

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)
CONSUMERS ENERGY COMPANY)
for certain ratemaking approvals in connection) Case No. U-11941
with the MCV power purchase agreement auction)
process.)
_____)

At the March 22, 1999 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

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

ORDER REQUESTING COMMENTS

On March 19, 1999, Consumers Energy Company (Consumers) filed an application requesting various ratemaking and accounting approvals relating to the utility's proposed power purchase agreement with PECO Energy Company (PECO), dated March 5, 1999. Consumers proposes to resell electricity purchased from the Midland Cogeneration Venture Limited Partnership (MCV) to PECO. The amount of capacity subject to the agreement would be 100 megawatts (MW) in 1999, 125 MW in 2000, 150 MW in 2001, and 1240 MW from 2002 through September 15, 2007. The agreement provides that Consumers will pay PECO a contract residual cost of \$22,975,000 per month beginning in 2002, with proportionately lower amounts before then. Consumers indicates that the agreement will result in a reduction of stranded cost of approximately \$58 million on a net present value basis, with the potential for increasing to approximately \$70 million.

With respect to this transaction, Consumers requests that the Commission issue an order that does the following: (1) Confirms that Consumers' calculations of stranded cost and related charges are accurate and conform with prior Commission orders; (2) Provides assurance for accounting and ratemaking purposes that the contract residual cost will be included in any future revenue requirement calculations adopted by the Commission to establish Consumers' electric rates; (3) Approves rates that will allow full recovery of the retail open access customers' share of the contract residual cost payments; and (4) Confirms Consumers' understanding of the stranded cost true-up procedure, as explained in the application. Consumers requests that its application be approved on an ex parte basis.

Consumers indicates that the financial terms of the PECO agreement are dependent upon the effective date. If the effective date is after May 1, 1999, the financial terms become slightly less favorable.

In light of the unusual nature of Consumers' request and the extremely short time frame available to obtain the most favorable financial terms under the agreement, the Commission is requesting comments on the following:

1. Can Consumers' request be granted ex parte?
2. Is Consumers' representation of the impact on stranded cost accurate? How is the reduction in stranded cost under the proposed agreement affected by changes in the estimated market price of power or by the number of customers who choose to receive power from an alternative supplier?¹ What would be the expected stranded cost, with and without the agreement, based on the current projections for market price of power and customer migration level?

¹The initial stranded cost estimate was based on a market price of 2.9¢ per kilowatt-hour (kWh) and 100% customer migration in 2002. The Commission is interested in obtaining data based on other relevant market prices (such as 2.5, 3.0, or 3.5¢/kWh) and other customer migration levels (such as 10%, 25%, 50%, 75%, or 90%).

3. How will the agreement affect the ability of Consumers to meet its summer capacity needs during the period between now and 2007? What impact will there be after 2007?
4. How would the agreement and its relevant impacts be affected if the Michigan Supreme Court were to rule that the retail open access program approved by the Commission cannot proceed? How will Consumers proceed with the Commission-ordered restructuring program if the Supreme Court rules against the Commission or in favor of the Commission?
5. Was the solicitation process adequate to be relied upon as a basis for determining stranded cost?
6. How will the agreement affect retail open access and the development of a competitive electric market in Michigan?
7. Are there other relevant matters that should be considered?

Because of the short time period for consideration, the Commission is requesting that comments on these matters from any interested party, including Consumers, be filed by April 12, 1999.

The Commission FINDS that:

- a. Jurisdiction is pursuant to 1909 PA 106, as amended, MCL 460.551 et seq.; MSA 22.151 et seq.; 1919 PA 419, as amended, MCL 460.51 et seq.; MSA 22.1 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq.; MSA 22.13(1) et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; MSA 3.560(101) et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1992 AACCS, R 460.17101 et seq.
- b. Comments on Consumers' request should be filed by April 12, 1999.

THEREFORE, IT IS ORDERED that comments on the ratemaking and accounting treatment requested by Consumers Energy Company should be filed by April 12, 1999.

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

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ John G. Strand
Chairman

(S E A L)

/s/ David A. Svanda
Commissioner

By its action of March 22, 1999.

/s/ Dorothy Wideman
Its Executive Secretary

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Suggested Minute:

“Adopt and issue order dated March 22, 1999 requesting comments on the ratemaking and accounting treatment sought by Consumers Energy Company with respect to the auction of capacity from the Midland Cogeneration Venture Limited Partnership, as set forth in the order.”