

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)
ALGER DELTA COOPERATIVE ELECTRIC)
ASSOCIATION, CHERRYLAND ELECTRIC)
COOPERATIVE, CLOVERLAND ELECTRIC)
COOPERATIVE, GREAT LAKES ENERGY)
COOPERATIVE, HOMEWORKS TRI-COUNTY)
ELECTRIC COOPERATIVE, MIDWEST ENERGY)
COOPERATIVE, THE ONTONAGON COUNTY)
RURAL ELECTRIFICATION ASSOCIATION,)
PRESQUE ISLE ELECTRIC & GAS CO-OP, and)
THUMB ELECTRIC COOPERATIVE for authority)
to defer costs associated with the implementation)
and administration of electric customer choice.)
_____)

Case No. U-13160

At the January 22, 2002 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. Laura Chappelle, Chairman
Hon. David A. Svanda, Commissioner
Hon. Robert B. Nelson, Commissioner

OPINION AND ORDER

On October 24, 2001, Alger Delta Cooperative Electric Association (Alger Delta), Cherryland Electric Cooperative (Cherryland), Cloverland Electric Cooperative (Cloverland), Great Lakes Energy Cooperative (Great Lakes), HomeWorks Tri-County Electric Cooperative (HomeWorks), Midwest Energy Cooperative (Midwest), The Ontonagon County Rural Electrification Association (Ontonagon), Presque Isle Electric & Gas Co-op (Presque Isle), and Thumb Electric Cooperative (Thumb) filed an application seeking authority to defer costs associated with the implementation and administration of electric customer choice in their respective service territories, as required by

2000 PA 141 (Act 141), which amended MCL 460.1 et seq. By letter dated November 21, 2001, the cooperatives clarified that the administrative costs they seek to defer are related to unbundling.

Section 10a(5) of Act 141, MCL 460.10a(5), requires each electric utility that has not had a voluntary commitment to provide customer choice previously approved by the Commission to file a restructuring plan that will allow its customers to choose an alternative electric supplier (AES). In its June 19, 2000 order in Case No. U-12464, the Commission directed each cooperative with retail customers having a peak load of 1 megawatt (MW) or more to file, no later than October 2, 2000, a restructuring plan that permits any such customers to begin choosing an AES no later than January 1, 2002. That order further required any cooperative that does not currently have a retail customer with a peak load of 1 MW or more to file its plan within 30 days of commencing service to a customer with a peak load of 1 MW or more.

Pursuant to the Commission's June 19, 2000 order in Case No. U-12464, the following filings were made by the cooperatives:

<u>Cooperative</u>	<u>Case No.</u>
Cherryland	U-12658
Cloverland	U-12656
Great Lakes	U-12659
HomeWorks	U-12661
Midwest	U-12657
Presque Isle	U-12660

Alger Delta, Ontonagon, and Thumb did not submit specific filings in response to that order because they do not currently have any retail customers with peak loads of 1 MW or more. Nevertheless, they assert that they are preparing (as are the other cooperatives) to provide customer

choice for all retail customers with a peak load of 1 MW or more no later than January 1, 2002, and for all other retail customers no later than January 1, 2005.

The application notes that Act 141 requires the Commission to permit an electric utility to recover costs associated with implementing electric customer choice, including net stranded costs and implementation costs, as determined by the Commission. MCL 460.10a(1). Act 141 further requires the Commission to permit recovery of costs to implement and administer unbundling. MCL 460.10b(2). The cooperatives assert that they have incurred, and will continue to incur, significant costs in connection with these activities. They state that these costs primarily relate to the development of procedures, policies, methods, and electronic data interfaces, and include legal and consulting fees, costs related to other regulatory proceedings, computer hardware and software purchases, and other incremental costs caused by the legislative mandate to implement customer choice. They further state that the total of these costs is not yet known and will relate to more than one accounting period. The cooperatives therefore request Commission authorization to defer and amortize these costs.

