

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)
of net stranded cost recovery charges.)
_____)

Case U-13350

ENERGY MICHIGAN, INC.'S REPLY TO THE
DETROIT EDISON PETITION FOR REHEARING

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I. INTRODUCTION AND SUMMARY OF POSITION

A. Introduction

Energy Michigan, Inc. ("Energy Michigan") by and through its attorneys Varnum, Riddering, Schmidt & Howlett LLP respectfully requests that the Michigan Public Service Commission ("Commission") reject the Petition for Rehearing filed by Detroit Edison Company ("Edison" or "Detroit Edison") filed September 2, 2003 (the "Edison Petition") or, in the alternative, clarify portions of its ruling in this matter issued July 31, 2003 (the "Order") pursuant to R460.17403 of the Commission's Rules of Practice and Procedure.

B. Summary of Position: The Edison Petition is Based on Six Myths

The Edison Petition is based upon six factual assertions which are demonstrably erroneous. Once these "myths" are dispelled, the entire Edison Petition fails because it is totally lacking in factual support. Following is a discussion of each of the six Edison myths:

Myth #1: The Commission Did Not Establish Stranded Costs in This Case

Edison claims that the Commission failed to determine stranded costs in this case. Edison Petition,

p. 1, 2, 5-8.

FACT: The Commission Order specifically adopted a transition charge of less than zero.

The Commission determined that Edison's stranded costs for both 2000 and 2001 were below zero. Order, p. 12. However, a specific numerical finding can easily be determined by subtracting the three specific adjustments to the Edison' claimed stranded costs which were adopted by the Commission: imputation of special contract revenue at tariff rates (Order, p. 17-18), Rouge sales (Order, p. 22) and adoption of the Staff position on third party sales credits (Order, p. 18-22). By subtracting the Commission's three authorized adjustments, it can be determined that the Commission found over \$24 million of stranded benefits for Detroit Edison. Chart #1 below documents this conclusion.

Chart #1: Edison 2001 Stranded Benefits Per 7/31/03 Order

MPSC Staff 2001 Stranded Costs ¹	\$10.012 million
Imputation of Special Contract Revenues @ Tariff Rates ²	<u>-\$34.03 million</u>
Stranded Cost	-\$24.02 million

Thus, the Commission Order in this matter is complete and highly specific. If Edison cannot make the simple mathematical calculation illustrated in Chart #1, the Commission could grant Edison's request for clarity by stating that the Order results in stranded costs of a negative \$24.02 million. The Commission should then use these funds to offset securitization charges as more fully discussed below.

¹ Includes the revenue from Rouge sales (Order, p. 22-23) and third party sales adjustment adopted in Order (Order, p. 20-21). See Staff Brief, p. 4-6.

² Energy Michigan Initial Brief, Exhibit 1, line 20: (\$56.9 million) (59.8% generation) = \$34 million allocation, Order, p. 18.

Myth #2: Choice Load Growth is "Out of Control"

Edison cites Choice growth in numbers of customers of 205% in the past 12 months and 150% growth in megawatts served as well as a 90% increase in Choice from the six months ended June 30, 2002 to the six months ended June 2003. Edison Petition, p. 3. Edison also states that "At these levels, Edison will lose approximately \$80 million in contributions to production fixed costs yet will not collect any net stranded costs from ROA customers." Id.

FACT: Current Edison load "lost" to Choice barely equals levels accepted by Edison for 2001.

In Case U-11290, Detroit Edison agreed to phase in of 1125 MW of Choice load by January 1, 2001. Detroit Edison Implementation Plan Tariff, U-11290, March 8, 1999. As of May 2003, the MPSC Staff reported 1398 MW of Choice demand in service accounting for about 12.9% of commercial load and 7.9% of industrial load and almost 0% residential load. However, these demand figures include approximately 261MW of demand from the Dearborn Industrial Generation Project which was load not previously served by Edison. See MPSC Staff Report: Status of Electric Competition in Michigan, February 2003, p. 4. Thus, the total retail demand "lost " by Edison is more like 1140 MW, a total of approximately 7.4% of Edison's system kWh sales. This total load "lost" barely equals the demand which Edison was prepared to lose as of January 1, 2001 as a trade off for major concessions from the Commission such as the accelerated amortization of the Fermi nuclear plant approved in Case U-11726.

In other words, Edison received favorable treatment of the Fermi investment in the form of accelerated amortization in U-11726 and securitization and frozen rates in PA 141 which have allowed excess recovery of costs but now is complaining about Electric Choice load which barely equals levels it accepted for January 1, 2001!

Myth #3: Edison is Suffering "Losses" Due to Customer Choice

Edison introduces a blizzard of statistics from its Form 10-Q Filing for the quarter ending June 30,

2003 which it claims support the conclusion that Customer Choice has produced unacceptable financial results. Edison Petition, p. 3-5. Specifically, Edison cites a decline in income from \$167 million for the six months ended June 30, 2002 to \$45 million for the six month ended June 30, 2003 and a decline in cash flow in operations during the same period from \$209 million to \$39 million. Id.

FACT: Edison's revenue reductions are due to failed non-utility investments, storm damage or mild weather.

The most recent MPSC Staff data show that Edison earned more than 13.1% on common equity as of June 30, 2003 compared with an authorized level of 11%. Attachment 1. In fact, Detroit Edison earnings for the 12 months ended June, 2002 are consistently above authorized levels. Edison's own press release describing their second quarter results cited a decline in six months ended June 30, 2003 earnings from \$268 million in 2002 to \$132 million for the same period in 2003 period or 87 ¢ per share. Attachment 2, p. 1. However, the same press release admitted that \$100 million of that reduction was due to write off of investments in non-regulated synthetic fuels plants (60¢ per share) and that 16 ¢ per share of the decline were related to mild weather and April 2003 storm costs. Id, p. 1 and 2. Detroit Edison Press Release, Monday, July 28, 2003. The same Edison release admitted that year to date operating earnings were \$257 million compared with \$267 million for the same period last year. Id, p. 1. The reports of Edison's financial distress are greatly exaggerated by Edison. Without mild weather and a failed non-utility investment, Detroit Edison's earnings for 2003 would have been much the same as in previous years: greatly in excess of authorized levels!

Myth #4: Retail Customers Are Subsidizing Choice Customers

Detroit Edison claims that the combination of a zero transition charge plus securitization offsets and rate equalization credits adopted by the Commission have subsidized competition. Edison says that these "subsidies" have resulted in artificial demand for Electric Choice while unlawfully reallocating cost between Electric Choice and bundled sales customers. Edison even claims that some Choice customers have negative charges from Edison.

FACT: The Commission’s decision provides equal treatment for retail and Choice customers.

Chart #2 below illustrates that all Edison retail and Choice customers are equally liable for payment of securitization charges and have been allocated equal benefits by Commission orders. The net impact of securitization on all retail and Choice customers is that their rates subsequent to securitization are from .28 ¢ /kWh (primary voltage) to .49 ¢ /kWh (secondary voltage) lower than prior to securitization. This equality of outcome is justified by the fact that retail and Choice customers are equally responsible to pay securitization charges. Chart #2 below also refutes Edison’s contention that the Commission’s orders have reallocated securitization charges and credits in a manner that illegally reallocates cost responsibility. Chart #2 shows that the Commission’s orders have preserved the distribution of costs existing prior to securitization.

Chart #2: Securitization Cost and Benefits

	Retail Customers	Choice Customers
1. Total Cost of Power ³	6 ¢ /kWh	5.5 ¢ /kWh
2. Est. Securitization Charges	.42 ¢ /kWh	.42 ¢ /kWh
3. Est. Securitization Offsets	-.42 ¢ /kWh	-.42 ¢ /kWh
4. Rate Reduction ⁴	<u>-.28-.49 ¢ /kWh</u>	<u>-.28-.49 ¢ /kWh</u>
5. Revised Cost of Power	5.72 ¢ -5.5 ¢ /kWh	5.22 ¢ - 5.0 ¢ /kWh
Total Impact of Securitization	-.28-.49 ¢ /kWh	-.28-.49 ¢ /kWh

Attachment 3, an Edison exhibit from Case U-12639, also refutes Edison’s claims that some Choice customers are being paid to leave the Edison system. Attachment 3 at column (f) shows that typical commercial secondary voltage transmission and distribution charges are 2.2 ¢ /kWh and primary

³ Hypothetical assumption for illustrative purposes only.

