

Anthony F. Earley, Jr.
President and Chief Operating Officer
The Detroit Edison Company
2000 2nd Ave., Detroit, MI 48226-1279
Tel: 313.235.8000

Detroit Edison



February 25 1998

Hon. John G. Strand, Chairman
Michigan Public Service Commission
6545 Mercantile Way
P. O. Box 30221
Lansing, Michigan 48909

MICHIGAN PUBLIC SERVICE
COMMISSION

FEB 25 1998

Re: MPSC Restructuring Cases

Dear Chairman Strand:

FILED

Enclosed for filing with the Commission is an original and twenty-five(25) copies of the Company's "Response of the Detroit Edison Company to Order Requiring Retail Direct Access Tariff Filing" along with Proof of Service.

The Detroit Edison Company is deeply committed to moving the electric utility industry in Michigan to a competitive environment. At all levels of the Company, we have spent thousands of hours attempting to effect this change in a way that is fair to customers, shareholders and employees of utilities. We must make these changes in ways that do not sacrifice the reliability of the electric system.

As you know well, restructuring our industry is a complex task. There are hundreds of details-that need to be addressed. In developing our Retail Customer Direct Access Tariff, we have drawn on multiple Commission orders dating back to June 5, 1997, as well as what we have learned from studying retail access implementation in other states. Even with all of these details, more guidance will be needed to ensure a successful implementation of retail access. As has been the practice in other states, Detroit Edison will submit separate service agreements for customers and suppliers for Commission approval as soon as possible.

The Customer Direct Access Delivery Tariff differs in many significant aspects from the voluntary retail access program proposed by Detroit Edison in Case No: U-1 1452. Because the changes ordered by the Commission do not adequately ensure stranded cost recovery, protect native load customers or ensure continued system reliability, the

Hon. John G. Strand, Chairman
Michigan Public Service Commission
February 25, 1998
Page 2

Company submits this tariff under protest. The Company does not waive its rights to contest the Commission's jurisdiction to mandate a comprehensive retail access program. We also reserve the right to withdraw the tariff and terminate retail access service if the Commission modifies or disapproves the terms, charges and conditions contained in our submittal.

We do not raise these objections lightly since we want to develop a successful retail access program for Michigan. We believe that the Commission's plan can be materially improved by (1) establishing an appropriate rate freeze for Detroit Edison; (2) establishing an understandable, fair and workable state-wide true-up mechanism for the recovery of stranded costs; (3) resolution of issues relating to mandatory standby services; and (4) approval of a mechanism for recovery of implementation costs in a timely manner. We recognize that prior Commission orders provide opportunities to accomplish some of these items and we will make appropriate filings shortly.

Despite the Company's objection, we will continue to work with the Commission on implementation of retail access. We must, however, emphasize that until a funding mechanism for implementation costs is identified, work will be delayed. Also, because of the complexities of implementation, the Company intends to submit a detailed implementation plan. We remain committed to working to resolve the outstanding fundamental issues.

Very truly yours,

A handwritten signature in black ink, appearing to read "Anthony J. Boyle". The signature is written in a cursive, flowing style with a long, sweeping tail on the final letter.

AFE:ss
Encls.

cc: Hon. John C. Shea
Hon. David A. Svanda
Ms. Dorothy Wideman
Parties of Record

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter, on the Commission's own motion,)
to consider the restructuring of the electric)
utility industry.) Case No: U-I 1290

In the matter of the application of)
THE DETROIT EDISON COMPANY for authority to) Case No. U-I 1449
suspend implementation of its power supply cost)
recovery clause and related relief.)

In the matter of the request of)
CONSUMERS ENERGY COMPANY for) Case No. U-I 1451
approval of a retail open access tariff.)

In the matter of the request of)
THE DETROIT EDISON COMPANY for approval) Case No. U-I 1452
of a direct access tariff.)

In the matter of the request of)
CONSUMERS ENERGY COMPANY for authority) Case No. U-I 1453
to suspend its power supply cost recovery clause)
and related relief.)

**RESPONSE OF THE DETROIT EDISON COMPANY
TO ORDER REQUIRING RETAIL ACCESS TARIFF FILING**

THE DETROIT EDISON COMPANY (Company or Edison) hereby submits this response to the Commission's February 11, 1998 Order in these proceedings requiring the filing of a retail access distribution tariff by the Company.

I. INTRODUCTION AND SUMMARY

Attached for filing with the Commission as Appendix A is a Retail Access Service Tariff (Tariff) setting forth uniform charges and conditions of service for retail direct access customers and suppliers. Appendix A is a customer tariff which contains customer charges related to local distribution service; and, in addition, contains a bid charge, future transition charge and backup service charge for suppliers. As set forth in the Tariff, the Company is proposing to offer separate service agreements to customers and suppliers which set forth the terms and conditions of retail direct access service and clearly identifies the role of each party to the transaction.

II. POSITION OF THE COMPANY

The Company's filing is in response to a Commission Order requiring the Company to file a retail access tariff. The Company's position is set forth in the Letter of Transmittal accompanying this filing and is incorporated by reference herein.

It is important for the Commission to recognize that the Tariff provisions filed today deviate substantially from the voluntary program proposed by Detroit Edison in Case No. U-I 1452 and set forth in Exhibits A-I 0 and A-I 1 in that case. **As such, the filing made today by Detroit Edison is not voluntary and is being made only to comply with an outstanding Commission order requiring the filing of a tariff.**

Direct access service involves many complicated customer and supplier transactions that do not exist today. Therefore, the effective in-service date for

I. INTRODUCTION AND SUMMARY

Attached for filing with the Commission as Appendix A is a Retail Access Service Tariff (Tariff) setting forth uniform charges and conditions of service for retail direct access customers and suppliers. Appendix A is a customer tariff which contains customer charges related to local distribution service; and, in addition, contains a bid charge, future transition charge and backup service charge for suppliers. As set forth in the Tariff, the Company is proposing to offer separate service agreements to customers and suppliers which set forth the terms and conditions of retail direct access service and clearly identifies the role of each party to the transaction.

II. POSITION OF THE COMPANY

The Company's filing is in response to a Commission Order requiring the Company to file a retail access tariff. The Company's position is set forth in the Letter of Transmittal accompanying this filing and is incorporated by reference herein.

It is important for the Commission to recognize that the Tariff provisions filed today deviate substantially from the voluntary program proposed by Detroit Edison in Case No. U-I 1452 and set forth in Exhibits A-I 0 and A-I 1 in that case. As such, the filing made today by Detroit Edison is not voluntary and is being made only to comply with an outstanding Commission order requiring the filing of a tariff.

Direct access service involves many complicated customer and supplier transactions that do not exist today. Therefore, the effective in-service date for

direct access customers depends on the significant development of business processes and systems to enable such services, including electronic information exchange, power scheduling, reconciliation, and billing. Development of these processes can commence upon resolution of the issues discussed in the Company's Letter of Transmittal. Present estimates of lead-time for even interim solutions for these process items is expected to be 9-12 months.

III. RESOLUTION OF MECS AGREEMENT

A mandatory condition for implementation of retail access in Michigan, is the termination of the Electric Coordination Agreement between the Company and Consumers Energy Company (Consumers)(MECS Agreement or Agreement). As an interim solution set forth in the Tariff, prior to termination of the Agreement, no utility company or any of its affiliates that participate in a wholesale power pooling arrangement with Edison should be permitted to bid on or to supply energy or other services to customers located within Edison's territory.

The MECS Agreement provides for, among other things, (i) joint economic dispatch of energy generated by the parties, (ii) sharing of benefits (profits) of certain out-of-state transactions by both utility companies, and (iii) Consumers' preferential purchases of certain energy generated by Edison. These provisions are inconsistent with the creation of a competitive electric generation market which the Commission is attempting to undertake.

The Company filed a motion with the Federal Energy Regulatory Commission (FERC) seeking to terminate the MECS Agreement as of April 30, 1997,

direct access customers depends on the significant development of business processes and systems to enable such services, including electronic information exchange, power scheduling, reconciliation, and billing. Development of these processes can commence upon resolution of the issues discussed in the Company's Letter of Transmittal. Present estimates of lead-time for even interim solutions for these process items is expected to be 9-12 months.

