

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter, on the Commission’s own motion,)	
regarding the regulatory reviews, revisions,)	
determinations, and/or approvals necessary for)	Case No. U-15806
THE DETROIT EDISON COMPANY to fully)	
comply with Public Acts 286 and 295 of 2008.)	
_____)	

At the September 14, 2010 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. Orjiakor N. Isiogu, Chairman
Hon. Monica Martinez, Commissioner
Hon. Greg R. White, Commissioner

OPINION AND ORDER

On October 6, 2008, Governor Jennifer M. Granholm signed into law Public Acts 286 and 295 of 2008, which amended MCL 460.1 *et seq.* and created MCL 460.1001 *et seq.* (Act 295), respectively. On October 21, 2008, the Commission commenced this case to facilitate The Detroit Edison Company’s (Detroit Edison) obtaining the regulatory reviews, determinations, and approvals necessary for it to fully comply with the new acts.

On August 13, 2010, Detroit Edison filed an application pursuant to MCL 460.1033(3) for *ex parte* Commission review and approval of a long-term power purchase agreement (PPA) with Gratiot County Wind LLC (GCW), for 200 megawatts (MW) of renewable wind energy, capacity, and renewable energy credits (RECs), which included an option for the company to purchase a portion of the wind project with a capacity of either 59.2 MW or 89.6 MW. Should Detroit Edison

decide to exercise its option to purchase a portion of the wind project, the company intends to contract for the balance of the PPA in the amount of either 140.8 MW or 110.4 MW, respectively, for the energy, capacity, and RECs.

In addition to the PPA and in support of the company's purchase option, Detroit Edison submitted a build transfer agreement (BTA) that describes the obligations of the transfer of assets, a shared facilities agreement (SFA) that details how the company and GCW will jointly operate the wind farm, and a letter agreement (LA), which, upon Detroit Edison's decision to exercise the option to purchase a portion of the wind project in the PPA, will initiate the SFA and BTA.

The PPA, BTA, SFA, and LA resulted from two separate requests for proposals (RFP), both dated August 17, 2009. The RFP for the PPA had a response due date of October 23, 2009 and requested proposals for capacity, renewable energy, and the associated RECs for up to 106 MW of nameplate capacity for a 20-year term. The RFP for Detroit Edison's option to purchase a portion of the wind project in the amount of 59.2 MW or 89.6 MW had a response due date of November 2, 2009 and requested proposals for the development and company ownership of up to 75 MW of new wind energy resources through a joint development arrangement. In accordance with MCL 460.1033(1)(b), the PPA, BTA, SFA, and LA resulted from negotiations with qualified bidders that were able to demonstrate the best value and lowest-cost renewable energy.

In its application, Detroit Edison stated that the term of the PPA is 20 years and that the levelized cost is \$94.43 per megawatt-hour (MWh), which is less than the 20-year average of the wind energy transfer price of \$95.77 per MWh approved by the Commission in the June 2, 2009 and August 25, 2009 orders in Case No. U-15806. Should Detroit Edison decide to exercise its option to purchase a portion of the wind project, the average cost would be \$2,320 per kilowatt

(kW) which is less than the \$2,591 per kW cost in the company's renewable energy plan (REP) approved by the Commission in the June 2, 2009 and August 25, 2009 orders in Case No. U-15806.

Detroit Edison requested that the Commission approve the PPA, BTA, SFA, and LA and provide assurance that the full costs will be recoverable through the combined application of the transfer price schedule and application of the renewable energy surcharges. Detroit Edison stated that the requested PPA, BTA, SFA, and LA approvals will not result in an alteration or amendment in rates or rate schedules and will not result in an increase in the cost of service to customers because the contracts are consistent with the planning activities, expenses, and revenue recovery mechanisms and surcharges described in the company's REP in Case No. U-15806 as approved by the Commission on June 2, 2009.

Detroit Edison noted that the Commission stated in its June 2, 2009 order in Case No. U-15806 that imputed debt cost shall be considered at the time of PPA approval. Detroit Edison requested that the Commission approve recovery of \$99.7 million of revenue related to imputed debt associated with this PPA, subject to reconciliation to actual imputed debt in future rate cases and renewable reconciliation cases.

Detroit Edison filed copies of the PPA, BTA, SFA, and LA with certain sensitive portions redacted to protect confidential information that might negatively affect the competitive market. However, Detroit Edison offered the Commission Staff (Staff) the opportunity to review unredacted versions of the documents.

