VARNUM
RIDDERING SCHMIDT HOWLETT LLP
ATTORNEYS AT LAW

THE VICTOR CENTER, 201 N. WASHINGTON SQUARE, STE. 810
LANSING, MICHIGAN 48933

TELEPHONE 517 / 482-6237 • FAX 517 / 482-6937 • WWW.VARNUMLAW.COM

ERIC J. SCHNEIDEWIND MAIL ejschneidewind@varnumlaw.com

January 9, 2003

Ms. Dorothy Wideman
Michigan Public Service Commission
6545 Mercantile Way
P.O. Box 30221
Lansing, MI 48909

Re: Case No. U-13350

Dear Ms. Wideman:

Enclosed for filing in the above captioned matter please find the original and four copies of Energy Michigan, Inc.'s Initial Brief. Also enclosed is the original Proof of Service indicating service on counsel.

Please date stamp one copy of the above entitled document for my records and return it in the self-addressed stamped envelope provided.

Thank you for your assistance in this matter.

Very truly yours,

VARNUM, RIDDERING, SCHMIDT & HOWLETTLLP

Eric J. Schneidewind

Eric J. Schneidewind

EJS/mrr

cc: ALJ
parties

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 implement the Commission's stranded	)	
cost recovery procedures and for approval	)	Case U-13350
of net stranded cost recovery charges.	)	
	)	

ENERGY MICHIGAN, INC.'S INITIAL BRIEF

Eric J. Schneidewind
Varnum, Riddering, Schmidt & Howlett LLP
Attorneys for Energy Michigan, Inc.
201 N. Washington Square, Suite 810
Lansing, MI 48933
(517) 482-6237

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ENERGY MICHIGAN, INC.'S INITIAL BRIEF

This Initial Brief is filed on behalf of Energy Michigan, Inc. (Energy Michigan) by Varnum, Riddering, Schmidt & Howlett LLP.

I. Introduction and Summary of Position

A. Introduction

In Case U-12639, the Michigan Public Service Commission (Commission) ordered Detroit Edison Company (Detroit Edison or Edison) to file proposals each year to calculate and collect stranded costs and any resulting transition charges. The Commission further ordered that stranded costs be calculated using a method proposed by MPSC Staff which compares actual historical Production Fixed generation Costs of a utility with the historical revenue available to pay those Production Fixed Costs during a period for which one year of MPSC or FERC reported data is available. Not all issues relating to application of this formula were resolved in U-12639. Recognizing this fact, the Order stated that, "The Commission defers the issue of refining the methodology and recalculation of net stranded costs for 2000 to the case where transition charges for 2001 will be calculated. This is a further demonstration that this is an evolving process."

B. Summary of Energy Michigan Position

1. A projected 2002-2003 case should be rejected.

Edison's proposal for a projected 2002-2003 should be rejected. Use of projected data invites use of subjective assumptions and can even encourage an operational strategy which is designed to "meet the projections". Edison's incredibly complex presentation in this case is a warning to the Commission that the kind of latitude which would result from use of subjective projections will result in further confusion and complexity.

2. The Detroit Edison filing did not comply with Commission requirements.

The Detroit Edison case consists of alleged year 2000 revenue requirements which are based on cost studies loaded with dubious, inaccurate or misleading adjustments, allocations and other assumptions. Year 2001 revenues to pay Production Fixed Costs are developed as mere ratios of year 2000 results rather than using the actual 2001 data which was publicly available in FERC and MPSC annual reports about three months before the Detroit Edison filing.

The year end 2001 capital structure was "adjusted" to add over $160 million of hypothetical equity thus increasing Edison's claimed rate of return above historically approved levels.

The Commission should use this case as an opportunity to specify and enforce strict filing guidelines for these proceedings base calculations on ruling from the last general rate case which limit presentations to the actual historical data proposed by MPSC Staff in Case U-12639.

3. No amount of manipulation can conceal Detroit Edison's massive over recovery of Production Fixed Costs (PFC) during 2000 through 2001.

a. The Detroit Edison presentation in this case requests that the Commission ignore $53 million of third party power sales and over $177 million of revenue from liquidation of unused hedges, in form of options and calls, paid for by PSCR rates: Impact - $230 million.

b. Edison asks that actual fixed cost revenues from sales to River Rouge be ignored because they might not be continued in the future: Impact - $37 million.

c. Like Consumers, Edison under reported revenue from Special Contracts Customers on a discounted basis instead of imputing full tariff rates for these sales as required by Commission orders: Impact - at $46-112 million.

d. Despite the fact that Edison's rate of return and return on equity were established in Case U-10102 and that no higher return has been authorized, Edison calculated its revenue requirement on hypothetical capital structures and higher rates of return: Impact - more than $40 million.

d. Unexplained adjustments ignore O&M revenue contained in Edison's so-called cost of service study: Impact - $14 million.

Just these five issues (<u>out of many more presented</u>) transform Edison's claimed 2000-2001 PFC deficiency of $44 million into an <u>over recovery</u> of more than $300 million.

4. The structure of the Edison filing necessitates a different approach to securitization offset than was used by the Commission in Consumers Case U-13380.

In Case U-13380, Consumers' request for transition charges was based on a 2000-2001 time frame which included only one month of securitization. Yet, Consumers asked the Commission to allow recovery of stranded costs for 2000-2001when production plant was not securitized <u>and</u> to require ROA customers to pay 2003 securitization bond and tax charges without an offset to cover the securitized costs of Palisades and other assets during 2003. The Commission addressed this request by finding that zero stranded costs were appropriate for the 2000-2001 time frame and that excess securitization savings of $6.1 million would more than offset year 2003 securitization bond and tax charges.

Unlike Consumers, the Detroit Edison case filing was based upon one specifically identified component: the non-securitized PFC revenue requirement (essentially power purchases and non-nuclear generating plants). The revenue requirement (essentially securitization bond and tax charges) for securitized assets is assumed to equal the securitization charges. Edison thus hopes in 2003 to collect a transition charge for the non-securitized assets based on 2000-2001 data and to add 2003 securitization charges of approximately .49 ¢ /kWh which will recover costs of securitization assets.

If the Commission is to preserve the existing Edison zero transition charge, rate securitization offset and rate reduction equalization payments, it must recognize that there more than are enough stranded benefits in year 2000 and 2001 (and probably in future years) to cover all non-securitized PFC and all securitization offsets. The funds available from excess securitization savings can then be used, as necessary, to continue rate reduction equalization payments supplemented by stranded benefits not needed to cover PFC.

DETAILED DISCUSSION

II. Case Format Issues - Projected vs Historical Approaches

A. The Commission Method of Calculating Stranded Costs Requires Use of Historical Data

The Commission is given extremely broad authority by PA 141 to develop a method of calculating net stranded cost including "any...method the Commission considers appropriate." PA 141, § 10s(1)(c).

Commission decision U-12639 adopted a method of calculating stranded costs which compares the authorized revenue requirement of the fixed costs of producing power with the revenue available to pay those fixed costs. Any deficiency is a stranded costs, any surplus is a stranded benefit. U-12639, December 20, 2001, p. 20-21.

The basic formula may be stated as

PFC Revenue Requirement - PFC Revenue = Stranded Cost/Benefit

Revenue available to pay PFCs consists of a percentage of revenue from total sales of power to retail customers plus revenue from third party sales minus the variable costs and PSCR credits used in making those sales.

