

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of )  
**THE DETROIT EDISON COMPANY** )  
regarding its power supply cost recovery ) Case No. U-11528  
plan for calendar year 1998. )  
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At the October 26, 1998 meeting of the Michigan Public Service Commission in Lansing,  
Michigan.

PRESENT: Hon. John G. Strand, Chairman  
Hon. David A. Svanda, Commissioner

**OPINION AND ORDER**

**I.**

**HISTORY OF PROCEEDINGS**

On September 30, 1997, The Detroit Edison Company (Detroit Edison) filed an application for authority to implement a power supply cost recovery (PSCR) plan, with proposed testimony and exhibits, for the 12-month period ending December 31, 1998.

Pursuant to due notice, Administrative Law Judge James N. Rigas (ALJ) conducted a prehearing conference on November 6, 1997. At that time, petitions to intervene submitted by Attorney General Frank J. Kelley (Attorney General), the Association of Businesses Advocating Tariff Equity (ABATE), and the Residential Ratepayer Consortium (RRC) were granted. The Commission Staff (Staff) also participated in the proceedings.

Evidentiary hearings were conducted on March 12 and June 17 and 19, 1998. Eight witnesses testified and 24 exhibits were received into evidence. On July 8, 1998, briefs were filed by Detroit Edison, the Staff, the Attorney General, the RRC, and ABATE. On July 22, 1998, reply briefs were filed by Detroit Edison, the Staff, the Attorney General, and RRC.

On August 25, 1998, the ALJ issued a Proposal for Decision (PFD). Exceptions to the PFD were filed by Detroit Edison, the Staff, the Attorney General, the RRC, and ABATE. Replies to exceptions were filed by Detroit Edison, the Attorney General, and the RRC.

## II.

### DISCUSSION

#### PSCR clause suspension

A number of the exceptions raised by the parties relate to Detroit Edison's request for suspension of its PSCR clause. However, on August 21, 1998, Detroit Edison filed a motion to withdraw its proposal to suspend its PSCR clause. In a separate order issued today in Cases Nos. U-11449 and U-11528, the Commission terminated further proceedings regarding Detroit Edison's request to suspend its PSCR clause. Accordingly, it is not necessary for the Commission to address the exceptions related to this issue.

#### PSCR factor for 1998

In its application, prefiled testimony, and exhibits, Detroit Edison requested authority to implement a PSCR factor of negative 2.3 mills per kilowatt-hour (kWh) during 1998. However, immediately before his prefiled testimony was bound into the record, James H. Byron, Detroit Edison's Director of Planning and Optimization - Operation, Planning, and Control, revised his

prefiled testimony by including additional information about Detroit Edison's purchased power agreement with Ontario Hydro. According to Mr. Byron, Detroit Edison recently revised its long-term power and energy agreement with Ontario Hydro to provide for a "diversity exchange." According to Mr. Byron, Detroit Edison agreed to send 750 gigawatt-hours (GWh) of energy during off-peak hours from January through April to Ontario Hydro. Ontario Hydro agreed to return this energy as 300 megawatts (MW) on an around-the-clock basis from June through mid-September. In addition, Ontario Hydro agreed to purchase additional off-peak energy from Detroit Edison. Mr. Byron testified that the value of the revision to Detroit Edison was approximately \$5 million for 1998.

Based on the recent revisions to the Ontario Hydro agreement, the Staff recommended that Detroit Edison's proposed PSCR factor of negative 2.3 mills per kWh be reduced by another 0.11 mills per kWh to a negative 2.41 mills per kWh for 1998.

In response, Detroit Edison argued that the Staff's adjustment was not warranted because it ignored Mr. Byron's testimony that he had not revised Detroit Edison's case to account for the \$5 million benefit because Detroit Edison anticipated that it would incur offsetting cost increases during 1998. Therefore, Detroit Edison maintained that it would be unfair for the Commission to recognize the \$5 million benefit without also recognizing the offsetting cost increases predicted by Mr. Byron.

In his PFD, the ALJ agreed with Detroit Edison on this issue. The ALJ was persuaded that Detroit Edison would likely incur increased power supply costs over and above the \$5 million benefit associated with the revision of the Ontario Hydro agreement. Additionally, he noted that ratepayers would not be harmed by failing to recognize the \$5 million benefit in Detroit Edison's 1998 PSCR plan because the utility's actual PSCR costs and revenues are subject to reconciliation.