⁴ U-12478, January 4, 2001, p. 4.

customers pay an average of .83 ¢ /kWh for transmission and distribution with actual charges ranging from .5 ¢ /kWh to 1 ¢ /kWh. The rate reduction credits approved by the Commission for Choice customers are .28 ¢ /kWh for primary and .48 ¢ /kWh for secondary voltage customers. Id. Clearly, neither of these credits is greater than the average fees charged by Edison.

Note, however, that if a few Choice customers receive credits greater than their distribution charge, the same would be true of retail customers with similar voltages and service characteristics.

Myth #5: Edison Believes That All Customers Should Pay
the Same Rates for Distribution Service

Edison claims that because Choice customers get rate credits close to the size of their distribution charge they are effectively receiving distribution service at a lower cost than retail customers pay for distribution service. Edison states, "...all of Edison's customers (ROA and full service) use Edison's distribution system and should pay the same rates for that use. Both groups of customers receive identical distribution services from Edison and should pay the same rates for the services." Edison Petition, p. 23.

FACT: Detroit Edison has proposed a 137% increase in RAST charges versus an overall average of 11.9% increase for all retail customers. See Edison Application for Interim relief, U-13808, Summary of Proposed Increases by Percent. Even if Edison's projected transition charge is ignored, the basic increase to RAST tariffs is \$25.25 million compared to current revenues of \$110 million or a 23% increase for Choice distribution services compared to the 11.9% increase for retail customers. Exhibit A13, Schedule E-4, p. 1.

Clearly, Edison is attempting to charge Choice customers much higher rates for distribution service than are paid by retail customers.

Myth #6: Edison's Projected Test Year Is Designed to Eliminate Regulatory Lag

Edison claims that use of a projected test year to calculate stranded costs will eliminate regulatory lag and send correct signals to the marketplace. Edison Petition, p. 2, 9-12.

FACT: Edison's projected test year is designed to ignore historical 2002 and 2003 data which contains gross over recoveries of costs by Edison.

It is no accident that Edison's proposal to use a 2004 projected test year would leap frog or ignore more than \$130 million per year of excess PSCR recoveries which occurred in 2002 and 2003. See Edison U-13808 Application, Attachment 1, line 28. A projected test year would also ignore two years of earnings above authorized levels in 2002 and 2003 which are a sure indicator that Edison had no stranded cost during that period. See MPSC Staff Utility Return on Equity Report for Edison Earnings Through June 30, 2003. Attachment 1. Moreover, since a projected test year is formulated based on subjective estimates of future events, Edison would hope to persuade the Commission that drastic and as yet unrealized losses of load could create stranded costs without having to prove that the projected loss of load or the stranded cost actually exist.

Edison's odds of collecting stranded costs under a projected test year scenario are far better than use of actual historical data from a period where they know that no stranded costs exist. Finally, use of a projected test year merely creates a new set of victims or beneficiaries just as Edison claims would result from historical test years. If huge transition charges are based upon projected future stranded costs which ultimately do not occur, today's Choice customers paying those transition charges are victimized by erroneous projections.

Conclusion Regarding the Six Myths

The six Edison myths discussed above are the factual support for the entire Edison Petition. Once the myths are dispelled, there is no serious factual basis for Edison's criticism of the Commission Order.

II. DETAILED DISCUSSION OF DETROIT EDISON PETITION

Following is a detailed refutation of each major point raised by Detroit Edison.

A. Edison Claimed Loss of Revenues Due to Growth of Electric Choice

1. Edison position.

Edison claims that it is suffering adverse financial results and losing approximately \$80 million in contribution to production fixed costs due to the growth of Electric Choice. Edison Petition, I.A., p. 3-5.

2. Energy Michigan reply.

The claimed adverse financial results are Edison Myth #3 which has been refuted above.

Throughout this section Edison is careful to claim a loss of revenue or a loss of production fixed cost not that there are stranded costs. Edison has not been able to prove that a loss of revenue or production fixed costs is equivalent to a stranded cost. In fact, on two separate occasions the Commission has determined that a mere loss of revenue is not the same thing as a stranded cost. U-12639, December 20, 2001, p. 11-12; U-13350, July 31, 2003, p. 12. Edison's actual earnings which significantly exceeded authorized levels through the last reported period, June 30, 2003, prove that a mere loss of revenue to competition does not necessarily produce stranded costs or unacceptable financial results. See Attachment 1.

PA 141 mandates that the Commission "provide for full recovery of a utility's net stranded costs...". PA 141 § 10 a(1), emphasis added. Section 10a(1) of PA 141 requires the Commission to consider the reasonableness and appropriateness of various methods to determine net stranded cost including 1) evaluating the relationship of market value to net book value of generating plants and power contracts, 2) evaluating net stranded costs based

on the market price of power in relation to prices assumed by the Commission, and 3) "any other method the Commission considers appropriate". Nowhere in PA 141 is the Commission mandated to conclude that loss of revenue is equivalent to net stranded cost. PA 141, § 10a(10)a-c.

B. Establishment of a Methodology to Recover Stranded Costs

1. Edison position.

Edison claims that the Commission has not fulfilled its mandatory duty to provide for full recovery of a utility's net stranded costs and implementation costs pursuant to PA 141 § 10a(1). Edison translates the statutory duty of the Commission to determine net stranded costs into a duty to establish a methodology which in Edison's view, would always find that there are significant stranded costs in the form of lost revenues to be collected from Electric Choice participants. Edison Petition, I. B., p. 5-8. Edison attempts to support this assertion by chastising the Commission for an attempt to achieve methodological consistency between Edison and Consumers (Petition, p. 7). Edison claims that a consistent methodology cannot be justified because "...the development of Customer Choice is proceeding at a much higher rate in Edison's service territory than for Consumers'." Petition, I.B., p. 7.

Thus, on the one hand, Edison criticizes the Commission for a failure to develop a clear, predictable methodology for calculation of stranded costs and on the other hand, claims that one method of calculating stranded costs cannot suit both Consumers and Edison because Edison is experiencing a different growth rate of competition.

2. Energy Michigan reply.

The mandates of PA 141 relative to establishment of a method to calculate and collect stranded costs are clear:

- 1) The Commission is mandated to provide full recovery of a utility's net stranded costs. Section 10a(1); and
- 2) The Commission, in developing such a method, is required to consider methods that would
 - a. Evaluate the relationship to market value to net book value of generation assets and power purchase contracts;
 - b. Evaluate net stranded costs based on the market price of power in relation to prices assumed by the Commission in prior orders; or
 - c. Any other method the Commission considers appropriate. PA 141 § 10a(10)(a)-(c) (emphasis added).

Pursuant to this statutory mandate, the Commission has calculated stranded cost for Edison in Cases U-12639, December 20, 2001 and U-13350, July 31, 2003. In each case, the Commission used a historic test year methodology which compares Production Fixed Cost revenue requirements with collections of Production Fixed Cost including revenue from the sale of power. In Case U-13350, the Commission used this basic formula as well as adjustments which had been used in prior cases for revenue from third party sales and imputation of special contract revenues at tariff rates. U-13350, p. 18-23.

As seen in the discussion of Edison Myth #1 above, the Commission's U-13350 Order yielded a transition charge of less than zero. Order, p. 12. The components of the Order can very easily be assembled to further refine the results into a stranded benefit of \$24 million (see chart in Myth #1 above). Contrary to Edison's assertions, these results and the methodology used to reach the resulting decision were quite predictable given the previous decision of the Commission in Case U-12639 as to methodology and even as to the specific adjustments which were adopted in that case for third party sales and special contracts.