Finally, the Commission method is based upon use of historical data as a means of establishing a stranded benefit/cost [to be applied to a future year] as an estimate of current or future stranded costs/benefits. Id, p. 20. PA 141 § 460.10a(10). This is much the same concept as use of historical test years in general rate cases to develop a rate which can be applied in future years. This method is particularly suited to periods of low inflation such as the present.

B. The Detroit Edison Filing in This Case Is Based on Estimated Data, Not Historical Data

Detroit Edison witness Edward Falletich calculated a year 2000 PFC revenue deficiency of $3 million based on a comparison of historical PFC revenue requirements and Detroit Edison's "adjustments" of historical PFC revenue available to pay PFCs. Edison calculated PFC revenue requirements by using cost data sponsored by their Witness Heiser <u>not</u> by using the Staff method in Case U-12639 which estimates the percentage of revenue attributable to PFC.

For year 2001, Mr. Falletich used a PFC <u>revenue requirement</u> based upon Mr. Heiser's claimed historical costs. However, Mr. Falletich's estimate of PFC <u>revenues</u> available to pay PFCs was developed by merely dividing the PFC revenue available in year 2000 by the bundled retail sales, deriving a figure of 1.25 ¢ /kWh and then multiplying that revenue per kWh times the actual retail sales in year 2001. Thus, year 2001 revenue available to pay PFC costs is estimated based on year 2000 data <u>even though year 2001 actual revenue data was readily available when the Edison case was filed</u>.

C. What is the Result of Edison's Use of 2000 PFC Revenue to Estimate 2001 PFC Revenue?

Answer: A huge 2001 PFC revenue surplus is concealed.

Edison's own exhibits graphically explain why the Company was anxious to avoid use of year 2001 actual revenue data. Exhibit A-1 prepared by Witness J.H. Byron shows 2001 third party sales of over $192 million including revenue of over $143 million from the unwinding of power options and calls <u>whose cost is currently included in the Detroit Edison frozen PSCR factor</u>. See U-11800 Application, Byron Exhibit JHB-3. Even if $143 million of hedge sales is ignored, Mr. Byron's exhibit still shows a 2001 net third party sales margin of over $26 million after the variable cost of those sales and credits given to PSCR customers are taken into account. <u>In other words, Detroit Edison was able to net almost $170 million in 2001 by disposing of unneeded hedges and power supplies whose fixed costs have been and are being paid by PSCR customers though frozen rates.</u> This windfall, among other windfalls which will be described below, has produced and will continue to produce a huge revenue surplus for Edison during the PA 141 rate freeze. Mr. Falletich's method of projecting 2001 (as well as 2002 and 2003 revenues) using year 2000 data hides this huge surplus and retains it for the benefit of Edison while claiming a PFC revenue deficiency which would justify assessing transition charges to Edison's competitors.

D. The Edison Proposal for Projected Test Years Will Continue to Conceal This Over Recovery

Edison Witness Falletich attempted to justify use of projected test years for transition charge calculation, claiming that use of historical test years produces a two year lag between the occurrence of events and collection of a charge based on those events. For example, year 2001 data is used to fashion a transition charge applicable in the year 2003. Mr. Falletich claims that this lag means that current customers are prevented from experiencing the true cost of service. 3 Tr 133.

Mr. Falletich also claims that if large amounts of Electric Choice customers return to retail service in future years, Edison will never recover its stranded costs. Id, 3 Tr 133-136. Mr. Falletich's answer is to use his projections based on year 2000 results as a forecast of the stranded costs which would actually occur in 2003.

It is no accident, then, that Mr. Falletich's methodology for this case conceals a huge revenue surplus generated in 2001. Mr. Falletich's proposal to develop a year 2003 projected transition charge based on 2000 results unfavorable 2001 actual data and perpetuates use of year 2000 results far into the future, thus compounding the injustice of his position.

E. The Commission Should Enforce Two Filing Requirements: 1) Filing of a Base, Standardized Case and 2) Mandatory Use of Historical Data as Part of That Base Case

1. Need for a standard filing format.

Energy Michigan Witness Polich testified that the Edison case in this proceeding suffers from similar problems encountered in the Consumers Energy filing in Case U-13380. Both companies attempted to use analyses not based upon the last Commission approved cost of service study and both companies are using unapproved capital structures, changed rates of return, new or different accounting methods, and new, unapproved allocation methods for production plant. The result is not only complete confusion but a tendency to turn these proceedings into general rate cases against the clear wishes of the Commission as expressed in Order U-12639. 3 Tr 275.

2. The Commission should mandate a base case filing using the Staff historical method approved in U-12639.

The answer to this confusion and needless complexity is for the Commission to establish a standard procedure which includes specifications on how data is to be made available and calculations are to be made to determine stranded costs. Id.

At a bare minimum, the standard format specified by the Commission as recommended in (1) above, should mandate inclusion of a base case filing using actual historical data for both PFC revenue and PFC revenue requirement. The Detroit Edison filing in this matter is a classic example of the mischief that can occur when historical data is not used. Id.

3. The contents of the mandated transition charge filing should be specified by the Commission.

The problems caused by Edison's filing should be corrected by requiring Edison to annually file a transition charge case once the actual data for the preceding year is known. In addition, the Commission must establish a formula and process that eliminates subjective adjustments not authorized by the Commission at least in the base case filed. These requirements should include a mandate to file transition charge cases within four months of the end of the calendar year and to only base transition charges on actual historical data. 3 Tr 277.

Finally, the base case filing should only use a capital structure, accounting methods and other cost allocations that have actually been approved by the Commission. Id.

III. <u>Determination of Detroit Edison's Stranded Benefits</u>

A. Detroit Edison's Failure to File a Case in the Staff Format Required Development of a "Ground Up" Case by Intervenors

Methodology flaws in the Edison filing include:

1. The Edison filing ignores historical data for year 2001.

As described in II above, the Detroit Edison filing in this case does not contain actual year 2001 PFC revenue data. The PFC revenue used by Witness Falletich to develop his stranded cost is based on the assumption that Edison will receive exactly the same revenue per kWh of retail sales in 2001 as occurred during year 2000. Mr. Falletich proposes to continue this assumption through year 2003 by using a projected case based on year 2000 data. Exhibit A-4 and A-5.

2. The Edison case used 2001 increased costs but excluded 2001 increased revenues.

a. Edison's new cost of service studies change or assume changes in numerous items of cost that were previously approved by the MPSC and incorporated into current Detroit Edison rates.

To the extent these changes increase the cost of service above approved levels, they tend to increase stranded cost. These increased stranded costs result in Electric Choice customers paying 100% of the increases. 3 Tr 277-78.

Many of these changes were not authorized by the Commission. Also, since these changes produce increased cost, there should have been some attempt to match the increased costs with increased revenues. However, Mr. Falletich's method of projecting year 2001 revenue from year 2000 revenue effectively eliminates consideration of the huge increase in net revenue for 2001 which could have offset many of PFC cost increases.

b. Edison included improper costs in the cost of service study submitted by Martin Heiser which Edison proposes to use as a basis for claimed PFC revenue requirements. 3 Tr 278.

c. Edison used an unapproved and improper rate of return to increase costs.

