STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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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

NOTICE OF PROPOSAL FOR DECISION

The attached Proposal for Decision is being issued and served on all parties of record in the above matter on November 1, 2001.

Exceptions, if any, must be filed with the Michigan Public Service Commission, P.O. Box 30221, 6545 Mercantile Way, Lansing, Michigan 48909, and served on all other parties of record on or before November 15, 2001, or within such further period as may be authorized for filing exceptions. If exceptions are filed, replies thereto may be filed on or before November 27, 2001. An original and 15 copies of either document are necessary to meet proper filing requirements, as well as proof of service on all other parties of record.

At the expiration of the period for filing of exceptions, an Order of the Commission will be issued in conformity with the attached Proposal for Decision and will become effective unless exceptions are filed seasonably or unless the Proposal for Decision is reviewed by action of the Commission. To be seasonably filed, exceptions must reach the Commission on or before they are due.

MICHIGAN PUBLIC SERVICE COMMISSION

Barbara A. Stump

Barbara A. Stump
Administrative Law Judge

November 1, 2001
Lansing, Michigan
dp

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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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

PROPOSAL FOR DECISION

HISTORY OF PROCEEDINGS

On March 30, 2001, The Detroit Edison Company (Detroit Edison) filed an application for authority to recover costs incurred during the 12-month period ended December 31, 2000 to further restructuring of the electric industry and to provide retail access service to its electric customers.

A prehearing was held on May 31, 2001. Detroit Edison, the Association of Businesses Advocating Tariff Equity (ABATE), and the Commission Staff (Staff) participated in the proceedings. Attorney General Jennifer M. Granholm (Attorney General) subsequently filed a Stipulation to Admission of Attorney General as an Intervenor and participated in the remainder of the proceedings.

An evidentiary hearing was held on September 13, 2001. Detroit Edison and the Staff were the only parties to present testimony. Detroit Edison presented the testimony of Joseph A. McCormick, the Supervisor of the Budget and Management Information Group of Detroit Edison's Electric Choice Implementation Team (ECIT). The Staff presented the testimony of Nancy G. Katsarelas, an auditor in the Commission's Electric

Division. Three exhibits were also admitted into evidence. The parties waived cross-examination of the witnesses.

Detroit Edison, the Attorney General, and ABATE filed briefs on October 12, 2001. The ALJ granted the Staff's request to file its initial brief on October 15, 2001. Detroit Edison and the Attorney General filed reply briefs on October 26, 2001.

POSITIONS OF THE PARTIES

Mr. McCormick is responsible for the development, administration, and reporting with regard to the ECIT budget. In his testimony, he provided details related to Detroit Edison's incurred 2000 Electric Choice Program implementation costs and the proper accounting for those costs. He sponsored Exhibit A-1, which shows the 2000 full year actual expenses by source department and source type. (2 Tr. 13-14)

Mr. McCormick testified that, in year 2000, ECIT continued the design of key processes and continued moving from manual systems to computer systems. He indicated that the key milestones for year 2000 are presented in Exhibit A-2. (2 Tr. 18)

Mr. McCormick stated that the total amount of implementation costs for the year 2000 is $28,269,326. He explained that these actual expenditures were lower than the previous forecasts because of lower than forecasted participation in electric choice, which leads to lower transaction and metering costs. (2 Tr. 18-19)

Ms. Katsarelas described the Staff's audit of Detroit Edison's 2000 program costs. She sponsored Exhibit S-1, which includes a summary of the costs presented by

Mr. McCormick. (2 Tr. 25) Ms. Katsarelas recommended one adjustment involving Detroit Edison's labor expenses. She testified that the company included $1,044,037 of non-incremental labor, which should be removed from the $27,340,033 implementation costs before carrying costs are computed. Ms. Katsarelas explained that non-incremental labor is the portion of Detroit Edison labor that is recovered through base rates. Based on this adjustment, Ms. Katsarelas stated that the total implementation costs for year ended December 31, 2000 should be $27,225,289. Finally, Ms. Katsarelas clarified that the scope of the Staff's audit was limited to financial data, and it did not include an evaluation of the Electric Choice Program. (2 Tr. 26-27)

Detroit Edison has agreed to accept the Staff's audit and recommendation that the company should be permitted to recover its incremental direct access implementation costs for year 2000 in the amount of $27,225,289. Detroit Edison points out that it has requested authority, in Case No. U-12639, to recover its 2000 direct access implementation costs through residual savings associated with the issuance of the company's securitization bonds.

The Attorney General and ABATE do not contest the reasonableness of at least $27,225,289 of incremental 2000 direct access implementation costs for Detroit Edison. However, they point out that, in its October 24, 2000 order in Case Nos. U-11955 and U-11956, the Commission explicitly held that implementation costs incurred for activities that prove to be ineffective, inefficient, or unworkable may not be recoverable. They therefore request that the Commission continue its policy of making the recovery of these expenses conditional.

Detroit Edison opposes the Attorney General's and ABATE's proposal to make recovery of the year 2000 implementation costs conditional. The company argues that imposing a hindsight review of those costs would be inequitable, unreasonable, and an abuse of discretion. According to Detroit Edison, the Commission is statutorily required by 2000 PA 141 to approve the recovery of the company's 2000 direct access implementation costs. It points out that there is no evidence in the record that supports any conclusion other than that Detroit Edison's 2000 implementation expenditures were reasonable and prudent. In short, Detroit Edison contends that the Attorney General's and ABATE's recommended course of action is unlawful and must be rejected.