Edison's argument against this finding utilizes non-record evidence of Electric Choice sales growth which has no bearing whatsoever on the specific question of whether Detroit Edison

has experienced unrecovered stranded costs. An anecdote illustrates the irrelevance of Edison's statistics. Edison references reports of 1398 MW of Electric Choice demand yet fails to inform the reader that the referenced total includes over 261 MW of Dearborn Industrial Generation load that was never served by Edison at the retail level. Status of Electric Competition in Michigan, February 1, 2003, p. 4. Thus, almost one quarter of the claimed "loss" of load in fact was not "lost" to competition in the first place.

It is objectively clear that the Commission has followed its statutory mandate to determine and if necessary award recovery of net stranded costs.

Alternative Approach

This is a rare instance where Energy Michigan believes that the Commission may be well served to give Edison that which it has requested: a calculation of the specific numerical stranded costs/benefits resulting from the U-13350 Order. Rather than leaving a determination that Edison's stranded costs are negative and therefore a transition charge is not warranted, the Commission should take the next step and find on the basis of its Order that Edison experienced a stranded cost of a negative \$24.02 million. Next, the Commission should apply this negative stranded cost to calculated securitization charge obligations of Electric Choice customers. See Energy Michigan Brief, p. 32-33 and Attachment 1, lines 26-28. To the extent that the \$24 million of negative stranded costs or stranded benefits are not sufficient to offset all estimated 2003 Choice securitization obligations, excess securitization savings should be applied to offset the balance and to fund rate equalization credits. *Id.*

C. Certainty of the Amount and Timing to Recover Deferred Stranded Costs

1. Edison position.

Edison claims that it cannot continue to defer stranded costs in the absence of a clear method to collect such costs. Edison also claims that the Commission should have adopted its

proposed methodology to collect projected stranded costs. Edison states that it was inconsistent to reject its projected case methodology for being based on estimates, while the Commission itself used estimated securitization savings and estimated Choice sales to calculate the amount of excess savings available to provide securitization offsets and rate reduction credits. Edison Petition, I. C., p. 9.

Edison also claims that contingent recovery of alleged stranded costs such as those relating to Choice Implementation violates MCL 460.10(a)(1) which requires full recovery of costs. Edison says that costs associated with current Choice customers may not be collectible since those customers could return to full service, thus avoiding future collection of deferred costs. Finally, Edison says that because ROA is expanding rapidly, deferral of cost collection merely encourages the rapid growth rate which is causing financial harm to Edison. Edison Petition, I. C., p. 8-12.

2. Energy Michigan reply.

Edison has mischaracterized the Commission's approach to stranded costs as a "provisional stranded cost methodology". Edison Petition, I. C., p. 8.

In fact, the Commission has approached two different categories of stranded cost (stranded generation related costs and implementation costs) in two different ways.

Treatment of Claimed Generation Related "Stranded" Costs

First, as to stranded generation related costs which are claimed to be caused by a loss of load to competition, the Commission has consistently issued decisions which find that Edison has no stranded costs to collect. U-13350, July 31, 2003, p. 12; U-12639, December 20, 2001, p. 11-12. Therefore, generation related stranded costs are not deferred since none have been found to exist based on actual historical data.

Edison's arguments for a projected stranded cost methodology are merely an attempt to leap frog over the 2002 and 2003 historical periods which show gross over collections by Detroit Edison (see for example Attachment 1 to the Edison U-13808 Application which virtually admits that the current PSCR over recovery has been \$133 million per year) and to proceed to a projected 2004 year which predicts against all odds, that Edison will lose almost all industrial load to competition! U-13808 Application, June 20, 2003, Attachment 1, line 28. It is only on the basis of unsubstantiated projections of financial losses and Choice growth, that Edison can hope to show stranded costs. Just as clearly, the victims of the unsupported assertions would be current customers who are forced to pay transition charges based upon future events which are unlikely to occur. This is a far more onerous outcome than the Commission's methodology which uses actual historical data to establish stranded cost charges to be collected currently based upon real, verified information. Edison's lost revenue, stranded cost methodology as well as its projected test year methodology were considered and rejected in U-13350 on the basis of record evidence. U-13350, July 31, 2003, p. 12 and 24-25. Edison's attempt to use subjective financial projections generated by its own accounting department to predict a catastrophic loss of load must not be used as a basis to change the Commission's decision.

Non-Generation Related Stranded Costs

The second category of stranded costs considered by the Commission relates to costs such as Choice implementation costs which in fact have been deferred by order of the Commission until Edison can demonstrate that the expenditures have produced a workable program. See U-11956, October 24, 2000, et al. These decisions are consistent with traditional utility rate making law which requires a determination of "used and useful" prior to rate recovery. In the case of the implementation costs, the Commission has deferred a finding of "useful" until record evidence demonstrates this fact. Id. Once the Commission has found that deferred implementation costs are collectible, those costs will be collected from all customers both retail and Choice. U-12639, December 20, 2001, p. 29. Given this fact, no Choice customer will be able to escape these charges by moving back to retail

service because the charges will be collected from all customers.

Edison's claim that the MCL 460.10a(9) true up process is a mandate to allow use of a projected test year is inapposite. The true up provision in 10a(9) is designed to ensure that calculated securitization charges or transition charges will be collected in the amount required. Thus, if the authorized securitization charges are developed to collect \$1 million of stranded costs based on a certain sales volume but actually under recover due to an incorrect estimate of collection volumes, the true up process allows this under collection to be remedied by a future surcharge. 10a (9) does not require and cannot be cited for the proposition that a projected year is to be favored over an historical test year. Quite the contrary. The 10a(9) process basically eliminates the need for final adoption of projected numbers since estimating errors can be corrected after the fact. Edison's statutory construction of PA 141 is in direct conflict with Section 10(a)(c) which allows the Commission to use any method that it chooses to calculate net stranded cost.

In summary, Edison's contention that its stranded cost will be uncertain or impossible to collect rests upon several of the "myths" discussed in In. B. above. First, is Myth #2 that Electric Choice growth is "out of control". Second, is Myth #3 that Edison's earnings are suffering because of Electric Choice. Also, Myth #4 is used to claim that the growth of Choice is fueled by "subsidies". Without these myths, Edison's claim that its as yet unproven stranded costs cannot be collected has no foundation whatsoever.

D. Imputation of Special Contract Revenues

1. Edison position.

Edison challenges the Commission's decision to impute full tariff revenue to special contract customer service when calculating stranded costs. Edison attacks the Commission's decision on the grounds that the special contracts allowed Edison to retain large customers and that the imputed revenue is "pure fiction". Edison says that since it did not collect tariff revenues

from special contract customers that the Commission cannot impute the revenue at tariff rates and that such a decision is a "taking" prohibited by US and Michigan Constitution. Edison Petition, I.D., p. 12-15.

2. Energy Michigan reply.

There are two compelling arguments against the Detroit Edison position on special contracts:

- 1) Detroit Edison's position would require customers on Electric Choice who had never received special contract service to pay the cost of special contract discounts granted to other customers as a stranded cost. Edison retail customers who are on special contracts and switch to Electric Choice would pay back to Edison a portion of their special contract discount in the form of a transition charge. Both of these outcomes are discriminatory and anticompetitive. Commission Order, p. 17-18.

- 2) The Commission applied the methodology prescribed in Case U-10646 to determine that Electric Choice and retail customers would not be required to bear the cost of special contract discounts in the form of transition charges. Many of Edison's arguments in its Petition, pages 12-15, are a collateral attack on the U-10646 Order itself. Edison effectively claims that imputation of revenues is an illegal fiction and a taking of Edison property contrary to the US and Michigan Constitutions. Petition, p. 15. HOWEVER, EDISON WAS A PARTY TO U-10646 WHICH ESTABLISHED THIS METHODOLOGY. EDISON VIGOROUSLY DEFENDED U-10646 AGAINST ATTACKS AND DID NOT APPEAL THE ORDER. By participating in U-10646 and failing to appeal that Order, Edison has waived its right to attack the methodology adopted in that Order.