Edison Witness Van Haerents attempts to use a 10.68% rate of return to calculate PFC despite the fact that that rate of return has never been authorized and could not be collected from retail customers under frozen rates. 3 Tr 278.

d. Edison failed to appropriately calculate available revenue to offset stranded costs.

Edison Witness Heiser ignored or improperly allocated certain revenues which would have offset PFC expenses. These items include:

1) Fuel costs. 3 Tr 281.
2) O&M revenues. 3 Tr 281.
3) Adjustments for Special Contracts. 3 Tr 281-82.

3. The errors listed above make the Detroit Edison filing literally unusable.

The deliberate refusal of Detroit Edison to follow the MPSC mandated format for calculation of stranded costs with historic data coupled with the numerous errors of assumption, omission of revenues and insertion of unapproved data make the Detroit Edison stranded costs calculation unusable.

B. Energy Michigan Changes to Detroit Edison 2000-2001 Stranded Cost Calculation

Energy Michigan Witness Richard Polich responded to these events by developing his own estimate of Detroit Edison PFC revenue and PFC revenue requirements for the year 2000 and 2001 based upon discovery responses from Detroit Edison and publicly filed reports to the Michigan Public Service Commission and the FERC. Mr. Polich's analysis produced the conclusion that Detroit Edison had more than $537 million of stranded benefits in the year 2000 and 2001 as compared with Edison's revised claim of $44 million of stranded costs during those years. See Attachment A. Mr. Polich's changes include:

1. Energy Michigan removed costs from the Edison PFC calculation because the costs

were normally recovered as variable costs under surcharges.

Detroit Edison Witness Heiser included in his calculation of PFC, the costs of nuclear decommissioning, MPSC assessment fees and Washington D.C. franchise fees. Exhibit I-52, p. 19-20 of 59. These costs are normally recovered as variable costs and thus would not be properly considered PFCs or are recovered separately under surcharges. 3 Tr 280-81. Also see U-13380 where the Commission accepted case revisions by MPSC Staff and Consumers Energy which also excluded nuclear decommissioning costs. U-13380, December 20, 2002, p. 4-5.

In summary, the Detroit Edison calculation of PFCs improperly included about $42 million of nuclear decommissioning costs, MPSC assessment and Washington D.C. franchising costs which, when removed, produce a corresponding reduction in the Detroit Edison stranded cost calculation. 3 Tr 278 and Exhibit I-52, p. 19-20 of 59.

2. Detroit Edison used an improper rate of return to calculate PFC revenue requirement.

a. The Edison position.

Detroit Edison's revised Testimony uses a 10.67% pre-tax rate of return to calculate 2001 revenue deficiency and a 10.38% return rate for year 2000 revenue deficiency. 3 Tr 187. Also, Edison Witness Van Haerents included a "normalizing" adjustment to the Detroit Edison 2001 capital structure which assumes the existence of hundreds of millions of dollars of equity at the end of the year 2001 <u>even though the actual capital structure at that time did not contain this hypothetical amount of equity</u>. 3 Tr 307-09.

Edison justifies these assumptions by claiming that Commission securitization orders mandated a 50% equity - 50% debt structure and that the current return on equity should be greater than the 11% authorized in Edison's last rate Case U-10102. 3 Tr

180 and 190.

b. Energy Michigan position.

1) The Edison application uses unapproved rates of return.

The passage of PA 141 froze rate levels and associated rates of return. Edison's current rates are based upon a rate of return of 7.66% approved by the MPSC in Case U-10102 with a before tax rate of return of 10.01% based on the capital structure approved in that case. 3 Tr 278. There has been no general rate case or other proceeding since U-10102 which authorized Detroit Edison to revise its base rates and the rate of return assumptions upon which those rates were set. Id. For these reasons, Edison should not be allowed to base stranded costs on any other rate of return than that set in its most recent rate case proceeding.

2) Detroit Edison has used several inconsistent methodologies to attempt to raise its rate of return and hence its stranded costs.

Edison's position is a classic case of trying to have it both ways:

<u>First</u>, Detroit Edison claims that its <u>actual</u> cost of capital (based upon <u>actual</u> changes in the amount of debt and equity in its capital structure since its last rate case) has increased from 10.01% to 10.67% in 2001. It urges the Commission to disregard the precedent of Case U-10102 and the fact that no Commission proceeding since that case has authorized a change in the U-10102 capital structure. 3 Tr 278.

<u>Second</u>, Detroit Edison urges the Commission to <u>ignore the capital structure that actually existed at the end of 2001</u> and instead <u>impute</u> $163 million of

equity to that capital structure to reflect what it claims would be a normal amount of equity had it not transferred transmission assets to its affiliate, ITC. 3 Tr 191-92.

On the one hand, Edison wants the Commission to disregard the standing U-10102 rate order and look at actual costs at the end of 2001 to calculate a rate of return. On the other hand, Edison wants to disregard its actual capital structure at the end of 2001 and look at a hypothetical structure in order to disregard what Edison claims was a temporary reduction in equity. The only consistency to Edison's approach is that each deviation from accepted rate making practices justifies a higher return for Detroit Edison.

Absent from the Detroit Edison position is a request that the Commission use the current, low interest rates for short term and long term debt. This convenient omission thus ignores the one area of adjustment which would certainly produce lower stranded costs to the benefit of Edison customers.

3) The Commission should apply the rate of return approved in the last Edison general rate case.

The issue of appropriate rate of return is one area where Detroit Edison is clearly trying to turn this transition charge case into general rate case proceeding. Parties to this matter were not given notice that the appropriate scope of this case would involve rate of return issues. Indeed, the Commission has made it apparent that the scope of this proceeding was designed to deliberately exclude such broad issues. Energy Michigan urges the Commission to stick to the general game plan advocated by Witness Richard Polich and to use only those rates of return and rate making concepts which were approved in Detroit Edison's most recent general rate Case U-10102 where all interested parties were given notice and opportunity to develop an appropriate capital structure and rate of return for the Company. Until a new rate of return is formally approved in a properly noticed proceeding, the Commission should apply the rate of return approved in Case U-10102 at a pre-tax level of 10.01%. 3 Tr 278. Adoption of this position would reduce Detroit Edison's claimed stranded costs by $20.8 million in 2000 and $20.9 million in 2001.

3. Detroit Edison revenue calculations understate revenues available to cover PFCs.

Energy Michigan Witness Polich identified three areas in which Detroit Edison has understated revenues available to pay for PFC.

a. Improper fuel expenses.

Edison Witness Heiser's work paper WP-LNH-2, p. 19, line 1, col. d, Exhibit I-52, shows fuel expense of $572.548 million rather than the expense reported in Edison's FERC Form 1 which is $608.197 million. An increase in fuel expense produces a corresponding assumption of increased revenue of $35 million in 2000. 3 Tr 281 and Exhibit I-32. This is because the calculation of total O&M costs for PFCs begins with a review of power production expenses and subtracts various cost items such as fuel from that expense in order to yield remaining, total O&M costs that are attributable to fixed costs. Thus, the larger the amount of variable costs subtracted from total O&M power production expense, the lower the amount of the remaining total O&M that is attributable to PFCs. See Exhibit I-32, lines 29-35. The impact of this adjustment is to lower total O&M costs by $35 million thus reducing PFC by the same amount.

b. Edison Witness Heiser improperly adjusted O&M costs to calculate revenue deficiency in Exhibit A-17.

