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February 1, 2007

Honorable Jennifer Granholm
Governor of Michigan

Honorable Members of the Senate

Honorable Members of the House of Representatives

The enclosed annual report for 2006, *Status of Electric Competition in Michigan*, is submitted on behalf of the Michigan Public Service Commission (Commission) in accordance with Section 10u of 2000 PA 141, MCL 460.10u. The report is available on the Commission's Web site.

During 2006, competition in Michigan's electric market declined for the second year in a row. The decline in electric customer choice enrollments and electric load was attributed primarily to two factors: 1) higher wholesale electricity prices in comparison to the current lower power supply costs of the regulated electric utility companies, and 2) an increase in choice customer's delivery rates. These factors impacted the competitive price of electric supply and made choice a less attractive option for Michigan's commercial and industrial customers in 2006.

To date, Michigan is one of about 20 States that has a competitive electric market. In comparison to other electric choice states, Michigan's average retail electricity price ranked seventh to ninth lowest in 2006, based on customer class. If compared to the ten largest U.S. states, Michigan is benchmarked as having the fourth lowest average retail electricity price. The report shows that since 2000, the relative ranking of Michigan's utility rates for residential, commercial, and industrial customer classes compared to other states has decreased, in some cases, significantly.

In 2006, the Commission issued 40 orders to further establish the framework for Michigan's electric customer choice programs and implement the provisions of PA 141.

Highlights of the report include:

- Approximately 7,300 commercial and industrial customers in Detroit Edison Company and Consumers Energy Company service territories participated in Michigan's electric customer choice programs, down 51% from the previous year.
- About 6% of electricity sales in Detroit Edison and Consumers Energy service areas were supplied by Alternative Electric Suppliers (AESs), down from 12% in 2005.

- As a result of declining electric choice sales and other factors, the Commission reduced Detroit Edison's electric rates by over \$78 million and ordered an experimental Choice Incentive Mechanism and load aggregation program for larger customers.
- There were 27 licensed AESs in Michigan throughout 2006.
- The Commission allowed Detroit Edison and Consumers Energy to roll-in prior year under and over-recoveries into future power supply cost recovery plans to permit prompt and accurate price signals for customers operating in competitive electric markets.
- The Commission concluded the stranded cost cases by netting 2004 costs to zero.
- The Low-Income and Energy Efficiency Fund grants awarded \$45 million for low-income financial assistance and \$13 million for low-income energy efficiency.
- The Commission authorized Consumers Energy's sale of its interest in the 1,500 megawatt Midland Cogeneration Venture to GSO Capital Partners and Rockland Capital Energy Investments.
- The Midwest Independent Transmission System Operator (MISO) maintained reliable electric service during unexpected outages of major generating plants and extremely high summer temperatures and peak loads.
- Almost 7,000 customers participate in Consumer Energy's Green Generation pricing program; and Constellation NewEnergy, a licensed AES, began offering a new "Green-e Renewable Energy" product.
- The Commission recommends legislation to reaffirm the requirements of PA 141 for the Commission to establish and sustain the Michigan Renewable Energy Program, and to provide the Commission with effective oversight authority to protect the public interest over utility mergers and acquisitions.

Market development through 2007 should provide the Commission and the Legislature with a greater understanding of the mechanisms that can enhance competition in support of the purposes of Act 141, including promoting healthy Michigan utilities. The Commission will apprise the Governor and the Legislature of any new developments that may require further action.

Very truly yours,

J. Peter Lark, Chairman
Michigan Public Service Commission

Laura Chappelle, Commissioner
Michigan Public Service Commission

Monica Martinez, Commissioner
Michigan Public Service Commission

**STATUS OF ELECTRIC COMPETITION
IN MICHIGAN**

Report for Calendar Year 2006

J. Peter Lark, Chairman
Laura Chappelle, Commissioner
Monica Martinez, Commissioner

MICHIGAN PUBLIC SERVICE COMMISSION
Department of Labor & Economic Growth

February 1, 2007

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Introduction

The Customer Choice and Electricity Reliability Act (2000 PA 141) requires the Michigan Public Service Commission (Commission) to file a report with the Governor and the Legislature by *February 1* each year. The report is to include a discussion of the following topics (2000 PA 141, Section 10u; [MCL 460.10u](#)):

- a) The status of competition for the supplying of electricity in Michigan.
- b) Recommendations for legislation, if any.
- c) Actions taken by the Commission to implement measures necessary to protect consumers from unfair or deceptive business practices by utilities, alternative electric suppliers, and other market participants.
- d) Information regarding customer education programs approved by the Commission to inform customers of all relevant information regarding the purchase of electricity and related services from alternative electric suppliers.

An important goal of PA 141 is to introduce competition into the electric industry by offering Michigan customers the opportunity to purchase their electric generation services from an alternative electric supplier (AES), or to purchase generation from their incumbent electric provider. The Commission does not regulate the prices charged by AESs for their services. Thus, customers may choose an AES based upon rates charged by the AES or may choose a regulated utility rate.

I. Status of Competition for Supplying Electricity

A. Overview

Full Retail Open Access (ROA) (electric customer choice) for all customers of Michigan investor-owned electric utilities took effect on January 1, 2002. Thus, 2006 was the fifth full year of electric customer choice in Michigan. Electric customers in Michigan are currently participating in the Consumers Energy and the Detroit Edison electric choice programs.

Consumers Energy and Detroit Edison provide distribution service to almost 90% of the State's electric customers.

Rate caps on residential customers' electric rates established by PA 141 of 2000 expired on December 31, 2005. Residential rates in both the Detroit Edison and Consumers Energy service territories increased on January 1, 2006 pursuant to Commission authority in Case Nos. U-13808 and U-14347, respectively.

1. Michigan's Electric Choice Program

During 2006, Michigan's electric customer choice program was available to all customers of regulated electric utilities, excluding members of electric cooperatives with loads of 50 kW or less.¹ As of December 31, 2006, approximately 7,300 commercial and industrial customers were participating in Michigan's electric choice programs. This represented about 6% of the total sales in megawatt hours (MWh) in energy usage of the combined Detroit Edison and Consumers Energy service territories.

¹ MCL 460.10x and MCL 460.10y provide different schedules for implementation of customer choice for cooperatively owned and municipal electric utilities. Starting January 1, 2005 electric choice service became available to all commercial and industrial cooperative members with peak loads of 200 kilowatts and above pursuant to Commission order in U-13698. Up to 30% of members with peak loads of 50-199 kW, became eligible for choice service on January 1, 2006 if they are demand metered. Municipal utilities are not regulated by the MPSC. Under MCL 460.10y, the governing body of a municipally owned utility determines whether it will permit choice programs in its service territory.

Commercial and industrial customers in the service territories of Detroit Edison and Consumers Energy were the predominant participants in the electric choice programs. A small number of higher use residential customers were enrolled in Detroit Edison's electric choice program. None of the 27 AESs licensed in Michigan offered electric choice services to customers in service territories of the smaller Commission jurisdictional electric utilities. As recognized in the September 11, 2003 and January 30, 2007 orders in Case No. U-13698, retail competition has yet to take hold in areas served by cooperatives. Under Section 10x of Act 141, it was appropriate for the Commission to defer full-fledged choice programs for residential and small commercial member-consumers until such time as retail markets developed and AESs expressed interest in serving those loads.

Competition in the electric marketplace in Michigan, typically measured for the electric choice programs in terms of numbers of customers and load served by AESs as compared to total number of customers and load, showed a decline in 2006 compared to the previous year. The total number of choice customers and associated megawatts (MW) of load receiving service under the choice programs were approximately 51 percent and 43 percent less than the previous year, respectively. The decline in choice enrollments and electric load for the second year in a row is largely attributed to a combination of significantly higher wholesale electricity prices compared to relatively lower utility power supply rates, and increases in the choice customers' delivery rates.² The increase in choice delivery rates in early 2006 were designed to eliminate

² Choice delivery rates are all distribution and customer related costs, or alternatively, all non-power supply costs. Detroit Edison's choice delivery rates were reduced in 2006 due to the elimination of stranded cost charges as all stranded costs are now fully recovered. Choice delivery rates were also reduced in September 2006 as a result of the Commission's Show Cause Case No. U- 14838. Consumers Energy's choice delivery rates still include a one mill charge to provide recovery of prior historical stranded cost charges.

the subsidy AESs were receiving and bring their distribution rates to cost. Together, these factors reduced the headroom³ for AESs making them less competitive in 2006.

Choice distribution rates increased in 2006 as a result of the Commission's December 2005 unbundling orders for Detroit Edison and Consumers Energy. In Case No. U-14399, the Commission authorized Detroit Edison to unbundle its electric rates to separate the power supply charges and delivery charges. This order enabled customers to readily compare the power supply costs of Detroit Edison with the cost of purchasing power from an AES. The unbundled rates became effective in February of 2006. Previously, Detroit Edison had a separate tariff for electric choice customers, and the rate schedule for full service customers did not separately identify the power supply charges that the AES must compete against.

In Case No. U-14347, the Commission addressed the unbundled rate structure for Consumers Energy, which became effective in January of 2006. In that order, the Commission authorized Consumers Energy to restructure its already unbundled electric rates to present them in the same manner as Detroit Edison rates. As with Detroit Edison's unbundled rates, Consumers Energy's unbundled rates enable customers to more easily compare the utility power supply charges with the cost of purchasing power from an AES. In both cases, the Commission directed that the delivery charges for customers that choose an AES should be based on the cost of providing that service. Furthermore, the Commission directed that those charges should not include any other costs to ensure that electric choice customers are not subsidizing any other customers.

³ As used in this section, "Headroom", or spread, for an Alternative Electric Supplier is the difference between the total price a customer would pay to its incumbent utility for bundled (full) service and the price that customer would pay to an AES for comparable service, which would include the Retail Open Access delivery charges. Utility price would include all utility charges for power supply and delivery. The AES price would include all of its power supply costs plus the ROA delivery charges.

Although there was a reduction in the number of electric customers participating in Michigan's electric choice programs during 2006, this trend could easily reverse if wholesale energy prices continue their recent declines into 2007 and incumbent electric utilities begin to implement increased power supply cost recovery (PSCR) factors beginning in January 2007. The wholesale electric market experienced declines in wholesale energy prices beginning in the fourth quarter of 2006. Natural gas prices often set the wholesale prices in the MISO electric market that are based upon locational marginal prices (LMP).⁴ The wholesale electric price declines are attributed to diminishing effects of the 2005 hurricanes Katrina and Rita, the record warm weather experienced during January through March 2006, and natural gas storage inventories well above normal during 2006.

2. Electric Price Benchmarking

The status of competitive retail access in the United States has remained somewhat unchanged for the past several years. Michigan, unlike deregulated states, maintains regulation of utility generation costs.⁵ In states that have sold their generation and where rate caps have expired, customer rates have increased faster than the national average, while in most non-restructured states rates have remained below the national average. For example, customers in several restructured states that divested their electric generating plants have recently faced major rate increases. In Maryland, rates have risen 35-72 percent and in Delaware, 59 percent. In Illinois, electric customers' rates increased on January 1, 2007 by 24-55 percent. The evidence may suggest that prices of customers in deregulated states may be increasing faster than for

⁴ Locational marginal prices are set hourly by the highest priced generator selected by MISO to supply electricity and bring generation supply and demand into balance. All generators supplying power in that hour receive the same price based on the highest cost generator used in the hour, regardless of their actual costs.

⁵ Michigan's current retail electric market consists of a regulated utility sector and a competitive customer choice sector.

customers in states that did not deregulate.⁶ However, the evidence also suggests that some of the states that underwent restructuring had previously experienced high rates under traditional regulation, e.g. Illinois, New York, Massachusetts, and California. Thus, some states whose customers continue to pay persistently high rates for electricity may be subject to considerations that prevail under either a traditional or a restructured scheme of regulation. It is difficult to tell which factors are driving rate trends. What is clear is that Michigan's ranking of rates relative to other states, have decreased since the transition from pre-Act 141 regulation to restructuring.

In comparison to the ten largest U.S. states, Michigan had the fourth lowest average retail electricity rates in 2006. Michigan's electric rates were below the national average for all three classes of customer: residential, commercial and industrial.⁷ As compared to other states with restructured electric markets, Michigan's retail electric rates rank seventh lowest for the commercial sector and eighth lowest for the industrial sector.

B. Alternative Electric Suppliers

At the end of 2006, there were 27 licensed AESs in Michigan. This is the same number of licensed AESs in Michigan as in 2005 but 2006 activities reflect the addition of two new licensees and the relinquishment of two others. During 2006, the Commission approved AES licenses for BlueStar Energy Services, Inc. (U-14764 dated 2/9/06) and American PowerNet Management, L.P. (U-14818 dated 5/25/06). The Commission also approved the requests of the Cook Inlet Power, L.P. to rescind its license on 2/9/06 in U-13265 and the license of the North American Energy, L.L.C. on 4/13/06 in U-13310. Neither AES was providing alternative electric service to Michigan customers during 2006.

