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December 4, 2009

Ms. Mary Jo Kunkle
Michigan Public Service Commission
6545 Mercantile Way
P.O. Box 30221
Lansing, MI 48909

Re: Case No. U-15768

Dear Ms. Kunkle:

Attached for paperless electronic filing is Energy Michigan's Reply to Detroit Edison Company Exception No. 18. Also attached is the original Proof of Service indicating service on counsel.

Thank you for your assistance in this matter.

Very truly yours,

VARNUM,^{LLP}

Eric J. Schneidewind

EJS/mrr

cc: ALJ
parties

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
THE DETROIT EDISON COMPANY)
for authority to increase its rates, amend) Case No. U-15768
its rate schedules and rules governing the)
distribution and supply of energy.)
_____)

ENERGY MICHIGAN, INC. REPLY TO DTE EXCEPTION NO. 18

I. Introduction and Summary of Position.

A. Introduction.

This Reply to Detroit Edison Company ("Detroit Edison" or "DTE") Exception No. 18 is filed on behalf of Energy Michigan, Inc. ("Energy Michigan") by Varnum. Failure to respond to other Exceptions filed by other parties to this matter should not be construed as agreement with those Exceptions.

B. Summary of Position.

DTE Exception No. 18 urges the Michigan Public Service Commission ("Commission") to adopt the DTE Revenue Decoupling Mechanism ("RDM") instead of the type of RDM adopted by the Commission in Consumers Energy Company Case U-15645 (Case U-15645, Order dated November 2, 2009, p. 47-54) based upon, among other things, a concern that the Consumers RDM would not address Electric Choice volatility as satisfactorily as the existing Detroit Edison Competition Incentive Mechanism ("CIM").

Energy Michigan is concerned that the Consumers Energy type RDM adjustment formula referenced by the Commission as Exhibit A-105 may be interpreted as comparing average sales per customer in different years based on total annual sales per class divided by number of

customers in the month at the end of the calendar year. In a market where Choice load has doubled late in the year, the customer count at the year end month will vary dramatically from the previous year based upon the more than doubling of Choice load during 2009. (See Attachment A). While Choice customer count increases more than 200%, the customer megawatt hours would not increase correspondingly because Choice customer load did not increase until late in the year. The result is that the percent increase in Choice customers does not equal the percent increase in total Choice sales which in turn would yield lower Choice sales per customer in 2009 than in 2008. Under those circumstances, a significant RDM charge would be assessed.

Energy Michigan believes that the Commission can reduce concerns regarding the volatility of the RDM as regards Choice customers if it confirms that the annual sales per Choice customer will be calculated by dividing annual Choice sales by the average monthly number of Choice customers. This result appears to be intended in Consumers Exhibit A-105 (Attachment B attached) lines 7 and 10 which reference "Monthly No. of Customers" and "2009 Monthly No. of Customers" respectfully but the Commission should confirm that fact to ensure an accurate RDM calculation for Choice load.

II. Detailed Discussion.

A. DTE Exception 18.

DTE Exception 18 urges adoption of the RDM proposed by DTE as opposed to the recommendation of the ALJ that no RDM be adopted or that the RDM proposed by MPSC Staff be adopted. DTE Exceptions, p. 32-34.

The DTE Exceptions also recognize that the Commission recently adopted an RDM in the Consumers Energy General Rate Case U-15645. DTE argues that its own RDM is superior to the RDM adopted by the Commission. *Id.*, p. 34-37. A key point in the DTE description of the relative merits of its own RDM and the Consumers Energy RDM is that the current Detroit Edison Choice Incentive Mechanism ("CIM") more accurately tracks the impact of "the

uncertainty and volatility of the [Choice] market...". Id., p. 36. DTE claims that the Consumers type RDM will not necessarily compensate DTE in situations where numerous customers leave the DTE system or shut down entirely. This is because the Consumers RDM system compares changes in average Choice customer consumption for those customers still taking service rather than changes in the total system Choice use including load lost due to customer termination which are then recovered from existing customers. Id., p. 34-35. Based upon this analysis Detroit Edison recommends that its own RDM be adopted because it would make Detroit Edison whole in situations where total system use has been reduced both through lower use by existing customers and by closure or termination of service accounts.

