

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)	
THE DETROIT EDISON COMPANY to increase)	
rates, amend its rate schedules governing the)	
distribution and supply of electric energy, implement)	Case No. U-13808
power supply cost recovery plans, factors, and)	
reconciliations in its rate schedules for jurisdictional)	
sales of electricity, and for miscellaneous accounting)	
authority and regulatory asset recovery.)	

_____)	
In the matter of the application of the ASSOCIATION)	
OF BUSINESSES ADVOCATING TARIFF EQUITY)	Case No. U-14522
to rescind, alter, or amend the Commission order)	
issued in Case No. U-13808 on November 23, 2004.)	

_____)	
In the matter, on the Commission's own motion,)	
ordering THE DETROIT EDISON COMPANY to)	
show cause why its retail rates for the sale and)	
distribution of electric energy should not be)	Case No. U-14838
decreased.)	

At the March 23, 2006 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. J. Peter Lark, Chairman
Hon. Laura Chappelle, Commissioner
Hon. Monica Martinez, Commissioner

ORDER TO SHOW CAUSE AND NOTICE OF HEARING

Today, on its own motion, the Commission commences a proceeding in Case No. U-14838 to order The Detroit Edison Company (Detroit Edison) to show cause why its retail electric rates should not be reduced.

Detroit Edison's rates were last comprehensively reviewed and determined by the Commission in its November 23, 2004 order in Case No. U-13808 (the November 23 order), which approved a rate increase in the annual amount of \$335,812,000. Thereafter, on April 29, 2005, Energy Michigan filed a petition for rescission or alteration of rates. Energy Michigan argued that the Commission had relied on incorrect assumptions regarding the level of electric choice sales on the Detroit Edison system and the amount of revenue received by Detroit Edison associated with sales of power not required because retail customer load had migrated to electric choice. According to Energy Michigan, data supplied in April 2005 by Detroit Edison in Case U-14414 demonstrates that participation in the electric choice program was declining, which could result in collection by Detroit Edison of \$91.5 million per year of excess revenue related to non-existent stranded costs. Additionally, Energy Michigan asserted that data submitted by Detroit Edison in Case U-14474 and reported to the Commission demonstrates that Detroit Edison's actual 2004 net receipts from wholesale sales of excess power were over \$127 million in 2004. Energy Michigan maintained that had this level of wholesale revenue been reflected in revisions to Detroit Edison's power supply costs, a significant portion of Detroit Edison's stranded costs for the period January 1, 2002 through February 20, 2004 would have been eliminated.

On May 5, 2005, the Association of Businesses Advocating Tariff Equity (ABATE) filed an application in Case No. U-14522 to rescind, alter, or amend the November 23 order. ABATE argued that the choice sales forecast adopted by the Commission in the November 23 order was clearly wrong and led to choice customers being overcharged for stranded costs and bundled customers paying higher than warranted rates to Detroit Edison. ABATE asserted that Detroit Edison is receiving a windfall because its rates are based on a forecast that assumed far less bundled sales than are actually occurring. At the very least, ABATE argues, the Commission

should, after notice and hearing, either rescind or sharply reduce the stranded cost charges now applicable to choice customers and reduce the bundled rates.

The concerns expressed by Energy Michigan and ABATE in April and May 2005 persist. In its February 2006 annual report to the Governor and the Legislature on the state of competition in the electric market, the Commission observed that, during 2005, the overall load served (as measured in megawatts) and the number of customers participating in the competitive electric choice market fell by approximately 20% in Detroit Edison's service territory. Likewise, the Commission reported that choice energy sales (as measured by megawatt-hours) decreased 26% in Detroit Edison's service territory.

Another significant concern regarding Detroit Edison's rates stems from reports that its parent, DTE Energy Company, is about to reduce its work force. DTE Energy has announced plans to cut up to 18% of its workforce over the next two years. Last week, Anthony F. Earley, Jr., DTE Energy's Chief Executive Officer, announced a plan to eliminate 1,000 to 1,200 union positions and 600 to 800 nonunion jobs. While determining the size of the utility's work force is an issue properly consigned to the utility's management, the Commission's regulatory responsibilities include ensuring that ratepayers are not overcharged for labor costs. The Commission set rates for Detroit Edison in the November 23 order based on the assumption that Detroit Edison would employ approximately 8,000 workers. Now, it appears that Detroit Edison may downsize its workforce by up to 18%, or 1,440 employees. The savings from this work force reduction could reach \$90 million per year.