⁶ "2006 Performance Review of Electric Power Markets" – Rose/Meeusen, August 27, 2006, p. 4.

⁷ See House report, "Benchmarking for Success: A Comparison of State Infrastructure", page 15

In 2006, there were eight AESs actively serving commercial and industrial customers in the Consumers Energy territory compared to the nine that were actively participating the prior year. Likewise there were 13 AESs actively serving commercial and industrial customers in the Detroit Edison territory during 2006 compared to the 18 that were actively participating in Detroit Edison territory at the end of 2005. Seven of the AESs serving customers in the Consumers Energy service territory were also active in the Detroit Edison territory in 2006. See Table 1 (Appendix 1, p. 2), Table 2 (Appendix 1, p. 5), and Appendix 3 for further details.

C. Load Served by the Retail Open Access Programs

As noted, retail open access is now used to serve primarily commercial or industrial loads. As shown in Charts 3 and 5 (Appendix 1, p. 4, 7), commercial customers represent a large portion of both utilities' retail open access loads and account for the largest part of Detroit Edison's program. Typical choice participants are mid-size commercial customers including retailers, restaurants, healthcare and other service providers, and school systems.

1. Consumers Energy Electric Customer Choice Program

The numbers of customers and the electricity demand in MW served by each AES in the Consumers Energy electric customer choice program at the end of each year is shown in Table 1 (Appendix 1, p. 2). The electric choice load served in the Consumers Energy service territory at year-end 2006 totaled 300 MW, which represents a 46 percent annual decline, compared to a 40 percent decline from 2004 to 2005. The number of customers served by AESs in the Consumers Energy electric choice program declined at an average annual rate of 49 percent in 2006, reaching 609 by the end of the year. This downward trend for the second year in a row reflects the increased wholesale energy prices and the return of choice customers back to the current lower rates of the incumbent utility as depicted on Chart 1 (Appendix 1, p. 1).

For Consumers Energy customers, about 4 percent of commercial sales (down from 11 percent in 2005) and about 9 percent of industrial sales (down from 22 percent in 2005) are now served through the electric choice program. By customer class, the mix of Consumers Energy electric choice sales is about 30 percent commercial and 70 percent industrial customers. There was no residential customer participation in the Consumers Energy service territory in 2006.

Additional information depicting trends in the Consumers Energy customer choice program is included in Appendix 1. Chart 2 (Appendix 1, p. 3) shows the trends in numbers of customers participating and MW served in the Consumers Energy electric choice program on a monthly basis, from July 2005 through December 2006. The information is broken down by customers and electric load in-service in the choice program. Chart 3 (Appendix 1, p. 4), reflects Consumers Energy's average monthly electric choice sales as a percentage of total electric choice and full service customer sales by customer class.

2. The Detroit Edison Electric Customer Choice Program

The numbers of customers and the electricity demand in MW served by each AES in the Detroit Edison electric customer choice program at the end of the year is shown in Table 2 (Appendix 1, p. 5). The electric choice load served in the Detroit Edison service territory at year-end 2006 totaled 889 MW, which represents a 42 percent annual decline, compared to a 36 percent decline from 2004 to 2005. The number of customers served by AESs in the Detroit Edison electric choice program declined at an average annual rate of 51 percent in 2006, reaching 6,643 by the end of the year. This downward trend for the second year in a row reflects the increased wholesale energy prices and the return of choice customers back to the current lower rates of the incumbent utility.

For Detroit Edison customers, about 13 percent of commercial sales (down from 25 percent in 2005) and about 8 percent of industrial sales (down from 13 percent in 2005) are now served through the electric customer choice program. By customer class, the mix of Detroit Edison electric choice sales is about 68 percent commercial and 32 percent industrial customers. Residential customer participation in the Detroit Edison service territory in 2006 was negligible.

Additional information depicting trends in the Detroit Edison customer choice program is included in Attachment 1. Chart 4 (Appendix 1, p. 6) shows the trends in numbers of customers participating and MW served in Detroit Edison's electric choice program on a monthly basis, from July 2005 through December 2006. The information is broken down by customers and electric load in-service in the choice program. Chart 5 (Appendix 1, p. 7) reflects Detroit Edison's average monthly electric choice sales as a percentage of total electric choice and full service customer sales by customer class.

D. Benchmarking Electric Prices

Michigan was one of about 20 states that had full or limited restructuring of retail electricity markets in 2006. Act 141 was structured to not require divestiture of generation assets, unlike other deregulated states – mostly in the eastern U.S. Michigan's unique restructured market approach appears to have mitigated some of the undesirable impact of rising retail electric rates experienced in other states using the more common generation divestiture model for complete divestiture. However, electric rates are increasing in all states – traditionally regulated as well as deregulated. Since 2001, electric rates of several notable vertically-integrated utilities in traditionally regulated low-cost states have increased by hundreds of millions of dollars, e.g., West Virginia, Minnesota, Arkansas, and Georgia. This trend cannot be readily attributed to those states' regulatory structures, but it is national in scope. It marks the

end of a decade (give or take a few years) when wholesale power prices were low, commodity prices for oil, gas, and coal were low, and the need for capital investment in utility infrastructure was relatively flat. According to the Edison Electric Institute, between January 2005 and January 2006, U.S. electric prices increased by an average of 11.6%, which predominantly reflected increased costs for fuel and purchased power.⁸

Given this backdrop, this year's report provides additional benchmarking data that compares Michigan's electric prices to those of other states. This analysis is reflected in the charts contained in Appendix 1 of the report. Chart 6 (Appendix 1, p. 9,10,11) reflects the average 2000 and 2006 residential, commercial, and industrial rates of the various states. Michigan's retail rates ranked from seventh to ninth lowest (varying by customer class) as compared to other electric restructured states.

Additionally, a comparison of the average retail electricity rates for the ten largest states by population (IL, GA, OH, MI, PA, FL, TX, NJ, CA, and NY) indicates that Michigan had the fourth lowest retail electric rates of this group during 2006. This is shown on Chart 7 (Appendix 1, p.12). Illinois had the lowest residential and industrial rates in 2006, but this low standing will end with the 22-55 percent rate increases being implemented in 2007, due to the expiration of their 10-year rate freeze and full implementation of retail competition. Georgia recently experienced significant electric rate increases and Ohio implemented deferred rate recovery for recent cost increases. These deferred costs will be subject to recovery with carrying charges in future years.

Michigan's retail electricity rates also compare favorably to the ten largest states over time from 2000 to 2006 as shown in Chart 8 (Appendix 1, p. 13, 14). Although Texas has deregulated to allow competition to flourish, customer residential rates have increased

⁸ Peter S. Fox-Penner, Marc Chupka, Johannes Pfeifenberger, Gregory Basheda, and Adam Schumacher, *Behind the Rise in Prices: Electricity Price Increases Are Occurring Across the Country, Among All Types of Electricity Providers. Why?*, Electric Perspectives, July/August 2006, at 56-57.

considerably from 2002 through 2006. Texas went from \$0.08/kWh in 2002 to about \$0.13/kWh in 2006, compared to the national average of \$0.085/kWh in 2002 to \$0.1041/kWh in 2006. This is an increase of 62 percent, compared to a national average increase of 22 percent during the same time period.⁹ In New York, which also restructured, residential rates have increased from \$0.14/kWh in 2000 to about \$0.1672/kWh in 2006, which is well above the U.S. total average of \$0.1041/kWh for residential customers. Michigan's average residential rate was \$0.1006/kWh in 2006, which is below the national average for that year.

II. Commission Action Related to Electric Customer Choice and Consumer Protection

In 2006, the Commission issued 40 orders to further establish and implement the framework for Michigan's electric customer choice programs and the provisions of 2000 PA 141.¹⁰ If an AES is licensed and willing to serve in a utility service territory, all customers of the regulated utility had the electric customer choice program available to them, excluding members of an electric cooperative with peak loads under 50 kW.

During the year, the Commission issued orders that approved licenses for AESs, netted historical stranded costs for 2004 to zero, adjusted securitization charges, changed return to service notification deadlines, fined companies for Code of Conduct and rule violations, and changed the method for collecting over (under) recoveries of power supply costs. The Commission also issued orders approving renewable energy programs, Low-Income and Energy Efficiency Fund grants, and reduced Detroit Edison's electric rates for residential and business customers.

⁹ Source: EIA/DOE.

¹⁰ Commission orders are available on the Commission website at www.dleg.state.mi.us/mpsc/orders/electric/. Documents and orders associated with many cases are available in the MPSC Electronic Case Filings system, at <http://efile.mpsc.cis.state.mi.us/efile/cases>.

A. Commission Orders Issued

The Commission orders issued in 2006 that specifically relate to the implementation of PA 141 of 2000 can be categorized as follows:

- Two orders approving new AES licenses;
- Two orders approving relinquishment of AES licenses;
- Five orders addressing stranded costs;
- Two orders adjusting securitization charges;
- One order closing a docket on implementation costs;
- Six orders addressing electric generation and transmission issues;
- Five orders relating to energy efficiency and renewable energy programs;
- Five orders investigating Code of Conduct and rule violations and adjustments;
- Two orders adopting a new power supply cost recovery method;
- Two orders distributing the Low-Income and Energy Efficiency Fund;
- Two orders piloting a PAYS® program;
- Four orders protecting customers from higher rates and service provider disputes;
- Two orders relating to choice tariff and amendments.

See Appendix 2 for more detail on these orders.

Of particular note, the Commission issued orders that eliminated costs for electric choice customers and AESs. For example, in Consumers Energy and Detroit Edison stranded cost cases, the Commission found net stranded costs for 2004 to be zero. The Commission also stated that these orders concluded the series of stranded cost cases resulting from the restructuring of the electric system, absent unusual circumstances.

On August 31, 2006, in Case No. U-14838, the Commission approved a settlement agreement that reduced Detroit Edison's electric rates for residential and business customers by \$78.75 million. The Commission initiated the proceeding in early 2006 directing Detroit Edison to show cause why its retail electric rates should not be reduced, citing the utility's labor cost savings and a decline in electric customer choice sales. In this order, an experimental Choice Incentive Mechanism (CIM) and experimental load aggregation program for large commercial and industrial customers were approved. The experimental CIM mechanism is designed to help ensure electric

rates remain reasonable even if electric choice sales volumes change dramatically from those assumed in rates. This allows increases or decreases in rates as choice customers switch electric loads between bundled and choice services. The load aggregation pilot program will allow the aggregation of individual customer loads from separate locations for billing purposes, and is expected to help determine if this type of aggregation program will benefit customers in the long run.

In response to complaints filed in Case No. U-13808, the Commission ordered Detroit Edison to convene a collaborative process to resolve issues involved in electric choice metering. The settlement agreement resulting from the collaborative on metering and amended electric choice tariffs was approved in Case No. U-14838. The tariff changes provide for an optional, less costly, alternative to interval metering for small volume choice customers. The optional method will allow standard load profiling for non-interval metered customers to determine hourly usage for billing purposes.

With the exception of the October 24, 2006 order in Case No. U-15098, which extended the 2007 deadline for choice customers to give notice of their intention to return to full utility service, there were no substantive changes in 2006 to the return-to-service provisions previously established in rate cases. Those provisions continue to require choice customers to commit to taking either unbundled or full service from the utility by the deadline (usually December 1) in advance of the summer peak season.

B. Low-Income Energy Efficiency Fund

The Low-Income Energy Efficiency Fund (LIEEF) was created by PA 141 of 2000. The Commission administrates the fund via approvals of grants to qualifying organizations. The purpose of the LIEEF was to provide shut-off and other protection for low-income customers and to promote energy efficiency by all customer classes.

The LIEEF originally was funded from securitization savings in excess of the amount needed to achieve a 5 percent electric rate reduction for residential and business customers. Detroit Edison was the only electric utility whose securitization savings exceeded the amount necessary to fund the rate reduction required by the Act. Thus, Detroit Edison was the only company contributing to the Fund. The securitizations savings were no longer available in 2004.

In November 2004, in Case No. U-13808, the Commission approved Detroit Edison's request to establish a permanent LIEEF funding level in its electric rates of approximately \$40 million annually. The Commission further extended the LIEEF funding by approving Consumers Energy's request to contribute \$27 million annually through the Company's electric rates in Case No. U-14347 (December 2005) and another \$17 million annually through its gas rates in Case No. U-14547 (November 2006).