III. RESOLUTION OF MECS AGREEMENT

A mandatory condition for implementation of retail access in Michigan, is the termination of the Electric Coordination Agreement between the Company and Consumers Energy Company (Consumers)(MECS Agreement or Agreement). As an interim solution set forth in the Tariff, prior to termination of the Agreement, no utility company or any of its affiliates that participate in a wholesale power pooling arrangement with Edison should be permitted to bid on or to supply energy or other services to customers located within Edison's territory.

The MECS Agreement provides for, among other things, (i) joint economic dispatch of energy generated by the parties, (ii) sharing of benefits (profits) of certain out-of-state transactions by both utility companies, and (iii) Consumers' preferential purchases of certain energy generated by Edison. These provisions are **inconsistent** with the creation of a competitive electric generation market which the Commission is attempting to undertake.

The Company filed a motion with the Federal Energy Regulatory Commission (FERC) seeking to terminate the MECS Agreement as of April 30, 1997,

because of its anti-competitive effects.’ Consumers opposed the Company’s Motion, and FERC has not ruled upon it. While FERC approval is required to terminate the MECS Agreement, it is essential that the issue be resolved before retail access begins in Michigan. If both Edison and Consumers agree, it is likely that FERC will act expeditiously to terminate the Agreement.

The Agreement adversely affects the development of a competitive electric generation market in several ways. For example, it requires one utility to sell certain excess energy to the other at prices below that utility’s own costs of generation, which provides it an opportunity to compete unfairly for the other company’s customers. Whenever one utility wishes to enter into an out-of-state purchase or sale transaction with a third party, it must first offer the other the opportunity to share equally in the benefits (profits) of the transaction. These provisions reduce a utility’s ability to mitigate its own stranded costs and potentially raises the cost to Michigan consumers. While there are other adverse effects, those discussed above demonstrate clearly the anticompetitive impact of this Agreement and why it is imperative that it be terminated prior to commencement of retail access.

An interim solution to this problem from Edison’s perspective is set forth in Section 4 of the attached Tariff and is consistent with the compromise adopted by the Commission in its June 5, 1995 Order in the experimental retail wheeling pilot, Case No. U-I 0143/U-101 76 at page 69.

¹ Motion filed February 20, 1997, in FERC Docket No. OA97-472-000 and ER97-1023-000.

IV. CHANGES TO THE TARIFF

The Tariff filed today differs from the Customer Delivery Contracts (CDC) filed and supported by the Company in this docket and edited by the Commission in Appendix B to its October 29, 1997 Order in Case No. U-I 1452. Following is a description of the major changes in the Tariff.

A. Separation of Customer and Supplier Provisions

The Company is no longer using a delivery contract to govern the uniform supply of retail access service. Instead, the Company is submitting a Tariff governing retail access service to customers. The original CDC's were differentiated in their applicability to customers who met minimum size criteria. For the sake of clarity, the attached Tariff identifies and separates the rights and obligations of the customer and the power supplier. To assist in administering uniform retail access service under the Tariff, the Company proposes the use of separate service agreements for customers and suppliers. Customer Service agreements have been used in other states that have implemented retail access and are essentially an order form. The supplier service agreement covers such items as transmission, back-up source, customer identification and information as well as reciprocity in the later phase-in years. These documents are currently under development, and will be submitted to the Commission for its review.

B. Customer Eligibility

The original CDCs required customers to have a satisfactory payment history, among other conditions, to be eligible to participate in retail access. This requirement for eligibility has been removed in the Tariff. The Customer's payment history should not be a consideration for whether or not the customer should be able to choose electric suppliers. If the Company initially screens retail access customers based on payment history, the Company would essentially be performing a credit check for the power supplier at the risk of divulging 'confidential and proprietary customer information without the customer's consent.

C. Residential Set-Aside

The Company's phase in provides for a 6 MW level of residential participation which can be accommodated by modifications to existing systems and non-scaleable interim systems while the systems necessary to support a higher level of residential customers are being designed and constructed.

The first three phases of participation should provide an opportunity to pilot the metering and load profiling options and provide a sound basis for determining the approach to accurate and cost effective data acquisition for larger volume of residential customer participation. The experience gained during these phases will allow Edison to make course corrections in design as well as provide insight on the rules which will be required to govern the many new transactions created by retail access.

This should allow the Company to benefit from the experience before committing fully to the larger expenditures required to support the transition, and thereby avoid creating confused and disgusted residential customers as has been the case in other states who rushed into retail access.

Edison intends to evaluate the experience in the first three phase-in periods and propose to the Commission a higher level of residential participation in the last two phase-in periods based on the level of interest expressed by the residential customers and the results of data acquisition, metering and load profiling during the early phase-in periods.

D. Monthly Base Rates

A number of changes to customer rates and charges have been incorporated in the Tariff.

1. Transformation Service Charge

Rates charged to customers for distribution service are based on the voltage level of service. Under the Company's bundled retail tariffs, "Primary" customers are defined as those customers owning their own transformation facilities after receiving 13.2kV or 4.8kV voltage level service from the Company. "Secondary" customers are defined as those customers not owning transformation facilities and receiving "secondary" voltage level service. In most cases, three-phase secondary customers are

served from the same 13.2kV or 4.8kV distribution system as the primary customers. In terms of distribution service received from Edison, the two customers are no different except that the primary customer owns its own transformation equipment. The Transformation Service Charge was modified to recognize the cost of Edison owning, operating and maintaining transformers and related equipment which is dedicated to the sole use of three-phase secondary customers otherwise being served at the 13.2 or 4.8kV voltage level. The modified Transformation Service Charge is based on the embedded cost and revenue requirements associated with the distribution transformers in place to serve the three-phase secondary customers. The System Use Charge for Low Voltage Distribution Service and for 13.2kV or lower High Voltage Distribution Service has been changed to reflect the transfer of revenue requirements associated with three-phase secondary customers into the 13.2 kV or lower High Voltage Distribution customer classification. The Substation Charge previously contained in the CDC has been renamed the Transformation Service Charge.

2. Service Charge

The Service Charge for customers receiving High Voltage Distribution Service has been reduced. This reduction is the result of the size of this customer class expanding from approximately

3,100 customers to 74,000 customers due to the clarification of the characteristics defining a customer as being considered as served at High Voltage as mentioned previously in the discussion regarding the introduction of the Transformation Service Charge. In addition, the Service Charge for Commercial Secondary Low Voltage Distribution Service - Commercial Secondary, has been increased. The increase reflects the revenue requirements associated with providing these customers with the demand recording meters required for billing access service and for transmission service billing under the Company's FERC approved Open Access Transmission Tariff.

3. **Additional Meter Charge**

This charge was added to recognize the additional cost the Company incurs when service is provided and metered at multiple points at a customer's location. The charge reflects the cost of ownership of the meter as well as the cost of obtaining and processing the meter data. In addition, customers whose service is measured at a service voltage level of 24 kV or greater shall pay an additional charge for those meter installations. It is an atypical situation where a customer with a service voltage designation of 24 kV or above requests that service be metered at the transformer high side (24kV or higher) voltage. Usually the service is metered at the transformer low side (13.2 or 4.8 kV) voltage. Meter

installations measuring voltages at 24 kV or above are significantly more costly than meter installations measuring voltages at 13.2 or 4.8 kV. The additional charge for higher voltage meters reflects the additional cost associated with providing them.

4. System Use Charge Applicability

In the original CDC, the System Use Charge for each voltage level was to be applied to the customer's 12-month ratcheted maximum demand, but to no less than 50% of the customer's Distribution Contract Capacity. As now proposed, the System Use Charge shall apply to the Customer's Distribution Contract Capacity reflecting the fact that the Company provides facilities necessary to provide service at the contract capacity. The fact that a customer's load falls below the contract capacity does not diminish the cost associated with the facilities installed to serve the customer. In conjunction with this modification, the Distribution Contract Capacity may be reduced if there is an associated specific and permanent reduction in connected load.

5. Power Factor Penalty Charge

The Power Factor Penalty Charge has been modified from that originally submitted due to the recognition that the cost of programming the billing system to implement what was originally proposed exceeded the revenue expected to be received from imposing the penalty. The modified Power Factor Penalty Charge is

installations measuring voltages at 24 kV or above are significantly more costly than meter installations measuring voltages at 13.2 or 4.8 kV. The additional charge for higher voltage meters reflects the additional cost associated with providing them.