Mr. Heiser allocated approximately $14 million in PFC revenue in excess of PFC revenue requirement to excess O&M revenues. This anomaly results in an illogical position on the part of Edison that they are bringing in more revenue than they are spending for O&M. 3 Tr 282. It is the position of Energy Michigan Witness Polich that if Edison's O&M expense is a certain amount, than only that same amount should be applied to the revenue. This adjustment to Edison's presentation would increase the PFC revenue sufficiency by $14 million and produce a corresponding decrease in stranded costs. Id.

c. Detroit Edison improperly under reported revenues for special contract customer sales.

The Detroit Edison revenues used to calculate stranded costs for 2000 and 2001 are based upon actual revenues from retail sales to special contract customers rather than imputing special contract sales at full tariff rates. This Edison position results in a revenue shortfall which becomes a stranded cost. The resulting transition charges are then assessed to Edison's competitors. The impact is to charge customers electing competitive supply alternatives with the costs that Edison incurs to compete against these same suppliers. 3 Tr 281.

Energy Michigan opposed the Edison position citing the anti-competitive impact. Energy Michigan Witness Polich also proposed that the entire special contract discounts of $56.9 million (these are 2000 figures and since 2001 Special Contract data were not made available by Edison, Mr. Polich proposed to use the year 2000 data as a proxy for 2001) should be treated as a discount to the PFCs of generation since Edison cannot discount transmission charges, distribution charges or customer charges. 3 Tr 281-82. In the alternative, ABATE Witness Selecky has calculated that fixed generation costs comprise 41.457% of revenue and that allocator could be used if the 100% allocation proposed by Mr. Polich is not accepted. Exhibit I-29.

Detroit Edison Witness Falletich attempted to rebut the Energy Michigan proposal claiming that use of SMC discounts has prevented a larger loss of revenue which would have harmed sales customers even more than the SMC discounts. 3 Tr 132. Edison thus sought to meet the test posed in Case U-10646.

The Detroit Edison attempt to rebut Mr. Polich fails on several counts:

1) Under the current PA 141 rate freeze, Detroit Edison is prohibited from raising customer rates at least through December 31, 2003. Thus, the rate increases which Edison claims were avoided by using SMC discounts would, in fact, be illegal and thus prevention of such increases is not a benefit to any customer.

2) Edison's alternative to passing along the cost of discounts to competitors or customers would be to absorb these costs in the form of offsets to their rate of return. Given the substantial over recovery of fuel and other costs noted above, Edison should have no trouble absorbing these costs and thus avoiding a negative impact to future sales customers when the rate freeze is lifted.

3) Detroit Edison's rebuttal still fails to demonstrate, as is required by U-10646, that its position will not harm competition. See U-10646, p. 21, March 23, 1995. Mr. Polich's testimony clearly states that the Detroit Edison position does in fact harm competition because special contract discounts result in higher transition charges thereby making competition less attractive. 3 Tr 281.

4) Finally, in Case U-13380 the Commission found in a similar situation for Consumers Energy that the Company's business decision to offer special contract discounts meant that it was voluntarily accepting the risk of

> foregoing part of the revenue requirement otherwise recoverable under the base rates established in its last rate case. U-13380, December 20, 2002, p. 12. The Commission noted in that case that the utility could not meet the burden of justifying a reallocation of discount costs to other rates including open access rates because it did not present a full cost of service study. Also, it could not legitimately claim that retaining generation loads under special contracts provides legitimate benefits to its customer base if the effect of the discounts is to make alternate supplier electricity less attractive to impede development to retail markets for unbundled generation services. Id., p. 12-13. This reasoning is applicable to Edison's special contract discounts.

The impact of the Energy Michigan adjustment for special contract discounts adjustment is either an increase in PFCs revenue of $56.897 million in 2000 and 2001 if 100% of the discount is treated as PFC or, using the ABATE 41% allocator, an increase in revenue of $23 million each year.

4. Detroit Edison improperly excluded revenues from sales to the Rouge Steel Facility from its calculation of 2000 and 2001 PFC revenue.

Detroit Edison had PFC revenues of $31.37 million in 2000 and $6.4 million in 2001 from sales to the Ford Motor Company / Rouge Steel Company. Exhibit I-47. Edison Witness Van Haerents removed these revenues from his calculation of 2000 revenue (Exhibit A-21) claiming that these were non-recurring sales. Given Mr. Falletich's methodology of using year 2000 revenues to calculate year 2001-2002 revenues, Mr. Van Haerents' adjustment had the effect of reducing future revenues available to offset PFCs.

Energy Michigan Witness Polich opposed Mr. Van Haerents' "adjustment" stating that to calculate a true value for year 2000 and year 2001 PFC revenue, events which actually did occur, since as the sales to the Ford / Rouge complex, must be considered. This is because the sale did occur, Detroit Edison did earn a profit from the sale and the sale offset stranded costs. Mr. Polich included the actual PFC revenue from Ford / Rouge sales in his calculation of 2000 and 2001 PFC. See 3 Tr 279 and Edison Witness Van Haerents work papers, Exhibit I-47.

<u>Mr. Polich's position on Rouge Sales has the effect of reducing Edison's claimed stranded costs during year 2000 and 2001 by more than $31 million in 2000 and more than $6 million in 2001.</u>

5. Detroit Edison improperly understated revenue from third party sales.

a. The Energy Michigan position.

Let's start with facts upon which all of us can agree. Edison Exhibit A-1 shows revenue from third party sales of over $127 million in year 2000 and $192 million in year 2001. Exhibit A-1 lists the cost of those sales at about $64 million for <u>both years</u> and the PSCR credit for <u>both years</u> at about $23.7 million. In total, Edison had about $320 million of third party sales revenues, minus $87 million of costs or credits equaling about <u>$233 million of revenue excess</u>. Edison cannot deny that it collected about a quarter billion dollars of revenue <u>more</u> from third party sales in 2000 and 2001 than it paid to make those sales[1]. The excess in 2001 (which is more representative of current conditions) is more than $150 million. Yet, by the time the Edison rebuttal was filed, Messrs. Byron and Falletich were persuaded that only about $1 million of this excess revenue should be used to offset stranded costs for both years. Exhibit A-2 ($20 million reduced to $1 million in A-4 Revised).

In Case U-12639, the Commission adopted the MPSC Staff methodology for

[1] Some of the costs of those sales (such as the purchase cost of hedges) had been paid by PSCR customers, not Edison. See U-11800 Application, Byron Exhibit JGB-3. Under the rate freeze, Edison does not refund over recovery of PSCR costs.

calculating stranded costs. This methodology compared historical PFCs with revenue available to pay those costs and included in that revenue the “net revenues from third party sales”. U-12639, p. 4. The Detroit Edison presentation of net revenue credit for third party sales contained adjustments to remove all revenue associated with the sale of hedges such as calls and options which did not involve the physical delivery of power. See Exhibit A-1. These adjustments reduced available third party sales revenue by more than $177 million. Mr. Byron justified his position stating “the data should not include transactions such as financial hedges that do not require the ownership or control of any generation assets but rather are hedging transactions unrelated to physical power exchanges”. 3 Tr 64.