C. Power Supply Cost Recovery Annual Over/Under Recoveries

Due to significant price increases in both natural gas and electricity in late 2005, the Commission approved temporary PSCR factors in December 2005 for both Detroit Edison and Consumers Energy. The 2006 temporary factors phased-in the expected 2006 cost increases and resulted in utility power supply rates that were generally lower than some AESs could offer. The phase in process as well as increases in fuel prices and purchased power costs resulted in under-

recoveries of PSCR costs during 2006 that may have provided artificially low price signals to choice shopping customers.

Consequently, in December 2006 and pursuant to utility requests, the Commission addressed the issue of the delayed 2006 cost recovery by approving Consumers Energy's and Detroit Edison's proposals to roll-in prior year under and over-recoveries into their future 2007 PSCR plan¹¹. The Commission found this method appropriate with respect to both 2007 and all future PSCR plan periods. The use of the new roll-in methodology allows for a more timely recovery of over (under) recoveries of power supply costs and addresses the need for prompt and accurate price signals for customers operating in the competitive electric market.

III. Commission Action on Customer Education

On January 17, 2006, Governor Jennifer Granholm, along with Chairman J. Peter Lark and utility representatives, kicked off the "Save Energy with Ease" program that provided thousands of free programmable thermostats, home energy conservation kits, and education materials to Michigan residents. The program was very popular with ratepayers and all of the energy conservation kits were spoken for within the first day.

In 2006, the Commission issued various press releases to remind customers to "Be WinterWise" and increase the energy efficiency of their homes; reduce their electric bills by switching to energy efficient lighting products; inform customers of emergency rules to help low-income customers avoid shut-offs; and remind utility customers that there are a variety of things they can do to lower electric bills in the summer. There were also eight Consumer Alerts translated into Spanish.

In January 2006, the Commission held a Consumer Forum in Farmington Hills. The forum was designed to inform residential and business customers about important changes

¹¹ Consumers Energy, Case No. U-15001 and Detroit Edison, Case No. U-15002.

occurring in the electric industry. During the fall of 2006, the Commission held a series of Consumer Forums in seven cities throughout the state to inform consumers about changes in the electric industry, and highlight the latest information on electric rates for the winter. The forum cities included: Marquette, Petoskey, Detroit, Saginaw, Grand Rapids, Riverview, and Canton Township.

IV. Electric Supply Infrastructure Serving Michigan

A. Regional Transmission System Activities

Under Act 141, Section 10w, investor-owned electric utilities in Michigan were required to join a Federal Energy Regulatory Commission (FERC) approved regional transmission organization (RTO), or divest transmission assets to an independent transmission owner. In Michigan, transmission assets formerly owned by Detroit Edison and Consumers Energy are now owned by separate subsidiaries of International Transmission Company (ITC), an independent transmission company.¹² The American Transmission Company (ATC) was formed to serve the electric utilities in the Upper Peninsula and Wisconsin. These stand alone transmission companies are members of the MISO, an RTO. American Electric Power (AEP), doing business in the southwest corner of Michigan as Indiana Michigan Power Company, became a member of the PJM Interconnection RTO.

1. Regional Electric Reliability

During the end of July and the beginning of August, all seven regional independent electric grid operators in the U.S. set new record demands for electricity, some up to 4.5% higher than ever before. During this period of hot humid weather, the demand for electricity was

¹² Michigan Transco Holding LP, FERC Docket No. EC06-123. On September 21, 2006, FERC approved the acquisition of Michigan Transco, the parent company of METC, by ITC.

successfully met without incident thanks to the excellent cooperation of load serving entities¹³ in each state, the coordination of the RTOs, and the interconnectedness of the electrical grid.

In addition to extremely high temperatures and peak loads, the situation in Michigan was more critical because of unexpected outages of major generation plants, including Fermi II, Cook 1, and Belle River 1, and concerns with others such as Cook 2. By anticipating events, acting accordingly, and responding almost instantaneously to sudden changes in our electrical region, the MISO was able to maintain reliable electric service even with unavailable Michigan generation.

2. Federal Energy Regulatory Commission Actions

There were several important orders issued by FERC in 2006 mostly related to the implementation of the Energy Policy Act of 2005. FERC finalized rules requiring power-grid operating organizations to give electric utilities the ability to enter into long-term transmission service agreements by establishing a corresponding long term financial transmission right. The intent of these rules was to increase long-term transmission price certainty in organized electricity markets and allow for new transmission investments.¹⁴ FERC also issued rules to certify an Electric Reliability Organization and to establish, approve, and enforce procedures for electric reliability standards. FERC mandated 83 out of 107 of the North American Electric Reliability Corporation proposed electric reliability standards.¹⁵ In addition, FERC approved the final rule on the filing requirements and procedures for permits to site interstate electric transmission facilities and reinforced its support to promote transmission investment through

¹³ The term Load Serving Entity (LSE) encompasses all entities providing electric retail sales service to Michigan customers. This includes investor owned utilities, cooperatively owned utilities, municipal utilities, and alternative electric suppliers with retail sales.

¹⁴ On July 20, 2006, FERC approved Docket No. RM06-8-000.

¹⁵ On October 19, 2006, FERC approved Docket No. RM06-16-000.

reform of incentive pricing.¹⁶ These FERC actions will help to maintain and improve electric reliability in Michigan.

B. Generating Plant

The *Capacity Needs Forum Status Report* was issued¹⁷ on January 3, 2006. On January 10, 2006, the Commission issued an order seeking written public comments on the Staff's report which were due by March 1, 2006. A Public Hearing was held on March 14, 2006 to take public comments on the report.

On April 6, 2006, Governor Granholm issued [Executive Directive No. 2006-2](#), calling for the development of a comprehensive plan for meeting the states electric power needs. The directive asked for recommendations to ensure the state can both reliably meet its growing electric needs and keep electric costs competitive. The final report was issued on January 31, 2007, and addresses the need for new electric generating plant, renewable and alternative energy programs, and energy efficiency programs to provide for Michigan's energy future.

On July 11, 2006, Consumers Energy announced its plan to sell its 798 MW Palisades nuclear power plant to Entergy Nuclear Palisades, LLC, for \$380 million. Consumers Energy is seeking Commission approval to buy all of the plant's power output for 15 years through a Power Purchase Agreement. The sale is currently under review by the Commission, the FERC, and the Nuclear Regulatory Commission. A Commission order is expected in early 2007.

C. Electric Power Production

The electric utilities in Michigan generated over 87 percent of Michigan's electricity in 2006. See Table 3 (Appendix 1, p. 8). On November 21, 2006, Consumers Energy sold its

¹⁶ On November 16, 2006, FERC approved Docket No. RM06-12-000.

¹⁷ <http://www.michigan.gov/mpsc/0,1607,7-159--133381--,00.html>

interests in the 1,500 MW Midland Cogeneration Venture (MCV) to GSO Capital Partners and Rockland Capital Energy Investments. The net proceeds from the MCV sale will be used to reduce Consumers Energy debt.

D. Michigan Renewable Energy Program

The state legislature directed the Michigan Public Service Commission in Section 10r of Public Act 141 of 2000 to establish the Michigan Renewables Energy Program (MREP). The Commission, in turn, directed its Staff to establish an MREP Collaborative to analyze various regulatory and policy options with the goal of promoting the use and development of renewable energy in the state.

During the year, pursuant to Commission authority, Consumers Energy offered a voluntary approach to the expansion of renewable energy production and consumption in Michigan by allowing customers to pay a price premium in order to receive a greater percentage of their power from renewable energy resources. As of January 22, 2007, there were almost 7,000 customers participating in Consumers Energy's Green Generation pricing program.

In Case No. U-14569, Detroit Edison filed an application with the Commission proposing a Renewable Resources Program in its service territory. On September 26, 2006, the Commission issued an order directing Detroit Edison to make changes to its renewable program proposal based on public comments received from 20 groups and citizens. Detroit Edison filed an amended application on December 15, 2006, and the Commission requested public comment on the revised application by January 26, 2007.

In addition, a new "Green-e Renewable Energy" product was offered by Constellation NewEnergy, an AES licensed in Michigan. This product gives commercial and industrial

electric choice customers an option to select electricity from renewable energy resources such as wind, solar, water, and organic waste.

V. Recommendations for Legislation

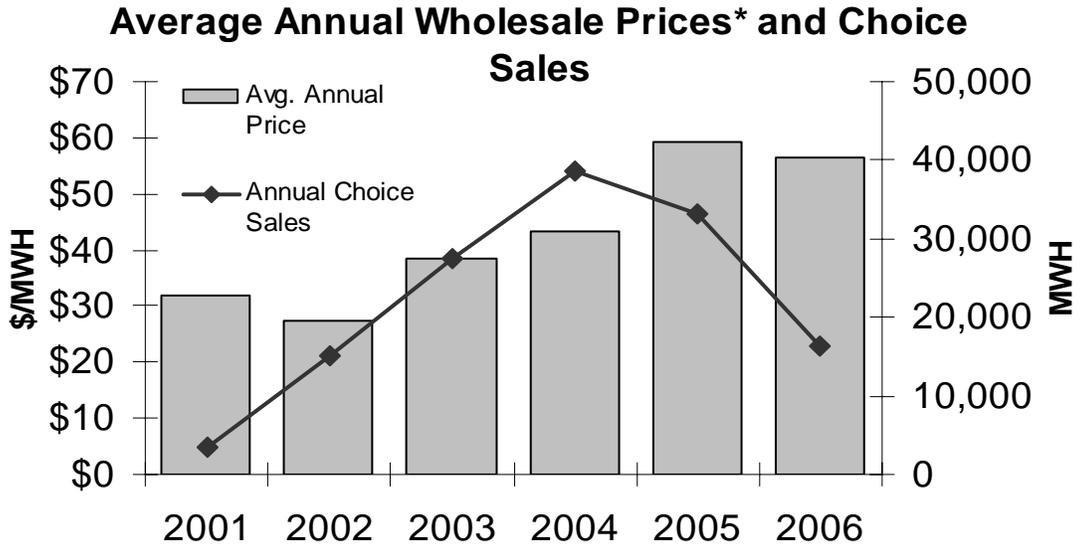
The Commission's Status of Electric Competition in Michigan report for calendar year 2005 brought two issues to the attention of the legislature as recommendations for legislation. The first suggested that it may be necessary for the legislature to affirm the requirements in PA 141 for the Commission to establish and sustain the Michigan Renewables Energy Program, while the second urged the legislature to consider providing the Commission with oversight authority over utility mergers and acquisitions that involve Michigan utilities. The Commission reiterate those recommendations again in this report for calendar year 2006.

The recommendation to affirm the requirements in PA 141 for the Commission to establish and sustain the Michigan Renewables Energy Program in the report for calendar year 2005 referenced the pending final court decision of an appeal of the Commission's orders initiating renewable energy programs for Consumers Energy and Detroit Edison. On August 16, 2006, the Commission sent a letter to the chairs of the relevant legislative committees to notify the legislature that the Michigan Court of Appeals decision to reverse the Commission's order to begin collecting 5 cents from all customers per meter per month to support renewable energy initiatives had been affirmed and the appellate process completed. The Commission asked the legislature in the August 16, 2006 letter, and repeats the request here, to again consider legislation to provide the Commission with ratemaking authority to support the renewables energy program established by law. A copy of the August 16, 2006 letter to the committee chairs is attached for your convenience (See Appendix 4).

In addition to the issue concerning the Commission's authority to implement the renewables energy program, the Commission's report for calendar year 2005 brought to the attention of the legislature the fact that a December 8, 2005 order of the Federal Energy Regulatory Commission (FERC) had been issued adopting its final rule to implement the repeal of the Public Utility Holding Company Act of 1935. While the FERC had received enhanced authority in overseeing mergers under certain provisions in the federal Energy Policy Act of 2005, the action left Michigan as one of only three states that does not have explicit codes or policy language defining its merger authority to protect the public interest in a merger or acquisition concerning jurisdictional utilities. The Commission again urges the Legislature to provide the Commission with effective oversight authority to protect the public interest over utility mergers and acquisitions that involve Michigan utilities.

APPENDIX 1

Chart 1



*Source <http://www.eia.doe.gov/cneaf/electricity/wholesale/wholesale.html>

Table 1

AES Customers in Consumers Energy Service Territory

AES Name ¹	Number of Customers						MW Served					
	2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006
CMS ERM			2	2	2	2			2	2	2	2
Constellation			183	477	671	416			61	229	151	98
MidAmerican ²					4	2					1	0
Mirant ³			4	0	0	0			22	0	0	0
Nordic ⁴		4	18	16	12	0		25	35	33	8	0
Quest	327	467	494	314	96	33	217	380	411	395	105	32
Sempra			9	55	43	23			13	47	49	27
Strategic			89	591	323	110			9	99	46	10
Wolverine Power	2	5	15	18	21	19	9	43	105	121	157	129
WPS					21	4					32	1
Totals	329	563 ¹	814	1,473	1,193	609	226	473 ¹	658	926	552	300 ⁵

Note: ¹Companies not actively serving customers since 2002 are not included in this table. Totals for 2002 include 87 customers and 25 MW served by companies that have since exited the Consumers Energy market. By 2003, those customers either switched to another AES or returned to full service from Consumers Energy.