Another matter of concern is the utility's current net operating income. In the November 23 order, the Commission set Detroit Edison's rates based on an after-tax income of \$516 million. Detroit Edison's after-tax net operating income has steadily been increasing and reached

\$560 million for the 2005 calendar year. Labor cost savings, declines in choice customer sales, and the effect of the end of the rate freeze for residential customers as of January 1, 2006, all are expected to contribute to a further increase in Detroit Edison's income and could well place the company into an over-earnings position during 2006. The rate increase for residential customers, which became effective January 1, 2006, has yet to produce significant effect on the company's earnings, but it will likely begin to do so in the near future.

The past year has been extraordinary with regard to rising energy costs. The Commission acted swiftly to ensure that the state's utilities were in position to recover rapidly rising energy costs from their ratepayers. Likewise, the Commission intends to ensure that ratepayers are not being required to pay rates that are no longer justified by current financial data, questionable sales projections, or outdated cost information.

The Commission intends to process this proceeding in an expeditious manner. Toward that end, a prehearing conference has been scheduled for April 25, 2006 at 9:00 a.m. at the Commission's Lansing offices. Detroit Edison shall mail, by April 18, 2006, a copy of the attached notice of hearing to all cities, incorporated villages, townships, and counties in its electric service area, and to all interveners in Case No. U-13808¹, its most recent general rate case proceeding. Proof of service shall be filed by the prehearing conference on April 25, 2006. Detroit Edison shall also cause the attached notice of hearing to be published by April 18, 2006 in daily newspapers of general circulation in its electric service area. Publishing requirements and a copy of the

¹The intervenors in Case No. U-13808 included Energy Michigan, ABATE, the National Energy Marketers Association, Constellation NewEnergy, The Kroger Co., Energy Conversions LLC, Mackinaw Power LLC, North American Wind Energy LLC, the Michigan Environmental Council and the Public Interest Research Group in Michigan, the Residential Ratepayer Consortium, Utility Workers Local 223, Pietro Zebri, Douglas Moore, Nordic Marketing LLC, Attorney General Michael A. Cox, and the Commission Staff (Staff).

publishing format are available from the Commission's Executive Secretary. Affidavits of publication shall be submitted at the prehearing conference on April 25, 2006.

Detroit Edison shall, by June 1, 2006, file testimony and exhibits showing cause why its retail electric rates should not be reduced and serve a copy of such testimony and exhibits upon each party that has been granted status as an intervenor. Detroit Edison shall base its June 1, 2006 filing on historical data from calendar year 2005, adjusted for known and measurable changes, to reflect the sales, costs, and financial conditions that are expected to occur by 2007. As part of its filing Detroit Edison is directed to provide a schedule that reconciles the company's historical 2005 revenues and expenses to its projected revenue and expenses clearly showing each known and measurable change to the historical test year revenue and expenses in a fashion similar to Attachment B to this order. Further, Detroit Edison is directed to file historical sales and customer billing determinants by rate schedule and to reconcile all known and measurable changes separately by rate schedule for all billing determinants to the historical levels. In addition, pro-forma revenues should be reconciled to the historical revenues. All traditional matters pertinent to rate case determinations, including the appropriate level of the company's authorized rate of return on common equity, will be reviewed in this proceeding, with the exception of the cost of service study methodology. For the purposes of this filing, the parties shall use the cost of service study methodology used in the Commission's December 22, 2005 order in Case No. U-14399.² Detroit Edison shall file proofs of service to those intervenors by June 30, 2006.

The Staff and the intervenors shall file their testimony and exhibits by August 23, 2006. All parties shall file rebuttal by September 7, 2006. Cross-examination of all witnesses shall begin

²The Commission notes that the Staff is working with, Detroit Edison, Consumers Energy Company, and other interested persons to develop a standardized cost of service study approach pursuant to the directive contained in the December 22, 2005 order in Case No. U-14399.

September 21, 2006. The administrative law judge (ALJ) assigned to this matter shall make every effort to conclude the cross-examination of all witnesses by October 4, 2006.

All parties shall file their initial briefs by October 30, 2006. Reply briefs shall be filed by November 13, 2006. A Proposal for Decision need not be prepared because the Commission intends to read the record to ensure that this matter will be expedited.³

Finally, given the commencement of this proceeding, the Commission finds that the challenges to the November 23 order filed by Energy Michigan and ABATE should be dismissed because this proceeding will afford those parties a more appropriate means to raise their concerns.