4. System Use Charge Applicability

In the original CDC, the System Use Charge for each voltage level was to be applied to the customer's 12-month ratcheted maximum demand, but to no less than 50% of the customer's Distribution Contract Capacity. As now proposed, the System Use Charge shall apply to the Customer's Distribution Contract Capacity reflecting the fact that the Company provides facilities necessary to provide service at the contract capacity. The fact that a customer's load falls below the contract capacity does not diminish the cost associated with the facilities installed to serve the customer. In conjunction with this modification, the Distribution Contract Capacity may be reduced if there is an associated specific and permanent reduction in connected load.

5. Power Factor Penalty Charge

The Power Factor Penalty Charge has been modified from that originally submitted due to the recognition that the cost of programming the billing system to implement what was originally proposed exceeded the revenue expected to be received from imposing the penalty. The modified Power Factor Penalty Charge is

the same as that put in place for the Company's Large Customer Contract (LCC) customers and provides an appropriate price signal for customers to correct a poor power factor. Further, this method is already programmed into the Company's billing system and therefore, will reduce the cost of, and expedite the transition to retail access service.

E. Power and Transmission Services

The Tariff has **been modified to indicate that** the Power Supplier shall procure transmission service as the customer's Designated Agent rather than procuring transmission **service** for itself to be provided to the customer. The distinction is that if the customer elects to contract for service with another power supplier, the right to the use of the transmission system and the capacity associated therewith, remains with the customer, not with the supplier. This provision will prevent a power supplier from locking up available transmission capacity and exercising a form of market power over the State's electric consumers.

F. Metering

With the exception of residential customers, full demand metering for all retail access load is a requirement of the Tariff. The service charge now covers the cost of additional metering. In order to proceed in an orderly fashion and take advantage of technological developments that are expected to occur, the Tariff now includes a provision for a limited waiver option for residential customers in which the Company proposes

to use load profiling to derive billing and reconciliation data. During the first two years, the Company will evaluate the performance of load profile data and the piloted metering options. It will use this analysis in the design of the metering requirements for full-scale retail access. A separate service agreement is required for customers or suppliers choosing this option. The Company plans on including any infrastructure costs such as a limited automatic meter reading system, in implementation costs.

G. **Late Payment Charge**

The method for late payment has been changed to reflect the Company's current customer billing provision set forth in Rule B2.10. This change will allow the Company the opportunity to employ a uniform policy for both retail access and bundled tariff customers.

H. **Switching Charge**

A modest transaction charge of \$25 has been added to the Tariff for customers who desire to switch suppliers or switch from regulated or unregulated tariffs. This charge was not included in the Company's original CDC filing, but was approved by the Commission in its October 29, 1997 order for Consumers Energy.

I. **Transition Charge**

Responsibility for payment of transition charges has been made the responsibility of the supplier. This classification reflects the Company's belief that the supplier both bids and pays in a bidding situation.

J. Location Load Splitting

The Tariff includes language to clarify that secondary customers cannot split a portion of their load between bundled and unbundled rates with the Company and other suppliers.

K. True-Up Clause

The Commission's Order of January 14, 1998, provided an outline of the central issues to be considered in the annual stranded cost true-up proceeding: 1) variances between estimated and actual retail access and total system sales volumes; 2) variances between estimated and actual market prices; 3) the difference, if any, between bid amounts and actual stranded costs; 4) adjustments for imprudent costs incurred, as determined in a rate or PSCR proceeding; and 5) implementation costs for restructuring .² In response, the Company sets forth the following true-up procedure as a condition for going forward with a retail access program.

1. Mandatory Conditions.

Edison's proposal is subject to four mandatory conditions.

- a. In the interest of fairness to Edison, the State's other electric utilities, and their customers, and particularly to avoid imposing a competitive disadvantage on any single utility, the same true-up method must apply to all non-municipal

² MPSC Order, Restructuring Case Nos. U-I 1290 et al., at 17-I 8, clarifying its Order of October 29, 1997, in Restructuring Case Nos. U-I 1290 et al., and as further clarified in its Order of February 11, 1998, in Restructuring Case Nos. 11290 et.al.

electric utilities currently authorized to produce and distribute electricity in Michigan.

- b. The Commission must freeze each electric company's bundled rate service to MPSC retail jurisdictional customers at base rates previously approved and in effect at January 1, 1998. The rate freeze will remain in effect until all of the company's stranded costs have been collected. Freezing rates will enable the companies to accelerate recovery of their stranded costs, hastening development of an unencumbered open market.³
- c. The Commission must issue an accounting order directing each utility to use any after-tax earnings above its most recent Commission-approved rate of return on common equity, computed on its MPSC jurisdictional retail electric business, to mitigate its strandedness.⁴
- d. All contracts entered into to provide retail access services on or before December 31, 2007, between retail access suppliers and their retail access customers must be on the same standard, commodity-style form contract, approved by

³ If a rate freeze is not approved and effective immediately, a separate implementation surcharge applicable to all customers will be required immediately. A freeze in Edison's PSCR Clause will be addressed in a separate application by the Company.

⁴ The calculation of the amount of after-tax earnings in excess of the authorized return on common equity would be subject to annual audit by the MPSC Staff and would be certified annually by the Commission in the annual stranded cost true-up proceedings.

same standard, commodity-style form contract, approved by and filed with the Commission, as more fully described in Subdivision (2)(a)(iv) below.

2. **True-up Methodology**

Edison's proposed true-up mechanism has four parts: (1) calculation of remaining **Stranded Costs** in accordance with the Commission categorization of stranded costs; (2) calculation of the actual stranded costs for the previous year associated with contracts approved by the Commission pursuant to 1989 PA2 (PA2s); (3) calculation of the PA2 **Surcharge** based upon the PA2 Stranded Costs; and (4) calculation of the **Transition** based upon the remaining Stranded Costs. The true-up mechanism itself is set out in the attached Tariff. Certain elements of the mechanism are discussed below.

a. **Stranded Costs**

For the first year of the retail access program, the starting point for calculating stranded costs will be the Commission's estimate of Edison's stranded costs. Thereafter, the starting point for the true-up calculations will be the prior year's remaining Stranded Costs. Adjustments to allowable expenses arising out of PSCR or rate proceedings will be incorporated.

i. Nuclear Assets and Regulatory Assets

As of the end of each calendar year, stranded costs related to Nuclear and Regulatory Assets will equal the remaining nuclear net plant book balances plus remaining generation-related regulatory assets. Nuclear net plant book balances will be adjusted each year by the currently approved annual depreciation and other authorized expenses, as well as any applicable "Rate Freeze Contribution." Regulatory assets will be adjusted by the currently approved rate recovery and other authorized expenses plus any applicable, "Rate Freeze Contribution. " Because their values do not vary as a function of Market Price or sales volume, neither nuclear net book plant balances (not including operating costs) nor regulatory assets will be adjusted in any way as a result of changes in actual Market Prices or actual sales volumes.

ii. Rate Freeze Contribution

If the Commission agrees to freeze the Company's jurisdictional base rates at the levels in effect on January 1, 1998, Edison agrees to use any after-tax return on equity (ROE) in excess of its most recent Commission-approved rate of return on common

equity to reduce its stranded costs (Rate Freeze Contribution). Using a ROE measure provides an effective true-up mechanism to account automatically for changes in both total system sales and actual load electing direct access. Overall load growth, as well as under-subscribed retail access load, would result in greater full service, regulated sales revenue. An increase in regulated sales revenue would contribute to an increase in the Company's ROE. By applying the Rate Freeze Contribution to accelerate amortization of stranded costs, the next year's Transition Charge paid by retail access retail customers would be reduced.

iii. Non-PA2 Power Purchase Aareements

Each year, total stranded costs related to Qualifying Facilities' purchased power agreements not qualified under 1989 PA2 (Non-PA2 QFs) will be calculated. Non-PA2 QF stranded costs will equal the sum of actual above-market Non-PA2 QF costs incurred from 1998 to the calculation date and estimated future above-market Non-PA2 QF costs through 2007. Annual above-market Non-PA2 QF costs equal the retail access load share (based on sales) of the difference between (a) total contract

costs and (b) the product of the Market Price multiplied by Non-PA2 QF output purchased.