E. Edison Claims That The Commission Orders Force It To Subsidize Competition

1. Edison position.

Edison opposes the Commission Orders determining that transition charges are zero together with orders establishing securitization offsets and rate reduction equalization credits. Edison claims it has been harmed because these orders encourage Electric Choice sales volumes that otherwise would not occur, grant an artificial competitive advantage to alternative suppliers and deprive retail customers of reductions that would otherwise be granted to them instead of used to offset securitization charges and reduce Electric Choice rates. Edison Petition, II., p. 16-19.

Edison bases its claim that Choice customers receive excessive benefits on the argument that Fermi 2 related Production Fixed Cost Revenue requirements are reduced approximately .5 ¢ /kWh per year by securitization and that these savings effectively reduce Electric Choice stranded cost responsibility by similar amounts. Edison argues that this .5 ¢ reduction in exposure to stranded cost is the only benefit that should be received by Electric Choice customers and roughly equates to the benefit received by retail customers. Edison argues that the securitization offset and rate reduction credits granted in U-12478 were intended to be temporary and that such credits can result in some customers being paid to leave the Edison system. Id.

2. Energy Michigan reply.

Edison's position on this issue is largely based upon two of the "myths" discussed above.

a. Choice growth is not "out of control".

First, Edison argues that the securitization charge offsets and rate reduction credits adopted in U-12478 and continued in this case artificially increase Choice load which is deemed to be "out of control". As seen above, in the discussion of Myth #2 the level of Edison load lost to Electric Choice as of the most recent MPSC Staff report barely equals the level deemed acceptable by Edison for January 1, 2001. The amount of total Edison load lost to competition is still less than 10%. Remarkably,

Edison is building and adding over 1000 MW of new generation plant capacity while at the same time claiming stranded costs. See Edison Application U-13808 testimony of Nzoor Baig (917 MW of new rebuilt fossil capacity) and Wayne Colonnello (122 MW of new nuclear capacity). Edison has shown no proof that the amount of Choice load is unexpectedly high or has created unreasonable financial damage. If Choice growth was really stranding generation capacity, why would Edison be adding new generation capacity which would increase its stranded costs?

b. Choice is not receiving subsidies.

The chart presented by Edison witness Falletich in U-12639 shows average distribution costs for primary and secondary customers which significantly exceed the level of rate reduction credits granted to those customers. See Attachment 2. Given these statistics it is difficult to determine which customers have been paid to leave the Edison system. Edison has produced no specific examples of this phenomenon or of the incidence of the phenomenon as a percent of customers. Edison's mere assertions cannot be given credence by the Commission.

In any event, if some Choice customers receive credits exceeding their distribution costs then the same situation would exist for retail customers of similar size and load characteristics. Edison cannot escape this conclusion by attributing all reductions to distribution charges while attributing all retail reductions to generation and distribution costs.

c. Edison's position that Electric Choice customers should be legally liable to pay securitization charges but not receive offsets or rate reduction credits is unfair, discriminatory and a denial of equal protection.

Edison's argument that Choice customers are unfairly advantaged by the Commission's decisions is based on Myth #4. In fact, the Commission's decisions

(see Chart in discussion of Myth #4) merely place Choice customers in the same position as retail customers, an outcome that is reasonable since Choice customers, just like retail customers, are liable to pay non-bypassable securitization charges.

Edison can't have it both ways: It cannot make Choice customers responsible for securitization charges while prohibiting Choice customers from receiving the same securitization benefits as retail customers.

A sub-part of the Edison position is that excess securitization savings result exclusively from generation facilities which serve only bundled customers and therefore the resulting savings should not be allocated to Choice customers who do not purchase generation. Edison Petition, II., p. 17.

There are two responses to this argument: First, Choice customers are forced to pay non-bypassable securitization charges in the same fashion as retail customers. Therefore, why shouldn't they get the same benefits? Second, PA 141 § 10d(6) allows the Commission to "use excess securitization savings to reduce the level of any charges authorized by the Commission to recover an electric utility's stranded cost." Even under Edison's strict interpretation, this language can be construed as allowing excess savings to be used to offset securitization charges.

Also, PA 141 § 10d(7) prohibits funding of the Low Income Energy Efficiency Fund unless securitization savings are provided to achieve a 5% rate reduction for all customers. Numerous Edison securitization reports have admitted that the LIEE is currently being funded. Given this situation, the Commission is required by 10d(7) to order a 5% rate reduction for all customers including estimated rate reductions for Electric Choice customers in the form of the rate equalization credit.

- d. Securitization offsets and rate reductions are not a prohibited reallocation of costs.

Edison argues that use of excess securitization savings to reduce Electric Choice charges is a reallocation prohibited by PA 141 § 10d(6) and results in Choice customers getting more benefits than retail customers. Edison Petition, V., p. 17-18.

This is replay of Edison Myth #4 discussed above. The chart accompanying discussion of Myth #4 demonstrates that EC customers get no more benefits than retail customers from the Commission's actions. The chart in Myth #4 also shows that there is no 10d(6) prohibited reallocation of cost responsibility since all Choice and retail customer rates are reduced by the same amount. Edison has not produced and cannot produce statutory language stating that 10d(6) requires that the relationship of each specific component of a customer's cost (e.g. generation charges or distribution charges) be unchanged rather than reducing the total amount of cost attributable to each customer.

In essence, Edison wants the Commission to believe that a reduction of .5 ¢ /kWh for both Choice customers and retail customers is a prohibited reallocation because the Commission must assume that all of the .5 ¢ /kWh reduction is taken out of the distribution charge of the Choice customer but only a portion of the .5 ¢ is taken out of the distribution charge of the retail customer. The Edison position is sophistry at its worst. The simple and correct conclusion is that, as is mandated by 10d(6), both retail and Choice customers receive the same benefits from securitization under the Commission Order.

E. Should All Edison Customers Pay the Same Rates For the Same Service?

1. Edison position.

Edison amplifies on previous arguments dealt with in D above against rate reduction equalization credits by arguing that these credits apply exclusively to Electric Choice distribution charges and in some cases, equal or even exceed those charges leaving the

Choice customer with no distribution charge. Petition, II., A., p. 21. Edison finds this treatment to be different than for retail customers where it argues that the securitization rate reduction applies to the entire Edison range of charges including both distribution and generation. Id. Edison bootstraps these dubious assumptions into the conclusion that the resulting Electric Choice distribution charges are reduced by a larger amount than retail distribution charges and thus have been unequally allocated. Edison concludes that the Commission has therefore discriminated against Edison full service customers. Edison Petition, II. A., p. 23.

2. Energy Michigan reply.

First, under the discussion of Myth #5 Energy Michigan has shown that Edison has produced no proof that Choice distribution charges have been reduced below zero.

Second, the Edison assumption that Choice reductions apply to distribution charges and that retail customer reductions apply to both generation and distribution charges is not founded on fact and is irrelevant in any event. PA 141 merely requires that credits or reductions be given to customers and certainly does not specify which portion of the customer rate is to be reduced.

It would be just as logical to assume that both Choice and retail customer reductions apply to distribution charges. In such a case, Choice and retail customers with similar characteristics receive similar reductions to their Edison charges whether for distribution or otherwise.

Finally, Edison has introduced no proof tending to show how many or what type of customer receives the alleged negative transition charge.

F. Are Securitization Offset and Rate Reduction Credits Legal and in the Public Interest?

1. Edison position.

Edison concludes its Petition by attacking securitization offsets and rate reduction credits as illegal and contrary to PA 141 and the public interest based on the following arguments:

- 1) Edison argues that because a securitization rate reduction credit may be greater than the Electric Choice distribution charge such reductions are illegal even though the same may be true for a retail customer. Edison Petition, II. B., p. 24.
- 2) Edison claims that the public interest is harmed by granting offsets and credits which are not sustainable at current levels because the residual savings from them will be exhausted as ROA program expands. *Id.*, p. 25.
- 3) Even if excess securitization savings are used to fund offsets and credits, Edison claims it is harmed by the growth in Electric Choice sales because of its claimed financial losses. Edison Petition, p. 23-26. Edison also criticizes the Commission for using Edison's own projections of Choice sales. *Id.*, p. 25-26.
- 4) Edison returns to the argument that residual securitization savings can only be used to reduce transition charges under (10d(6)) but that the reduction cannot be less than zero. *Id.* p. 26.