The Commission has selected this case for participation in its paperless docket program. All documents filed in this case shall be submitted electronically through the MPSC Electronic Case Filings Web site at: <https://efile.mpsc.cis.state.mi.us/cgi-bin/efile/login.pl>. Requirements and instructions for filing electronic documents can be found in the Electronic Case Filings Users Manual at: <http://efile.mpsc.cis.state.mi.us/efile/pdfs/usersmanual.pdf>. An application for account and letter of assurance, required of all first-time users, are located at: <http://efile.mpsc.cis.state.mi.us/efile/pdfs/assurance.pdf>. If you require assistance prior to e-filing, contact the Staff at 517-241-6170 or by e-mail at: mpscfilecases@michigan.gov.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1909 PA 300, as amended, MCL 462.2 *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, 1999 AC, R 460.17101 *et seq.*

³In recognition of the tightness of the schedule, the Commission grants to the ALJ some flexibility to make minor revisions to the schedule without the necessity to petition the Commission for authority to do so.

b. Based on the above-described concerns, Detroit Edison is likely to experience a revenue sufficiency in the near future and a decrease in its annual revenues may be warranted.

c. Detroit Edison should be ordered to mail, by April 18, 2006, a copy of the attached notice of hearing to all cities, incorporated villages, townships, and counties in its electric service area, and to all interveners in Case No. U-13808, its most recent general rate case proceeding.

d. Detroit Edison should be ordered to publish the attached notice of hearing by April 18, 2006 in daily newspapers of general circulation in its electric service area.

e. A prehearing conference should be scheduled to take place at 9:00 a.m. on April 25, 2006 at the Commission's Lansing offices.

f. Detroit Edison should be ordered to file testimony and exhibits regarding the reasonableness of its rates, to show cause by June 1, 2006 why its rates should not be reduced, and to serve that information on all intervenors in this proceeding.

THEREFORE, IT IS ORDERED that:

A. The Detroit Edison Company is ordered to show cause why its retail electric rates should not be reduced.

B. The Detroit Edison Company shall mail, by April 18, 2006, a copy of the attached notice of hearing to all cities, incorporated villages, townships, and counties in its electric service area, and to all interveners in Case No. U-13808, its most recent general rate case proceeding.

C. The Detroit Edison Company shall publish the attached notice of hearing by April 18, 2006 in daily newspapers of general circulation in its electric service area.

D. A prehearing conference has been scheduled to take place at 9:00 a.m. on April 25, 2006 at the Commission's Lansing offices.

F. The Detroit Edison Company is ordered to file testimony and exhibits regarding the reasonableness of its rates and to show cause by June 1, 2006 why its rates should not be reduced and to serve that information on all intervenors in this proceeding. The Detroit Edison Company shall base its June 1, 2006 filing on historical data from calendar year 2005, adjusted for known and measurable changes, to reflect the sales, costs, and financial conditions that are expected to occur by 2007. As part of its filing The Detroit Edison Company is directed to provide a schedule that reconciles the company's historical 2005 revenues and expenses to its projected revenue and expenses clearly showing each known and measurable change to the historical test year revenue and expenses in a fashion similar to Attachment B to this order. Further, The Detroit Edison Company is directed to file historical sales and customer billing determinants by rate schedule and to reconcile all known and measurable changes separately by rate schedule for all billing determinants to the historical levels. In addition, pro-forma revenues should be reconciled to the historical revenues. All traditional matters pertinent to rate case determinations, including the appropriate level of the company's authorized rate of return on common equity, will be reviewed in this proceeding, with the exception of the cost of service study methodology. For the purposes of this proceeding, the parties are directed to use cost of service study methodology used in the Commission's December 22, 2005 order in Case No. U-14399.

G. The petition for rescission or alteration of rates filed on April 29, 2005 in Case No. U-13808 by Energy Michigan and the application to rescind, alter, or amend the November 23, 2004 order in Case No. U-13808 filed by the Association of Businesses Advocating Tariff Equity on May 5, 2005 in Case No. U-14522 are dismissed.

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

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ J. Peter Lark

Chairman

(S E A L)

/s/ Laura Chappelle

Commissioner

/s/ Monica Martinez

Commissioner

By its action of March 23, 2006.

/s/ Mary Jo Kunkle

Its Executive Secretary

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

MICHIGAN PUBLIC SERVICE COMMISSION

Chairman

Commissioner

Commissioner

By its action of March 23, 2006.

Its Executive Secretary

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

NOTICE OF HEARING
FOR THE CUSTOMERS OF
THE DETROIT EDISON COMPANY
CASE NO. U-14838

- The Detroit Edison Company may experience a revenue sufficiency by 2007 and a decrease in its annual revenues may be warranted.
- The information below describes how a person may participate in this case.
- A public hearing in this matter will be held:

DATE: April 25, 2006
This will be a prehearing conference to review and determine procedural matters.

TIME: 9:00 a.m.

LOCATION: Michigan Public Service Commission
6545 Mercantile Way, Suite 7
Lansing, Michigan

PARTICIPATION: Any interested person may attend and participate. Persons with disabilities, needing help to effectively participate, should call the Commission's Executive Secretary at (517) 241-6160 a week in advance to request mobility, visual, hearing or other assistance.