iv. Determination of Actual Market Price

All contracts entered into to provide retail access services on or before December 31, 2007, between retail access suppliers and their retail access customers must be on the same standard, commodity-style form contract, approved by and filed with the Commission. All such contracts shall have only the approved standard terms and conditions and be identical except as to identities of supplier and purchaser, quantity of services purchased, the purchase price(s) and term of contract. The actual Market Price will equal the weighted average price actually paid under such standard form contracts during the transition period for electricity delivered within the utility's traditional service area. Standard form contracts are essential to calculate the actual Market Price of services without the inherent inaccuracies involved with attributing portions of the purchase price to non-energy services or energy services having vastly different characteristics. It would be almost impossible to ascertain the parties'

intent to allocate contract price among several elements of vastly different contract services and pricing schemes. All such contracts shall terminate no later than December 31, 2007. Contracts should not provide for services beyond the transition period to avoid unusual pricing schemes that distort the actual Market Prices to be used for true-up calculations. It is essential that standard form contracts be used for all retail access sales entered into during the entire period for which Market Price true-up is required. Many other commodities trade on the basis of standard form contracts so they can be compared solely on the basis of price.

v. Implementation Costs and Employee Retraining Costs

The prudence of Edison's planned Implementation and Employee Retraining Costs will be determined in a single proceeding.⁵ During the Plan proceeding, the MPSC will pre-approve future Implementation and Employee Retraining Activities and authorize a specific

⁵ See MPSC Order dated June 5, 1997, Case No. U-I 1290 at 13-14:

The Staff Report recommends that audited and verified costs for employee retraining required by restructuring, as well as implementing the direct access system, be included in stranded costs. In implementing this recommendation, the Commission will examine the prudence of all such costs prior to including them in stranded cost.

level of spending .⁶ Thereafter, annual proceedings will examine only the prudence of costs in excess of those previously authorized. The utility will have the burden of proof to support the prudence of any expenses incurred in excess of those previously authorized by the Commission. Because their values do not vary as a function of Market Price or sales volume, neither Implementation Costs nor Employee Retraining Costs will be adjusted in any way as a result of changes in actual Market Prices or actual sales volumes. To ensure that necessary implementation activities are carried out, and to assure utilities that costs incurred will be deemed prudent, the Plan proceeding must take place before additional implementation and retraining costs are incurred. The Plan approval proceeding should be conducted on an expedited basis. Initial bidding will begin no sooner than 30 days after an initial Implementation and Employee Retraining Plan is

⁶ On January 14, 1998 in Case No. U-I 1456 p. 12, the Commission stated:

Customers should know what the best estimate of that [stranded] cost is at this time before they commit to open access so that they can make informed decisions. Furthermore, making an initial estimate of stranded costs now should simplify and help to expedite the true-up process.

approved. Actual costs of implementation and employee retraining will not be included in the total Stranded Costs.

b. PA2 Qualifying Facilities – Separate Surcharge

Resource recovery contracts covered under 1989 PA2 (PA2s) have been determined to provide special long-term environmental benefits to Michigan residents. The Commission has stated expressly that it did not intend to affect the contract rights of PA2 facilities.⁷ Stranded costs associated with PA2s, therefore, will be collected under a separate surcharge to be paid over the lives of the PA2 contracts by all retail access customers.

i. PA2 Stranded Costs Calculation

At the end of each year, actual stranded costs related to PA2 power purchase agreements will be calculated. Stranded costs related to PA2 power purchase agreements equal the retail access load share (based on actual sales) of the difference between (a) actual total contract costs and (b) the product of the actual Market Price multiplied by actual PA2 output purchased. The Company's determination of the

⁷ See MPSC Order dated February 11, 1998, Case No. U-I 1454, at 5.

actual annual PA2 stranded costs for the previous year will be subject to an audit performed by Michigan Public Service Commission Staff auditors. Stranded costs associated with PA2s will be used to determine the PA2 Surcharge and will not be included in the stranded costs used to determine the Transition Charge. The PA2 Surcharge should commence immediately upon commencement of retail direct access service, based upon the Commission's estimate of Market Price (\$0.029/kWh) and the prices paid and quantities of PA2 power purchased during the most recent twelve-month period.

c. Calculation of PA2 Surcharge

The calculation of the PA2 Surcharge and the reconciliation of PA2 stranded costs will follow processes similar to those specified for the PSCR clause. The PA2 Surcharge will be calculated by dividing the next year's forecast stranded costs associated with PA2s by the next year's forecast retail access sales. The true-up of the PA2 Surcharge will compare actual stranded costs (as determined using the actual Market Price and actual retail access and total system sales) with actual PA2 Surcharge collection. Any over- or under-recovery from the previous year will be

used to adjust the PA2 Surcharge for the current year. The Commission will provide notice and an opportunity for a hearing on an expedited basis prior to final approval of the PA2 Surcharge.

d. Calculation of Transition Charge

At the end of each calendar year, the Company will determine the remaining before-tax stranded costs (exclusive of the PA2 stranded costs), subject to an audit performed by the Commission. The remaining before-tax stranded costs figure will then be allocated over the remaining estimated sales through the year 2007. This calculation will determine the necessary levelized Transition Charge to recover the before-tax stranded costs, as verified by the MPSC, on a net present value basis using a discount rate equivalent to the Company's cost of capital. During the bidding years between 1998 and 2001, the Transition Charge will be adjusted annually; however, retail access customers will be required to pay only their bid price until 2002.

During the early transition period, from 1998 through 2001, suppliers will be required to submit an annual bid of at least 0.5¢/kWh to participate in the retail access program. The bid amounts from the successful bidders will be remitted to the Company and applied as a contribution towards the

Company's recovery of stranded costs. After 2001, when bidding is no longer required and all customers have the opportunity to participate in the retail access program, the Transition Charge will apply to and be charged for all retail access service.

Transition Charge revenues received the Company as a contribution towards stranded costs will be included in the calculation of return on common equity (ROE). If Transition charge revenue results in a ROE greater than its most recent Commission-approved rate of return on equity, the net benefit will be used to reduce its stranded costs.

L. Affiliate Participation

The Tariff attempts to clarify the relationship between Edison and its affiliates regarding affiliates' participation in the bidding process. Consistent with the Commission's Orders in this docket, Edison affiliates may bid for retail access load, but the demand served by such affiliates will not initially count toward fulfillment of the phase-in schedule load requirements. However, Edison proposes that if winning bidders fail to satisfy the necessary requirements set forth in the Tariff within 60 days of selection, an equivalent amount of eligible affiliate load, if any, will be considered as part of the total cumulative load permitted under the phase in schedule. The attached Tariff incorporates the Commission's determination that full reciprocity should not be required until the year

2002. Edison submits that allowing affiliate participation as outlined above is a logical quid pro quo for accepting the Commission's limited reciprocity provision.

M. Standby Service

Consistent with the Commission's order, the Company will provide standby or back-up service to suppliers who request it. However, at certain times of the year the Company may not have enough generation capacity to provide such services. Thus, these services will be subject to priority curtailment before any other load served by the Company including interruptible load (e.g. R-1 0, D-8 DI .1 , etc.). To reduce the impact such restrictions may have on a competitive market, the Company will assist in the development of market solutions to provide standby or back-up service as a necessary part of the creation of a competitive electric generation market.

V. CONCLUSION

The Detroit Edison Company submits the attached Tariff for approval by the Commission.

Respectfully submitted,

THE DETROIT EDISON COMPANY

By Bruce R. Maters
Thomas A. Hughes (P29669)
Raymond O. Sturdy (P24507)
Bruce R. Maters (P28080)
Legal Department
2000 Second Ave, 688 WCB
Detroit, Michigan 48226
(313) 235-7481

RETAIL ACCESS SERVICE**1. DEFINITIONS**

"Aggregator" means an entity that combines the Power consumption of multiple Customers for the purpose of meeting minimum load criteria necessary for Retail Access Service. If an Aggregator participates in the service eligibility bidding process or sells Power to the Customers whose Load it aggregates, it must be an Eligible Power Supplier.

"Commission" means the Michigan Public Service Commission.

"Company" means The Detroit Edison Company.

"Company's Electrical System" means the electrical generation, transmission and distribution facilities operated by the Company to meet its electric service Obligations.

"Company's Distribution System" means facilities operated by the Company for the purpose of distributing electric power within the Company's electric service territory which are subject to the jurisdiction of the Commission.

"Company's Transmission System" means facilities operated by the Company for the purpose of transmitting electric power within the Company's electric service territory which are subject to the jurisdiction of the Federal Energy Regulatory Commission.

"Customer" means, for purposes of Retail Access Service, an entity with electrical load facilities connected to the Company's Distribution System that purchases Power from an Eligible Power Supplier for delivery to its Location(s) pursuant to this Rate Schedule.

"Distribution Contract Capacity" means the load carrying capacity in kilowatts of the Company's Distribution System necessary to meet a Customer's maximum load requirements at a particular Location.