²In 2006, the load served by MidAmerican was .09 MW.

³On January 3, 2006, Mirant American Retail Energy Marketing, LP, successfully emerged from Chapter 11 bankruptcy. As part of the reorganization, the company transferred all of its assets to Mirant Energy Trading, LLC.

⁴The companies formerly known as Nordic Energy and Nordic Electric were restructured in 2004. Nordic operated in Michigan as both Nordic Marketing, LLC, and Nordic Marketing of Michigan, LLC after that time. For purposes of this report, all Nordic companies are combined in this one row.

⁵Total does not add correctly due to rounding.

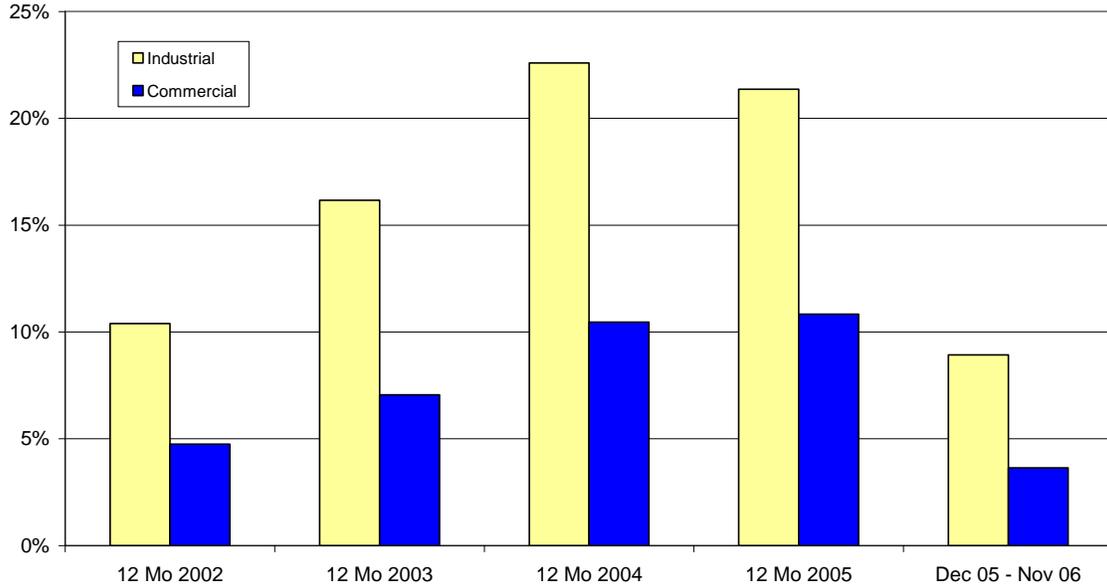
Chart 2

Consumers Energy Electric Customer Choice Program Activity
 Numbers of Customers & MWh In-Service by Month
 July 2005 – December 2006



Chart 3

**Consumers Energy Average Monthly ROA Sales
as a Percentage of Total (ROA + Non-ROA Sales), by Customer Class**



Consumers Energy Average Monthly Sales by Class (MWh)

	2002	2003	2004	2005	Dec '05 - Nov '06
Residential ROA	0	0	0	0	0
Residential	1,058,170	1,038,530	1,028,850	1,120,670	1,081,740
Commercial ROA	47,230	70,600	107,250	116,090	38,740
Commercial	948,330	930,120	917,680	954,780	1,025,420
Industrial ROA	110,560	166,870	235,540	219,180	90,010
Industrial	952,920	865,230	806,750	806,870	918,570

Source: Consumers Energy Company data for U.S. Department of Energy, Energy Information Administration, Form EIA-826, 2002-2006.

Table 2

AES Customers in Detroit Edison Service Territory, Year End

AES Name ¹	Number of Customers						MW Served					
	2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006
CMS ERM	11	11	11	11	11	11	261	261	261	261	261	261
Commerce ²		953	3,420	4,663	3,070	1,244		35	181	215	104	33
Constellation			1,325	1,881	3,582	2,492			303	356	532	342
Cook Inlet		9	9	9	0	0		86	86	86	0	0
Dillon			149	136	2	0			33	28	<1	0
Dynegy			10	0	0	0			5	0	0	0
Energy International		73	773	1,231	613	443		5	36	55	28	17
Exelon					42	28					8	3
FirstEnergy Solution		5	952	1,234	956	620		3	171	180	118	73
Metro Energy		2	2	2	2	2		13	13	13	13	13
MidAmerican				66	806	304				4	31	13
Mirant ³			6	0	0	0			8	0	0	0
Nicor/EMC	246	1,012	66	10	0	0	18	169	4	1	0	0
Nordic ⁴	1,159	1,312	1,718	1,838	10	0	77	107	162	140	<1	0
Premier			327	632	207	0			53	77	19	0
Quest	620	1,287	1,477	1,262	774	246	141	325	422	347	104	32
Sempra		33	98	162	16	8		26	59	80	5	1
Strategic			2,000	4,095	3,068	1,084			245	475	237	69
Wolverine		2	2	2	2	2		13	13	13	13	14
WPS			4	7	503	159			15	45	49	18
Totals	2,036	5,198 ¹	12,349	17,241	13,664	6,643	497	1,138 ¹	2,070	2,378 ⁵	1,524	889

Note: ¹Companies not actively serving customers since 2002 are not included in this table. Totals for 2002 include 499 customers and 95 MW served by companies that have since exited the Detroit Edison market. By 2003, those customers either switched to another AES or returned to full service from Detroit Edison.

²In 2005, Electric-America changed the company name to Commerce Energy Inc.

³On January 3, 2006, Mirant America Retail Energy Marketing, LP emerged from Chapter 11 bankruptcy. As part of the reorganization, the company transferred all of its assets to Mirant Energy Trading, LLC.

⁴The companies formerly known as Nordic Energy and Nordic Electric were restructured in 2004. Nordic operated in Michigan as both Nordic Marketing, LLC, and Nordic Marketing of Michigan, LLC. For purposes of this report, all Nordic companies are combined in this one row.

⁵Total does not add correctly due to rounding.

CHART 4

Detroit Edison Electric Customer Choice Program Activity
 Numbers of Customers & MW In-Service By Month
 July 2005 - December 2006

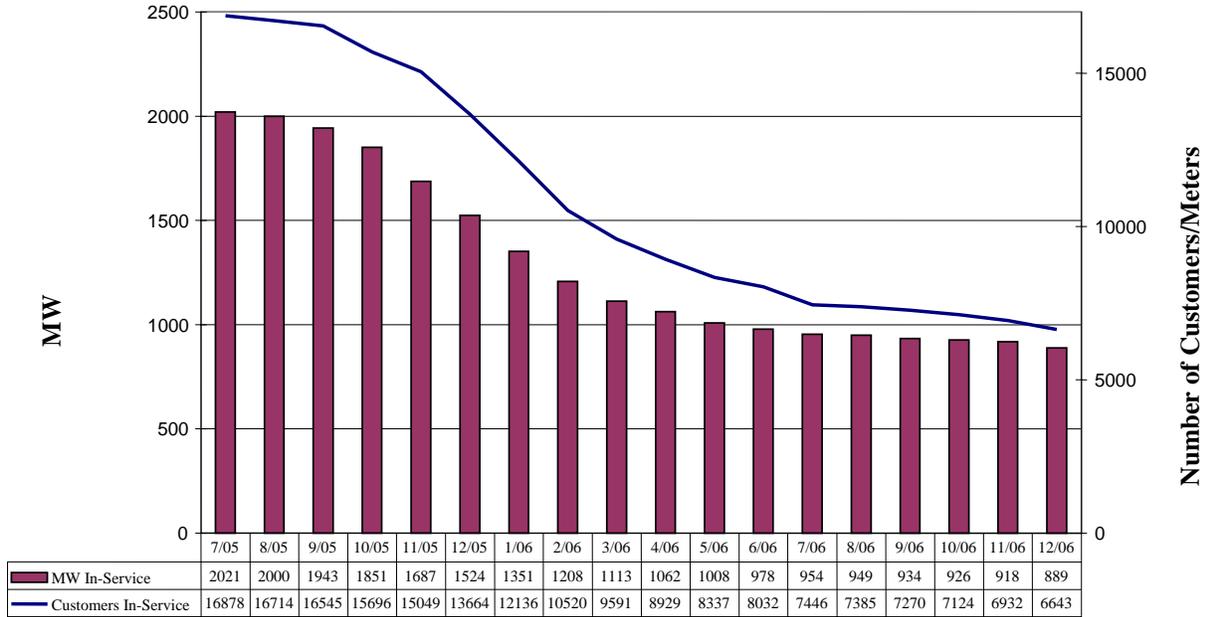
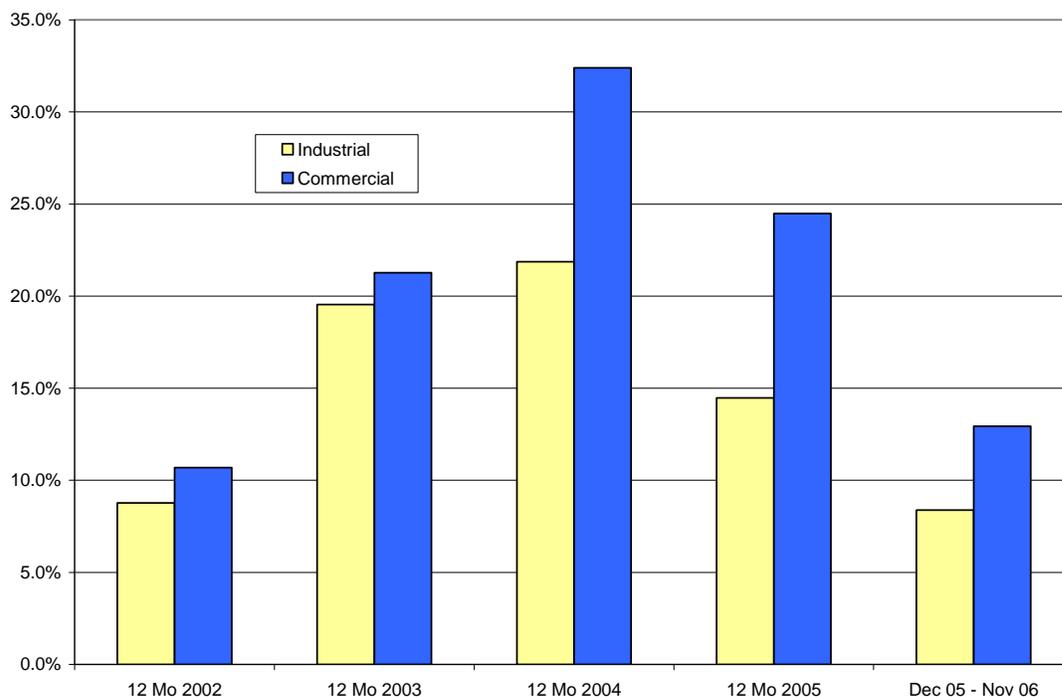


Chart 5

**Detroit Edison Average Monthly ROA Sales as a Percentage of Total (ROA + Non-ROA Sales),
by Customer Class**



Detroit Edison Average Sales Per Month by Customer Class, ROA & Full-Service (MWh)

	2002	2003	2004	2005	Dec '05-Nov '06
Residential ROA	71	87	104	119	73
Residential	1,329,820	1,256,200	1,260,970	1,401,000	1,300,330
Commercial ROA	183,530	358,760	552,330	432,630	222,940
Commercial	1,532,940	1,328,500	1,152,140	1,334,020	1,500,230
Industrial ROA	108,910	247,930	267,540	173,750	102,890
Industrial	1,132,460	1,021,140	955,970	1,026,400	1,124,430

Source: Detroit Edison Company data for U.S. Department of Energy, Energy Information Administration, Form EIA-826, 2002-2006.

Note: Though a small quantity of residential sales is reported in the Detroit Edison service territory, no AESs currently offers service to residential customers. The Residential ROA category reports service to residential accounts associated with commercial customers and very small commercial customers.