Energy Michigan Witness Polich proposed that revenue from the sale of hedges be included as a source to offset stranded costs explaining that the magnitude of the hedge revenue was enormous at over $177 million. 3 Tr 283. Mr. Polich justified recognition of this third party hedge revenue on the grounds that the cost of the hedges were included in Detroit Edison’s last PSCR case and thus customer monies were used to purchase the hedges. When market conditions and lower loads allowed Detroit Edison to dispose of the hedges and realize substantial revenues, it is fair to recognize that revenue since the cost of the transactions were borne by customers. Id.

This conclusion was supported by a four part test enunciated by Mr. Polich which basically provides that revenue from third party sales should be used to offset stranded costs where 1) customer funds were used to purchase the resources later disposed of at a profit, or 2) the power was sold from generation resources included in rate base or 3) the power was procured to serve retail customers or 4) the power sold to third parties was the result of reduced load created by customers leaving for open access. Mr. Polich found that factors 1, 3 and probably 4 were present in the case of Edison’s 2000 and 2001 sale of hedges. Id.

b. Edison's rebuttal.

Mr. Byron attempted to rebut the Polich position which also recognized $28.4 million of additional third party sales margin in 2000 and $26.2 million in 2001 (see Exhibit A-1) by using three separate arguments:

1) Reduction of third party sales revenue.

a) Edison position.

Mr. Byron revised his estimate of available third party margin from approximately $28 million per year in Exhibit A-1 to $10 million in Exhibit A-2 stating that his position on Direct Testimony should be revised because parties to the case such as Energy Michigan took the Exhibit A-1 at face value and used the third party sales margin sponsored in his Direct Testimony as an offset to stranded costs.

Mr. Byron now believes that his use of average system fuel and purchase power costs contained in his Direct Testimony should be changed to a methodology which uses incremental costs to produce a result which was less than half of the amount produced in his original Testimony. Mr. Byron's only justification for a change in methodology was that his original position carried the unspoken and unwritten assumption that it should not be used by other parties in this case. 3 Tr 82-83.

b) Reply

Mr. Byron's rebuttal is based on a change of position that is self-serving and lacking in substance. Mr. Byron in effect rebutted his own testimony. The Commission, therefore, should disregard Mr. Byron's testimony as lacking in credibility. Moreover, use of system average costs gives a fair estimate of actual costs. But use of incremental costs makes an illogical assumption that all costs were equal, on average, to the highest costs.

2) Mr. Byron leveled three criticisms at Energy Michigan's calculation of net revenue credit for third party sales.

a) Mr. Byron's <u>first criticism</u> is that approximately $12.2 million of revenues from sales to requirements customers should have been excluded for the year 2000 and $4.67 million in 2001. 3 Tr 86.

This objection appears to have merit and is accepted by Energy Michigan. Attachment A (Case Exhibit I-32) has been revised to incorporate this change.

b) Mr. Byron's <u>second objection</u> is that Mr. Polich's calculation of third party revenues excludes $111.6 million of hedge costs. 3 Tr 87. Energy Michigan disagrees with this contention. In effect, the cost of hedge purchases is contained and covered by PSCR revenues which are being collected from PSCR customers. No variable costs such as fuel were incurred to sell the hedges which produce so much revenue for Detroit Edison. Energy Michigan Exhibit I-36 does not subtract the cost of the hedges from the revenues since the cost was already paid by PSCR customers and was not an additional cost incurred by Edison to sell the hedges. See Edison PSCR Application U-11800, Exhibit JGB-3 to prove that the cost of hedges is in the PSCR factor. Also see Exhibit I-32, line 17 (actual production related revenue). Exhibit I-36 was used to develop a fuel cost per

Mwh of power sold which in turn was subtracted from wholesale sales revenue to yield a fixed cost revenue. Failure to consider cost of hedges in that exhibit was appropriate and necessary since the cost of purchasing hedges was fixed and has been paid by PSCR customers and therefore cannot be considered a variable cost associated with the sale of power.

c) Third, Mr. Byron states that the profit margins resulting from Mr. Polich's testimony are unreasonable, averaging about $81/Mwh which exceeds a reasonable margin for the sale of power in the wholesale market. 3 Tr 88.

As to the latter point, it should be remembered that revenue from the sale of hedges involved financial instruments which were bought and sold during 2000 and 2001 at prices up to $500/Mwh, not $81/Mwh. A review of the Detroit Edison PSCR Case U-11800 application reveals that many summer contracts were purchased at a cost of over $100/Mwh with summer calls being estimated at almost $500/Mwh. Application of Detroit Edison, Case U-11800, Testimony of J.H. Byron, Exhibit JHB-3, p. 2 of 2. It certainly is not unreasonable to assume that the hedge instruments were liquidated at a rate of over $80/Mwh when the cost of the instruments was many times that amount.

3) Falletich rebuttal.

Finally, Edison Witness Falletich claims that the Energy Michigan position is not fair because Electric Choice customers receive stranded benefits related to Detroit Edison's entire cost structure but would be unwilling to pay 100% of the revenue deficiency related to that cost structure. 3 Tr 125.

Mr. Falletich has misstated the Energy Michigan position. Energy Michigan has consistently supported the Staff methodology which compares 100% of PFC with 100% of PFC revenue to determine stranded costs. However, Energy Michigan has also taken the position that the costs considered in this calculation should be at levels approved by the Michigan Public Service Commission in rate cases or other contested case proceedings.

The Detroit Edison application in this matter proposes recovery of new, higher cost levels which have not been approved by the Commission and are not covered by the revenue stream which was also approved by the Commission. The result of that approach is to assess literally all of Detroit Edison's proposed cost increases to Electric Choice customers as stranded costs but to deny Electric Choice customers the benefits of many changes such as lower cost of debt and increased sales which would reduce stranded costs. 3 Tr 277-78.

The impact of the Energy Michigan position regarding third party sales revenue is to increase revenue and thus reduce stranded costs by about $52.6 million in 2000 and $159.2 million in 2001 compared to the Detroit Edison calculations. Note that these figures do not correspond exactly to the figures used in Exhibit A-1 since Mr. Polich developed his third party sales revenues from a review of MPSC and FERC data, not by using Mr. Byron's Exhibit A-1.

6. Detroit Edison has understated the amount of excess securitization revenue available to offset stranded costs or produce rate equalization credits.

a. Edison position.

In Exhibit A-24, Edison Witness Van Haerents sets forth his version of the savings produced by securitization and, by inference, the excess savings reserve which are available to reduce stranded costs, offset securitization charges or fund rate equalization reduction credits. On line 7 of Exhibit A-24, Mr. Van Haerents apparently proposes to use over $24 million of such savings to recover pre-securitization 5% residential rate reductions. Exhibit A-24, line 7.

b. Energy Michigan position.

Energy Michigan Witness Polich testified that the Commission previously rejected this position on the grounds that a pre-securitization 5% reduction for residential customers was not a stranded cost. Mr. Polich sponsored the position that all excess securitization savings should be used to reduce transition charges and/or provide rate equalization payments as previously ordered by the Commission. 3 Tr 284.

In Case U-12478, the Commission rejected a Detroit Edison request to include pre-securitization residential rate reductions in the cost to be securitized stating that. "The Commission concludes that the legislature did not intend that the cost of the residential rate reductions prior to the financing order be securitized. The effect would be to turn the reduction into a deferral and it would also shift costs to other rate classes. In effect, Edison's request and Mr. Van Haerents' "adjustment" in this case would have required customers to pay for their own rate decrease. Case U-12478, p. 13, November 2, 2000.