2. Energy Michigan reply.

- 1) Edison has provided no proof that credits to some Electric Choice customers are greater than the distribution charges paid by these customers. Moreover, since Edison claims its RAST charges are similar to retail charges for distribution (Edison Petition, p. 23, see Myth #5), it would be true that a 5%

rate reduction granted to retail customers is also greater than the distribution charge paid by some of these retail customers. Edison cannot conjure up an inequity between customer classes by assuming that a .5 ¢ reduction in the case of retail customers pays for both generation and distribution while assuming that for Choice customers the reduction only pays for distribution. This is a form of sophistry, not sound legal argument. Moreover, the Chart #2 contained in the discussion of Edison Myth #4 shows that on the whole, Choice credits are not greater than Choice distribution charges.

- 2) Edison's overall contention that the Commission has artificially encouraged Choice through unequal or unjustified offsets and credits has been dealt with in the discussion of Myth #4 above.
- 3) The Commission has not sent false price signals through its orders. First, a zero transition charge is a correct price signal when there are in fact no transition charges. This is a matter of record. See U-12639 and U-13350. Second, if Electric Choice customers are liable to pay securitization charges, awarding them literally the same credits and offsets received by retail customers preserves equality and the current allocation of costs. See Myth #4.

To send the most correct price signal, the Commission should take the next step of using its order to find a specific negative transition charge and using that negative charge as an additional offset to securitization charges. This is the true answer to Edison's sustainability argument. Petition, p. 25. By specifying the exact amount of negative transition charges and using these "stranded benefits" to offset securitization charges combined with use of excess securitization savings the Commission would produce a sustainable Electric Choice program based on accurate and correct economic signals. Let's give Edison what it wants on this one!

- 4) Contrary to Edison's assertions, there is literally no factual basis to assess transition charges to Choice customers. The record in this case has shown a large negative stranded cost which should be used to offset any liability for securitization charges. U-13350, p. 12 and 17-22. See Myth #1.

The Energy Michigan Initial Brief in this case contained an Attachment 1, Exhibit RAP-1, which laid out the correct methodology for dealing with negative transition charges, credits and offsets. Specifically, at lines 26-28, Energy Michigan proposed using negative stranded costs to offset securitization charges which would be applicable to the amount of customer Choice sales estimated for the year in which the transition charge would apply. Energy Michigan Initial Brief, Attachment A, lines 26-29. To the extent that the negative stranded costs were insufficient to provide a full offset of Choice securitization charges, the balance of the required offset together with rate equalization reductions could be funded through excess securitization savings. Energy Michigan Initial Brief, p. 26-27. Edison's argument that this approach is flawed because it uses estimated values ignores the fact that the estimated Choice sales numbers are Edison's own numbers derived from Exhibit A24 and A25 (see Order, p. 27) and that any under recovery could be recovered through the true up process authorized in Section 10a(9) and (11).

Finally, the prohibited reallocation of costs is not proven since data has not been introduced to show that such a fact occurs and ignores language in Section 10d(7) which mandates a 5% reduction for all customers. Failure to implement an across the board 5% reduction would indeed result in a prohibited reallocation of cost responsibility between customer classes.

G. Validity of Offsets

1. Edison position.

Edison argues that the language in Act 141 specifying that securitization be non-bypassable, the requirement that Edison fully recover all of its securitization charges (10j) and the U-12478 Order of January 4, 2001 in which Edison claims the Commission agreed that once a transition charge was adopted reflecting securitization reductions that the equalization reduction would no longer be necessary collectively mean that Edison's securitization charges cannot be offset. Edison Petition, II. C., p. 26-29. Edison concludes that the Commission is bypassing non-bypassable charges by giving money back to ROA customers in the form of offsets to securitization charges. Id.

2. Energy Michigan reply.

Edison's interpretation of PA 141 cannot withstand a reading of the entire Act. The sections of PA 141 cited by Edison to support the non-bypassability of securitization charges have to be read in conjunction with other provisions of PA 141 which explicitly allow the Commission to approve rate reductions, charge reductions and other credits to customers:

- 1) Section 10d(7) mandates that the Low Income Energy Efficiency Fund not be funded until all customers have received a 5% rate reduction.
- 2) Section 10d(6) mandates that securitization savings greater than necessary to fund the LIEE and provide a 5% rate reduction for residential customers shall be allocated by the Commission to further rate reductions or to reduce the level of any charges authorized by the Commission.

The Commission has used this authority to create offsets to securitization charges for retail customers because failure to accomplish this offset would result in a double billing of such customers under frozen rates (one billing for Fermi charges in frozen retail rates and a second billing in the securitization charge for Fermi assets). Edison does not claim that these

offsets represent a bypass of securitization charges. However, when the same offset mechanism is provided to Choice customers which would also prevent excess collection, Edison claims that it is a bypass. Edison's position is inconsistent.

Given the Commission conclusion that Edison transition charges are negative (Order, p. 12 and 23) Edison cannot show that offset of Choice securitization charges has prevented it from fully recovering either stranded costs or securitization charges. Edison's argument that the Commission may not use excess securitization savings to produce a credit or pay for Electric Choice securitization charges is directly contrary to Sections 10d(6) and 10d(7) of PA 141 and flies in the face of logic.

In conclusion, Detroit Edison's argument that the Commission cannot offset securitization charges for Electric Choice customers is refuted by the fact that the Commission has offset securitization charges for retail customers without objection by Detroit Edison and by specific provisions of PA 141 which allow the Commission to grant reductions or credits to customers using securitization savings. Edison cannot cite any portion of PA 141 which forbids use of these credits to offset securitization charges.

III. CONCLUSION AND RELIEF

Based upon the argument set forth above, Energy Michigan respectfully requests that the Commission:

1. Reject Detroit Edison's Petition for Rehearing or Modification of the Commission's July 31, 2003 Opinion and Order or; in the alternative
2. Use the specific findings in the Order to calculate the negative transition charges of \$24.02 million for 2003 and apply that negative balance together with available excess securitization savings to offset securitization charges and fund rate reduction credits for Electric Choice customers with any remaining balance carried forward for the same purpose in 2004.