B. Energy Michigan Reply to DTE.

Energy Michigan agrees that there is significant volatility in the Electric Choice market. On January 30, 2008 the Commission reported to the Michigan Legislature that Choice participation stood at about 3.2% of the DTE and Consumers Energy systems¹. By December 2009, Choice participation had increased to approximately 10% of the Consumers Energy system and more than 8% of the DTE system. See Attachment A, Utility Reports. This data indicates an increase in Choice participation of more than 200% for the Consumers system and almost 200% for the DTE system in less than one year. Earlier reports, particularly from Consumers Energy, indicate that the vast majority of increased Choice enrollment occurred in the second half of 2009.

The Commission Order in Case U-15645 stated that the RDM adopted for Consumers would be based upon Consumers Exhibit A-105 with modifications. U-15645, p. 53. See Attachment B. Exhibit A-105 compares changes in the average sales per customer for each major sales class by calculating total ROA sales for each year and dividing those sales by "Monthly No. of Customers" (lines 7 and 10) to derive annual sales per customer.

¹ Status of Electric Competition in Michigan Report for Calendar Year 2008, January 30, 2009, p. 3.

To ensure an accurate calculation, however, it is critical that the phrase "Monthly No. of Customers) be the monthly average number of customers over the whole year. The criticality of this interpretation is illustrated by the following example:

If a year starts with six Electric Choice customers using an average of 1 Mwh per month the annual total use of the Choice customers would be 72 Mwh or a yearly average per customer of 12 Mwh.

However, if the calendar year starts with six Choice customers using 1 Mwh per month and then six new Choice customers using the same 1 Mwh per month start service July 1 and continue through the year, the total use for all 12 customers would be 108 Mwh ($6 \times 12 + 6 \times 6 = 108$) and the average annual use based on the monthly average number of nine customers would be 1 Mwh per month or 12 Mwh/year.

However, if the annual use of 108 Mwh is divided by the number of Choice customers in the last month of the year (12) the average annual use per customer is 9 Mwh or a reduction of 25% compared to the number developed by using the monthly average of Choice customers.

To reduce the potential for inaccurate analysis and unwarranted volatility in the Choice RDM, the Commission should clearly specify that comparisons of annual sales per customer will be developed using the monthly average number of Choice customers.

III. Summary and Prayer for Relief.

WHEREFORE, Energy Michigan respectfully requests that the Commission clarify its intent that any RDM used by Detroit Edison would calculate comparisons of annual sales per customer by using average monthly number of Choice customers compared to Choice sales per year.

In the alternative, Energy Michigan respectfully requests that the Commission adopt the Energy Michigan recommendations regarding RDMs as more fully described in the Energy Michigan Exception to the Proposed Decision.

Respectfully submitted,

Varnum,^{LLP}
Attorneys for Energy Michigan, Inc.

December 4, 2009

By: _____
Eric J. Schneidewind (P20037)
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517/482-6237

Electric Choice - Cap Tracking System

Current as of : 12/01/2009

Total 2008 Retail Sales (MWh)	2008 Weather Adjusted Retail Sales (MWh)	2009 10% Cap (MWh)
49,349,308	49,285,206	4,928,521

Current Participation	3,944,713 MWh	8 %
Energy Allotment Available	983,808 MWh	2 %

Allotments in Queue (MWh)	Enrollments in Queue
0	0

[Print this page](#)

Electric Retail Open Access Program

Consumers Energy's electric retail open access program (also known as Electric Customer Choice) participation is limited to no more than 10% of the company's previous calendar year's weather adjusted sales. Information on the current status of the program is shown below in megawatt-hours (MWh):

ROA 10% Cap Tracking system (CTS) Report

Updated as of December 1, 2009

Consumers Energy 2008 Calendar Year Sales	37,152,100 MWh
Consumers Energy 2008 Weather Adjusted Retail Sales	37,173,925 MWh
Consumers Energy 2009 ROA Cap	3,717,393 MWh
Current Choice Participation Level (enrolled and active at 100%)	3,765,129 MWh
2009 Available Energy Allotments in MWh	0 MWh
Customers in Queue	42
Total Load in Queue	113,943 MWh