Finally, in her reply brief, the Attorney General points out that, in Case No. U-12478, the Commission did not provide for recovery of year 2000 implementation costs through securitization bonds or revenues from them and, consequently, the Commission should not and cannot authorize addition of those costs to expenses recovered through securitization bonds. According to the Attorney General, if the securitization charges result in excess revenues for the year 2001, then Section 10k(3) of 2000 PA 142 requires an adjustment to Detroit Edison's securitization charges, not the addition of more costs to the previously approved level of qualified costs.

DISCUSSION AND FINDINGS

The ALJ finds that the Staff's adjustments to Detroit Edison's 2000 implementation costs should be adopted, and that the company should be permitted to recover its year 2000 incremental direct access implementation expenses in the amount of $27,225,289. None of the parties presented any evidence contesting the reasonableness of those costs.

The ALJ further finds that Detroit Edison's recovery of those costs should be made conditional. In reaching this conclusion, the ALJ rejects Detroit Edison's arguments, because they conflict with the Commission's prior orders on this issue. Specifically, in its October 24, 2000 order in Case Nos. U-11955 and U-11956, the Commission stated that:

> Because very little retail open access load is currently being served, it is difficult for the Commission to judge the effectiveness of Consumers' and Detroit Edison's implementation programs at this time. The Commission notes, however, that it expects Consumers and Detroit Edison to file information in their 2000 and 2001 true-up cases from which the Commission can determine the effectiveness of the implementation costs that the companies seek to recover.
>
> For purposes of the present case, the Commission has reviewed the expenditures on the record and has granted deferred recovery as appropriate. However, it would caution the parties that these findings are conditional. If subsequent events reveal that costs were incurred for projects or systems that ultimately prove to be ineffective, inefficient, or unworkable or otherwise impede the progress to retail open access, the Commission reserves the right to undertake another review of those costs and may foreclose their recovery. (p. 5)

Similarly, in its March 29, 2001 order in Case No. U-12359, the Commission made the recovery of Detroit Edison's 1999 implementation costs conditional. Most recently, in its July 11, 2001 order in Case No. U-12358, the Commission found that its prior decisions on this issue were relevant and that they should have been heeded by the Administrative Law Judge in that case. In doing so, the Commission found that the reasons for it to reserve judgment in Case Nos. U-11955, U-11956, and U-12359 still remain.

The ALJ therefore finds that, consistent with these decisions, the Commission should indicate in its final order in this proceeding that it again reserves the right to undertake another review of Detroit Edison's 2000 implementation expenses.

As to the recovery of the implementation costs, in its October 24, 2000 order in Case Nos. U-11955 and U-11956, the Commission concluded that it would defer the means of recovery of the company's 1998 implementation costs ". . . until pending questions regarding the stranded cost recovery mechanism are resolved." (p. 12) Likewise, in its March 29, 2001 order in Case No. U-12359, the Commission deferred the means of recovery of Detroit Edison's 1999 implementation costs until a stranded cost recovery mechanism is developed. Again, consistent with the Commission's prior orders, the ALJ finds that the means of recovery of Detroit Edison's 2000 implementation costs should be deferred until a stranded cost recovery mechanism is developed. Although Detroit Edison specifically takes the position that recovery should be through residual securitization savings in Case No. U-12639, that case is not before the ALJ and, consequently, she cannot make any recommendations regarding the outcome of that case.

CONCLUSION

The ALJ recommends that the Commission issue an order authorizing Detroit Edison to recover up to $27,225,289 of its incremental direct access implementation costs incurred during the 12-month period ended December 31, 2000, subject to all conditions set forth in the Commission's October 24, 2000 order in Case Nos. U-11955 and U-11956, and its November 2, 2000 order in Case No. U-12478.

MICHIGAN PUBLIC SERVICE COMMISSION

Barbara A. Stump

Barbara A. Stump
Administrative Law Judge

October 31, 2001
Lansing, Michigan
dp

ISSUED AND SERVED: November 1, 2001

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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STATE OF MICHIGAN	)	
	) SS.	Case No. U-12892
County of Ingham	)	
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PROOF OF SERVICE

Dawn M. Prawdzik deposes and says that on the 1st day of November 2001, she served a copy of the attached Proposal for Decision, upon those persons shown on Attachment A, by enclosing same in a sealed envelope addressed as indicated above and delivering the envelope to the Commission's mail courier for (1) postage prepayment and deposit with the United States Postal Service, or (2) delivery through interdepartmental mail (I.D.M.).

Dawn M. Prawdzik

Subscribed to before me this 1st
day of November, A.D. 2001.

Susan F. Webber

Notary Public, Eaton County Acting in
Ingham County, Michigan

My Commission expires 2-14-2004.

ATTACHMENT A

Jon P. Christinidis, Esq.
The Detroit Edison Company
2000 Second Ave., 688 WCB
Detroit, MI 48226

Patricia S. Barone, Esq.
Assistant Attorney General
6545 Mercantile Way
Suite 15
Lansing, MI 48911

Donald E. Erickson, Esq.
Assistant Attorney General
6520 Mercantile Way
Suite 2
Lansing, MI 48911