

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter, on the Commission's own motion,)
regarding the regulatory reviews, revisions,)
determinations, and/or approvals necessary for)
THE DETROIT EDISON COMPANY to fully comply)
with Public Acts 286 and 295 of 2008.)
_____)

Case No. U-15806

At the September 29, 2009 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. Orjiakor N. Isiogu, Chairman
Hon. Monica Martinez, Commissioner
Hon. Steven A. Transeth, Commissioner

ORDER APPROVING FINANCIAL INCENTIVE MECHANISM

On March 4, 2009, The Detroit Edison Company (Detroit Edison) filed an application, with supporting testimony and exhibits, requesting approval of its renewable energy plan (REP) and energy optimization plan (EOP) pursuant to the provisions of 2008 PA 295, MCL 460.1001 *et seq.* (Act 295). Administrative Law Judge Barbara A. Stump (ALJ) held a prehearing conference on March 13, 2009, at which she granted petitions to intervene filed by Attorney General Michael A. Cox, New Covert Generating Company, Michigan Wholesale Power Association, LS Power Associates LP, LaFarge Midwest Inc., Michigan Environmental Council, the Environmental Law & Policy Center, the Ecology Center, Natural Resources Defense Council, Energy Michigan, RES North America LLC, Michigan Sustainable Energy Coalition (MSEC), the Michigan Community Action Agency Association, and the Association of Businesses Advocating Tariff Equity. At a

motion hearing held on April 2, 2009, the ALJ granted late intervention to NextEra Energy Resources, LLC. The Commission Staff (Staff) also participated in the proceedings.

On June 2, 2009, the Commission issued an order in this proceeding in which it approved Detroit Edison's EOP and directed interested parties to file new proposals for a financial incentive mechanism using a new mechanism or one of the mechanisms proposed by either Consumers or the Staff, "with modifications to achieve the objectives set forth in the order." Regarding the financial incentive mechanism specifically, the Commission stated:

The Commission also finds that approval of a financial incentive is at the Commission's discretion, and the incentive must be commensurate with the degree to which the provider's program exceeds the energy optimization targets. The Commission agrees that Detroit Edison's proposed financial incentive mechanism is not proportionate with additional energy savings above the statutory targets. As the Staff points out, Detroit Edison's proposed incentive mechanism provides maximum rewards for achieving energy savings that fall within the margin of error for estimated savings at the statutory target. Detroit Edison therefore has little incentive to pursue cost effective energy efficiency programs that significantly exceed the statutory minimum. However, the Commission believes that the Staff's incentive mechanism would be more effective if it enhanced the incentive to invest more in cost-effective energy optimization programs. Therefore, the Commission directs that within 30 days, the parties to this case may file alternative proposals for financial incentive mechanisms. The parties may propose something new or may use the mechanisms proposed by Detroit Edison, the NRDC, or the Staff, with modifications to achieve the aforementioned objectives. The recovery of any authorized financial incentive through the EOP surcharge shall not commence until after Detroit Edison demonstrates that its energy optimization programs have exceeded the statutory targets.

Order, pp. 32-33.

On July 2, 2009, in response to the Commission's directive, Detroit Edison and the Staff filed new proposals for a financial incentive mechanism. Detroit Edison refiled the same mechanism it had filed in its original case, revised so that the maximum reward would be earned if the company exceeds the statutory targets by 15%. The Staff filed the same algorithm that it filed in its initial testimony, with revised interpolation limits. The original Staff proposal was based on limits of

200% of target energy savings and a Utility System Resource Cost Test (USRCT) of 6.0. The Staff's revised limits are at 125% of target energy and an overall USRCT of 3.5. Maximum payout of 15% of program spending is obtained for performance at and above the interpolation limits.

The Commission finds that the algorithm proposed by the Staff is most appropriate and finds that there should be minor adjustments to the interpolation limits to provide greater incentive to the company to increase its efforts in energy optimization. The Commission therefore approves the Staff's proposed mechanism as shown in Attachment 1 with the following parameters: a USRCT of 1.25 and a maximum achievement level of 115% of the energy savings target.

THEREFORE, IT IS ORDERED that the energy optimization financial incentive mechanism proposed by the Commission Staff, with the revised parameters shown in Attachment 1, is approved for use by The Detroit Edison Company.