Respectfully submitted,

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

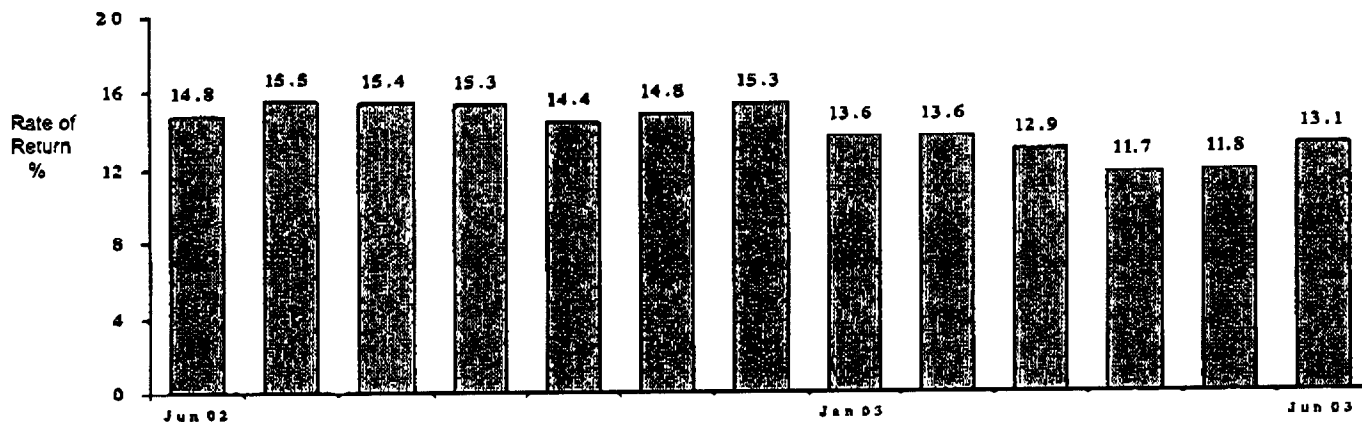
September 23, 2003

By: _____
Eric J. Schneidewind (P20037)
The Victor Center, Suite 810
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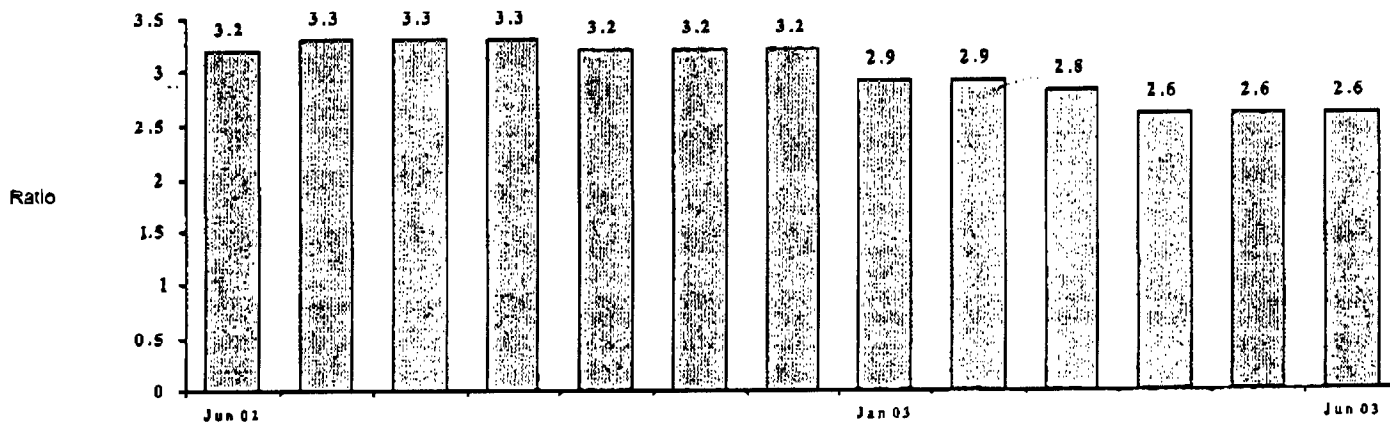
Attachment 1

Energy Michigan, Inc. Reply to the
Detroit Edison Petition for Rehearing
Case U-13350

Earned Rate of Return on Common Equity (%)



Interest Coverage Ratio



Attachment 2

Energy Michigan, Inc. Reply to the
Detroit Edison Petition for Rehearing
Case U-13350

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Press Release

Source: DTE Energy

DTE Energy Reports Second Quarter Earnings

Monday July 28, 7:01 am ET

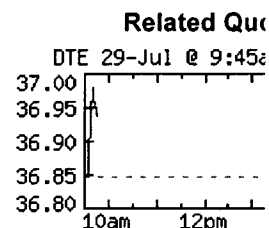
DETROIT, July 28 /PRNewswire-FirstCall/ -- DTE Energy (NYSE: DTE - News) today reported a loss of \$23 million, or \$0.13 per diluted share for the second quarter ended June 30, 2003, compared with reported earnings of \$68 million, or \$0.42 per diluted share for the same period last year. Operating earnings for the second quarter 2003 were \$79 million, or \$0.48 per diluted share, which is comparable to operating earnings of \$86 million, or \$0.53 per diluted share for the same period in 2002.

Reported earnings for the six months ended June 30, 2003 were \$132 million, or \$0.79 per share versus \$268 million or \$1.66 per share in 2002. Year-to-date operating earnings were \$257 million, or \$1.53 per share, compared to \$267 million, or \$1.65 per share in 2002.

A reconciliation of reported to operating earnings per share for both the quarter ended and six months ended June 30 can be found at the end of this release. DTE Energy management believes that operating earnings provide a more meaningful representation of the company's earnings power from ongoing operations and uses operating earnings as the primary performance measurement for external communications with analysts and investors regarding its earnings outlook and results. Internally, DTE Energy uses operating earnings to measure performance against budget and to report to the DTE Energy Board of Directors.

Operating earnings results for the second quarter of 2003, by business unit, were as follows:

- DTE Energy Resources earnings were \$0.65 per share versus \$0.48 per share in the second quarter of 2002. The regulated operations of this business unit, which include the power generation services of Detroit Edison, decreased \$0.06 per share versus last year. The decrease in the regulated operations was driven by decreased cooling demand due to mild weather, lower margins resulting from the Customer Choice program, and continued pressure from higher pension and healthcare benefit costs. The non-regulated operations of this business unit include the company's energy services, energy marketing and trading, coal services and landfill gas recovery (biomass) businesses. Non-regulated operations contributed an incremental \$0.23 per share versus 2002, due to higher synthetic fuel production in the energy services operations, partially offset by unfavorable mark-to-market earnings at the energy marketing and trading business.
- DTE Energy Distribution posted a loss of \$0.07 per share versus earnings of \$0.09 per share for the same period last year. The regulated operations of this business unit include the electric distribution services of Detroit Edison. These regulated operations experienced a year-over-year decline of \$0.16 per share, driven by the impact of mild weather, the restoration costs from an April 2003 ice storm, increased costs for customer service process improvements, and increased pension and healthcare benefit costs. The non-regulated operations of this business unit consist primarily of DTE Energy Technologies, which markets and distributes a broad portfolio of distributed



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generation products and services. Losses were flat year-over-year for this business at \$0.02 per share.

- DTE Energy Gas had a loss of \$0.01 per share versus earnings of \$0.04 per share for the same period last year. The regulated operations include the gas distribution services provided by Michigan Consolidated Gas Co. (MichCon). Regulated operations were down \$0.04 per share in the second quarter, largely due to increased pension and healthcare benefit costs. Non-regulated operations include the production of gas in northern Michigan and the gathering, processing and storing of gas. The earnings of these operations decreased by \$0.01 per share year-over-year.
- Corporate & Other includes interest costs, as well as certain non-regulated investments, including assets held for sale and in emerging energy technologies. Corporate & Other losses were \$0.09 per share versus \$0.08 per share for the same period last year.

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DTE Energy's reported earnings for the second quarter include a negative \$100 million effective tax rate adjustment. This quarterly adjustment is required by Generally Accepted Accounting Principles to maintain a quarterly effective tax rate consistent with the estimated annual rate and does not impact total year earnings. This adjustment is necessary because the company's quarterly pre-tax income and Section 29 tax credits earned from its synthetic fuels business have different quarterly profiles. Typically, tax credits recognized are shifted from the first two quarters to the second half of the year. The company's reduction in its synthetic fuel production levels in the second half of the year (announced June 17, 2003) magnifies this shift and subsequently produced a higher effective tax rate adjustment in the second quarter. In addition, this reduction causes the total year effective tax rate to increase.

"Our weak second-quarter results demonstrate the continued cost pressures that hinder our two utilities, Detroit Edison and MichCon," said Anthony F. Earley Jr., DTE Energy chairman and CEO. "We continue to face rising costs of pensions and healthcare benefits, and to make investments to improve our infrastructure and customer service. Neither Detroit Edison nor MichCon have had a rate increase in nearly a decade. It is critical that both utilities be granted rate relief by the Michigan Public Service Commission at the earliest possible date to ensure their continued financial health.

"In addition, it is essential that structural changes to the state's Customer Choice program be implemented in a timely fashion," Earley said. "The program, as structured, sends incorrect pricing signals to program participants and places the cost burden of the program with Detroit Edison. This structure is neither competitive nor sustainable and further exacerbates the financial pressures facing the company."

Concerning the company's non-regulated businesses, Earley said that while DTE Energy's non-regulated businesses posted year-over-year growth, a business decision was announced June 17, 2003, to reduce the production levels at the company's synthetic fuels business until there was more certainty regarding the timing and outcome of the IRS review of chemical change.