The Staff reviewed both of the August 17, 2009 RFP processes used to obtain the PPA, BTA, SFA, and LA during separate audits. In the independent accountant's reports filed in

Case No. U-15806 on August 8, 2010 and August 30, 2010, the Staff concluded that Detroit Edison's RFP processes comply, in all material respects, with the procedures approved on June 2, 2009 and August 25, 2009 in Case No. U-15806 and the guidelines issued on December 4, 2008 in Case No. U-15800.

Discussion

MCL 460.1033 provides in part:

(1) Subject to subsections (2) and (3), an electric provider that had 1,000,000 or more retail customers in this state on January 1, 2008 shall obtain the renewable energy credits that are necessary to meet the renewable energy credit standard in 2015 and thereafter as follows:

* * *

(b) At least 50% of the renewable energy credits shall be from renewable energy contracts that do not require transfer of ownership of the applicable renewable energy system to the electric provider or from contracts for the purchase of renewable energy credits without the associated renewable energy. A renewable energy contract or contract for the purchase of renewable energy credits under this subdivision shall be executed after a competitive bidding process conducted pursuant to guidelines issued by the commission....

* * *

(3) An electric provider shall submit a contract entered into pursuant to subsection (1) to the commission for review and approval. If the commission approves the contract, it shall be considered to be consistent with the electric provider's renewable energy plan....

MCL 460.1037 provides in part:

If, after the effective date of this act, an electric provider whose rates are regulated by the commission enters a renewable energy contract or a contract to purchase renewable energy credits without the associated renewable energy, the commission shall determine whether the contract provides reasonable and prudent terms and conditions and complies with the retail rate impact limits under section 45. In making this determination, the commission shall consider the contract price and term....

As required by Section 37 of Act 295, the Commission has considered the factors in Section 37 and finds that the PPA, BTA, SFA, and LA should be approved. The Commission agrees to

provide assurance that the full costs of the PPA, BTA, SFA, and LA will be recoverable through the combined application of the transfer price schedule and application of the renewable energy surcharges.

The Commission finds that approval of the PPA, BTA, SFA, and LA will not result in any change in the rates or cost of service to other customers. Thus, *ex parte* approval may be authorized by the Commission without notice or hearing as provided by MCL 460.6a.

As stated in the Commission's December 4, 2008 order in Case No. U-15800, the Commission intends to act on requests for contract approval within 30 days of the date that the Commission has all necessary information needed to make the determination. The Commission finds that it has all necessary information needed to approve these contracts. In the Commission's view, expeditious treatment of renewable energy contracts is needed to encourage development of the most cost-practical and highest-quality renewable energy resources.

Should Detroit Edison decide to exercise its option to purchase a portion of the wind project in the amount of 59.2 MW or 89.6 MW from GCW, the company shall file a letter in this docket explaining the purchase, accompanied by executed copies of the contracts.

The Commission recognizes that there is a potential for credit rating agencies to impute debt as the company's risk factor increases, resulting from the uncertainty of rate recovery associated with a power purchase agreement or combination of multiple power purchase agreements. This could result in a reduction in the company's credit rating and a higher cost of service. However, in its March 18, 2010 order in Case No. U-15699, p. 12, the Commission noted "how difficult it is to predict how ratings agencies will react to changes in various factors, including financial metrics."

The Commission finds that the accounting associated with imputed debt is best handled in a general rate case proceeding because a company's total financial metrics can be analyzed and the Staff can better determine how a particular PPA or a combination of PPAs has affected these metrics. At such time, the company would bear the burden of proof that the infusion of equity resulting from imputed debt is necessary.

THEREFORE, IT IS ORDERED that:

A. The Detroit Edison Company's power purchase agreement, build transfer agreement, shared facilities agreement, and letter agreement with Gratiot County Wind LLC, are approved for the purposes of compliance with 2008 PA 295.

B. The Commission shall provide assurance that the full costs of the power purchase agreement, build transfer agreement, shared facilities agreement, and letter agreement will be recoverable through the combined application of the transfer price schedule, attached as Exhibit A-8, and application of the renewable energy surcharges.

C. Should The Detroit Edison Company decide to exercise its option to purchase a portion of the wind project in the amount of 59.2 megawatts or 89.6 megawatts from Gratiot County Wind LLC, the company shall file a letter in this docket explaining the purchase, accompanied by executed copies of the contracts.

D. The Detroit Edison Company shall submit requests for imputed debt-related cost recovery in a future general rate case proceeding. The company shall bear the burden of proof that the infusion of equity resulting from imputed debt is necessary.

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, under MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

Orjiakor N. Isiogu, Chairman

Monica Martinez, Commissioner

Greg R. White, Commissioner

By its action of September 14, 2010.