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, under MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

Orjiakor N. Isiogu, Chairman

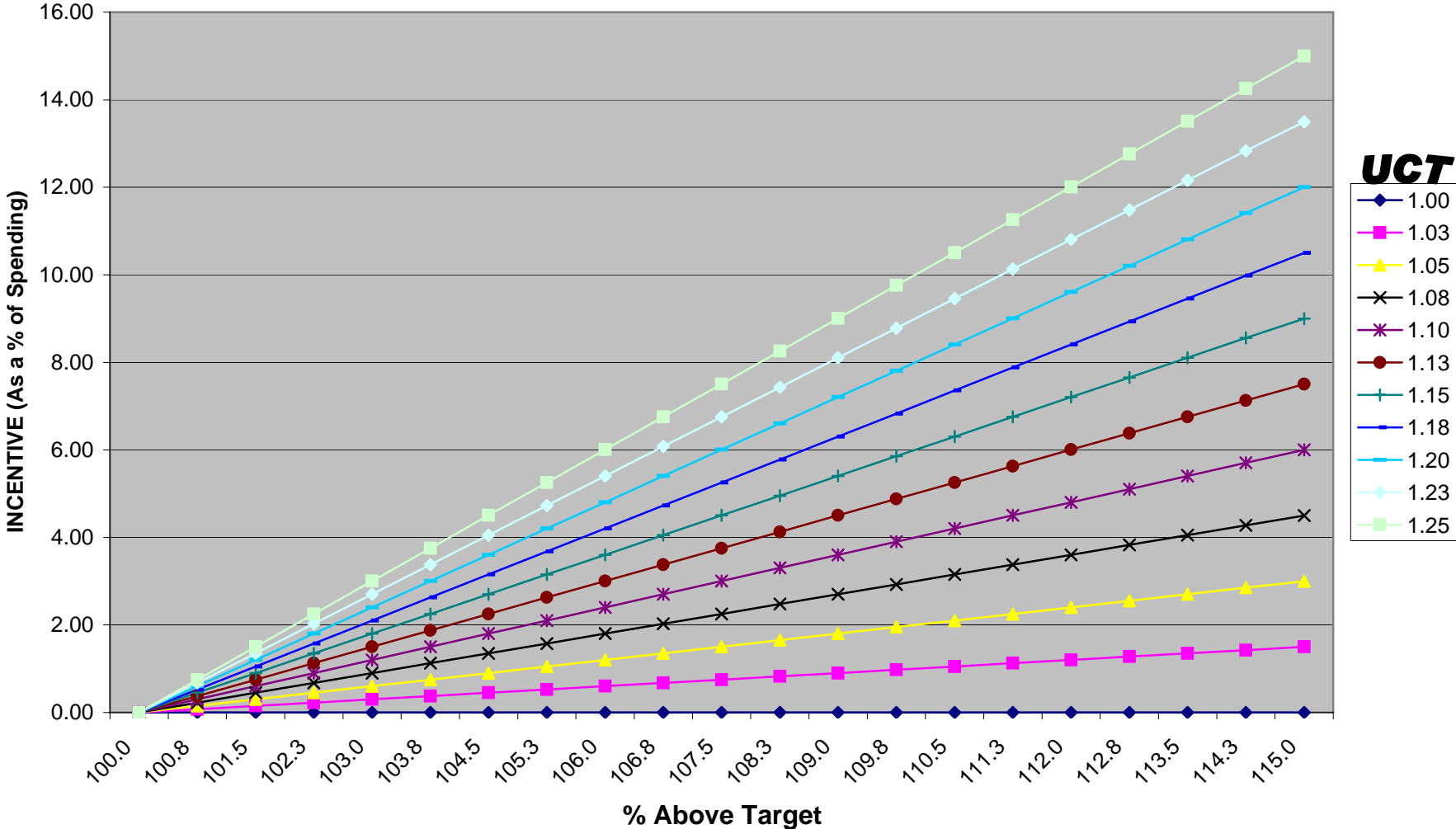
Monica Martinez, Commissioner

Steven A. Transeth, Commissioner

By its action of September 29, 2009.