Case No.: U-15645
Hearing Date: 06/08/2009
Exhibit No.: A-105

Michigan Public Service Commission
Consumers Energy Company

Case No. U-15645
Revised Exhibit No. A-105 (SPS-10)
Witness: SPStableski
Date: May, 2009
Page 1 of 1

Revenue Decoupling - Electric Illustrative Example

Line No.	Description	(a)	(b)	(c)	(d)	(e)
		Residential	Secondary Bundled	ROA	Primary ⁽¹⁾ Bundled	ROA
Rate Case Nonfuel Charges						
1	Proposed Tariff Revenue (\$000)	\$1,267,976	\$671,520	\$4,926	\$714,515	\$11,396
2	Less: Fuel Revenue (\$000)	\$412,083	\$243,165	\$0	\$363,968	\$0
3	<u>Nonfuel Revenue (\$000)</u>	<u>\$855,893</u>	<u>\$428,355</u>	<u>\$4,926</u>	<u>\$350,547</u>	<u>\$11,396</u>
4	Annual Sales (MWhs)	12,897,366	7,685,252	229,740	12,628,659	1,483,758
5	Nonfuel Charge (¢ / kWh)	6.64¢	5.57¢	2.14¢	2.78¢	0.77¢
Rate Case Sales & Customers						
6	Annual Sales (MWhs)	12,897,366	7,685,252	229,740	12,628,659	1,483,758
7	Monthly No. of Customers	1,568,502	211,255	563	3,786	170
8	<u>Rate Case Sales / Customer</u>	<u>8,223</u>	<u>36,379</u>	<u>408,064</u>	<u>3,335,620</u>	<u>8,727,988</u>
Actual Sales & Customers						
9	2009 Annual Sales (MWhs)	12,918,922	7,542,962	217,137	12,394,863	1,399,701
10	2009 Monthly No. of Customers	1,567,777	211,169	590	3,789	182
11	<u>Actual Sales / Customer</u>	<u>8,240</u>	<u>35,720</u>	<u>368,029</u>	<u>3,271,276</u>	<u>7,690,665</u>
Calculation Of Revenue Decoupling Surcharges						
<u>Annual kWh Sales / Customer</u>						
12	Rate Case Sales / Customer	8,223	36,379	408,064	3,335,620	8,727,988
13	<u>Actual Sales / Customer</u>	<u>8,240</u>	<u>35,720</u>	<u>368,029</u>	<u>3,271,276</u>	<u>7,690,665</u>
14	Sales / Customer Variance	(17)	659	40,035	64,344	1,037,323
15	Nonfuel Charge (¢ / kWh)	6.64¢	5.57¢	2.14¢	2.78¢	0.77¢
16	Nonfuel Revenue Variance (\$ / Cust.)	(\$1)	\$37	\$857	\$1,789	\$7,987
17	Rate Case Monthly No. of Customers	1,568,502	211,255	563	3,786	170
18	Nonfuel Revenue Variance (\$000)	(\$1,771)	\$7,754	\$482	\$6,772	\$1,358
19	2010 Projected Sales (MWhs)	12,645,060	7,268,183	263,822	11,943,338	1,700,642
20	<u>RDM Surcharges (¢ / kWh)</u>	<u>(0.0140¢)</u>	<u>0.1067¢</u>	<u>0.1827¢</u>	<u>0.0567¢</u>	<u>0.0799¢</u>

Notes

(1) Excludes Rate E-1

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
The Detroit Edison Company for)
authority to increase its rates,)
amend its rate schedules and rules)
governing the distribution and)
supply of electric energy.)
_____)

Case No. U-15768

PROOF OF SERVICE

Monica Robinson, duly sworn, deposes and says that on this 4th day of December, 2009 she served a copy of Energy Michigan, Inc.'s Reply to DTE Exception No. 18 upon those individuals listed on the attached service list by e-mail and regular mail at their last known addresses.

Monica Robinson

Subscribed and sworn to before me
this 4th day of December, 2009

Eric J. Schneidewind, Notary Public
Eaton County, Michigan
Acting in Ingham County, Michigan
My Commission Expires: April 24, 2012.

SERVICE LIST U-15768

Administrative Law Judge

Hon. Barbara Stump
(Discovery - Proof of Service Only)
stumpb1@michigan.gov

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