

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter, on the Commission's own motion,)
to consider the restructuring of the electric) Case No. U-11290
utility industry.)
_____)

In the matter of the application of)
THE DETROIT EDISON COMPANY for)
authority to suspend implementation of its power) Case No. U-11449
supply cost recovery clause and related relief.)
_____)

In the matter of the request of)
CONSUMERS ENERGY COMPANY)
for approval of a retail open access tariff.) Case No. U-11451
_____)

In the matter of the request of)
THE DETROIT EDISON COMPANY) Case No. U-11452
for approval of a direct access tariff.)
_____)

In the matter of the request of)
CONSUMERS ENERGY COMPANY) Case No. U-11453
for authority to suspend its power supply)
cost recovery clause and related relief.)
_____)

STAFF REPORT ON BID CYCLE ONE

OCTOBER 20, 1999

OPEN ACCESS BIDDING REPORT:
RESULTS AND RECOMMENDATIONS FROM THE FIRST BID CYCLE

MICHIGAN PUBLIC SERVICE COMMISSION STAFF

OCTOBER 20, 1999

INTRODUCTION

The Michigan Public Service Commission in its March 8, 1999 electric restructuring orders (Case Nos., U-11290, et al.) for Detroit Edison and Consumers Energy directed Staff to conduct a review of various aspects of the Commission's open access program and file a report within 30 days of the deadline for the submission of bids for the initial bid cycle. The following review, presenting results and recommendations of the first bid cycle, is in response to this request. Concerning this assessment of bid cycle one, it should be noted that results are of a preliminary nature and should be interpreted with caution. Given the freshness of the data and embryonic stage of the Michigan open access program, our understanding and assessment of results from the first phase of bidding are of a "first blush" nature. Experience gained through future bid cycles should help to significantly clarify and sharpen our ability to evaluate the program.

BID PROCESS

The bid procedure was completed on schedule and in accordance with the prescribed plans. An independent bid administrator was selected to administer the auction and tabulate the results. Workshops led by the bid administrator were separately conducted for both companies to educate and inform prospective bidders about participation in the Michigan open access program. The sessions were well attended and, based on the number of bids received and the fact that only two bids were rejected for failure to follow proper procedures, the pre bid preparation and educational efforts were valuable.

All bids were required to be submitted in sealed envelopes by the bid deadline of 5:00 p.m. on September 20, 1999. Bids submitted were then opened the following day, September 21, 1999, at 10:00 a.m. Staff was present at the opening of the sealed bids and observed the posting of the results. The entire procedure was conducted in a most professional manner and in strict conformance with preestablished procedures.

BID RESULTS

In total, 209 bids were submitted from 57 separate bidders, representing seven states. Participating states included Michigan, Ohio, Wisconsin, Pennsylvania, New Jersey, Georgia and Arizona. Only two of the 209 bids received were faulty, thus necessitating rejection. Broken

down by company, Detroit Edison received 119 bids from 31 separate bidders, Consumers Energy received 90 bids from 26 bidders.

Bids were submitted for a total of 1123.7 MW of capacity, 668.5 MW for Detroit Edison, 455.2 MW for Consumers Energy. Most of the bids, 1110.2 MW, were submitted for the primary/large class. The remaining 13.5 MW were for the residential and small commercial class. This does not come as a surprise. Experience from other states reveals that larger customers are first to exercise choice when the opportunity is provided. They are typically more knowledgeable about purchasing alternatives and are generally more price sensitive. Smaller customers tend to be slower in responding to alternative purchasing options. Time is needed for them to become informed and to aggregate their load into blocks of sufficient size to capture price and service benefits. Although progress of smaller customer participation is not cause for alarm at this time, it is an issue that bears watching.

Bid prices ranged from \$.010002 to \$.000002 per kWh. Weighted average prices for winning bids were \$.006822 per kWh for Detroit Edison and \$.004855 per kWh for Consumers Energy. A detailed summary of the bid results is presented in the appendix of this report.

RECOMMENDATIONS

No major changes to the bid process are recommended at this time. The initial bid cycle, based on the empirical results tabulated in this review, appears to have successfully encouraged adequate bid participation, with full subscription of the capacity allocation in the first bid cycle expected. The bid process was conducted in a professional manner according the prescribed plans and seems to have met expectations as to proper and impartial treatment of bidders. Of particular significance in this regard, no complaints were registered with Staff concerning conduct of the bid procedure.