The Michigan Public Service Commission (Commission) will hold a public hearing to determine if The Detroit Edison Company's (Detroit Edison) retail rates for the sale and distribution of electric energy should be reduced.

All documents filed in this case shall be submitted electronically through the Commission's Electronic Case Filings Web site at: <https://efile.mpsc.cis/state.mi.us/cgi-bin/efile/login.pl>.

Requirements and instructions for filing electronic documents can be found in the Electronic Case Filings Users Manual at: <http://efile.mpsc.cis.state.mi.us/efile/pdfs/usersmanual.pdf>.

An application for account and letter of assurance, required of all first-time users, are located at: <http://efile.mpsc.cis.state.mi.us/efile/pdfs/assurance.pdf>. If you require assistance prior to e-filing, contact Commission staff at 517-241-6170 or by e-mail at: mpscfilecases@michigan.gov.

Any person wishing to intervene and become a party to the case shall electronically file a petition to intervene with this Commission by April 21, 2006. (Customers unable to file electronically may file petitions to intervene using the traditional paper format.) The proof of service shall indicate service upon Detroit Edison's attorney, Richard P. Middleton, The Detroit Edison Company, 2000 Second Avenue, Detroit, Michigan 48226-1279.

Any person wishing to make a statement of position without becoming a party to a case may participate by filing an appearance. To file the appearance, the individual must attend the hearing and advise the presiding administrative law judge of his or her wish to make a statement of position.

A copy of the Commission's March 23, 2006 order may be reviewed on the Commission's Web site at <http://www.cis.state.mi.us/mpsc/orders/electric> and at the office of The Detroit Edison Company, 2000 Second Avenue, Detroit, Michigan. For more information on how to participate in a case, you may contact the Commission at (517) 241-6170.

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, 1999 AC, R 460.17101 et seq.

March 23, 2006
Lansing, Michigan

Attachment B

Case No.: U-13808
 Witness: Aldrich, W. G.
 Exhibit No.: S-_____(WGA-3)
 Schedule No.: C-1
 Date: March 5, 2004

The Detroit Edison Company
 Adjusted Net Operating Income
 For the Year Ended 12/31/04
 (000)

Line	Description (a)	Revenues	Expense								Adjusted NOI (k)	Source (l)
		Total (b)	Fuel & Purch. Pwr (c)	O&M (d)	Deprec. & Amort. (e)	Net Reg. Debit (f)	Other Taxes (g)	FIT (h)	Loss on Reacq. Sec. (i)	AFUDC (j)		
Historical Test Year												
1	Historical Operating Income	\$3,680,132	\$984,709	\$1,236,943	\$435,740	\$27,237	\$267,430	\$148,646	\$0	\$0	\$579,427	Co. Exh. A-5
2												
3	Revenue Adj.	(\$482,607)					(\$9,170)	(\$166,593)			(\$306,844)	Sch. C-2
4	Purchased Power Adj.		(\$78,384)				\$1,489	\$27,058			\$49,837	Sch. C-3
5	O&M Adj.			\$35,322			(\$671)	(\$12,193)			(\$22,458)	Sch. C-4
6	Depreciation Adj.				\$28,771		(\$547)	(\$9,931)			(\$18,293)	Sch. C-5
7	Control Premium			\$28,248			(\$537)	(\$9,751)			(\$17,960)	Sch. C-6
8	A&G Expense Capitalized			(\$28,935)			\$550	\$9,988			\$18,397	Sch. C-7
9	Income Tax Effect of Interest							\$143			(\$143)	Sch. C-8
10	Interest Synchronization							(\$1,420)			\$1,420	Sch. C-9
11	Eliminate SMC and LCC Discounts	\$40,601					\$771	\$14,015			\$25,814	Stojic
12	Double Payment Adjustment			(\$1,500)			\$29	\$518			\$954	Sims
13	Eliminate Effects of Regulatory Assets					(\$6,822)	(\$27,237)	\$647	\$11,757		\$21,655	Company
14	Other Taxes Adj.							\$4,707	(\$1,656)		(\$3,051)	Company
15	FIT Adj.								\$23,185		(\$23,185)	Company
16	Loss on Reacquired Securities								(\$612)	\$1,739	(\$1,127)	Company
17	AFUDC									\$577	\$577	Company
18	Disallowances			(\$420)				\$8	\$145		\$267	Company
19												
20	Staff Adjusted 2004 Operating Income	\$3,238,126	\$906,325	\$1,269,657	\$457,689	\$0	\$264,707	\$33,299	\$1,739	\$577	\$305,288	