

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) Case No. U-15806
THE DETROIT EDISON COMPANY to fully)
comply with Public Acts 286 and 295 of 2008.)
_____)

At the May 10, 2011 meeting of the Michigan Public Service Commission in
Lansing, Michigan.

PRESENT: Hon. Orjiakor N. Isiogu, Chairman
Hon. Monica Martinez, Commissioner
Hon. Greg R. White, Commissioner

OPINION AND ORDER

On October 6, 2008, Public Acts 286 and 295 of 2008 were signed into law, which amended MCL 460.1 *et seq.* and created MCL 460.1001 *et seq.* (Act 295), respectively. On October 21, 2008, the Commission commenced this case to facilitate The Detroit Edison Company's (Detroit Edison) obtaining the regulatory reviews, determinations, and approvals necessary for it to fully comply with the new acts.

On August 13, 2010, Detroit Edison filed an application under MCL 460.1033(3) for *ex parte* Commission review and approval of a long term power purchase agreement (PPA) with Gratiot County Wind LLC (GCW) for 200 megawatts (MW) of renewable wind energy, capacity, and renewable energy credits (RECs), which includes an option for the company to purchase a portion of the wind project with a capacity of either 59.2 MW or 89.6 MW.

The company intended to contract for the balance of the PPA in the amount of either 140.8 MW or 110.4 MW, respectively, for the energy, capacity, and RECs. In support of the company's purchase option and in addition to the PPA, Detroit Edison submitted a build transfer agreement (BTA) that describes the obligations of the transfer of assets, a shared facilities agreement (SFA) that details how the company and GCW will jointly operate the wind farm, and a letter agreement, which, upon Detroit Edison's decision to exercise the option to purchase a portion of the wind project in the PPA, initiates the SFA and BTA. Collectively, the agreements are referred to as the Gratiot County Wind Contracts.

The Gratiot County Wind Contracts resulted from Detroit Edison's request for proposals, as described in the August 13, 2010 application. The Commission's September 14, 2010 order in this case granted approval of the Gratiot County Wind Contracts for the purposes of compliance with Act 295, provided assurance of cost recovery, ordered Detroit Edison to submit requests for imputed debt-related cost recovery in a future general rate case proceeding, and, if the company decided to exercise its option to purchase, ordered Detroit Edison to file a letter in this docket explaining the purchase accompanied by executed copies of the contracts.

On January 25, 2011, Detroit Edison filed a letter reflecting the company's timely exercise of its option to purchase 89.6 MW, and copies of the executed BTA and SFA. After Commission approval and Detroit Edison's purchase of 89.6 MW of capacity, development of the Gratiot County Wind farm began. Invenergy Wind Development Michigan LLC was able to secure leases to additional parcels of land within the overall boundaries of the project.

Detroit Edison's April 22, 2011 application requests *ex parte* approval of a set of contracts collectively referred to as the Amended Gratiot County Wind Contracts (Amendments). The

PPA approved by the Commission on September 14, 2010 is modified from 200 MW to 110.4 MW to reflect Detroit Edison's decision to exercise its option to purchase a portion of the wind farm. The BTA and SFA approved by the Commission on September 14, 2010 are modified to allow Detroit Edison to purchase and own an incremental 12.8 MW of capacity by the addition of eight 1.6 MW turbines to the project.

The application asserts that the Amendments provide substantial additional benefits to Detroit Edison and its customers including: (1) higher utilization of supporting infrastructure (interconnection and collection system), which contributes to a lower expected lifecycle cost per kilowatt hour (kWh); (2) opportunity to optimize turbine locations, which may also contribute to a lower lifecycle cost per kWh; (3) production of more renewable electricity sooner, which improves Detroit Edison's Act 295 compliance levels, and provides more environmental benefits to Michigan sooner; (4) compliance with industry best practice to try to fill landlocked parcels when doing final siting, and to reduce the number of non-participating parcels within the boundaries of a wind farm, which improves community support and benefits customers; and (5) incorporating land into the project that otherwise would likely remain undeveloped due to its size and location.