"Point of Receipt" means the point on the Company's Transmission System where Power is received by the Company for delivery to the Point of Delivery.

"Point of Delivery" means the point of interconnection between the Company's Distribution System and the Customer's service Location.

"Eligible-Power Supplier" means an entity that meets the following criteria:

- (i) generates, brokers, markets or otherwise procures electricity to be supplied at the Point of Receipt and with whom a Customer has contracted for the purchase of Power,
- (ii) satisfies all applicable franchise and statutory requirements of Michigan law, and
- (iii) satisfies all applicable reciprocity requirements set forth in this tariff.

"Hourly Top incremental Cost of Energy" means the highest cost of energy (self-generated or purchased) incurred by the Company in an hour to meet the maximum Load served by the Company for that hour.

"Load" means electric demand measured in kilowatts (kW).

“Location” means each Customer facility whether owned or leased.

“Open Access Transmission Tariff” means the Company’s pro forma open access transmission tariff on file with the Federal Energy Regulatory Commission, as amended from time to time.

“Power” means a combination of the demand and energy requirements of the Customer.

2. TERMS AND CONDITIONS OF SERVICE

2.1 This Retail Access Service Rate Schedule sets forth the rates, charges, terms and conditions of service for the receipt of Power purchased by a Customer from an Eligible Power Supplier at a designated Point of Receipt and delivery of that Power to a designated Point of Delivery.

2.2 Power supplied by an Eligible Power Supplier to a Point of Receipt shall be transmitted to the Company’s Distribution System in accordance with the rates, terms and conditions of service of the Company’s Open Access Transmission Tariff.

2.3 A Customer’s eligibility to take Retail Access Service is subject to any terms or conditions imposed by preexisting contracts or tariffs with the Company including those which may preclude the Customer from taking retail access service. Customers must have satisfied any past due amounts owed to the Company under any other arrangements or provisions for electric service before taking service under this Rate Schedule. Rider No. 2 agreements between the Customer and the Company will remain in effect during service under this Rate Schedule.

2.4 A Customer may only select one Eligible Power Supplier at any given time for the supply of Power to separately metered Load. Customers shall be permitted to change Eligible Power Suppliers upon payment by the new Eligible Power Supplier of \$25 and in accordance with procedures and other charges to be established by the Company and approved by the Commission.

2.5 If a Customer’s Eligible Power Supplier fails to pay amounts due the Company or otherwise fails to perform obligations undertaken in connection with service to the Customer, the Company will give the Customer notice of the Eligible Power Supplier’s default, after which the Customer will be responsible for curing the default. Retail Access Service and transmission and backup services provided in connection therewith involve energy imbalance, backup service and unauthorized use charges that may be substantial. Customers should be aware of their Eligible Power Supplier’s obligations and the Customer’s liability for such charges on default. The Customer acknowledges that Retail Access Service may be terminated and the Customer’s facilities may be disconnected from the Company’s Distribution System if it or its Eligible Power Supplier fails to pay amounts due or otherwise fails to comply with requirements established in this Rate Schedule or other agreements with the Company related to such service.

2.6 Commercial Secondary and Residential Secondary Customers must have their entire Load at a single Location served by their Eligible Power Supplier.

2.7 Retail Access Service is not available to Customers taking Lighting service utilizing Company-owned equipment.

3. CHARACTER OF SERVICE

3.1 The Company furnishes alternating current service at a nominal frequency of **60** hertz 24 hours a day, subject to interruption by tariff, agreement, by advance notice, by accident or by other causes not under the reasonable control of the Company.

3.2 For Low Voltage Distribution Service, the Company provides service at differing voltages available in differing configurations within its service territory. These include, but are not limited to, single-phase secondary alternating current service at **120/240** volts. In some districts current is supplied from a Y- connected secondary network at **208Y/120** volts. Customers who are considering locating new load or who are considering adding load at an existing location should contact the Company to determine what service is available at a particular location to serve their Load.

3.3 For High Voltage Distribution Service, the Company provides service at differing voltages available in differing configurations within its service territory. These include, but are not limited to, alternating current, three-phase service at nominal 4,800, 13,200, 24,000, 41,570 or 120,000 volts which may be transformed to lower voltages, subject to the Transformation Service Charge, through Company-owned transformation equipment. Where three-phase service is supplied at **480Y/277** volts through Company-owned transformation equipment, the Customer must furnish any transformation for the supply of its **120/240** volt requirements. Customers who are considering locating new load or who are considering adding load at an existing location should contact the Company to determine what service is available at a particular location to serve their Load.

4. AVAILABILITY OF SERVICE

4.1 Until December 31, 2001, eligibility for Retail Access Service will be determined using an open bidding procedure to be authorized by the Commission. Each bid submitted must meet or exceed a minimum level of **0.5¢** per kWh. Bids for eligibility may be submitted by prospective Customers and Eligible Power Suppliers and shall designate the amount of Load proposed to be served and the amount the Eligible Power Supplier serving such Load shall pay the Company as a Transition Charge for each kilowatthour delivered under this Rate Schedule.

4.2 On and after January 1, 2002, all retail customers with Load connected to the Company's Distribution System shall be eligible for Retail Access and Eligible Power Suppliers shall pay the Company a Transition Charge of **1.25 ¢/kWh** for all kilowatthours consumed by Customers including self-generated Power unless such Power was produced by a **Customer-** owned electric generation facility that was in place and operating on January 1, 1999 at the Customer's Location. The Transition Charge is intended to recover the costs associated with the implementation of Retail Access Service and the Company's stranded costs arising from implementation of Retail Access Service. The Transition Charge of **1.25 ¢/kWh** to be implemented on January 1, 2002, is an estimate of the charge to be imposed at that time and is subject to adjustment as set forth in Section 7 of this Rate Schedule.

4.3 Subject to final authorization by the Commission, the total maximum demand of load which may bid for Retail Access Service (Cumulative Load), the final day for submitting sealed bids to the Company, and the implementation dates for Retail Access Service is as follows:

<u>Final day for Submitting Bid</u>	<u>Cumulative Load</u>	<u>Implementation Date</u>
(To Be Determined)	225,000 kW	as soon as practical after final day for bid submittal
(To Be Determined)	450,000 kW	as soon as practical after final day for bid submittal
(To Be Determined)	675,000 kW	as soon as practical after final day for bid submittal but not sooner than January 1, 1999
(To Be Determined)	900,000 kW	(To Be Determined)
(To Be Determined)	1,125,000 kW	(To Be Determined)

On and after January 1, 2002, all Load connected to the Company's Distribution System shall be eligible for Retail Access Service.

4.4 Bidding will be allowed up to the total maximum demand available for any given year, less any demand assigned to Eligible Power Suppliers through a prior year's bidding process who continue to make use of that demand. Customers and Eligible Power Suppliers shall submit bids with a minimum demand of 1,000 kW. 6,000 kW of the total demand being bid in any year prior to 2000 shall be set aside exclusively for use by Eligible Power Suppliers for the purpose of serving 6,000 kW of residential customer load. No more than 6,000 kW of residential customer load shall become eligible for Retail Access Service in any year prior to January 1, 2000. The total maximum demand available for any given year will be allocated to those Customers and Eligible Power Suppliers with the highest bids for that year. If there is a tie for the final portion of the block of available capacity, a lottery will be held to select participants among those involved in the tie.

4.5 Customers participating in the bidding process must (a) meet all requirements and assume all obligations established for Eligible Power Suppliers, or (b) contract with an Eligible Power Supplier, prior to the commencement of service. Affiliates of the Company may be Eligible Power Suppliers and may participate in the bidding process. The amount of demand allocated to any Company affiliate as a result of the bidding process shall not be initially counted in satisfying the total cumulative load quantities indicated above. Customers and Eligible Power Suppliers (including Company affiliates) selected through the bidding process must satisfy all requirements established in this Rate Schedule and associated supplier agreements, other than final franchise possession, within 60 days of notification of selection. Eligibility for Retail Access Service for any Load allocated where all such requirements are not met within 60 days of selection notification shall immediately terminate, and an amount of Load allocated to Company affiliates, if any, equivalent to that for which eligibility is terminated, shall then be considered to be part of the total cumulative load quantity

permitted. Any amount of Load in excess of that allocated to an affiliate will be offered to the next highest (but initially unsuccessful) bidder seeking Retail Access Service eligibility.