The effect of this revision to the Edison position is to increase the amount of excess securitization savings available to reduce transition charges and offset securitization costs or fund rate equalization credits by $24.1 million.

In theory this would increase the estimated Section 10d(5) funds availability from $63.76 million through 2003 to approximately $87.8 million. See Exhibit A-25.

c. MPSC Staff assumptions regarding availability of excess securitization savings may be erroneous.

Exhibit S-45 assumes that a Section 10d(5) reduction credit of $0.00222 is available to offset securitization charges. However, assuming that EC sales in 2003 are 6,500,000 Mwh, Staff's credit equates to only $14.4 million. If the Commission finds zero stranded costs, a much larger credit would be available. See 6.b. above.

7. Summary of major adjustments to the Detroit Edison position.

The chart below summarizes the primary differences between the position submitted by Energy Michigan finding over $537 million of stranded benefits for Detroit Edison and that of Detroit Edison which found stranded costs of $44 million during the same period. See Attachment A and Exhibit A-4 Revised.

Reductions in Energy Michigan and Edison Stranded Costs

	2000	2001
1. Removal of improper Production Fixed Costs	$42 million	$42 million
2. Improper rate of return	$20.8 million	$20.9 million
3. Improper fuel expense	$35 million	
4. Improper O&M expense	$14 million	$14 million
5. Understated SMC revenue (41% or 100% allocation)	$23-56 million	$23-56 million
6. Ford Rouge PFC revenue	$31.4 million	$6.4 million
7. Understated 3rd party sales revenue		
a. sale of power	$18 million	$6.4 million
b. hedges sales	<u>$34.6 million</u>	<u>$143.2 million</u>
Total	$218.8-$251 million	$265.5-$298.5 million

The Commission should note that the sum of the adjustments listed above does not equal the difference between the Energy Michigan position and the Detroit Edison position. This is because Detroit Edison's refusal to provide actual 2001 revenue data and its unauthorized, impermissible and illogical adjustments to claimed cost of service data for 2000 required Energy Michigan to develop revenue and costs from the ground up using MPSC and FERC data.

Edison's numerous adjustments to cost data, half concealed assumptions regarding the appropriate use of securitization savings and refusal to acknowledge over $177 million of revenue from the liquidation of hedges are all eloquent testimony to the need for a standard procedure and filing requirements which would be applied to transition charge cases. Mr. Polich's recommendations for a standard procedure and process to govern future netting cases are discussed in 3 Tr 275-77.

IV. Recommendations for Setting the Stranded Cost Charge Credit for 2003

A. The Energy Michigan Framework

Attachment A documents Energy Michigan's findings that Detroit Edison has experienced a stranded benefit of well over $500 million for calendar years 2000-2001. Energy Michigan Witness Richard Polich described his proposal for allocating those stranded benefits:

1. No transition charge would be applicable given the finding of no stranded cost for non-securitized assets.

2. Stranded benefits should be first allocated to cover year 2002-2003 securitization charges for Customer Choice and Experimental Program customers. This would be accomplished by implementing a negative transition charge equal to the prevailing Detroit Edison securitization bond and tax charge. Attachment A, lines 26-29. Approximately $488 million would remain after offset of 2003 charges and the adjustment to third party sales revenue discussed at III., B., 5. above.

3. Remaining 2000-2001 stranded benefits should be carried forward if necessary to cover securitization charges or rate reductions in future years.

4. Excess securitization benefits should be used to offset current securitization charges if needed, if not needed the excess should be used to continue the rate equalization credit established by the Commission in previous cases. Polich, 3 Tr 284-85.

B Applying the Energy Michigan Framework

1. Non-securitized costs.

In this case, Detroit Edison effectively removed the cost of securitized assets from its presentation and attempted to calculate a stranded cost revenue deficiency for non-securitized assets. Costs of securitized assets were assumed to be collected under the current or adjusted securitization charge of approximately .49 ¢ /kWh. Energy Michigan Witness Polich as well as Witnesses Higgins and Selecky found large stranded benefits when comparing non-securitized PFCs with the revenue available to pay those costs. Thus, there are no stranded costs nor is a transition charge justified for the non-securitized assets.

2. Securitized costs.

The question then remains regarding the collection of Detroit Edison costs relating to its securitized assets. The Polich presentation, summarized in Attachment A clearly shows that the Detroit Edison revenues for non-securitized PFCs are vastly more than adequate to pay both the non-securitized costs and any securitization costs attributable to Electric Choice customers during the year 2002-2003. See Attachment A, Lines 26-28. Also, Exhibit I-23, Lines 26-28. To make this determination, Mr. Polich estimated year 2002 and 2003 Electric Choice sales at roughly 10,000 Gwh using <u>Detroit Edison supplied estimates</u>. Exhibit A-7, line 3. These sales levels are significantly higher than in 2001 which saw about 993 Gwh of Electric Choice sales. Attachment A, line 36.

Mr. Polich then multiplied the current Detroit Edison securitization charge by those 2002-2003 estimated EC sales and determined that Electric Choice customers would be charged roughly $49 million of securitization fees during 2002 and 2003 in order to pay the costs of securitized assets. Finally, Mr. Polich subtracted this $49 million revenue requirement for securitized assets from the stranded benefits found in this case of $537 million and determined that there were enough funds to offset the cost of securitized assets and still leave over $488 million to be carried forward to cover future securitization bond and tax charges levied on Electric Choice customers.

The logic of Mr. Polich's position is compelling. <u>If Detroit Edison PFC revenues from the sale of power during a given year are more than sufficient to cover cost of non-securitized assets and also provide an offset for the securitization charges which pay for securitized assets, it would be illogical and legally incorrect to also assess securitization bond and tax charges to EC customers in that year.</u>

Without an offset to securitization charges, Edison in effect would be double collecting costs of securitized assets. One collection would be from Electric Choice customers in the form of securitization bond and tax charges. The other collection would be from non-Electric Choice customers who would produce a revenue excess which covers all costs of securitized <u>and</u> non-securitized assets. The results of Mr. Polich's financial analysis of Detroit Edison revenue as well as the analyses of both Witnesses Higgins and Selecky confirm that Detroit Edison's revenue stream, both now and likely in the future from retail sales customers and the sale of unneeded power to third parties, will be more than sufficient to cover the PFCs of securitized and non-securitized assets.

3. Rate equalization costs.

The question then remains regarding the use of excess securitization funds. As we have seen above, the available excess securitization funds during 2000 and 2001 should be roughly $62 million, not the $38 million assumed by Witness Van Haerents. This is because Mr. Van

Haerents assumed the $24 million of existing savings would be used impermissibly to fund pre-securitization residential rate reductions.

Nor should Mr. Van Haerents' implied proposal to use excess securitization funds to pay implementation charges be adopted by the Commission. The same proposal was specifically rejected in Case U-12639, December 20, 2001, p. 28. Rather the Commission should continue its existing determination that 100% of Edison excess securitization benefits be used to offset securitization charges or continue rate equalization reductions. Id. p, 28 and U-12478, November 2, 2000, p. 25.

The logic for continuation of rate equalization reductions remains that Electric Choice customers have been made responsible to pay securitization bond and tax charges and therefore should receive the same benefits from securitization as have been provided to retail sales customers. Moreover, the language of PA 141 specifically requires that the 5% securitization reduction be given to "all"customers. 2000 PA 141, § 10d(7). Retail customers received a 5% reduction in their rate as a result of securitization. Rate equalization reductions are needed to give the same benefit to Electric Choice customers. See U-12639, December 20, 2001, p. 25.

