff's on-site audit consisted of reviewing contractor invoices, company related labor and expense summaries, Internal Audit Reports, journal entries and the overall reasonableness of charges recorded on the company books and records relating to the open access program. TR 25.

Staff's findings and recommendations regarding Edison's implementation costs are summarized on Ms. Katsarelas' Exhibit S-3 (NGK-1). The exhibit summarizes, on lines 1-6, the costs presented by Company witness Joseph McCormick, A-1 (JAM-1). Each category is made up of Company labor, Contractor and Consultant labor, and material, equipment and other costs. Also included were overhead charges. Ms. Katsarelas' review showed that invoices supported the sample of contractor billings, consultant labor, material, and equipment expense. Staff found no material discrepancies. TR 25. Ms. Katsarelas further explained that all costs for the year 2000 were booked directly to account #186, a deferred asset account, and they were not expensed and closed out to the income statement at year-end like normal operating expenses. Ms. Katsarelas further testified that the equipment purchase for this program was deferred to the #186 account rather than booked to Plant accounts. TR 26.

Ms. Katsarelas recommended an adjustment to the company's case with respect to non-incremental labor. Ms. Katsarelas testified:

> Q. Did you review DECO labor expense and determine if there was any non-incremental labor?
>
> A. A schedule of company labor, prepared by the internal auditors, calculated the non-incremental labor percentage. For year ended December 31, 2000, the percentage of non-incremental labor was 29%.
>
> The non-incremental labor is the portion of DECO labor that is recovered through base rates. The remaining portion of labor is new labor hiredsubsequent to the last DECO rate case, MPSC Case No. U-10102, January 21, 1994. Company witness, Mr. Joseph McCormick, included non-incremental labor in his filed exhibit. Total DECO labor was $3,600,129 including $1,044,037 of non-incremental labor. The total company labor should be $2,556,092 when the non-incremental labor portion is removed.
>
> Q. Are you recommending any disallowances?
>
> A. Yes. I am recommending that $1,044,037 of non-incremental company labor be removed from the $27,360,033 implementation costs before carrying cost are computed. This disallowance is consistent with the Commission's findings in MPSC Case No. U-12359.

TR 26-27.

Ms. Katsarelas computed carrying costs as follows:

Q. Are you including carrying costs in your presentation?

A. Yes. Carrying cost are computed using the 7% rate authorized in MPSC Case No. U-12359. The company has computed carrying cost on a monthly basis. Staff recomputed carrying cost by first removing 29% of monthly labor from monthly expenses.

TR 27.

The total electric choice program implementation cost Staff is supporting is $27, 225,289.

Staff respectfully requests that the Commission adopt its finding in this regard.

Respectfully submitted,

MICHIGAN PUBLIC SERVICE COMMISSION STAFF

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Dated: October 15, 2001

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PROOF OF SERVICE

STATE OF MICHIGAN)
)
COUNTY OF INGHAM)

Linda Andreas, being first duly sworn, deposes and says that on **October 15, 2001,** she served a true copy of **Brief of the Michigan Public Service Commission Staff** upon the following parties via electronic filing, 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:

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Linda Andreas

Linda Andreas

Subscribed and sworn to before me
this 15th day of October, 2001.

Tina J. Bibbs

Tina L. ~~Bibbs, N~~otary Public
Ingham County, Michigan
My Commission Expires: 11/13/2003