4.6 No entity or affiliate thereof that participates in the Company's present power pooling arrangement, commonly referred to as the Michigan Electric Coordinated System, shall be eligible to submit bids or qualify as an Eligible Power Supplier or Customer until the power pooling arrangement is modified in a manner satisfactory to the Company.

5. TERM AND COMMENCEMENT OF SERVICE

5.1 Retail Access Service provided to new Locations shall be for an initial minimum term of five years over which time (a) the minimum charges shall apply, and (b) the Distribution Contract Capacity shall not be reduced.

5.2 Retail Access Service provided to existing Locations shall be for an initial minimum term of one year over which time the minimum charges shall apply.

5.3 Under special circumstances the initial term for Retail Access Service may be increased or reduced at the discretion of the Company.

5.4 Upon completion of the initial term, Retail Access Service shall continue on a month to month basis until terminated in writing by the Customer or the Company with 30 days notice.

5.5 Customers may discontinue Retail Access Service and return to the Company's full requirements service upon mutual agreement between the Customer and the Company. Such full requirements service shall be for a period of at least one year.

5.6 Retail Access Service may not commence until metering has been installed as specified in the Rate Schedule or agreements related thereto and the Company has received from the Customer's Eligible Power Supplier: (i) an executed Transmission Service Agreement, (ii) agreements between the Eligible Power Supplier and the Company as specified in Section 9 of this Rate Schedule, (iii) agreements between the Company and Customer(s) with total Distribution Contract Capacity(ies) of at least 1000 kW, and (iv) a valid Certificate of Convenience and Necessity from the Commission and valid franchise agreements authorizing the Eligible Power Supplier to conduct business at each Location to be served.

6. RATES AND CHARGES

Description of Charges

6.1 Service Charge. The Service Charge shall apply to each Location served under this Rate Schedule.

6.2 High Voltage Meter Charge. Customers whose service is measured at service voltage levels of 24 kV or greater shall be charged \$550 per meter per month for each meter measuring service at this higher voltage level.

6.3 Additional Meter Charge. Customers whose service is measured through multiple meters at voltage levels of 13.2kV or less shall pay an Additional Meter Charge for each additional meter at the Customer's Location.

6.4 System Use Charge. The System Use Charge shall be the product of the applicable rate and the Customer's Distribution Contract Capacity, at each voltage level, for each Location.

6.5 Distribution Contract Capacity. Customers shall contract for an amount of capacity sufficient to meet the maximum requirements of the Load connected to the Company's Distribution System at the Customer's Location. Customers not having previously established service requirements shall contract with the Company for a specified Distribution Contract Capacity in a kilowatt amount sufficient to meet maximum requirements for each Location. Customers having previously established contract capacities prior to transferring from retail, full requirements service to Retail Access Service shall have their Distribution Contract Capacity set at their existing contract capacity for each Location at each voltage level. The Company will provide the necessary facilities to deliver electric power from its distribution system at the Distribution Contract Capacity. Subject to the provisions of the Company's Rules, any incremental cost incurred by the Company to provide the necessary facilities to meet the Customer's increased demand for distribution services over the Distribution Contract Capacity existing when service commences under the Rate Schedule shall be the responsibility of the Customer. Once established, the Distribution Contract Capacity shall not decrease during the contract term unless there is a specific permanent reduction in connected load. Any single 30-minute integrated reading of the demand meter in any month that exceeds the Distribution Contract Capacity then in effect shall become the new Distribution Contract Capacity.

6.6 Transformation Charge. For Customers taking High Voltage Distribution Service, a transformation charge shall apply to Customers who are provided service through transformation equipment and appurtenances related to voltage transformation owned by the Company. The transformation charge shall be the product of the applicable rate and the Customer's Distribution Contract Capacity.

6.7 Power Factor and Excess kVAR Demand Charge. The Company maintains distribution system design standards based upon normal operating efficiency levels. Excessive deviations from Power Factor design limits shall be subject to penalty and, if the Customer's power factor is less than 70%, shall require the Customer to take corrective action.

6.8 Special Purpose Facilities and Services. Special purpose facilities and services requested by the Customer may be provided by the Company under separate agreement.

Application of Charges

6.9 Minimum Charge. The Customer is subject to a minimum monthly charge equal to the sum of the Service Charge, any High Voltage or Additional Meter Charges, the System Use Charge and the Transformation Charge, if applicable.

6.10 High Voltage Distribution Service. Customers receiving three-phase Retail Access Service shall pay the Company a rate computed as the sum of the following charges:

	<u>13.2 and below</u>	<u>24 or 41.6kV</u>	<u>120kV and above</u>
Service Charge (S/month)	\$125	\$125	\$125
High Voltage Meter Charge* (\$/month)	not applicable	\$550	\$550
Additional Meter Charge (S/month)	\$60	\$60	\$60
System Use Charge (\$/kW/month)	\$2.20	\$0.60	\$0.25
Transformation Service (\$/kW/month)	\$0.30	\$0.40	\$1.20
Nuclear Decommissioning and Nuclear Site Security Charge (¢/kWh)	0.1234¢	0.1234¢	0.1234¢
PA2 Surcharge (¢/kWh)	0.0293¢	0.0293¢	0.0293¢

Any additional Transition, True Up Charges, Surcharges and Credits as may be approved by the Commission.

* Applicable for every meter measuring service at voltage levels of 24kV or greater. **24kV, 41.6kV or 120kV** Customers whose service is measured at **13.2kV** or below shall not be subject to this charge.

6.11 Low Voltage Distribution Service. Customers receiving single-phase Retail Access Service for Commercial or Residential Secondary service shall pay the Company a rate computed as the sum of the following charges:

	<u>Commercial Secondary</u>	<u>Residential Secondary</u>
Service Charge (\$/month)	\$35.00	\$6.00
System Use Charge (\$/kW/month)	\$3.50	\$3.50
Nuclear Decommissioning and Nuclear Site Security Charge (¢/kWh)	0.1234 ¢	0.1234 ¢
PA2 Surcharge (¢/kWh)	0.0293¢	0.0293¢

Any additional Transition, True Up Charges, Surcharges and Credits as may be approved by the Commission.

A Residential Secondary Customer electing to be metered as specified in Section 8.1 of this Rate Schedule shall pay the rates specified for Commercial Secondary service.

6.12 Power Factor and Excess kVAR Demand Charge. Power factors of less than 70% are not permitted and necessary corrective equipment must be installed by the Customer to correct to a minimum level of 70%. Power factor and excess kVAR demand charges will be calculated at each Customer location at the time of the location's single highest 30-minute integrated kW reading of the demand meter during the on-peak hours of the billing period. Excess kVAR demand is any kVAR demand resulting from operations below 85% power factor. A monthly charge of \$3.50/kVAR will be applied to excess kVAR demand. The Excess kVAR Demand Charge is applicable to Customers whose service is provided at a voltage level of 4.8 kV through 41.6 kV. Customers served at the 120kV level and above impact the Company's transmission system and compensation for power factor correction shall be made to the Company under provisions contained in the Company's Open Access Transmission Tariff.

7. TRANSITION CHARGE TRUE-UP PROCEDURES

Conditions Necessary to Implement True-Up

7.1 .a Universal True-Up Methodology. This true-up methodology will apply to all non-municipal electric utilities currently authorized to produce electricity in Michigan seeking stranded cost recovery.

7.1 .b Disclosure of Contracts/ Standard Contract Terms. In order to determine the Market Price by using contracts, all contracts for energy supply entered into between Eligible Power Suppliers and Customers on or before December 31, 2007, must be on the same standard, commodity-style form contract, approved by and filed with the Commission. All such contracts shall have only the approved standard terms and conditions and be identical except as to identities of supplier and purchaser, quantity of services purchased, the purchase price(s), and term of contract. All such contracts shall terminate no later than December 31, 2007.

7.1 .c Rate Freeze. The Company's MPSC-jurisdictional base rates for service will be frozen at the levels in effect at January 1, 1998. The rate freeze will become effective immediately and remain in effect until all Edison's stranded costs have been collected.

7.1 .d Accounting Order to Use Excess Earnings to Mitigate Strandedness. Each utility will use any after-tax earnings above its most recent Commission-approved rate of return on common equity, computed on its MPSC-jurisdictional retail electric business, to mitigate its strandedness. The calculation of the amount of after-tax earnings in excess of the Company's most recent Commission-approved rate of return on common equity will be subject to audit by the Commission and will be approved by the Commission in the annual stranded cost true-up proceedings.