C. Distinguishing the Detroit Edison Situation from Consumers Energy

Factual differences between Detroit Edison and Consumers Energy merit a different use of excess securitization savings from that applied in Case U-13380 for Consumers Energy. In U-13380, the Commission used excess securitization benefits to offset year 2003 securitization bond and tax charges. U-13380, December 20, 2002, p. 16. Since Consumers Energy did not provide rate reductions to the commercial and industrial customers who make up literally all of Electric Choice participation, the excess securitization benefits were not needed to provide rate equalization reductions. Also, since the Consumers Energy U-13380 case presentation for years 2000 and 2001 was based on only one month of stranded asset securitization, a determination of stranded benefits is essentially a conclusion that the PFC revenue available to Consumers covered the PFCs revenue requirement of non-securitized PFC assets and assets that were securitized in the final one month of 2001.

The Detroit Edison case presentation focused on revenue requirements associated with non-securitized assets, leaving the question of how to fund the cost of securitized assets. Since Detroit Edison believed that current PFC revenues were not sufficient to cover the cost of non-securitized assets, its presentation assumes that the resulting 2003 transition charge for non-securitized assets would be <u>in addition</u> to payment of 2003 securitization bond and tax charges for securitized assets. The resulting charges for both securitization and non-securitized assets are so high that they would use all available excess securitization benefits and leave none to continue rate equalization reductions.[2] The Staff presentation would impose more than $40 million of total charges that would overwhelm available excess securitization savings estimated at about $30 million per year. See Exhibit A-24.[3]

It should be clear to the Commission at this point that Detroit Edison's revenues for the 2000-2001 test period are in fact more than adequate to pay both the cost of non-securitized assets and almost $49 million of <u>projected</u> securitization bond and tax charges which will be collected from Electric Choice participants during the years 2002 and 2003. See Exhibit I-32, lines 26-28. Note that Mr. Polich was extremely conservative in reaching this conclusion. His calculation considered the cost of unsecuritized assets and found a huge revenue surplus. Then, he assumed that Electric Choice sales would grow from 993 Gwh in 2001 to 3500 Gwh in 2002 and 6500 Gwh in 2003. See Edison's projections in A-7, line 3. With these sales increases, securitization offsets would theoretically deprive Edison of $49 million of revenue. I-36, line 26. Even with this conservative assumption, Edison still has far more revenue than needed to cover its PFC requirements. Id.

In other words, the Edison revenue stream from its retail sales customers and third party sales is more than sufficient to pay all of its PFCs both securitized and non-securitized in 2003. Under these circumstances, the balance of stranded benefits is not needed to pay the PFCs (securitized and non-

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[2] The Edison charge is 1.27 ¢ /kWh plus securitization of .49 ¢ /kWh. The total cost is $17.76/Mwh x 6,500,00 Mwh = $115.45 million in 2003.

[3] The Staff charge would be .18 ¢ /kWh plus securitization of .49 ¢ kWh. The total cost is $6.70/Mwh x 6,500,00 Mwh = $43.6 million of charges in 2003.

securitized) attributable to Electric Choice participants and, thus, could be used to continue rate equalization reductions or carried forward to offset future stranded costs.

The excess securitization savings which, by Energy Michigan's calculations, equal at least $62 million currently will accumulate at the rate of roughly $30 million per year (see A-24, Revised) and can be used to continue rate equalization reductions but cannot provide such reductions for an unlimited amount of megawatt hours. To avoid an artificial limitation on the amount of Electric Choice load receiving rate equalization reductions, the Polich proposal to utilize stranded benefits and excess securitization benefits to fund both securitization offsets and rate reductions should be adopted.

D. Illustration of Staff, Edison and Energy Michigan Positions

Existing Detroit Edison 2002 Charges and Proposed 2003 Transition Charges

	Existing 2002		Proposed 2003		
	Sales	Choice	Staff	DTE	Energy Michigan
Securitization Bond and Tax Charges	.49 ¢	.49 ¢	.49 ¢	.49 ¢	.49 ¢
Securitization Charge Offset	-.49 ¢	-.49 ¢	0	0	-.49 ¢ (funded with stranded benefits)
Transition Charge	0	0	.18 ¢	1.28 ¢	0[4]
Rate Reductions (Equalization Credit)	-.28 ¢ -.48 ¢	-.28 ¢ -.48 ¢	-.22 ¢[5]	0	-.28 ¢ -.48 ¢[6]
Total Charges	-.28 ¢ -.48 ¢ /kWh	-.28 ¢ -.48 ¢ /kWh	.45 ¢ /kWh	+1.77 ¢ /kWh	-.28 ¢ -.48 ¢ /kWh

4 Energy Michigan found $537 million of stranded benefits for 2000-2001. $4.89 million would be used to offset 2002 and 2003 securitization charges and $489 million would be carried forward to offset future securitization and transition charges.

5 Exhibit S-45 lists securitization savings (Sec. 10d(5)) funded reduction at $0.00222/kWh. However, $0.00222 x assumed 6,500,00 Mwh of EC (See Exhibit S-44, line 7) equals use of $14,430,000 of excess savings. However, Company Exhibits A-8, 24 and 25 Revised indicates availability of $36 million of Sec. 10d(5) funds which could produce a reduction of .55 ¢ /kWh.

6 Excess securitization savings or stranded benefits could be used to continue these reductions.

V. Conclusion and Prayer for Relief

A. Conclusion

There can be no doubt that Detroit Edison's current level of PFC revenues vastly exceeds its PFCs for both securitized and non-securitized assets. Under these circumstances, it is logical to find that Detroit Edison has no need for a transition charge and that its excess PFC revenue is also more than sufficient to pay the 2003 securitization bond and tax charges which normally would be collected from Electric Choice customers.

Finally, current and future excess securitization benefits are more than adequate to continue rate equalization reductions although stranded benefits could also be used for the same purpose. Under these circumstances, the Commission should assess a zero transition charge for Electric Choice customers during 2003, use stranded benefits to offset all the $49 million of securitization bond and tax charges which are likely to be collectible from these customers in 2002-2003. Excess securitization savings and stranded benefits should be used to continue rate equalization reductions. Remaining stranded benefits should be carried forward to pay future stranded costs for securitized and non-securitized assets.

B. Prayer for Relief

WHEREFORE, Energy Michigan requests that the Commission:

1. Mandate filing of a base, standardized netting case using historical data as part of each annual transition charge/netting filing.

2. Find that Detroit Edison has stranded benefits of over $537 million for the years 2000 and 2001 for the reasons more fully detailed in the Energy Michigan presentation above.

3. Adopt the Energy Michigan proposal to find a zero transition charge for year 2003, use stranded benefits to offset securitization bond and tax charges applicable to

Electric Choice customers in 2003 and use a balance of stranded benefits and Section 10d(5) available funds to continue rate equalization reductions and carry forward the balance to offset future transition charges, securitization charges and continue rate equalization reductions.

Respectfully submitted,

VARNUM, RIDDERING, SCHMIDT & HOWLETTLLP
Attorneys for Energy Michigan, Inc.