Table 3

Major Categories of Michigan Electricity Production

Producer Category	Capacity¹		Total Production 12 Months ending Sept 2006	
	MW	% of Total	MWh	% of Total
Electric Utilities	23,536	78%	100,016,745	87%
Non-Utility Suppliers	6,506	22%	15,066,951	13%
Total	30,042	100%	115,083,696	100%

¹ Capacity equals total summer ratings of all generators in each producer category as reported from EIA 2006 data.
Source: US DOE, Energy Information Administration; EIA Forms 906 and 920,
http://www.eia.doe.gov/cneaf/electricity/page/eia906_920.html

Chart 6

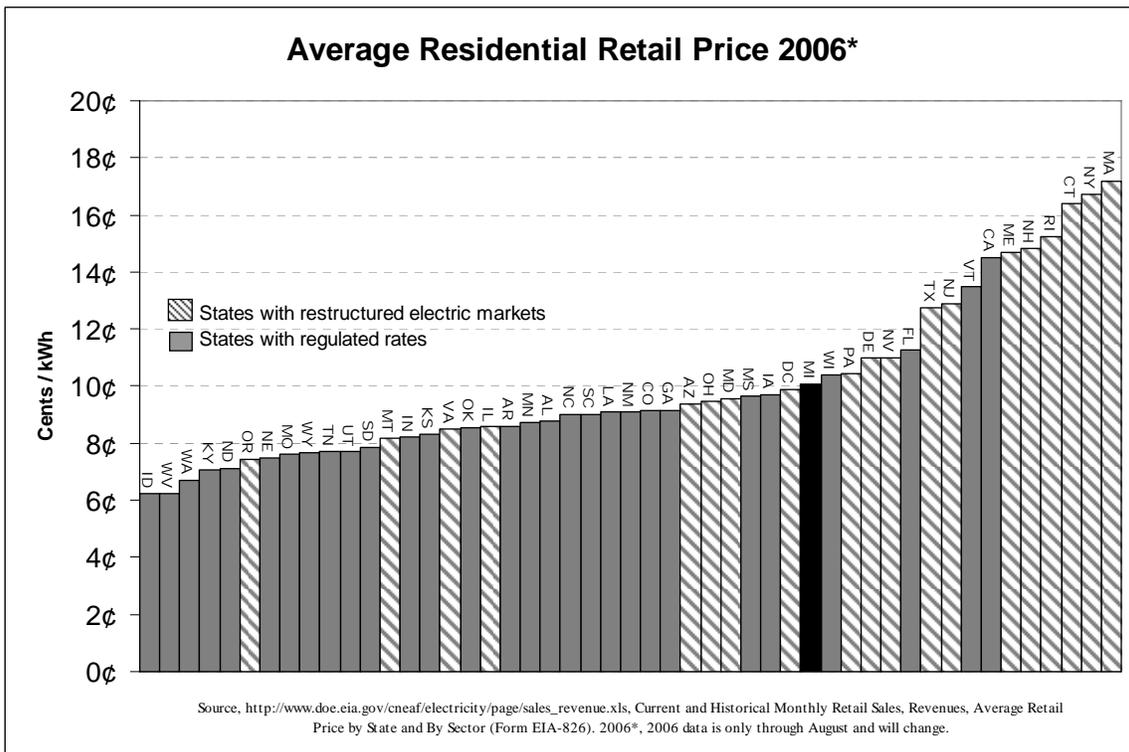
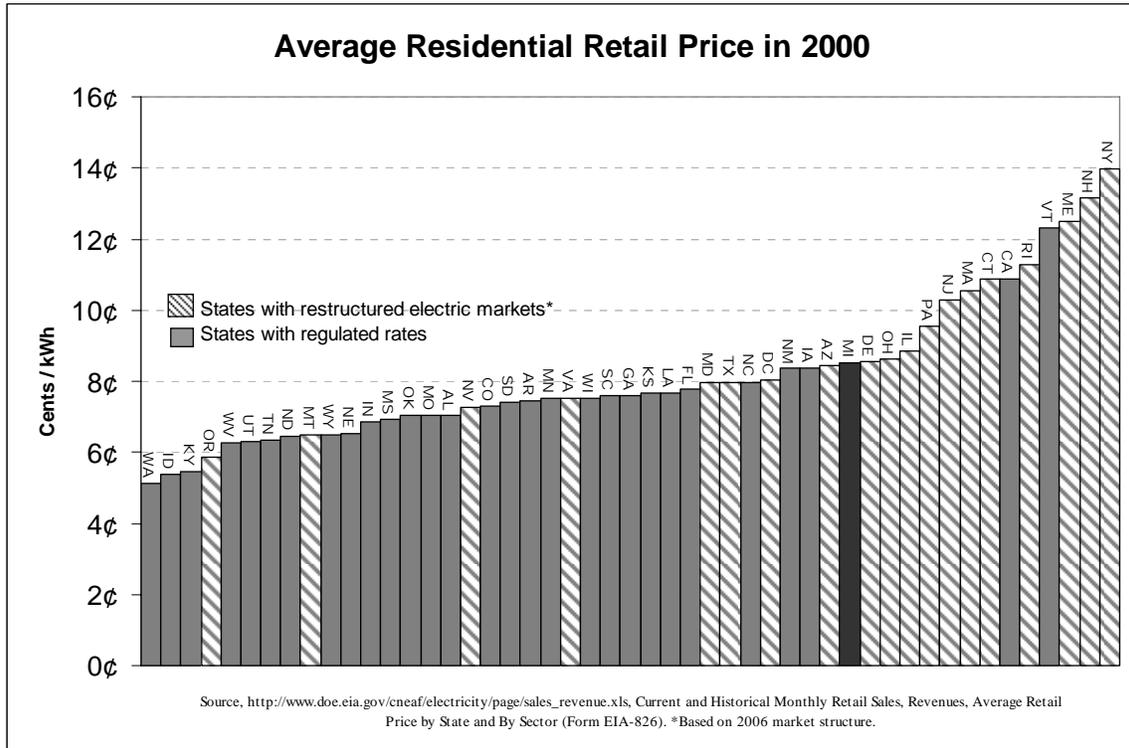


Chart 6

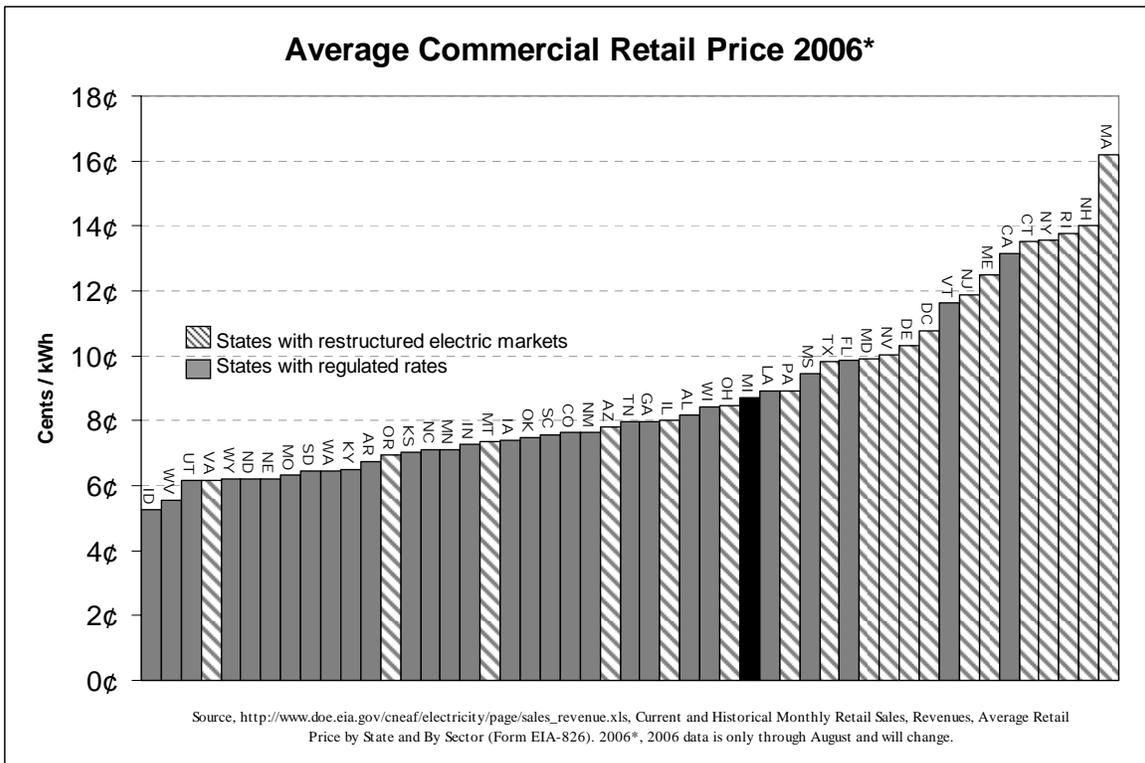
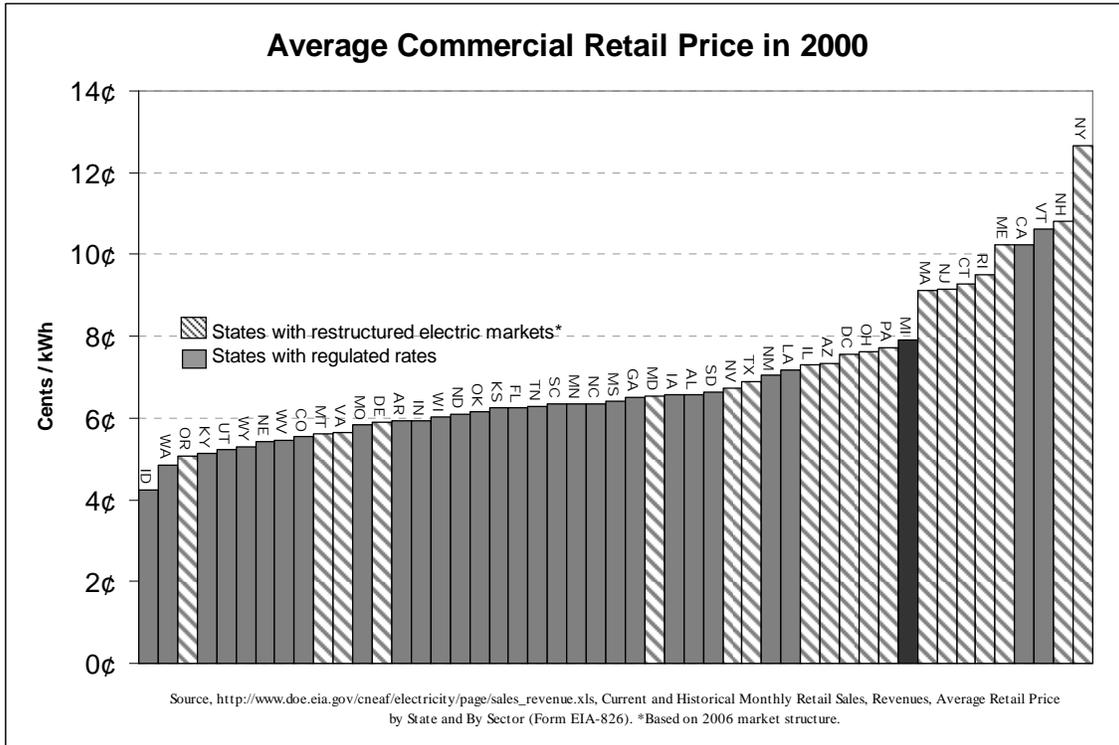