True-Up Methodology

7.2.a Introduction to True-Up Methodology. The following methodology adjusts the Transition Charge by incorporating a true-up for: 1) actual Market Price (as determined from the standard contracts); 2) actual Retail Access Service load; 3) actual total system sales; 4) bidding; and 5) actual Implementation and Employee Retraining Costs as approved by the Commission. True-up filings will be made by March 31 of each year from 1999 through

2007. Each year the true-up will determine remaining stranded costs. The remaining stranded costs and forecast Retail Access Service load will be used **in the calculation of the Transition Charge.**

During each true-up proceeding stranded costs will be revised and approved by the Commission. Remaining stranded costs for the purpose of calculating the Transition Charge will be the sum of the remaining 1) nuclear asset stranded costs; 2) regulatory asset stranded costs; and 3) stranded costs associated with purchased power agreements with Non-PA2 Qualifying Facilities.

7.2.b Nuclear Asset Stranded Cost and Regulatory Asset Stranded Cost. As of the end of each calendar year, stranded costs related to Nuclear and Regulatory Assets will equal the remaining nuclear plant net book balances plus remaining generation-related regulatory assets. Nuclear plant net book balances will be adjusted each year by the currently approved annual depreciation and other authorized expenses, as **well as any applicable "Rate Freeze Contribution."** Regulatory assets will be adjusted by the currently approved rate recovery and other authorized expenses, as well as any applicable "Rate Freeze Contribution." Neither nuclear plant net book balances nor regulatory assets will be adjusted in any way as a result of changes in actual Market Prices or actual sales volumes.

7.2.c Purchased Power Agreements with Qualifying Facilities Not Covered Under 1989 PA2. Total stranded costs related to power purchase agreements (PPAs) with Qualifying Facilities not covered under 1989 PA2 (Non-PA2 QF PPAs) equal the sum of above-market Non-PA2 QF PPA costs incurred from the date Retail Access Service commences to the date of reconciliation and estimated future above market (Non-PA2 PPA) costs through 2007. The total stranded costs related to Non-PA2 QF PPAs will be included in the stranded costs used to calculate the Transition Charge.

Estimated annual above market costs for Non-PA2 QF PPAs will be calculated as: the Retail Access Service load share (based on forecast sales) of the difference between (a) estimated total contract cost and (b) the estimated Market Price multiplied by estimated Non-PA2 QF PPA contract output. Actual annual above-market costs for Non-PA2 QF PPA's will be calculated as the Retail Access Service load share (based on actual sales) of the difference between (a) actual total contract costs and (b) the actual Market Price multiplied by actual Non-PA2 QF PPA contract output.

Total stranded costs related to Non-PA2 QF PPAs will be reduced by any "Rate Freeze Contribution" that is allocated for its recovery.

7.2.d Rate Freeze Contribution. If the Commission agrees to freeze the Company's jurisdictional base rates at the levels in effect on January 1, 1998, Edison agrees to use any after-tax return on equity in excess of its most recent Commission-approved rate of return on common equity to reduce its stranded costs. With a rate freeze, any return on common equity realized in excess of the Company's most recent Commission-approved rate, as audited by the Commission Staff and approved by the Commission, will be used to accelerate amortization of stranded costs.

7.3 Calculation of the Transition Charge. At the end of each calendar year, the Company will determine the remaining before-tax stranded costs (exclusive of the PA2 stranded costs), subject to an audit performed by the Commission. The revised before-tax stranded cost figure will then be allocated over the remaining estimated sales through the year 2007. This calculation will determine the necessary levelized Transition Charge to recover the before-tax stranded costs, as verified by the Commission, on a net present value basis using a discount rate equivalent to the Company's cost of capital. During the bidding years between 1998

and 2001, the Transition Charge will be adjusted annually; however, Eligible Power Suppliers will be required to pay only their bid price until 2002.

Transition Charge revenues received by the Company as a contribution towards stranded costs will be included in the calculation of return on common equity. If bidding or Transition Charge revenue results in a return on common equity greater than its most recent Commission-approved rate of return on common equity, the net benefit will be used to reduce the Company's stranded costs.

7.4 Separate Surcharge for Stranded Costs Associated with Purchased Power Agreements with Resource Recovery Facilities Covered under 1989 PA2. Stranded costs associated with power purchase agreements with Resource Recovery Facilities covered under 1989 PA2 (PA2s) will be collected through a separate surcharge paid by Customers taking Retail Access Service for the duration of the PA2 contracts' terms.

7.4.a PA2 Stranded Cost Calculation. At the end of each year, actual stranded costs related to PA2 power purchase agreements will be calculated. Stranded costs related to PA2 power purchase agreements equal the Retail Access Service load share (based on actual sales) of the difference between (a) actual total contract costs and (b) the product of the actual Market Price and actual PA2 output purchased. The Company's determination of the actual annual PA2 stranded costs for the previous year will be subject to an audit performed by the Commission. Stranded costs associated with PA2's will be used to determine the PA2 Surcharge and will not be included in the stranded costs used to determine the Transition Charge. The PA2 Surcharge for 1998 has been set based upon the Commission's estimate of Market Price (\$0.029/kWh), the contract prices paid, and the quantities of PA2 power purchased during the most recent twelve-month period.

7.4.b Calculation of PA2 Surcharge. The calculation of the PA2 Surcharge and the reconciliation of PA2 stranded costs will follow processes similar to those specified for the PSCR clause. The PA2 Surcharge will be calculated by dividing the next year's forecast stranded costs associated with PA2s by the next year's forecast Retail Access Service sales. The true-up of the PA2 Surcharge will compare actual stranded costs (as determined using the actual Market Price and actual Retail Access Service and total system sales) with actual PA2 Surcharge collection. Any over- or under-recovery from the previous year will be used to adjust the PA2 Surcharge for the current year. The Commission will provide notice and an opportunity for a hearing on an expedited basis prior to final approval of the PA2 Surcharge. The PA2 Surcharge for the current year will be implemented by the Company until replaced by a new PA2 Surcharge authorized by the Commission.

Implementation Costs and Employee Retraining Costs

7.5.a Implementation Costs and Employee Retraining Cost Proceedings. The prudence of planned Implementation and Employee Retraining Costs will be determined during a single proceeding. During the Plan proceeding, the Commission will pre-approve future Implementation and Employee Retraining activities and authorize a level of spending. Thereafter, annual proceedings will examine only the prudence of costs in excess of those previously authorized. The utility will have the burden of proof to support the prudence of any expenses incurred in excess of those previously authorized by the Commission. Initial Retail Access Service bidding will begin no sooner than 30 days after an initial Implementation and Employee Retraining Plan is approved.

7.5.b Recovery of Implementation Costs and Employee Retraining Costs. Implementation and Employee Retraining Costs will not be included in the revised stranded costs used to calculate the Transition Charge. Expenses related to Implementation and Employee Retraining

will be included in the calculation of the Company's return on common equity and will **reduce the amount of the "Rate Freeze Contribution"** available to reduce stranded costs. Neither Implementation Costs nor Employee Retraining Costs will be adjusted **in any way as a result of changes** in actual Market Prices or actual sales volumes.

7.6 . Determination of the Actual Market Price. The actual Market Price will equal the weighted average price actually paid under standard form contracts filed with the Commission during the transition period (19982007) for electricity delivered within the utility's traditional electric service area. The determination of Market Price will take place during the annual true-up proceedings. However, if a regional index becomes available, the determination of Market Price shall be based on the index.

8. METERING, BILLING AND PAYMENT

8.1 Metering. Load served under this Rate Schedule shall be separately metered by meters capable of measuring and recording kW demands (and kVAR demands if applicable) on a 30-minute integrated basis and measuring energy on a kWh basis. Metering equipment for Customers taking Retail Access Service shall be furnished, installed, read, maintained and owned by the Company. For High Voltage and Commercial Secondary Distribution Customers, the Company requires access to the Customer's telephone line for purposes of meter interrogation. If a Customer does not permit access to its telephone line, the Company shall obtain a telephone line for such purposes and the Customer shall pay the Company for all charges incurred in connection therewith. The Company reserves the right to require Residential Secondary Customers to comply with the above metering requirements, but, until further notice, the Company will waive the metering requirements set forth above for Residential Secondary Customers and will statistically derive hourly load profiles which will be used for the purpose of developing charges under the Company's Open Access Transmission Tariff and establishing Distribution Contract Capacity values for individual Customers.