January 9, 2003

By: Eric J. Schneidewind

Eric J. Schneidewind (P20037)
The Victor Center, Suite 810
201 N. Washington Square
Lansing, Michigan 48933
(517) 482-6237

Attachment A

STRANDED COST CALCULATION

Line No.	Description	2000	2001	Source of Data
	(a)	(b)	(c)	(d)
	AVERAGE RATE BASE			
1	Net Production Plant	$5,634,557	$3,169,271	MLH Exhibits
2	Clean Air Act Investments	($30,426)	($134,774)	Discovery Response EMDES3.38/47
3	Adjusted Net Production Plant	$5,604,131	$3,034,497	
4	Pre-Tax Rate of Return	10.01%	10.01%	Exhibit A-17(MLH-1) line 3
5	Rate of Return Revenue Requirement	$560,974	$303,753	Line 1 times Line 2
	REVENUE REQUIREMENT	$560,974	$303,753	Line 5
6	O&M Costs	$514,259	$641,779	Line 31
7	Revenue Requirement Effects of AFUDC	($4,317)	($6,628)	Workpaper WP-MLH-2, Pg 1, Ln 17, Colb
8	Depreciation Expense	$214,123	$211,371	Exhibit A-17(MLH-1) Ln 9, col A & A-19(MLH-)3, Ln12
9	Clean Air Act Depreciation	($317)	($1,489)	Discovery Response EMDES3.38/47
10	Nuclear Decomissioning Expense	($38,274)		Exhibit A-18(MLH-2), Ln7, Col A
11	Regualtory Asset Amortization	$265,507	$129,743	Exhibit A-17(MLH-1) Ln 10, col A & A-19(MLH-)3, Ln13
12	Property Taxes	$106,852	$104,144	Exhibit A-17(MLH-1) Ln 11, col A & A-19(MLH-)3, Ln14
13	Other	$4,511	($8,829)	Exhibit A-17(MLH-1) Ln 12, col A & A-19(MLH-)3, Ln15
14	TOTAL PRODUCTION REVENUE REQUIREMENT	$1,623,317	$1,373,844	
15	Pro-Forma Securitization Adjustment	($519,560)	($129,595)	Exhibit A-20(MGV-1) Ln 16, Col d & A-23(MGV-4), Ln14, Col d
16	PRODUCTION FIXED REVENUE REQUIREMENT (PFC)	$1,103,757	$1,244,249	Line 14 plus Line 16
17	Actual Production Related Revenues	$1,765,657	$1,557,869	Exhibit A-17(MLH-1), Ln17, Col A & Exhibit I-34(RAP-3), Line 12
18	Nuclear Depreciation Revenue	($38,274)	($38,090)	
19	Fuel Working Capital		($11,858)	
20	Special Contract Production Revenue Increase	$56,897	$56,897	Exhibit I-35(RAP-4), Line 7
21	Third Party Wholesale Sales Revenue	$22,830	$142,892	Exhibit I-36(RAP-5), Line 4 & 13
22	Securitization Revenue Adjustment	$519,560	($129,595)	Exhibit A-20(MGV-1) Ln 16, Col d & A-23(MGV-4), Ln14, Col d
23	**TOTAL PRODUCTION REVENUE, Adj for Securitization**	**$1,287,550**	**$1,578,115**	**Sum of Lines 17-22**
24	**REVENUE DEFICIENCY/(SUFFICIENCY)**	**($183,793)**	**($353,866)**	**Line 16 minus Line 23**
25	**COMBINED STRANDED COST/(BENEFITS) FOR 2000 & 2001**		($537,659)	

CALCULATION OF PRODUCTION RELATED O&M COST MINUS FUEL & POWER PURCHASES

Line No.	Description		Value	Source of Data
26	Estimated 2002 & 2003 Customer Choice Sales (GWh)		10,000	Exhibit A- 7 (ELF-5), Line 3, Col e plu Col f
27	Customer Charge Offset		$4,890	Detroit Edsion Rate Book, Section B4.9, Pg M/64b
28	Stranded Benefit Used in 2002 & 2003		$48,900	Line 26 times Line 27
29	***Remaining Stranded Benefit to Apply to 10d(50) Offset & Carry Forward***		**($488,754)**	

CALCULATION OF PRODUCTION RELATED O&M COST MINUS FUEL & POWER PURCHASES

Line No.	Description	2000	2001	Source of Data
	TOTAL Power Production Expenses	$1,545,854,892	$1,545,077,276	2001 FERC Form 1, Pg 321, Line 80
30	FUEL: Steam Power Generation	($608,196,788)	($567,002,195)	2001 FERC Form 1, Pg 320, Line 5
31	FUEL: Nuclear Power Generation	($46,206,695)	($40,576,756)	2001 FERC Form 1, Pg 320, Line 25
32	FUEL: Other Power Generation	($11,711,747)	($13,796,368)	2001 FERC Form 1, Pg 321, Line 63
33	Purchase Power Expenses	($555,455,038)	($585,880,557)	2001 FERC Form 1, Pg 321, Line 76
34	A&G Allocated to Production & 56.9%	$189,974,268	$303,957,255	2001 FERC Form 1, Pg 323, Line 168
35	O&M Costs	$514,258,892	$641,778,655	

NOTE: A&G allocation of 56.9% is based upon Heiser Workpapers MLH-2, Pg 19. It is calculated by dividing the Production A&G by Total A&G

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

****

In the matter of the application of	)	
THE DETROIT EDISON COMPANY	)	
to implement the Commission's stranded	)	
cost recovery procedures and for approval	)	Case U-13350
of net stranded cost recovery charges.	)	
	)	

PROOF OF SERVICE

Monica Robinson, duly sworn, deposes and says that on this 9th day of January 2003 she served a copy of Energy Michigan, Inc.'s Initial Brief upon those individuals names on the attached service list by regular mail and e-mail at their last known addresses.

Monica Robinson, Deponent

Subscribed and sworn to before me
this 9th day of January, 2003

Eric J. Schneidewind

Eric J. Schneidewind, Notary Public
Eaton County, Michigan
Acting in Ingham County, Michigan
My Commission Expires: April 24, 2006

Service List

Hon. Barbara Stump
Administrative Law Judge
MPSC
6545 Mercantile Way, Suite 14
Lansing, MI 48909

Detroit Edison Company
Jon P. Christinidis
Michael J. Solocinski, Jr.
Detroit Edison
2000 Second Avenue, 688 WCB
Detroit, MI 48226

ABATE
Bob Strong
255 S. Woodward Avenue, 3rd Fl
Birmingham, MI 48009

MPSC Staff
Patricia S. Barone
6545 Mercantile Way, Suite 15
Lansing, MI 48911

Office of Attorney General
Don Erickson
Special Litigation Division
6th Floor, G. Mennen Williams Bldg.
525 W. Ottawa Street
Lansing, MI 48913

Kroger
Michael Kurtz
Boehme, Kurtz & Lowry
2110 CBLD Center
36 East Seventh Street
Cincinnati, OH 45202

Adrian Energy Associates
Thomas Waters
Fraser, Trebilcock, Davis & Dunlop
124 W. Allegan, Suite 1000
Lansing, MI 48933

James T. Selecky
Brubaker & Associates, Inc.
1215 Ferm Ridge Parkway
Suite 208
P.O. Box 412000
St. Louis, MO 63141-2000

Jennifer Frye
Dickinson Wright, PLLC
215 S. Washington Square
Suite 200
Lansing, MI 48933