Staff's recommendation to stay the course also includes continuing the waiver of the minimum bid price requirement. The average bid prices suggest that this may be necessary to encourage adequate participation, especially for residential and small commercial customers. With the average winning bid price below the established minimum level of \$.005 per kWh for Consumers Energy and only slightly above the minimum for Detroit Edison, Staff is concerned that reinstating the minimum bid price could hinder meeting bid allocation amounts for both companies in the next bid cycle. The possibility of under subscription is a concern based upon the results of the first bid cycle. If in fact the next round of bidding turns out to be more robust, Staff anticipates this will be reflected in higher winning bid prices, with no reduction to stranded cost recovery caused by waiver of the minimum bid price requirement.

Results from the first bid cycle suggest that bid deposit requirements at current price levels did not have a significantly adverse impact on bid participation. Further supporting this conclusion is the fact that Staff has not received any complaints from prospective bidders on this matter. This suggests that bid participation was not significantly restricted because of bid

deposits.

Although no major changes are suggested at this time, Staff does believe some clarifications to the process would be helpful. Clarification concerning voluntary bid forfeiture is recommended. As Staff understands the procedure, a winning bidder who submits multiple bids and voluntarily elects to forfeit capacity must do so by surrendering the lowest bid first, proceeding up to the highest bid last. It is not clear from the results of the first bid cycle that all bidders understood that this was the procedure to be followed. Both companies should explicitly articulate this process in their bid procedure manuals and attempt to inform bidders about the procedure prior to the next bid cycle.

The open access program requirements prohibit utilities and their affiliates from direct participation if the utility does not offer comparable open access in its service territory. An important question raised by the bidding procedure is at what point in the process does screening of a utility or one of its affiliates not offering open access take place. Staff suggests the earlier such a decision is made the better and recommends that it occur at the time bidding is conducted. As proposed by Staff, bids from non-qualifying utilities and their affiliates would not be accepted. This would avoid confusion that could result if parties who are not qualified participants at first appear to be awarded capacity in the program and are subsequently disqualified.

APPENDIX

Detroit Edison & Consumers Energy
 Bid Data - Cycle 1
 21-Sep-99

	Detroit Edison	Consumers Energy	Total
Number of bidders	31	26	57
Number of bidders - Class			
Residential Only	1	1	2
Residential / Small Secondary	3	3	6
Primary / Large	27	22	49
Number of bids received	119	90	209
Number of bids received - Class			
Residential Only	1	1	2
Residential / Small Secondary	5	5	10
Primary / Large	113	84	197
Number of bids accepted	117	90	207
Number of bids accepted - Class			
Residential Only	1	1	2
Residential / Small Secondary	5	5	10
Primary / Large	111	84	195
Number of bids rejected	2	0	2
Number of bids rejected - Class			
Residential Only	0	0	0
Residential / Small Secondary	0	0	0
Primary / Large	2	0	2
Number of bids received from affiliates in home territory	27	0	27
Number of bids received from affiliates in home territory - Class			
Residential Only	0	0	0
Residential / Small Secondary	1	0	1
Primary / Large	26	0	26
MW Bid for in total	668.5	455.2	1123.7
MW Bid for in total - Class			
Residential Only	1	1	2
Residential / Small Secondary	6.5	5	11.5
Primary / Large	661	449.2	1110.2