8.2 Billing. The Company will bill the Customer for Retail Access Service.

8.3 Payment. The Customer shall pay the Company the amount billed on or before a due date which shall be 21 days following the date of mailing of the bill. A late payment charge of 2%, not compounded, of the unpaid balance, net of taxes, shall be added to any bill which is delinquent as defined by the Commission Rules.

9. POWER SUPPLIER REQUIREMENTS

9.1 Eligible Power Suppliers desiring to sell Power to Customers under the terms of this Retail Access Service must provide the Company with a valid Certificate of Convenience and Necessity issued by the Commission, a valid franchise authorizing the Eligible Power Supplier to conduct business in each community in which Power is to be delivered, and must enter into agreements satisfactory to the Company for:

- the payment of Transition Charges and other charges,
- the provision and exchange of Customer information associated with service under this rate schedule,
- **the** supply, scheduling and receipt of Power to be received by the Company from the Eligible Power Supplier for delivery to the Customer,

- the supply and scheduling of, and payment for, any backup capacity and energy to be provided by the Company, and
- transmission service as Designated Agent of the Customer under the Company's Open Access Transmission Tariff.

9.2 Real Power Losses. An Eligible Power Supplier is responsible for replacing losses associated with the delivery of power to the Customer's metered Point of Delivery. The amount of Power delivered by the Company on the Company's Distribution System to the Point of Delivery shall be adjusted using the following Real Power Loss Factors for distribution service:

	<u>1 st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
Secondary	10.88%	11.95%	12.01%	10.23%
13.2/kV	6.61%	7.13%	7.37%	6.31%
24/kV	1.86%	2.09%	2.34%	1.90%
120 kV and above	0.55%	0.57%	0.57%	0.55%

Eligible Power Suppliers must schedule and supply an amount of Power equal to its Customer's Load x [(1 + D%) x (1 + T%)] to account for losses on the Company's Transmission and Distribution System, where T% is the applicable loss factor contained in the Company's Open Access Transmission Tariff and D% is the applicable loss factor from the table above.

9.3 Reciprocity. The Company will not accept power from an Eligible Power Supplier that does not contractually agree to provide the Company with reciprocal access to retail consumers. A reasonable level of reciprocity between the Company and the prospective Eligible Power Supplier and its affiliates must be established.

Through December 31, 2001:

In-state and out-of-state utilities and utility affiliates must consent to open an identical amount of retail customer load to competition by the Company. Further the consent of out-of-state utilities and utility affiliates to this reciprocity requirement must be expressed as a provision of an enforceable contract. A municipal utility or a municipal power agency is required to provide reciprocity only for the type of service it provides and in an identical amount.

On and after January 1, 2002:

No Michigan-based electric utility shall be permitted to utilize the Company's system to make retail sales unless the utility wishing to make the sale provides comparable Retail Open Access Service to retail customers located within its service territory.

No generation supplier that provides retail distribution services, or that has an affiliate that provides retail distribution services, shall be permitted to utilize the Company's system to make retail sales unless the supplier or its affiliate provides comparable Retail Open Access Service. If the transaction involves an intermediary (such as a marketer or broker), the reciprocity obligation may be **satisfied** by either the regional

transmission/distribution affiliate of the intermediary or by the owner of the generation source or its regional transmission/distribution affiliate.

“Comparable” Retail Open Access Service is one which (i) provides for Retail Open Access Service in an amount of retail customer load equivalent to that provided by the Company, and (ii) specifies rates, terms, and conditions that are equivalent to those offered by the Company, and that have been approved by all applicable regulatory authorities for use in Retail Open Access Service transactions.

IO. OPTIONAL BACKUP SERVICE

10.1 Characteristics of Optional Backup Service

Eligible Power Suppliers may elect to contract for Optional Backup Service from the Company. Energy supply under Optional Backup Service is available to Eligible Power Suppliers whenever the Company is not interrupting **energy** supply to any of its wholesale or retail customers. Optional Backup Service provides a temporary alternative source of energy that may be available to the Eligible Power Supplier in the event that the Power to be supplied by the Eligible Power Supplier is not received by the Company or cannot be delivered to the Customer. Eligible Power Suppliers desiring to obtain Optional Backup Service must contract with the Company for the service in advance of utilizing the service. An Eligible Power Supplier may contract for the service for a period of up to two years. On and after January, 1, 1998, an Eligible Power Supplier may contract for the service for any period through December 31, 2000. Optional Backup Service will not be provided after December 31, 2000. An Eligible Power Supplier may terminate the service at the end of any billing period. If an Eligible Power Supplier elects to terminate Optional Backup Service or contracts for a period of less than two years, it can not obtain Optional Backup Service after termination or the expiration of such period. The Eligible Power Supplier may contract for a level of Backup Contract Capacity up to the sum of its Customer's Distribution Contract Capacities.

10.2 Charges for Optional Backup Service

Backup Reservation Charge: **\$2.00/kW/month** of Backup Contract Capacity

Backup Energy Charge: If the Company is the direct cause of a Customer's need for Optional Backup Service energy supply, the Backup Energy Charge shall be the lower of the Customer's cost of energy or the Company's Hourly Top Incremental Cost of Energy. The Backup Energy Charge for any other energy provided under Optional Backup Service arrangements shall be the higher of the Customer's cost of energy or the Company's corresponding Hourly Top Incremental Cost of Energy plus **\$0.01 /kWh**.

10.3 Backup Scheduling Requirements

The Eligible Power Supplier must contract with the Company for the scheduling and payment for Optional Backup Service. Requests for Optional Backup Service energy supply must state the reasons for such request (i.e., generation outage or transmission constraint) and identify the amount of backup energy and capacity (up to the Backup Contract Capacity) requested. Requests for Optional Backup Service energy (**for reasons other than** for transmission constraints in Michigan) are limited to ten occurrences per month and with a total duration of not more than 50 hours per month. Backup service in excess of these limits may be obtained by the Eligible Power Supplier from other providers. For pre-scheduled maintenance outages,

the 50 hour limitation may be waived by the Company. Backup energy supplied by the Company for maintenance outages must be scheduled 90 days in advance and will not be allowed to be scheduled during the months of June, July, August and September.

11. LIABILITY AND EXCLUSIONS

Liability of the Company and Exclusion of Consequential Damages

11.1 In no event will the Company or its suppliers be liable under any cause of action relating to the subject matter of this rate schedule, whether based on contract, warranty, tort (including negligence), strict liability, indemnity or otherwise for any incidental or consequential damages including but not limited to loss of use, interest charges, inability to operate full capacity, lost profits or claims of Customer's customers.

11.2 The Company's total liability to the Customer for all claims arising out of or related to service provided under this rate schedule, whether based on contract, warranty, tort (including negligence), strict liability, indemnity or otherwise shall not exceed the amount paid by the Customer to the Company for the Location involved during the month in which the claim arose.

11.3 THE EXPRESS WARRANTIES SET FORTH IN THIS AGREEMENT ARE EXCLUSIVE AND NO OTHER WARRANTIES OF ANY KIND WHETHER STATUTORY, ORAL, WRITTEN, EXPRESS OR IMPLIED, INCLUDING ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, SHALL APPLY.

11.4 The Company will not be liable to a Customer for damages caused by interruption of service, voltage or frequency variations, single phase supply to three phase lines, reversal of phase rotation, or carrier-current frequencies imposed by the Company for system operations or equipment control except such as result from the failure of the Company to exercise reasonable care and skill in furnishing the service. The Customer should install protective equipment if such occurrences might damage its apparatus.

12. OTHER PROVISIONS

All Points of Receipt for Power produced within the Company's retail service territory for delivery to Customers within that territory shall be considered as being points located on the Company's Transmission System.

Customers or Eligible Power Suppliers desiring to operate electric generation equipment connected in parallel with the Company's system must comply with the Company's Protective Relaying, Operating and Telemetering Guidelines for Independently Owned Generation and before operating such equipment must obtain certification, in writing, from the Company that the conditions outlined in the Guidelines have been met.

Customer equipment must be operated so that voltage flicker and harmonics on the distribution system of the Company shall not exceed permissible limits established by the Company. Failure to comply with this requirement may result in discontinuance of service to the Customer and disconnection of Customer's Load from the Company's system.

The Company's Rules and Regulations as currently in effect are incorporated by reference into this Rate Schedule to the extent applicable and, Rule C-2.2(2) notwithstanding, only to the extent not inconsistent with the terms of this Rate Schedule.