

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)	
THE DETROIT EDISON COMPANY for)	
accounting approvals related to implementation)	Case No. U-14907
costs of its performance excellence process.)	
_____)	

In the matter of the application of)	
MICHIGAN CONSOLIDATED GAS COMPANY)	
for accounting approvals related to implementation)	Case No. U-14909
costs of its performance excellence process.)	
_____)	

At the September 12, 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 APPROVING SETTLEMENT AGREEMENT

On May 31, 2006, The Detroit Edison Company and Michigan Consolidated Gas Company (collectively, the companies) filed applications for accounting approvals related to implementation costs for their performance excellence process (PEP). A prehearing conference was held on July 27, 2006. The Commission Staff (Staff) also participated.

After the prehearing, the companies and the Staff began settlement negotiations. As a result, the companies and the Staff entered into an agreement in full settlement of both cases, for which they request Commission approval.

The settlement agreement, attached as Exhibit A, provides for deferral and amortization over a ten-year period of all incremental costs to implement the PEP. The reasonableness and prudence of actual PEP costs will be addressed in subsequent rate proceedings.

The Commission has reviewed the settlement agreement and finds that it is reasonable and in the public interest, and should be approved.

The Commission finds that:

a. Jurisdiction is pursuant to 1909 PA 106, as amended, MCL 460.551 *et seq.*; 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.*

b. The settlement agreement is reasonable and in the public interest, and should be approved.

THEREFORE, IT IS ORDERED that the settlement agreement, attached as Exhibit A, is approved.

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/ J. Peter Lark
Chairman

(S E A L)

/s/ Laura Chappelle
Commissioner

/s/ Monica Martinez
Commissioner

By its action of September 12, 2006.

/s/ Mary Jo Kunkle
Its Executive Secretary

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

Chairman

Commissioner

Commissioner

By its action of September 12, 2006.

Its Executive Secretary

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of The Detroit Edison Company for accounting approvals related to implementation costs of its Performance Excellence Process))))	Case No. U-14907
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In the matter of the application of Michigan Consolidated Gas Company for accounting approvals related to implementation costs of its Performance Excellence Process))))	Case No. U-14909
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SETTLEMENT AGREEMENT

On May 31, 2006, The Detroit Edison Company and Michigan Consolidated Gas Company (collectively the “Companies” or “Applicants”) filed applications for accounting approvals related to implementation costs of their performance excellence process. At a prehearing conference held on July 27, 2006, the MPSC Staff (“Staff”) was the only party admitted and the two cases listed above (U-14907 and U-14909) were consolidated.

Subsequent to the pre-hearing, Applicants and Staff began settlement negotiations. As a result of those negotiations Applicants and Staff have reached agreement on all issues before the Commission.

1. Applicants represent that in an effort to improve efficiencies and lower costs, while maintaining reliable customer services at reasonable rates, they began a comprehensive Performance Excellence Process (“PEP”) plan to address in part the near-term economic outlook for the State of Michigan and for the Companies. According to Applicants, the PEP plan focuses on company-wide cost savings and performance improvements, and represents a logical outgrowth of each Company’s need to address its role in Michigan’s economic future, and maintain continuous improvement efforts that began several years ago.

2. As part of the PEP plan Applicants filed Applications seeking certain accounting approvals from the Commission. In their Applications requesting Commission approval, Applicant's make the following representations:

- The PEP plan will be implemented over a two to three year period beginning in 2006 with preliminary estimates of approximately \$150 to \$175 million in potential annual steady state O&M savings for The Detroit Edison Company (Edison), and \$40 to 60 million in potential annual steady state O&M savings for Michigan Consolidated Gas Company (MichCon).
- The ultimate workforce impacts of the PEP program and the incremental costs that must be incurred to achieve the estimated savings intended from the PEP program ("Costs to Achieve" or "CTA") will not be known until the PEP process is complete.
- Incremental CTA that may be incurred during the PEP program will include, but not be limited to, consulting and project management expenses, costs associated with exiting employees, IT systems changes, and facilities costs. Costs related to employee reductions will include severance allowances and related payroll taxes, outplacement services, potential pension and other post-employment benefit ("OPEB") curtailment charges, as well as pension and OPEB special termination charges. Preliminary estimates by Applicants indicate that the incremental CTA necessary to attain the intended PEP efficiencies and savings will be in the range of approximately \$160 million to \$190 million for Edison and approximately \$55 million to \$60 million for MichCon.