"Lower production volumes will negatively impact the financial performance of this business this year but it was a prudent decision given the company's inability to fully use the tax credits that this business generates and the uncertainty of the IRS review," Earley said. "As we work with the IRS to resolve this issue, we continue our strategy of expanding our portfolio of non-regulated businesses to ensure future growth opportunities for DTE Energy."

David E. Meador, DTE Energy senior vice president and chief financial officer, commented on other financial issues.

"Our already strong cash flow, liquidity and leverage metrics remain on target for the year," Meador said. "We continue to aggressively manage capital expenditures and costs within our control to improve our financial health. We believe that DTE Energy remains a financially sound, well-positioned company. We look forward to a favorable resolution to the uncertainties surrounding our pending rate cases and the IRS' synthetic fuel review so that we may emerge an even stronger company."

This earnings announcement, as well as a package of detailed financial information, is available on the company's website at www.dteenergy.com in the "Investors" page.

DTE Energy will provide an overview of its second quarter earnings and its financial outlook for 2003 as part of its webcast meeting with the investment community at 8:30 a.m. EDT Friday, Aug. 1. Investors, the news media and the public may listen to a live Internet broadcast of the DTE Energy webcast at www.dteenergy.com.

DTE Energy is a Detroit-based diversified energy company involved in the development and management of energy-related businesses and services nationwide. DTE Energy's largest operating subsidiaries are Detroit Edison, an electric utility serving 2.1 million customers in Southeastern Michigan, and MichCon, a natural gas utility serving 1.2 million customers in Michigan. Information about DTE Energy is available at www.dteenergy.com.

The information contained in this document is as of the date of this news release. DTE Energy expressly disclaims any current intention to update any forward-looking statements contained in this document as a result of new information or future events or developments. Words such as "anticipate," "believe," "expect," "projected" and "goals" signify forward-looking statements. Forward-looking statements are not guarantees of future results and conditions but rather are subject to various assumptions, risks and uncertainties. This news release contains forward-looking statements about DTE Energy's financial results and estimates of future prospects, and actual results may differ materially. Factors that may impact forward-looking statements include, but are not limited to, timing and extent of changes in interest rates; access to the capital markets and capital market conditions and other financing efforts which can be affected by credit agency ratings required; resolution of the IRS review of chemical change at synthetic fuel facilities; ability to utilize Section 29 tax credits or sell interest in facilities producing such credits; the level of borrowings; the effects of weather and other natural phenomena on operations and actual sales; economic climate and growth in the geographic areas in which DTE Energy does business; unplanned outages; the cost of protecting assets against or damage due to terrorism; nuclear regulations and risks associated with nuclear operations; the grant of rate relief by the MPSC for the utilities; changes in the cost of fuel, purchased power and natural gas; the effects of competition; the implementation of electric and gas customer choice programs; the implementation of electric and gas utility restructuring in Michigan; environmental issues, including changes in the climate, and regulations, and the contributions to earnings by non-regulated businesses. This news release should also be read in conjunction with the forward-looking statements in DTE Energy's, MichCon's and Detroit Edison's 2002 Form 10-K Item 1, and in conjunction with other SEC reports filed by DTE Energy, MichCon and Detroit Edison.

DTE Energy Company
Consolidated Statement of Operations (unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
(in Millions, Except per Share Amounts)	2003	2002	2003	2002
Operating Revenues	\$1,600	\$1,474	\$3,695	\$3,368
Operating Expenses				
Fuel, purchased power and gas	493	403	1,306	1,138
Operation and maintenance	720	623	1,475	1,166
Depreciation, depletion and amortization	180	180	377	369
Taxes other than income	87	81	184	174
	1,480	1,287	3,342	2,847
Operating Income	120	187	353	521
Other (Income) and Deductions				
Interest expense	132	136	265	272
Preferred stock dividends of subsidiaries	6	5	12	13
Interest income	(7)	(6)	(15)	(11)

Other income	(18)	(28)	(31)	(37)
Other expenses	18	27	51	42
	131	134	282	279
Income (Loss) Before Income Taxes	(11)	53	71	242
Income Tax Expense (Benefit)	10	(8)	(16)	(11)
Income (Loss) from Continuing Operations	(21)	61	87	253
Discontinued Operations - ITC:				
Income from operations	-	7	5	15
Gain on sale	(2)	-	67	-
	(2)	7	72	15
Cumulative Effect of Accounting Changes:				
Asset retirement obligations	-	-	(11)	-
Energy trading activities	-	-	(16)	-
	-	-	(27)	-
Net Income (Loss)	\$ (23)	\$ 68	\$ 132	\$ 268
Basic Earnings (Loss) per Common Share				
Income from continuing operations	\$ (.12)	\$.38	\$.53	\$ 1.57
Discontinued operations	(.01)	.04	.43	.09
Cumulative effect of accounting changes	-	-	(.17)	-
Total	\$ (.13)	\$.42	\$.79	\$ 1.66
Diluted Earnings (Loss) per Common Share				
Income from continuing operations	\$ (.12)	\$.38	\$.52	\$ 1.57
Discontinued operations	(.01)	.04	.43	.09
Cumulative effect of accounting changes	-	-	(.16)	-
Total	\$ (.13)	\$.42	\$.79	\$ 1.66
Average Common Shares				
Basic	168	161	167	161
Diluted	168	162	168	162
Dividends Declared per Common Share	\$.515	\$.515	\$ 1.03	\$ 1.03

DTE Energy Company
Segment Diluted Earnings Per Share (Unaudited)

	Three Months Ended June 30 2003		
	Reported Earnings	Adjustments	Operating Earnings
Energy Resources			
Regulated -			
Power Generation	\$0.28	\$ -	\$0.28
Non-regulated			
Energy Services	0.46	-	0.46
Energy Marketing & Trading	(0.09)	-	(0.09)
Other	-	-	-
Total Non-regulated	0.37	-	0.37
	0.65	-	0.65
Energy Distribution			
Regulated -			
Power Distribution	(0.05)	-	(0.05)
Non-regulated	(0.02)	-	(0.02)
	(0.07)	-	(0.07)
Energy Gas			

Regulated - Gas Distribution	(0.05)	-	(0.05)
Non-regulated	0.04	-	0.04
	(0.01)	-	(0.01)
Corporate and Other	(0.69)	0.60 E	(0.09)
	(0.69)	0.60	(0.09)
Income (Loss) from Continuing Operations			
Regulated	0.18	-	0.18
Non-regulated	(0.30)	0.60	0.30
	(0.12)	0.60	0.48
Discontinued Operations - ITC			
Income from operations	-	-	-
Gain on sale	(0.01)	0.01 G	-
	(0.01)	0.01	-
Cumulative Effect of Accounting Changes			
Asset retirement obligations	-	-	-
Energy trading activities	-	-	-
	-	-	-
Net Income (Loss)	\$ (0.13)	\$0.61	\$0.48

Three Months Ended June 30
2002

	Reported Earnings	Adjustments	Operating Earnings
Energy Resources			
Regulated -			
Power Generation	\$0.34	\$ -	\$0.34
Non-regulated			
Energy Services	0.18	-	0.18
Energy Marketing & Trading	(0.03)	-	(0.03)
Other	(0.01)	-	(0.01)
Total Non-regulated	0.14	-	0.14
	0.48	-	0.48
Energy Distribution			
Regulated -			
Power Distribution	0.11	-	0.11
Non-regulated	(0.02)	-	(0.02)
	0.09	-	0.09
Energy Gas			
Regulated - Gas Distribution	(0.01)	-	(0.01)
Non-regulated	0.05	-	0.05
	0.04	-	0.04
Corporate and Other	(0.23)	0.15 E	(0.08)
	(0.23)	0.15	(0.08)
Income (Loss) from Continuing Operations			
Regulated	0.44	-	0.44
Non-regulated	(0.06)	0.15	0.09
	0.38	0.15	0.53
Discontinued Operations - ITC			
Income from operations	0.04	(0.04) F	-
Gain on sale	-	-	-
	0.04	(0.04)	-
Cumulative Effect of Accounting Changes			
Asset retirement obligations	-	-	-
Energy trading activities	-	-	-
	-	-	-
Net Income (Loss)	\$0.42	\$0.11	\$0.53