The cooperatives propose to account for all implementation and administration costs following issuance of the June 19, 2000 order in Case No. U-12464 by debiting Account 186, miscellaneous deferred debits. According to the cooperatives, future costs will to be added to the account balance as they are incurred. They also assert that deferred accounting treatment is appropriate and a just and reasonable method to permit them an opportunity to recover these costs. In support of that assertion, they argue that granting the requested accounting treatment will (1) promote competition, (2) allow for the deferral of costs, the magnitude of which will be determined in the future with greater certainty, and (3) better allocate the costs to customers over a longer period of time, which will moderate the effect on rates. They conclude by noting that the Commission has

recently granted similar treatment to Consumers Energy Company, The Detroit Edison Company (Detroit Edison), Wisconsin Public Service Corporation, Upper Peninsula Power Company, Northern States Power Company–Wisconsin, d/b/a Xcel Energy, Wisconsin Electric Power Company, and Edison Sault Electric Company. Therefore, they claim, granting the requested relief will result in uniform treatment among utilities.

The cooperatives further request authority to accrue carrying charges on the unamortized balance at a rate equal to their respective, Commission-approved weighted average costs of capital. They propose that the amortization period be established in the next general rate case or other proceeding providing for recovery of the deferred amount.

The Commission finds that it should grant the cooperatives' request for authority to use deferral accounting for their implementation and administration costs related to electric customer choice and unbundling. As the application notes, granting the request does not guarantee recovery of these costs. Before the deferred costs may be included in rates, the cooperatives must request recovery in an appropriate case. At that time, the recorded costs will be subject to review to ensure that they are reasonable and prudent. Effectiveness is one measure of reasonableness. In the Commission's October 24, 2000 order in Cases Nos. U-11955 and U-11956 (the October 24 order), it stated:

[S]imply incurring costs to implement Michigan's retail open access program is not a sufficient justification for their recovery. Expenditures associated with the implementation of the retail open access programs must produce results. Procedures, policies, methods, or electronic data interfaces that prove to be ineffective, inefficient, or unworkable may not entitle the company to recover the costs of those systems.

October 24 order, p. 5. This standard is also applicable to the deferred costs of the cooperatives.

As to the parties' request to accrue carrying costs, the Commission finds that carrying costs should be accrued at a borrowing rate rather than a company's weighted average cost of capital. In

the October 24 order, the Commission took the same position when it rejected a similar request by Detroit Edison. The Commission found in that case that a 7% rate should be used rather than Detroit Edison's overall cost of capital. The Commission finds that the cooperatives should likewise be authorized to accrue carrying charges at 7% of the unamortized balance.

The Commission FINDS that:

- a. Jurisdiction is pursuant to 1909 PA 106, as amended, MCL 460.551 et seq.; 1919 PA 419, as amended, MCL 460.51 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1992 AACS, R 460.17101 et seq.
- b. The request of the cooperatives for authority to use deferral accounting for the implementation costs associated with customer choice and the implementation and administration costs associated with unbundling should be approved, subject to the conditions stated in this order.
- c. The cooperatives should be authorized to accrue carrying charges at 7% of the unamortized balance.

THEREFORE, IT IS ORDERED that:

A. Alger Delta Cooperative Electric Association, Cherryland Electric Cooperative, Cloverland Electric Cooperative, Great Lakes Energy Cooperative, HomeWorks Tri-County Electric Cooperative, Midwest Energy Cooperative, The Ontonagon County Rural Electrification Association, Presque Isle Electric & Gas Co-Op, and Thumb Electric Cooperative are authorized to use deferral accounting for the implementation costs associated with customer choice and the implementation and administration costs associated with unbundling, in the form and subject to the conditions stated in this order.

B. The cooperatives are authorized to accrue carrying charges at 7% of the unamortized balance.

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

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

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ Laura Chappelle
Chairman

(S E A L)

/s/ David A. Svanda
Commissioner

/s/ Robert B. Nelson
Commissioner

By its action of January 22, 2002.

/s/ Dorothy Wideman
Its Executive Secretary

B. The cooperatives are authorized to accrue carrying charges at 7% of the unamortized balance.

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

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

MICHIGAN PUBLIC SERVICE COMMISSION

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By its action of January 22, 2002.

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Case No. U-13160

Suggested Minute:

“Adopt and issue order dated January 22, 2002 granting the request by nine cooperatives for authority to use deferral accounting for costs associated with the implementation of electric customer choice and the implementation and administration of unbundling, as set forth in the order.”