- Based on these representations Applicants are requesting Commission authorization to defer, for accounting purposes in anticipation of future ratemaking treatment, the incremental CTA expenditures for Edison and MichCon associated with the PEP program.

3. In light of Applicant's representations and subsequent settlement discussions Staff and Applicants (collectively referred to as the "Parties") have agreed to a full settlement of all matters before the Commission in this case. Specifically the Parties agree as follows:

4. Applicants will defer the incremental CTA expenditures in Account 186, in the year in which the cost is recognized.¹ While the initial charges may be recorded to various expense accounts, Applicants will record the credit portion of the deferral entry to Account 930.2. A portion of the PEP CTA is expected to be recognized in 2006, while the remainder will be recognized in 2007 or later years.

5. Applicants may estimate some of the CTA expenses recognized in 2006 and record it at the present value (discounted amount) to reflect that the cash payment will occur in 2007 or 2008, as required under Generally Accepted Accounting Principles. Accretion expense will be recorded subsequent to the initial expense until the full amount of cash paid is recorded. In addition, Applicants will defer the initial charge, the subsequent accretion expense, and any adjustments replacing estimates with actual cash payments in 2007 or 2008.

6. Applicants will amortize to Account 425 the deferred charges over a ten-year period beginning with the year subsequent to the year the expense was recorded. For example, expenses recorded and deferred in 2006 will be amortized beginning January 1, 2007. Since the costs to achieve the PEP savings will be incurred up front while the savings will be realized

¹ These are non-pension related costs for MichCon as discussed in more detail in Paragraph 7.

during subsequent years, this deferral and amortization method will result in a better matching of the CTA expenses with the expected savings from the PEP program.

7. MichCon will defer the curtailment and special termination charges for pensions as part of their currently required pension deferral accounting. This means, these costs will offset a portion of MichCon's regulatory pension liability.

8. Specific costs to be deferred and the reasonableness and prudence of actual incremental CTA incurred will be reviewed and subject to Commission approval in subsequent rate proceedings.

9. This Settlement Agreement has been made for the sole and express purpose of reaching a compromise among the positions of the signatories, without prejudice to their rights to take new or different positions in other proceedings. All offers of settlement and discussions relating to this Settlement Agreement shall be considered privileged under MRE 408. If the Commission approves this Settlement Agreement without modification, neither the parties to this settlement Agreement nor the Commission shall make any reference to or use this Settlement Agreement or the order approving it as a reason, authority, rationale, or example for taking any action or position or making any subsequent decision in any other case or proceeding, or as an admission against the interest of any signatory in any other case or proceeding, provided however, such references or use may be made to enforce the Settlement Agreement and order in this case.

10. This Settlement Agreement represents a settlement of all issues before the Commission in the consolidated proceedings. A Party's signature on this Settlement Agreement does not constitute a waiver of that Party's right to take a different position with respect to the issues addressed in this Settlement Agreement in any future proceeding.

11. This Settlement Agreement is reasonable and in the public interest, and will reduce the time and expense of the Commission, its Staff, Detroit Edison, and MichCon

12. The Parties waive any rights under Section 81 of 1969 PA 306, as amended and agree not to appeal or otherwise contest a Commission order approving this settlement without modification.

13. This Settlement Agreement may be executed in any number of counterparts, each considered an original, and all counterparts that are executed shall have the same effect as if they were the same instrument

WHEREFORE, the undersigned Parties respectfully request that the Commission approve this Settlement Agreement without modification, and make it effective, in accordance with its terms, by final order

**THE DETROIT EDISON COMPANY and
MICHIGAN CONSOLIDATED GAS COMPANY**

By: Bruce R. Maters Digitally signed by Bruce R. Maters
DN: cn=Bruce R. Maters, c=US, o=DTE Energy,
ou=Regulatory Affairs, email=maters@dteenergy.com
Date: 2006.04.29 16:11:23 -0400 Dated: _____, 2006
Print: _____

Its. _____

MICHIGAN PUBLIC SERVICE COMMISSION STAFF

By: Kristin M. Smith Digitally signed by Kristin M. Smith
DN: cn=Kristin M. Smith, c=US
o=Attorney General, ou=Public Service
Division
Date: 2006.08.29 16:05:42 -0400 Dated: _____, 2006
Print: _____

Its. _____