Chart 6

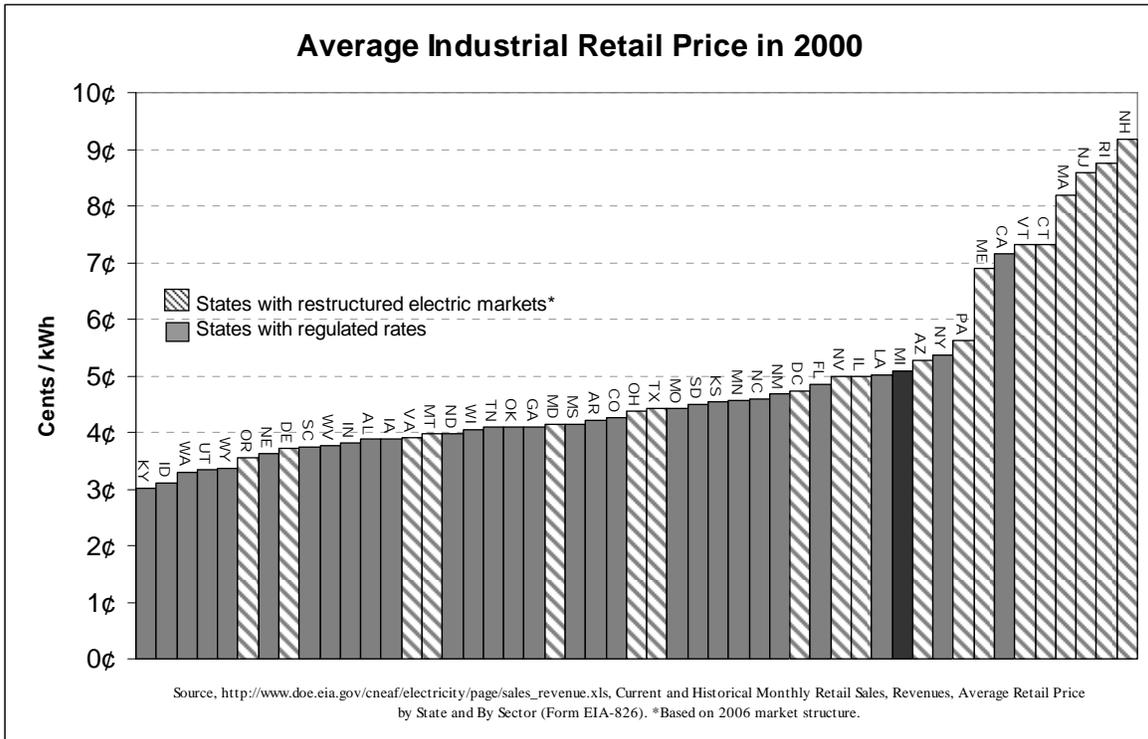
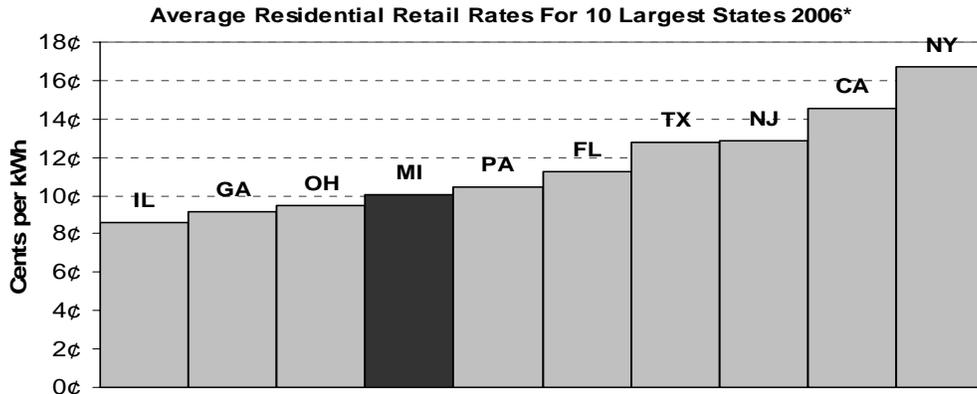
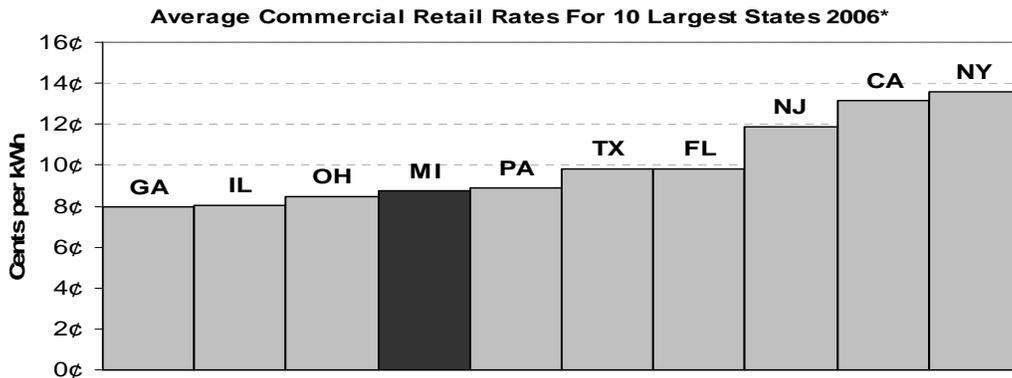


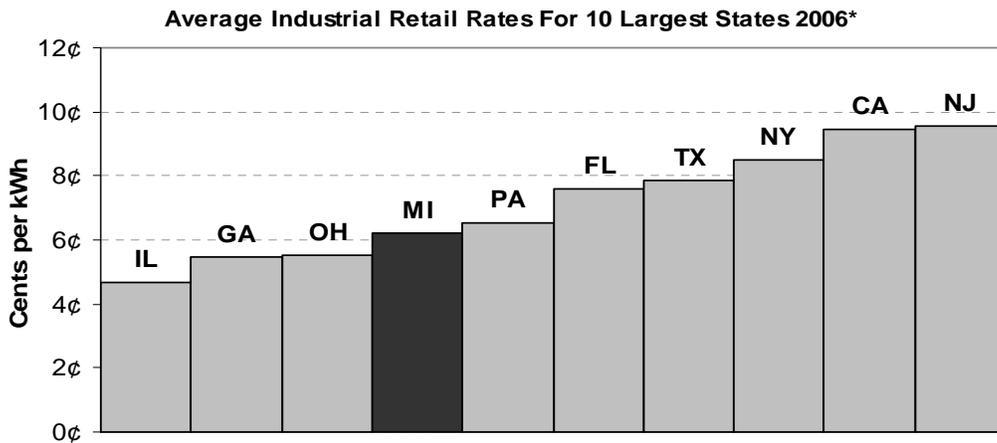
Chart 7



Source, http://www.eia.doe.gov/cneaf/electricity/page/sales_revenue.xls. 2006*, 2006 data is only through August and will change.

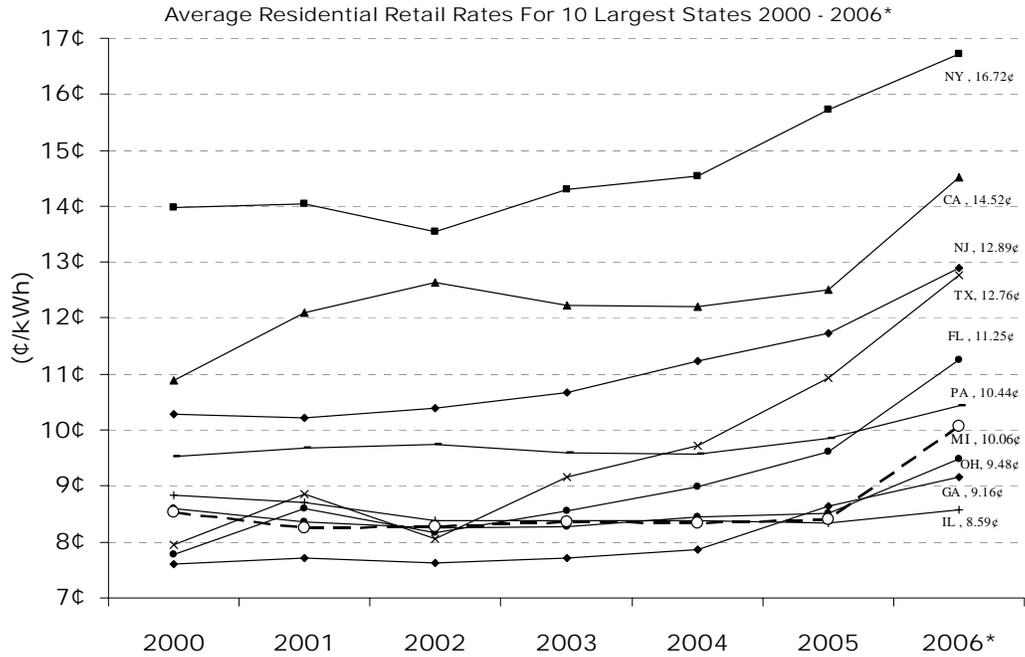


Source, http://www.eia.doe.gov/cneaf/electricity/page/sales_revenue.xls. 2006*, 2006 data is only through August and will change.

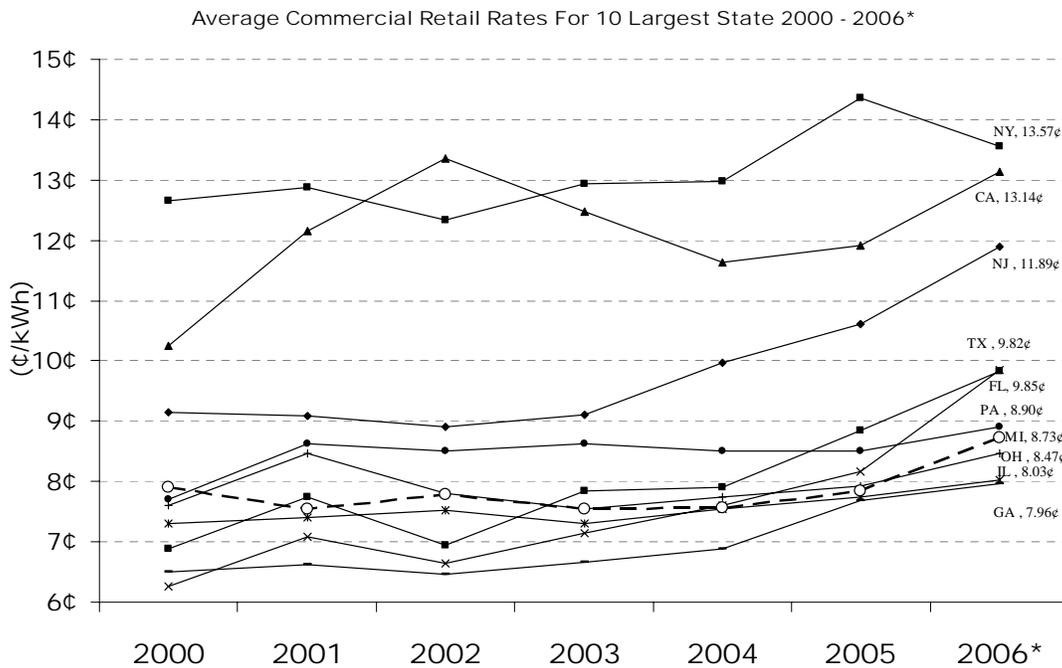


Source, http://www.eia.doe.gov/cneaf/electricity/page/sales_revenue.xls. 2006*, 2006 data is only through August and will change.

Chart 8

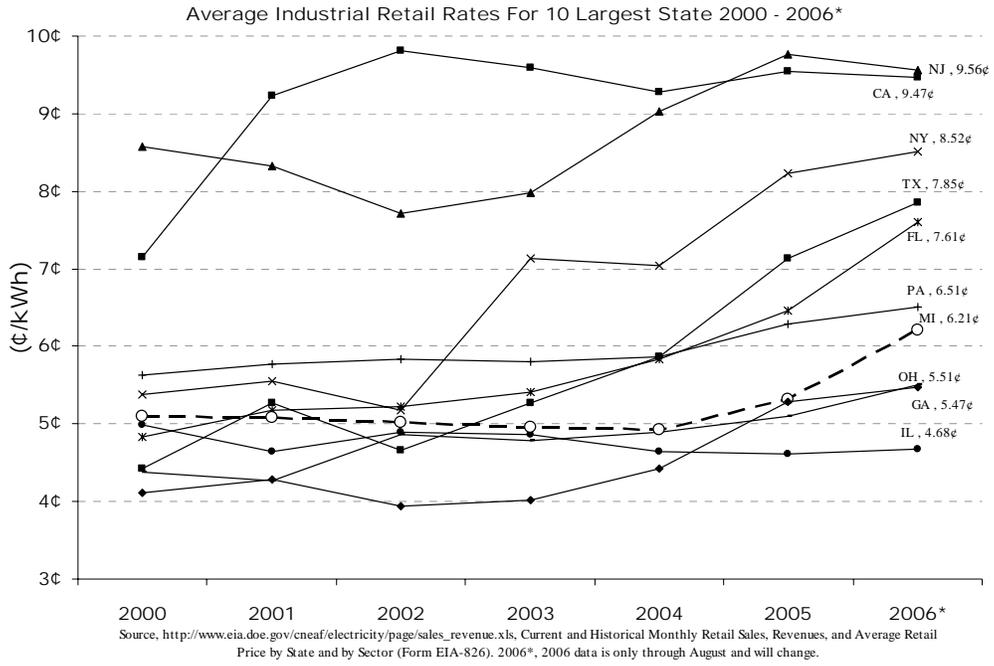


Source: http://www.eia.doe.gov/cneaf/electricity/page/sales_revenue.xls, Current and Historical Monthly Retail Sales, Revenues, and Average Retail Price by State and by Sector (form EIA-826). 2006*, the 2006 data is only through August and will change.



Source: http://www.eia.doe.gov/cneaf/electricity/page/sales_revenue.xls, Current and Historical Monthly Retail Sales, Revenues, and Average Retail Price by State and by Sector (Form EIA-826). 2006*, 2006 data in only through August and will change.