In its exceptions, the Staff contends that its proposed \$5 million adjustment is appropriate. In support of this position, the Staff notes that the offsetting increase in power supply costs cited by Mr. Byron were not included in Detroit Edison's base rate adjustment and that Mr. Byron explicitly testified that these cost increases should not be considered in determining Detroit Edison's base rate adjustment calculation. Accordingly, the Staff maintains that the ALJ incorrectly concluded that it would be appropriate to use these additional expenses as an offset to the \$5 million benefit that will be realized during 1998 due to the revision of the Ontario Hydro contract.

The Commission finds that the Staff's exception should be rejected. Detroit Edison's prefiled PSCR case was not challenged by any of the parties in this proceeding. Indeed, the sole adjustment to Detroit Edison's proposed PSCR factor for 1998 stems from the revised testimony submitted by Mr. Byron on the initial day of the evidentiary hearing. However, Mr. Byron's testimony also clearly indicates that Detroit Edison will likely incur costs during 1998 that will more than offset the benefit realized as a result of the Ontario Hydro contract revision. Further, in Mr. Byron's opinion, neither the \$5 million benefit nor the additional costs should be included in the calculation of Detroit Edison's 1998 PSCR factor.

Under the circumstances, the Commission is persuaded that the ALJ's decision on this issue is reasonable and appropriate. It is readily apparent that the \$5 million benefit and the added costs described in the revisions to Mr. Byron's prefiled testimony involve unprecedented changes that Detroit Edison had little time to evaluate. Accordingly, the Commission finds that delaying consideration of the effect of the changes described in Mr. Byron's revised testimony until the reconciliation phase of this proceeding is appropriate.

### Five-year forecast

In its sole exception, the RRC maintains that approval of Detroit Edison's request to withdraw its proposal to suspend its PSCR clause does not render the ALJ's determination regarding establishment of a base rate adjustment moot. According to the RRC, the rationale underlying the ALJ's analysis of Detroit Edison's calculation of its base rate adjustment also supports a determination by the Commission that Detroit Edison's five-year forecast includes costs that, on the basis of present evidence, the Commission should not allow Detroit Edison to recover from its ratepayers.<sup>1</sup>

The Commission finds that the RRC's exception is not well taken. To begin with, the RRC did not raise this issue during the hearing or in its briefs. Indeed, no party requested the ALJ to make a determination pursuant to MCL 460.6j(7); MSA 22.13(6j)(7) regarding the unreasonableness of any aspect of Detroit Edison's five-year forecast. Further, MCL 460.6j(7); MSA 22.13(6j)(7) requires the Commission to focus on individual "cost items," not general cost levels. The RRC's exception does not address any specific cost item that should be considered by the Commission. Accordingly, the Commission concludes that this issue was not properly preserved and that the Commission should not entertain it at this time.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1909 PA 106, as amended, MCL 460.551 et seq.; MSA 22.151 et seq.; 1919 PA 419, as amended, MCL 460.51 et seq.; MSA 22.1 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq.; MSA 22.13(1) et seq.; 1982 PA 304, as amended, MCL 460.6h et seq.;

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<sup>1</sup>The ALJ found that the Staff's methodology for the development of a base rate adjustment was more reasonable than Detroit Edison's methodology. In particular, he expressed support for the Staff's coal cost and peak demand projections. Further, the ALJ approved the Attorney General's proposal to adjust the Staff's calculations through use of a slightly higher target capacity factor for Fermi 2.

MSA 22.13(6h) et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; MSA 3.560(101) et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1992 AACRS, R 460.17101 et seq.

b. Detroit Edison's 1998 PSCR plan is based on reasonable and prudent costs and projections and should be approved.

c. Detroit Edison should be allowed to implement a PSCR factor for 1998 of up to negative \$0.0023 per kWh.

THEREFORE, IT IS ORDERED that:

A. The Detroit Edison Company is authorized to implement a levelized monthly power supply cost recovery factor for 1998 of up to negative \$0.0023 per kilowatt-hour.

B. The Detroit Edison Company shall prepare and file tariff sheets reflecting incorporation of its power supply cost recovery factor for 1998.

C. Should The Detroit Edison Company desire to apply a lesser power supply cost recovery factor than that approved by this order, it shall notify the Commission ten days prior to the use of the lesser factor, and shall file during that billing month a tariff sheet showing the lesser factor applied.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26; MSA 22.45.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ John G. Strand

Chairman

( S E A L )

/s/ David A. Svanda

Commissioner

By its action of October 26, 1998.

/s/ Dorothy Wideman

Its Executive Secretary

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MICHIGAN PUBLIC SERVICE COMMISSION

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Case No. U-11528

Suggested Minute:

“Adopt and issue order dated October 26, 1998 approving The Detroit Edison Company’s power supply cost recovery plan and factor for the 12-month period ending December 31, 1998, as set forth in the order.”