In addition, the application states this incremental capacity will be installed and operational prior to the expiration of the federal renewable electricity production tax credits (PTC) currently scheduled to end for new projects at the end of 2012. The PTC on the incremental 12.8 MW of capacity would provide a direct economic benefit to customers of over \$15 million during the first ten years.

Detroit Edison states that the terms of the PPA as originally approved by the Commission remain favorable. Including the purchase of the incremental 12.8 MW under the Amendments,

the average cost would be less than the approved amount of \$2,320 per kilowatt (kW), as well as less than the \$2,591 per kW cost discussed in the company's renewable energy plan approved by the Commission in the June 2, 2009 and August 25, 2009 orders in Case No. U-15806.

Detroit Edison filed copies of the Amendments with certain sensitive portions redacted to protect confidential information that might negatively affect the competitive market. However, Detroit Edison offered the Commission Staff (Staff) the opportunity to review unredacted versions of the documents.

Detroit Edison requests that the Commission approve the Amendments to the Gratiot County Wind Contracts including expanding the project size by 12.8 MW and increasing the portion of the project to be purchased by Detroit Edison by 12.8 MW, and provide assurance that the full costs will be recoverable through the combined application of the transfer price mechanism and the renewable energy surcharges. Detroit Edison states that the Amendments reflect lower incremental costs of compliance and lower overall cost of service to Detroit Edison's customers than assumed in the company's Commission-approved renewable energy plan in Case No. U-15806. Further, Detroit Edison states that approval of the Amendments "will not result in an alteration or amendment in rates or rate schedules" and "will not result in an increase in the cost of service to customers." Therefore, Detroit Edison's application may be authorized and approved without notice or hearing pursuant to MCL 460.6a(1).

Detroit Edison is also requesting that the Commission approve recovery of \$55.1 million in revenue related to imputed debt associated with this PPA, subject to reconciliation to actual imputed debt in future rate cases and renewable reconciliation cases.

Discussion

MCL 460.1033 provides in part:

(1) Subject to subsections (2) and (3), an electric provider that had 1,000,000 or more retail customers in this state on January 1, 2008 shall obtain the renewable energy credits that are necessary to meet the renewable energy credit standard in 2015 and thereafter as follows:

* * *

(b) At least 50% of the renewable energy credits shall be from renewable energy contracts that do not require transfer of ownership of the applicable renewable energy system to the electric provider or from contracts for the purchase of renewable energy credits without the associated renewable energy. A renewable energy contract or contract for the purchase of renewable energy credits under this subdivision shall be executed after a competitive bidding process conducted pursuant to guidelines issued by the commission....

* * *

(3) An electric provider shall submit a contract entered into pursuant to subsection (1) to the commission for review and approval. If the commission approves the contract, it shall be considered to be consistent with the electric provider's renewable energy plan....

MCL 460.1037 provides in part:

If, after the effective date of this act, an electric provider whose rates are regulated by the commission enters a renewable energy contract or a contract to purchase renewable energy credits without the associated renewable energy, the commission shall determine whether the contract provides reasonable and prudent terms and conditions and complies with the retail rate impact limits under section 45. In making this determination, the commission shall consider the contract price and term.

As required by Section 37 of Act 295, the Commission has considered the factors in Section 37 and finds that the Amendments should be approved. The Commission agrees to provide assurance that the full costs of the Amendments will be recoverable through the combined application of the transfer price mechanism and the renewable energy surcharges.

The Commission finds that *ex parte* review and approval is appropriate because the PPA will not affect rates or rate schedules resulting in an increase in the cost of service to customers. As stated in the Commission's December 4, 2008 order in Case No. U-15800, the Commission

reminds the Staff that it intends to act on requests for contract approval within 30 days of the date that the Commission has all necessary information needed to make the determination. The Commission has all necessary information needed to approve these contracts. The Commission reiterates that it expects the Staff to give expeditious treatment to renewable energy contracts to encourage development of the most cost practical and highest quality renewable energy resources.