Adjustments Key

- A) Adjustment of EITF 98-10 accounting change -- Flowback of the cumulative effect of a change in accounting principle from rescission of EITF Issue No. 98-10
- B) Loss on sale of steam heating business -- Sold Detroit Edison steam heating business
- C) Disallowance of gas costs -- Reserve for the potential disallowance of MichCon 2002 gas procurement costs
- D) Contribution to DTE Energy Foundation -- Used portion of ITC sale proceeds to fund the DTE Energy Foundation
- E) Tax credit driven normalization -- Quarterly adjustment at DTE Energy to normalize its effective tax rate. Annual results not impacted
- F) Adjust for discontinued operations of ITC -- Sold International Transmission Company
- G) Gain on sale of ITC -- Sold International Transmission Company
- H) Asset retirement obligations -- Cumulative effect of a change in accounting principle from adoption of SFAS 143
- I) Adjustment of EITF 98-10 accounting change -- Cumulative effect of a change in accounting principle from rescission of EITF Issue No. 98-10

DTE Energy Company
Segment Diluted Earnings Per Share (Unaudited)

	Six Months Ended June 30 2003		
	Reported Earnings	Adjustments	Operating Earnings
Energy Resources			
Regulated -			
Power Generation	\$0.42	\$ -	\$0.42
Non-regulated			
Energy Services	0.76	-	0.76
Energy Marketing & Trading	0.17	(0.09) A	0.08
Other	0.01	-	0.01
Total Non-regulated	0.94	(0.09)	0.85
	1.36	(0.09)	1.27
Energy Distribution			
Regulated -			
Power Distribution	(0.07)	0.08 B	0.01
Non-regulated	(0.05)	-	(0.05)
	(0.12)	0.08	(0.04)
Energy Gas			
Regulated - Gas Distribution	0.31	0.10 C	0.41
Non-regulated	0.08	-	0.08
	0.39	0.10	0.49
		0.06 D	
Corporate and Other	(1.11)	0.86 E	(0.19)
	(1.11)	0.92	(0.19)
Income (Loss) from Continuing Operations			
Regulated	0.66	0.18	0.84
Non-regulated	(0.14)	0.83	0.69
	0.52	1.01	1.53

Discontinued Operations - ITC			
Income from operations	0.03	(0.03) F	-
Gain on sale	0.40	(0.40) G	-
	0.43	(0.43)	-
Cumulative Effect of Accounting Changes			
Asset retirement obligations	(0.07)	0.07 H	-
Energy trading activities	(0.09)	0.09 I	-
	(0.16)	0.16	-
Net Income	\$0.79	\$0.74	\$1.53

Six Months Ended June 30
2002

	Reported Earnings	Adjustments	Operating Earnings
Energy Resources			
Regulated -			
Power Generation	\$0.73	\$ -	\$0.73
Non-regulated			
Energy Services	0.38	-	0.38
Energy Marketing & Trading	0.08	-	0.08
Other	(0.01)	-	(0.01)
Total Non-regulated	0.45	-	0.45
	1.18	-	1.18
Energy Distribution			
Regulated -			
Power Distribution	0.28	-	0.28
Non-regulated	(0.04)	-	(0.04)
	0.24	-	0.24
Energy Gas			
Regulated - Gas Distribution	0.33	-	0.33
Non-regulated	0.09	-	0.09
	0.42	-	0.42
Corporate and Other	(0.27)	0.08 E	(0.19)
	(0.27)	0.08	(0.19)
Income (Loss) from Continuing Operations			
Regulated	1.34	-	1.34
Non-regulated	0.23	0.08	0.31
	1.57	0.08	1.65
Discontinued Operations - ITC			
Income from operations	0.09	(0.09) F	-
Gain on sale	-	-	-
	0.09	(0.09)	-
Cumulative Effect of Accounting Changes			
Asset retirement obligations	-	-	-
Energy trading activities	-	-	-
	-	-	-
Net Income	\$1.66	\$ (0.01)	\$1.65

Adjustments Key

A) Adjustment of EITF 98-10 accounting change -- Flowback of the cumulative effect of a change in accounting principle from rescission of EITF Issue No. 98-10

B) Loss on sale of steam heating business -- Sold Detroit Edison steam heating business

- C) Disallowance of gas costs -- Reserve for the potential disallowance of MichCon 2002 procurement costs
- D) Contribution to DTE Energy Foundation -- Used portion of ITC sale proceeds to fund the DTE Energy Foundation
- E) Tax credit driven normalization -- Quarterly adjustment at DTE Energy to normalize its effective tax rate. Annual results not impacted
- F) Adjust for discontinued operations of ITC -- Sold International Transmission Company
- G) Gain on sale of ITC -- Sold International Transmission Company
- H) Asset retirement obligations -- Cumulative effect of a change in accounting principle from adoption of SFAS 143
- I) Adjustment of EITF 98-10 accounting change -- Cumulative effect of a change in accounting principle from rescission of EITF Issue No. 98-10

Source: DTE Energy

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Attachment 3

Energy Michigan, Inc. Reply to the
Detroit Edison Petition for Rehearing
Case U-13350

**The Detroit Edison Co.
Equalized Transition Charge Adjustment
For 2002 & 2003**

Line No.	(a.)	(b.)	(c.)	(d.)	(e.)	(f.)	(g.)	(h.)	(i.)	(j.)	(k.)	(l.)	(m.)
	2000 Rev.	2000 GWH	Avg. Price	Est. 2002/2003 Price	T&D	Secur.	N.D.	Break-Even	Class Gen. As a % of Total Gen.	Restated Class Gen.	Class Gen. As a % of Total Gen.	ETCA	
1	\$1,263	13,893	9.09¢	8.90¢	4.60¢	0.50¢	0.12¢	3.68¢	82%	4.79¢	107%	(1.11¢)	
2													
3	\$1,062	10,768	9.86¢	9.37¢	2.20¢	0.50¢	0.12¢	6.55¢	147%	4.66¢	104%	1.89¢	
4													
5	\$925	14,396	6.43¢	6.10¢	1.00¢	0.50¢	0.12¢	4.48¢	100%	4.27¢	96%	0.21¢	
6													
7	\$309	6,885	4.49¢	4.26¢	0.50¢	0.50¢	0.12¢	3.14¢	70%			(N/A)	
8	\$136	2,262	6.01¢	5.71¢	1.00¢	0.50¢	0.12¢	4.09¢	92%			(N/A)	
9	\$82	1,532	5.35¢	5.08¢	0.50¢	0.50¢	0.12¢	3.96¢	89%			(N/A)	
10	\$1,452	25,075	5.79¢	5.50¢	0.83¢	0.50¢	0.12¢	4.05¢	91%				
11													
12	\$56	394	14.21¢	13.50¢	11.00¢	0.50¢	0.12¢	1.88¢	42%			(N/A)	
13													
14	\$3,833	50,130	7.65¢	7.34¢	2.25¢	0.50¢	0.12¢	4.47¢					

Notes: • Residential 2000 Price Reduced @ 5/12 of 5% Since 5% Was Implemented in June 2000.
• Restated Class Gen. Based on Total Gen. Including Load Factor and Loss Factor Adjustments.

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)
of net stranded cost recovery charges.)
_____)

Case U-13350

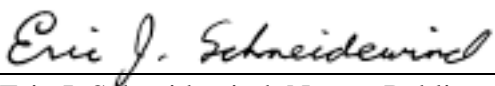
PROOF OF SERVICE

Monica Robinson, duly sworn, deposes and says that on this 23rd day of September 2003 she served a copy of Energy Michigan, Inc.'s Reply to Detroit Edison's Petition for Rehearing upon those individuals named 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 23rd day of September, 2003



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

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