CHART 8



APPENDIX 2

Michigan Public Service Commission Orders in 2006 Related to Implementation of 2000 PA 141

Alternative Electric Suppliers

- [U-13265](#) Cook Inlet Power, L.P. (**AES license rescinded**) 2/9/2006. In this order, the Commission approved Cook Inlet Power's voluntary relinquishment of its license as an alternative electric supplier.
- [U-14764](#) BlueStar Energy Services, Inc. (**AES license**) 2/9/2006. In this order, the Commission granted BlueStar Energy Services a license as an alternative electric supplier.
- [U-13310](#) North American Energy L.L.C. (**AES license rescinded**) 4/13/2006. In this order, the Commission approved the voluntary relinquishment of North American Energy's Alternative Electric Supplier license
- [U-14818](#) American Powernet Management, L.P. (**AES license**) 5/25/2006. In this order, the Commission granted American PowerNet a license to operate as an alternative electric supplier.

Stranded Costs

- [U-13380](#) Consumers Energy Company, U-13720 - Consumers Energy Company, and U-14098 - Consumers Energy Company (**stranded cost**) 1/10/2006. In this order, the Commission denied Energy Michigan's petition for reopening and rehearing of these cases to determine net stranded costs.
- [U-14526](#) Consumers Energy Company (**stranded costs**) 9/26/2006. In this order, the Commission found Consumers Energy's net stranded costs to be zero, after revenues from wholesale power sales to third parties were used to off-set them. The Commission also said it expects this order to conclude the series of stranded cost cases resulting from the restructuring of the electric system (Public Act 141 of 2000) absent unusual circumstances.
- [U-13808-R & U-14474](#) The Detroit Edison Company (**2004 reconciliation and /stranded costs**) 9/26/2006. The Commission found Detroit Edison's net stranded costs for 2004 to be zero, after revenues from wholesale power sales to third parties are used to off-set them.
- [U-13380](#) Consumers Energy Company (**stranded costs**) 10/12/06. In this order, the Commission determined that the 2001-2004 securitization offset for Consumers Energy's retail open access customers was attributable to stranded costs.

- [U-14526](#) Consumers Energy Company (**stranded costs**) 12/12/2006. The Commission denied the Attorney General's rehearing petition of Consumers Energy Company's case on the determination of net stranded costs for the year 2004.

Securitization Surcharges

- [U-12478](#) The Detroit Edison Company (**securitization surcharges**) 2/9/2006. In this order, the Commission adjusted two electric surcharges of Detroit Edison. The utility's bond principal and interest securitization surcharge was increased to 3.93 mills/kWh from 3.88 mills/kWh, and the utility's tax surcharge was increased to 1.21 mills/kWh from 1.10 mills/kWh. Public Act 142 of 2000 authorizes the company to file for periodic true-up of its securitization surcharges to ensure that amounts collected are sufficient to service the securitization bonds and to recover the associated tax liability.
- [U-12505](#) Consumers Energy Company (**securitization true-up**) 11/9/2006. In this order, the Commission ordered Consumers Energy to implement its proposed true-up adjustments as of December 1, 2006. The company was authorized to decrease the bond principal and interest securitization surcharge from 1.302 mills per kWh to 1.265 mills per kWh and to increase the tax surcharge from 0.447 mills per kWh to 0.456 mills per kWh.

Implementation Costs

- [U-13341](#) The Detroit Edison Company (**implementation costs**) 2/9/2006. In this order, the Commission closed the docket on Detroit Edison's recovery of implementation costs for the 12-month period ended December 31, 2001.

Tariff Amendments

- [U-14631](#) Indiana Michigan Power Company (**unbundled tariffs**) 2/21/2006. In this order, the Commission amended Indiana Michigan Power's unbundled tariffs and terms and conditions of open access service.
- [U-15074 et al.](#) Energy Michigan, etc. (**tariff amendment**) 10/24/2006. In this order, the Commission approved a one time change from the December 1, 2006 retail open access customer return to service notification deadline to January 5, 2007.

Power Supply Cost Recovery Factor

- [U-15001](#) Consumers Energy Company (**PSCR roll-in method**) 12/21/2006. In this order, the Commission approved Consumers Energy's proposal to roll-in its 2005 and 2006 power supply cost recovery under-recoveries into the company's 2007 power supply cost recovery factors. The company was also granted continuing authority to roll-in prior year under and over-recoveries into its future power supply cost recovery plans.

- [U-15002](#) The Detroit Edison Company (**PSCR roll-in method**) 12/21/2006. In this order, the Commission approved Detroit Edison's proposal to roll-in its 2006 power supply cost recovery under-recovery into the company's 2007 power supply cost recovery factors. The company was also granted continuing authority to roll-in prior year under and over-recoveries into its future power supply cost recovery plans.

Business Rules

- [U-13948](#) Phil Forner against Consumers Energy Company (**code of conduct**) 2/9/2006. In this order, the Commission fined Consumers Energy \$45,000 for violating the code of conduct, and ordered the company to compensate Mr. Forner \$4,550.
- [U-14329](#) Consumers Energy Company (**cost allocation/code of conduct**) 2/9/2006. In this order, the Commission found that Consumers Energy's billing system use by an unregulated affiliate creates a subsidy of \$0.1040/unit. The company was given ratemaking and accounting authority necessary to ensure that its unregulated services are charged the full amount of the subsidy provided. The Commission also found that any subsidy arising from Consumers' past violations of the code of conduct should be accounted for in Consumers' next general rate case.
- [U-14025](#) et al. Strategic Energy LLC v The Detroit Edison Company, U-14054 - Quest Energy LLC v The Detroit Edison Company, and U-14070 - Constellation NewEnergy Inc. (**rulemaking violation**) 3/13/2006. In these orders, the Commission found Detroit Edison in violation of the retail access service tariff by virtue of delayed enrollments of choice customers. Detroit Edison was ordered to compensate Strategic, Quest, and Constellation for excess credit postings, outside/in-side counsel fees, travel expenses, and reasonable costs and attorney fees incurred in the damage phase of this matter.
- [U-14778](#) Thumb Electric Cooperative (**code of conduct waiver**) 9/26/2006. In this order, the Commission granted Thumb Electric's request for a limited partial waiver to calculate its code of conduct equity margin requirement based solely on its distribution assets.
- [U-14085 et al.](#) Alpena Power Company, etc. (**interconnection standards investigation**) 10/24/2006. In this order, the Commission initiated an investigation into the Commission's current rules governing electric interconnection standards between independent power projects and electric utilities. The investigation included a public meeting that was held on January 9, 2007. The investigation will continue during 2007.

Generation and Transmission Issues

- [U-14231](#) Commission's Own Motion (**Capacity Need Forum**) 1/10/2006. In this order, the Commission sought written comments on the MPSC Staff's final Capacity Need Forum report by March 1, 2006. In addition, the Commission held a public hearing on March 14, 2006 for commenting persons to make verbal presentations directly to the Commission.

- [U-14414](#) Commission's Own Motion (**electric supply reliability**) 1/10/2006. In this order, the Commission closed the docket in the matter initiating an investigation of the adequacy and reliability of electric generation capacity available to meet 2005 needs of customers served by all regulated electric utilities, AESs, and Wolverine Power Supply Cooperative.
- [U-14728](#) Commission's Own Motion (**electric supply reliability**) 1/10/2006. In this order, the Commission required all regulated electric utilities, AESs, utilities' affiliates, Wolverine Power Supply Cooperative, and Wabash Valley Power Association to file assessments of their ability to meet customers' expected electric requirements in 2006. In addition, the Commission solicited comments from MISO on the issues it believes are relevant to this investigation that were due by April 14, 2006.
- [U-14981](#) Consumers Energy Company (**sale of MCV interests**) 7/27/2006. In this order, the Commission initiated a contested case in Consumers Energy Company's proposal to sell all of its ownership interests in the Midland Cogeneration Venture Limited Partnership facility. The Commission did not grant an ex parte proceeding, but set an expedited hearing schedule. A Commission order was issued on November 9, 2006 approving the settlement agreement between the parties that resolved all issues in the case.
- [U-14914](#) Upper Peninsula Power Company (**transfer of transmission ownership**) 8/22/2006. In this order, the Commission approved the Upper Peninsula Power Company's transfer of ownership and control of its Atlantic Substation and integration of it into the American Transmission Company's transmission system. ATC LLC shall pay UPPCo approximately \$406,000 for the transfer.
- [U-14918](#) Wisconsin Public Service Corporation (**electric interruptible program**) 8/22/2006. In this order, the Commission authorized Wisconsin Public Service Corporation to implement its new electric interruptible program that will permit the company to: (a) allow its customers to bid into the MISO Day Ahead market on a voluntary basis, (b) allow Day Ahead notification for the majority of interruptions, (c) remove the requirement to communicate the estimated buyout price, and (4) increase the Economic Interruption Trigger Price after 100 hours of interruption have been called to help manage the 300 hours of interruption.

Energy Efficiency & Renewable Energy

- [U-14667](#) Commission's Own Motion (**energy efficiency report**) 1/31/2006. In this order, the Commission issued a notice of hearing regarding the Staff's Report on energy efficiency programs. The Staff Report analyzed energy efficiency programs currently offered by utilities as well as past programs. The Staff Report made recommendations regarding energy efficiency programs and provided recommendations on how to remove existing utility disincentives to aggressively pursue cost-effective energy efficiency measures. A public hearing was held on March 7, 2006 to review the

report findings. The hearing also allowed comments on the report of the PAYS® collaborative in Case No. U-13808.

- [U-14734](#) Edison Sault Electric Company (**experimental renewable energy rider**) 5/10/2006. In this order, the Commission approved Edison Sault Electric Company's proposed price cap mechanism for its experimental renewable energy rider.
- [U-13843](#) Mackinaw Power, LLC and North American Wind Energy, LLC (**green power pilot program**) 7/25/2006. In this order, the Commission directed Consumers Energy Company to stop collection of the five-cent per meter per month customer charge used to fund its renewable resource program and to refund amounts previously collected from its customers.
- [U-14569](#) The Detroit Edison Company (**renewable resources program**) 9/26/2006 and 12/21/2006. In this order, the Commission ordered Detroit Edison to re-evaluate the benefits of greater diversity in its fuel sources and generation methods and the risks inherent in complete reliance on nonrenewable resources. The Company was to file a revised renewable energy program proposal by March 30, 2007
- [U-14569](#) The Detroit Edison Company (**renewable resources program**) 12/21/2006. In this order, the Commission solicited public comments from any interested person before considering the revised Detroit Edison renewable resource program proposal, with comments due by January 26, 2007.

PAYS® Pilot Program

- [U-13808](#) The Detroit Edison Company (**PAYS® pilot program**) 9/26/2006. In this order, the Commission ordered Detroit Edison Company and Michigan Consolidated Gas Company to file a final pilot program proposal in a new docket, providing a complete and detailed explanation of all elements of the proposed pilot program by January 31, 2007. The Commission stated that the final design of the pilot program should also include specific proposals for the recovery of start-up costs, treatment of bad debt related to the pilot program, and offering the program to all customers, not only full service customers.
- [U-14347](#) Consumers Energy Company (**PAYS® pilot program**) 9/26/2006. In this order, the Commission ordered Consumers Energy Company to file by March 30, 2007, a final pilot program proposal in a new docket, providing a complete and detailed explanation of all elements of the proposed pilot program. Consumers Energy was also ordered to convene a collaborative group to develop the program.

Low-Income Energy Efficiency Fund

- [U-13120](#) Commission's Own Motion (**low-income energy efficiency fund**) 10/24/2006. In this order, the Commission approved \$45 million in low-income energy assistance grants to nine organizations: City of Livonia Housing Commission, MI Department of Human Services, Downriver Community Conference, Lighthouse Emergency Services,

MCAAA, Newaygo County, THAW, Salvation Army, Society of St. Vincent de Paul of Detroit, and Capital Area Community Services.

- [U-13129](#) Commission's Own Motion (**low-income energy efficiency fund**) 12/12/2006. The Commission approved \$13 million in low-income energy efficiency grants to eight organizations. Grants were awarded to the Michigan Department of Human Services, Bay de Noc Community College, Habitat for Humanity, Newaygo County Community Services, Nova Development Group, Nonprofit Facilities Assistance Center, Warm Training Center, and Urban Options.