MW Bid for in total - Accepted	654.7	455.2	1109.9
MW Bid for in total - Accepted			
Residential Only	1	1	2
Residential / Small Secondary	6.5	5	11.5
Primary / Large	647.2	449.2	1096.4
MW Bid for in total - Rejected	13.8	0	13.8
MW Bid for in total - Rejected			
Residential Only	0	0	0
Residential / Small Secondary	0	0	0
Primary / Large	13.8	0	13.8
Price Range - High - ALL BIDS & ACCEPTED BIDS	0.010002	0.00851	
Price Range - Low - ALL BIDS & ACCEPTED BIDS	0.000002	0.000002	
Price Range - High - Class (SAME AS ACCEPTED BIDS)			
Residential Only	0.00205	0.00115	
Residential / Small Secondary	0.003	0.002	
Primary / Large	0.010002	0.00851	
Price Range - Low - Class (SAME AS ACCEPTED BIDS)			
Residential Only	0.00205	0.00115	
Residential / Small Secondary	0.000002	0.000002	
Primary / Large	0.000002	0.000002	
Price Range - High - Winning Bids	0.010002	0.00851	
Price Range - Low - Winning Bids	0.000002	0.00115	
Price Range - High - Winning Bids			
Residential Only	0.00205	0.00115	
Residential / Small Secondary	0.003	0.002	
Primary / Large	0.010002	0.00851	
Price Range - Low - Winning Bids			
Residential Only	0.00205	0.00115	
Residential / Small Secondary	0.000002	0.000002	
Primary / Large	0.00535	0.00341	
Average Bid Price	0.004936	0.003264	
Average Bid Price - Class			
Residential Only	0.00205	0.00115	
Residential / Small Secondary	0.00171	0.001202	
Primary / Large	0.005104	0.003049	
Average Bid Price - Winning Bids	0.00662	0.004708	
Average Bid Price - Winning Bids			
Residential Only	0.00205	0.00115	
Residential / Small Secondary	0.001851	0.001171	
Primary / Large	0.006837	0.005204	

Capacity won by affiliate in home territory	20.2	0	20.2
Capacity won by affiliate in home territory - Class			
Residential Only	0	0	0
Residential / Small Secondary	1	0	1
Primary / Large	19.2	0	19.2
States bids came from	7	5	
	MI	MI	
	OH	OH	
	NJ	WI	
	AZ	PA	
	WI	GA	
	PA		
	GA		
States who awarded bids	4	3	
	MI	MI	
	OH	OH	
	NJ	WI	
	AZ		
Weighted Average Bid Price	0.004332	0.003058	
Weighted Average Bid Price - Class			
Residential Only	0.00205	0.00115	
Residential / Small Secondary	0.001777	0.001202	
Primary / Large	0.00436	0.003083	
Weighted Average Bid Price - Winning Bids	0.006822	0.004855	
Weighted Average Bid Price - Winning Bids			
Residential Only	0.00205	0.00115	
Residential / Small Secondary	0.002015	0.001171	
Primary / Large	0.006775	0.004957	

Winning Bids - Class

Residential Only	0.00205	0.00115
Residential / Small Secondary	0.003	0.002
Residential / Small Secondary	0.00255	0.00151
Residential / Small Secondary	0.000002	0.000002
Primary / Large	0.010002	0.008510
Primary / Large	0.009510	0.008100
Primary / Large	0.009100	0.008000
Primary / Large	0.009002	0.008000
Primary / Large	0.008519	0.006990
Primary / Large	0.008510	0.006571
Primary / Large	0.008119	0.006551
Primary / Large	0.008100	0.006521
Primary / Large	0.008012	0.005702
Primary / Large	0.008000	0.005510
Primary / Large	0.008000	0.005502
Primary / Large	0.008000	0.005326
Primary / Large	0.008000	0.005100
Primary / Large	0.008000	0.005002
Primary / Large	0.007519	0.004502
Primary / Large	0.007512	0.004500
Primary / Large	0.007510	0.004202
Primary / Large	0.007119	0.004110
Primary / Large	0.007100	0.004100
Primary / Large	0.007008	0.004010
Primary / Large	0.007002	0.004002
Primary / Large	0.007000	0.004000
Primary / Large	0.007000	0.003652
Primary / Large	0.006519	0.003600
Primary / Large	0.006510	0.003552
Primary / Large	0.006250	0.003510
Primary / Large	0.006250	0.003452
Primary / Large	0.006200	0.003410
Primary / Large	0.006119	
Primary / Large	0.006110	
Primary / Large	0.006100	
Primary / Large	0.006002	
Primary / Large	0.006000	
Primary / Large	0.006000	
Primary / Large	0.006000	
Primary / Large	0.005900	
Primary / Large	0.005850	
Primary / Large	0.005820	
Primary / Large	0.005800	
Primary / Large	0.005717	
Primary / Large	0.005600	
Primary / Large	0.005600	
Primary / Large	0.005519	
Primary / Large	0.005510	
Primary / Large	0.005510	
Primary / Large	0.005500	
Primary / Large	0.005500	
Primary / Large	0.005500	
Primary / Large	0.005500	
Primary / Large	0.005489	
Primary / Large	0.005350	