Mary Jo Kunkle, Executive Secretary

Energy Optimization Program Incentive Mechanism



ATTACHMENT 1

**EO Incentive Mechanism
EO Incentive as a % of Program Spending**

| Target | UCT | | | | | | | | | | | |
|--------|------|------|------|------|------|------|------|-------|-------|-------|-------|-------|
| | 1.00 | 1.03 | 1.05 | 1.08 | 1.10 | 1.13 | 1.15 | 1.18 | 1.20 | 1.23 | 1.25 | |
| 100.0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 100.8 | 0.00 | 0.08 | 0.15 | 0.23 | 0.30 | 0.38 | 0.45 | 0.53 | 0.60 | 0.68 | 0.75 | 0.75 |
| 101.5 | 0.00 | 0.15 | 0.30 | 0.45 | 0.60 | 0.75 | 0.90 | 1.05 | 1.20 | 1.35 | 1.50 | 1.50 |
| 102.3 | 0.00 | 0.23 | 0.45 | 0.68 | 0.90 | 1.13 | 1.35 | 1.58 | 1.80 | 2.03 | 2.25 | 2.25 |
| 103.0 | 0.00 | 0.30 | 0.60 | 0.90 | 1.20 | 1.50 | 1.80 | 2.10 | 2.40 | 2.70 | 3.00 | 3.00 |
| 103.8 | 0.00 | 0.38 | 0.75 | 1.13 | 1.50 | 1.88 | 2.25 | 2.63 | 3.00 | 3.38 | 3.75 | 3.75 |
| 104.5 | 0.00 | 0.45 | 0.90 | 1.35 | 1.80 | 2.25 | 2.70 | 3.15 | 3.60 | 4.05 | 4.50 | 4.50 |
| 105.3 | 0.00 | 0.53 | 1.05 | 1.58 | 2.10 | 2.63 | 3.15 | 3.68 | 4.20 | 4.73 | 5.25 | 5.25 |
| 106.0 | 0.00 | 0.60 | 1.20 | 1.80 | 2.40 | 3.00 | 3.60 | 4.20 | 4.80 | 5.40 | 6.00 | 6.00 |
| 106.8 | 0.00 | 0.68 | 1.35 | 2.03 | 2.70 | 3.38 | 4.05 | 4.73 | 5.40 | 6.08 | 6.75 | 6.75 |
| 107.5 | 0.00 | 0.75 | 1.50 | 2.25 | 3.00 | 3.75 | 4.50 | 5.25 | 6.00 | 6.75 | 7.51 | 7.51 |
| 108.3 | 0.00 | 0.83 | 1.65 | 2.48 | 3.30 | 4.13 | 4.95 | 5.78 | 6.60 | 7.43 | 8.26 | 8.26 |
| 109.0 | 0.00 | 0.90 | 1.80 | 2.70 | 3.60 | 4.50 | 5.40 | 6.30 | 7.20 | 8.11 | 9.01 | 9.01 |
| 109.8 | 0.00 | 0.98 | 1.95 | 2.93 | 3.90 | 4.88 | 5.85 | 6.83 | 7.81 | 8.78 | 9.76 | 9.76 |
| 110.5 | 0.00 | 1.05 | 2.10 | 3.15 | 4.20 | 5.25 | 6.30 | 7.35 | 8.41 | 9.46 | 10.51 | 10.51 |
| 111.3 | 0.00 | 1.13 | 2.25 | 3.38 | 4.50 | 5.63 | 6.75 | 7.88 | 9.01 | 10.13 | 11.26 | 11.26 |
| 112.0 | 0.00 | 1.20 | 2.40 | 3.60 | 4.80 | 6.00 | 7.20 | 8.41 | 9.61 | 10.81 | 12.01 | 12.01 |
| 112.8 | 0.00 | 1.28 | 2.55 | 3.83 | 5.10 | 6.38 | 7.66 | 8.93 | 10.21 | 11.48 | 12.76 | 12.76 |
| 113.5 | 0.00 | 1.35 | 2.70 | 4.05 | 5.40 | 6.75 | 8.11 | 9.46 | 10.81 | 12.16 | 13.51 | 13.51 |
| 114.3 | 0.00 | 1.43 | 2.85 | 4.28 | 5.70 | 7.13 | 8.56 | 9.98 | 11.41 | 12.83 | 14.26 | 14.26 |
| 115.0 | 0.00 | 1.50 | 3.00 | 4.50 | 6.00 | 7.50 | 9.00 | 10.50 | 12.00 | 13.50 | 15.00 | 15.00 |