Commission Action to Protect Customers

- [U-13808](#), et al. The Detroit Edison Company, U-14522 - The Association of Business Advocating Tariff Equity, and U-14838 - The Detroit Edison Company (**show cause**) 3/23/2006. In these orders, the Commission directed The Detroit Edison Company to show cause why its retail electric rates should not be reduced. The Commission expedited the case proceedings and dispensed with the need for a proposal for decision by the administrative law judge.
- [U-14593](#) Great Wolf Lodge v Cherryland Electric Cooperative (**service provider complaint**) 5/25/2006. In this order, the Commission required Cherryland to refund \$72,550.16 to Great Wolf Lodge that resulted from being on the wrong electric rate. Under Rule 411, Cherryland was found to be the proper service provider to Great Wolf Lodge.
- [U-14593](#) Great Wolf Lodge of Traverse City against Cherryland Electric Cooperative (**service provider complaint**) 8/22/2006. In this order, the Commission denied the Great Wolf Lodge of Traverse City petition for rehearing.
- [U-14838](#) The Detroit Edison Company (**show cause**) 8/31/2006. In this order, the Commission approved a settlement agreement that reduced electric rates for residential and business customers by a total of \$78.75 million. The order also approved an experimental Choice Incentive Mechanism (CIS) and an experimental load aggregation program for large commercial and industrial customers. In addition, a settlement agreement was approved that resulted from a collaborative on metering and amended electric choice tariffs.

Minute Actions

- [Minute Action](#) Midwest Independent Transmission (confidential information) 8/22/2006. This minute action authorized General Counsel to certify that the Commission is the Authorized Agency pursuant to the Midwest Independent Transmission System Operator relating to the MPSC's legal obligations and those of its authorized representatives with

respect to confidential information that may be disclosed by the Midwest Independent Transmission System Operator or its Market Monitor.

- [Minute Action](#) Entergy Nuclear Palisades, LLC (ER06-1410-000) & Entergy Nuclear Power Market, LLC (ER06-1411-000) 9/26/2006. The Commission requested the Department of Attorney General to intervene on behalf of the Michigan Public Service Commission in an application by Entergy Nuclear Palisades and Entergy Nuclear Power Marketing for approval of tariffs to sell power at market-based rates within the MISO region.
- [Minute Action](#) Wisconsin Public Service Corporation, Upper Peninsula Power Company, WPS Energy Services, WPS Power Development v Midwest Independent Transmission System Operator, PJM Interconnection (EL06-97-000) 9/26/2006. The Commission requested the Department of Attorney General to intervene on behalf of the Michigan Public Service Commission before the Federal Energy Regulatory Commission in Docket No. ER06-97-000, a formal complaint filed by Wisconsin Public Service Corp., UPPCo., WPS Energy Services, WPS Power Dev. against Midwest Independent Transmission System Operator and PJM alleging that the June 28, 2006 report to the FERC in Docket Nos. ER04-375-017 and ER04-375-018 fails to comply with the FERC's orders requiring the Respondents to implement a comprehensive Joint and Common Market.
- [Minute Action](#) Consumers Energy Company, Entergy Nuclear Palisades, LLC (EC06-155-000) 9/26/2006. The Commission requested the Department of Attorney General intervene on behalf of the Michigan Public Service Commission before the Federal Energy Regulatory Commission in Docket No. EC06-155-000 a filing by Consumers Energy and Entergy Nuclear Palisades requesting authority for Consumers to sell and Entergy to buy the Palisades Nuclear Power Plant and associated facilities.
- [Minute Action](#) Michigan Electric Transmission Company, LLC, and Midwest Independent Transmission Operator, Inc. (FERC Docket No. ER07-95-000) 12/12/2006. The Commission requested the Department of Attorney General to intervene and protest on behalf of the Michigan Public Service Commission (MPSC) before the Federal Energy Regulatory Commission in this docket, an application by Michigan Electric Transmission Company, LLC, and Midwest Independent Transmission System Operator, Inc., to revise Attachment O of the Midwest ISO's Open Access Transmission and Energy Market Tariff to allow Michigan Electric Transmission Company to recover its revenue requirement on a projected basis.

APPENDIX 3

Michigan Licensed Alternative Electric Suppliers *

Company Name, Address, Contact Information	Case Number	Authorization Date
Accent Energy Midwest LLC - <i>Company has received a license. A Michigan office must be established before the company can begin marketing.</i>	U-14012	2/12/2004
American PowerNet Management, L.P. c/o New Page 7100 County Road 426, Escanaba, MI 49829 Phone: 877-977-2636 Fax: 610-372-9100 Email: dbutsack@americanpowernet.com URL: http://www.americanpowernet.com	U-14818	5/25/2006
BlueStar Energy Services, Inc. - <i>Company has received a license. A Michigan office is required to begin marketing.</i>	U-14764	2/9/2006
CMS ERM Michigan LLC One Energy Plaza, Suite 1060, Jackson, MI 49201-2277 Serving Dearborn Industrial Generation	U-12567	8/17/2000
CMS Energy Resource Management Co. One Energy Plaza, Suite 1060, Jackson, MI 49201-2277 Phone: 517-788-1944 Fax: 517-787-4606 Email: dmzwitter@cmsenergy.com	U-12563	8/17/2000
Commerce Energy Inc. 32991 Hamilton Court, Farmington Hills, MI 48334 Phone: 800-556-8457 Fax: 887-332-1067 Email: contactus@commerceenergy.com URL: www.commerceenergy.com	U-13203	11/20/2001
Constellation NewEnergy, Inc. 1000 Town Center, Suite 2350, Southfield, MI 48075 Phone: 877-232-1200 (Toll free) Fax: 248-936-9007 Email: daniel.t.schilens@constellation.com URL: http://www.newenergy.com	U-13660	12/20/2002
Dillon Energy Services, Inc. 21312 Mack Avenue, Grosse Pointe Woods, MI 48236 Phone: 313-885-4299 Fax: 313-885-4720 Email: dillonenergy@comcast.net URL: http://www.dillonenergy.com	U-13703	2/20/2003
Direct Energy Services, LLC 39111 West 6 Mile, Livonia, MI 48152 Phone: 866-736-4818 Email: customerservice@directenergy.com URL: www.directenergy.com	U-14724	12/20/2005
Dorman Energy, LLC <i>Not currently serving the Michigan Market</i>	U-13281	2/1/2002
Exelon Energy Company 4300 Winfield Road, Warrenville, IL 60555 Phone: 877-617-8593 (Toll free) Fax: 877-212-2630 Email: michoice@exelonenergy.com URL: http://www.exelonenergy.com	U-12662	10/6/2000

• This list is current as of December 2006. An up-to-date AES directory is kept on the MPSC website, at <http://www.dleg.state.mi.us/mpsc/electric/restruct/esp/>. For information about AES licensing and a current listing of pending applications, if any, see <http://www.dleg.state.mi.us/mpsc/electric/restruct/esp/>.

FirstEnergy Solutions 395 Ghent Road, Akron, Ohio 44333 Phone: 800-977-0500 Fax: 330-315-6913 Email: leppm@fes.com URL: http://www.fes.com	U-13244	01/08/2002
Metro Energy, LLC 414 S. Main Street, Suite 600, Ann Arbor, MI 48104 Phone: 734-302-4866 Fax: 734-302-8242 Email: fountag@dtees.com	U-13311	2/25/2002
MidAmerican Energy Co. 39555 Orchard Hill Place, Suite 600, Novi, MI 48375 Phone: 800-432-8893 Email: customerservice-retail@midamerican.com URL: www.midamericanchoice.com	U-13928	3/29/2004
Mirant Energy Trading, LLC 1155 Perimeter Center West, Atlanta, GA 30338 Phone: 678-579-3104 Fax: 678-579-5946 Email: dan.phillips@mirant.com URL: http://www.mirant.com	U-13516	9/16/2002
Nordic Marketing, LLC 2010 Hogback Road, Suite 4, Ann Arbor, MI 48105 Phone: 888-262-9919 URL: http://www.nordicmarketing.com	U-12568	8/17/2000
Nordic Marketing of Michigan, LLC 2010 Hogback Road, Suite 4, Ann Arbor, MI 48105 Phone: 888-262-9919 URL: http://www.nordicmarketing.com	U-14168	8/31/2004
Peoples Energy Services Corporation 210 East Main Street, Niles, MI 49120 Phone: 866-645-9805 Fax: 312-946-8547 Email: customerservice@peopleenergy.com URL: www.peoplesenergyservices.com	U-14548	12/20/2005
PowerOne Corporation 6850 N. Haggerty, Canton, MI 48187 Phone: 734-455-2500 Fax: 734-455-1038 Email: info@poweronecorp.com URL: http://www.poweronecorp.com	U-13280	2/1/2002
Premier Energy Marketing, L.L.C. 900 Victors Way, Ann Arbor, MI 48108 Phone: 866-348-7605 (Toll Free) Fax: 734-929-1259 URL: http://www.premierenergy.net	U-13620	11/7/2002
Quest Energy, LLC 3520 Green Court, Suite 200, Ann Arbor, MI 48105 Phone: 734-761-3178 Fax: 734-761-2140 Email: fwpolenz@wpsenergy.com URL: www.wpsenergy.com	U-12566	8/17/2000
Sempra Energy Solutions 100 W. Big Beaver Road, Suite 200, Troy, MI 48084 Phone: 877-273-6772 Fax: 619-696-3103 Email: RBoston@SempraSolutaions.com URL: www.SempraSolutions.com	U-13361	4/16/2002
Strategic Energy, LLC 17197 N. Laurel Park Drive, Livonia, MI 48152 Phone: 800-830-5923 Fax: 734-432-2612 Email: dforgacs@sel.com URL: http://www.sel.com	U-13609	11/7/2002
Suez Energy Resources NA, Inc. – <i>Company has received a license. A Michigan office is required to begin marketing.</i>	U-14559	10/18/2005

U.P. Power Marketing LLC 1 Willow Road, White Pine, MI 49971 (CONDITIONAL LICENSE)	U-14594	8/16/2005
Wolverine Power Marketing Cooperative, Inc. 10125 W. Watergate Road, P. O. Box 100, Cadillac, MI 49601 Phone: 800-283-1270 (Toll-free) Fax: 231-775-0172 Email: cborr@wpsci.com URL: http://www.wpmc.coop	U-12723	11/20/2000
WPS Energy Services, Inc. 3520 Green Court, Suite 200, Ann Arbor, MI 48105 Phone: 734-761-3178 Ext. 231 Fax: 734-761-2140 Email: fwpolenz@wpsenergy.com URL: http://www.wpsenergy.com	U-13245	01/08/2002

APPENDIX 4



Jennifer M. Granholm
GOVERNOR

STATE OF MICHIGAN
PUBLIC SERVICE COMMISSION
DEPARTMENT OF LABOR & ECONOMIC GROWTH
ROBERT W. SWANSON
DIRECTOR

J. Peter Lark
CHAIRMAN

Laura Chappelle
COMMISSIONER

Monica Martinez
COMMISSIONER

August 16, 2006

The Honorable Bruce Patterson
State Senator
The Capitol
P.O. Box 30036
Lansing, MI 48909

The Honorable Mike Nofs
State Representative
The Capitol
P.O. Box 30014
Lansing, MI 48909

Dear Senator Patterson and Representative Nofs:

We are writing to follow-up on the issue of the Michigan Public Service Commission's continuing development of the Michigan Renewables Energy Program as directed by Section 10r(6) of 2000 PA 141. As you know, we identified this issue as a matter for consideration by the legislature in our report on the Status of Electric Competition in Michigan issued on February 1, 2006, and later the Chairman testified on this matter before the Technology and Energy Committee.

Specifically, Section 10r(6) directs that the Michigan Public Service Commission:
". . . shall establish the Michigan renewables energy program. The program shall be designed to inform customers in this state of the availability and value of using renewable energy generation and the potential of reduced pollution. The program shall also be designed to promote the use of existing renewable energy sources and encourage the development of new facilities."

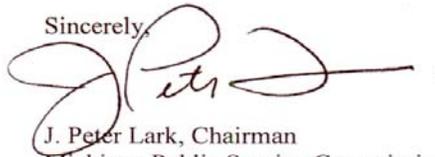
In our report on the Status of Electric Competition in Michigan, we noted that Commission orders initiating renewable energy programs directing Consumers Energy and Detroit Edison to begin collecting a charge of five cents per meter per month from all customers had been reversed by the Michigan Court of Appeals. The Court determined that the Commission's legal authority under PA 141 of 2000 did not authorize the Commission to implement such a charge. The Commission appealed the decision and on June 21, 2006, the Supreme Court issued an order denying the Commission's application for leave to appeal. The Commission has since amended its order to cease implementation of the five cent charge.

The Honorable Bruce Patterson
The Honorable Mike Nofs
August 16, 2006
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In light of the finality of the appellate process in this matter, we ask you to again consider legislation to provide the Commission the ratemaking authority necessary to support the renewables energy program established by law.

Please do not hesitate to contact us if you have questions, or if you need additional information concerning this matter.

Sincerely,



J. Peter Lark, Chairman
Michigan Public Service Commission



Laura Chappelle, Commissioner
Michigan Public Service Commission



Monica Martinez, Commissioner
Michigan Public Service Commission

c: Members, Senate Technology and Energy Committee
Members, House Energy and Technology Committee