Mary Jo Kunkle, Executive Secretary

line no.	(a) Year	(b) Annual Average Locational Marginal Cost (\$/MWh)	(c) Final Capacity Cost (\$/MW-Yr)	(d) Final Capacity Cost @ 100% Capacity Factor (\$/MWh)	(e) Landfill		(f) Anaerobic/Cellulosic Digester		(g) Solar		(k) Adjusted Capacity Payment (\$/MWh)	(l) Total Transfer Price (\$/MWh)	(m) Blended Transfer Price (\$/MWh)
					Adjusted Capacity Payment (\$/MWh)	Total Transfer Price (\$/MWh)	Adjusted Capacity Payment (\$/MWh)	Total Transfer Price (\$/MWh)	Adjusted Capacity Payment (\$/MWh)	Total Transfer Price (\$/MWh)			
1													
2	2006 ⁽¹⁾	43.71	3,350										
3	2007 ⁽¹⁾	48.77	11,678										
4	2008 ⁽¹⁾	52.25	15,400										
5	2009	48.52	24,700	2.82	51.66	3.13	52.05	3.52	52.05	21.69	1.14	49.66	51.34
6	2010	54.39	30,000	3.42	58.20	3.81	58.67	4.28	58.67	26.34	1.38	55.77	57.84
7	2011	56.32	40,000	4.57	61.40	5.07	62.03	5.71	62.03	35.12	1.84	58.16	60.62
8	2012	71.73	60,000	6.83	79.32	7.59	80.27	8.54	80.27	52.54	2.75	74.49	77.49
9	2013	72.32	90,000	10.27	83.74	11.42	85.17	12.84	85.17	79.03	4.14	76.47	80.12
10	2014	73.05	125,000	14.27	88.90	15.85	90.88	17.84	90.88	109.76	5.75	78.80	82.97
11	2015	76.01	156,154	17.83	95.82	19.81	98.29	22.28	98.29	137.12	7.19	83.20	88.05
12	2016	78.06	162,831	18.54	98.65	20.60	101.23	23.17	101.23	142.59	7.47	85.53	90.61
13	2017	79.12	169,393	19.34	100.60	21.49	103.29	24.17	103.29	148.75	7.80	86.92	92.18
14	2018	81.20	176,047	20.10	103.53	22.33	106.32	25.12	106.32	154.59	8.10	89.30	93.86
15	2019	84.75	182,846	20.87	107.95	23.19	110.85	26.09	110.85	160.56	8.42	93.17	97.57
16	2020	88.04	189,960	21.63	112.07	24.03	115.07	27.03	115.07	166.35	8.72	96.76	100.97
17	2021	92.34	197,423	22.54	117.38	25.04	120.51	28.17	120.51	173.36	9.09	101.43	105.78
18	2022	96.36	205,164	23.42	122.38	26.02	125.63	29.28	125.63	180.16	9.44	105.80	110.33
19	2023	101.25	213,210	24.34	128.29	27.04	131.67	30.42	131.67	187.22	9.81	111.06	115.76
20	2024	106.78	221,470	25.21	134.80	28.01	138.30	31.52	138.30	193.95	10.17	116.95	121.69
21	2025	107.68	230,268	26.29	136.89	29.21	140.54	32.86	140.54	202.20	10.60	118.28	123.05
22	2026	111.74	239,304	27.32	142.09	30.35	145.89	34.15	145.89	210.14	11.02	122.76	127.66
23	2027	116.34	248,730	28.39	147.89	31.55	151.83	35.49	151.83	218.41	11.45	127.79	132.88
24	2028	124.68	258,620	29.44	157.39	32.71	161.48	36.80	161.48	226.48	11.87	136.55	141.88
25	2029	129.94	268,341	30.63	163.98	34.04	168.23	38.29	168.23	235.64	12.35	142.29	147.79
26													

Technology	Capacity Factor %	On-Peak Capacity Credit %
Landfill	90%	100.0%
Anaerobic/Cellulosic Digester	80%	100.0%
Solar	13%	100.0%
Wind	31%	12.5%

(1) 2006-2008 Actual LMPs & Capacity Prices

P R O O F O F S E R V I C E

STATE OF MICHIGAN)

Case No. U-15806

County of Ingham)

Mignon Middlebrook being duly sworn, deposes and says that on September 14, 2010 A.D. she served a copy of the attached Commission orders by first class mail, postage prepaid, or by inter-departmental mail, to the persons as shown on the attached service list.

Mignon Middlebrook

Subscribed and sworn to before me
This 14th day of September 2010

Gloria Pearl Jones
Notary Public, Ingham County, MI
My Commission Expires June 5, 2016

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