The Commission stated in its June 2, 2009 order in Case No. U-15806, p. 22, that, “Imputed debt cost shall be considered at the time of PPA approval” The Commission considered imputed debt related to this contract and recognizes that credit rating agencies may impute debt as the company’s risk factor increases, resulting from the uncertainty of rate recovery associated with a PPA, or a combination of multiple PPAs. This could result in a reduction in Detroit Edison’s credit rating and a higher cost of service. However, in its March 18, 2010 order in the Michigan Consolidated Gas Company case, Case No. U-15699, p. 12, the Commission noted, “...how difficult it is to predict how ratings agencies will react to changes in various factors, including financial metrics.” Further, on p. 6 of the September 14, 2010 order in this case, the Commission ordered that, “[t]he Detroit Edison Company shall submit requests for imputed debt-related cost recovery in a future general rate case proceeding. The company shall bear the burden of proof that the infusion of equity resulting from imputed debt is necessary.”

The Commission finds that accounting associated with imputed debt is best handled in a general rate case proceeding so that Detroit Edison’s total financial metrics can be analyzed and the Staff can better determine how a particular PPA or a combination of PPAs has affected these

metrics. At that time, Detroit Edison would be required to bear the burden of proof that the infusion of equity resulting from imputed debt is necessary.

THEREFORE, IT IS ORDERED that:

A. The Detroit Edison Company's amended contracts with Gratiot County Wind LLC are approved for the purposes of compliance with 2008 PA 295.

B. The Commission shall provide assurance that the full costs of the power purchase agreement, shared facilities agreement, and letter agreement will be recoverable through the combined application of the transfer price schedule, attached as Exhibit A, and the application of the renewable energy surcharges.

C. The Detroit Edison Company shall submit requests for imputed debt-related cost recovery in a future general rate case proceeding. The company shall bear the burden of proof that the infusion of equity resulting from imputed debt is necessary.

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

Greg R. White, Commissioner

By its action of May 10, 2011.

Mary Jo Kunkle, Executive Secretary

EXHIBIT A

Michigan Public Service Commission
 The Detroit Edison Company
 2009 Forecasted Transfer Price For Use in
 PA 295 Activities for the Period 2009 - 2029

Case No.: U-15806 RPS
 Exhibit No.: A-8 (JHB-4)
 Page: 1 of 1
 Witness: J. Byron

line no.	(a) Year	(b) Annual Average Locational Marginal Cost (\$/MWh)	(c) Final Capacity Cost (\$/MW-Yr)	(d) Final Capacity Cost @ 100% Capacity Factor (\$/MWh)	(e) Landfill		(g) Anaerobic/Cellulosic Digester		(i) Solar		(k) Wind		(m) Blended Transfer Price (\$/MWh)
					(f) Adjusted Capacity Payment (\$/MWh)	(h) Total Transfer Price (\$/MWh)	(g) Adjusted Capacity Payment (\$/MWh)	(h) Total Transfer Price (\$/MWh)	(i) Adjusted Capacity Payment (\$/MWh)	(j) Total Transfer Price (\$/MWh)	(k) Adjusted Capacity Payment (\$/MWh)	(l) Total Transfer Price (\$/MWh)	
1													
2	2006 ⁽¹⁾	43.71	3,350										
3	2007 ⁽¹⁾	48.77	11,678										
4	2008 ⁽¹⁾	52.25	15,400										
5	2009	48.52	24,700	\$ 2.82	\$ 3.13	\$ 51.66	\$ 3.52	\$ 52.05	\$ 21.69	\$ 70.21	\$ 1.14	\$ 49.66	\$ 51.34
6	2010	54.39	30,000	\$ 3.42	\$ 3.81	\$ 58.20	\$ 4.28	\$ 58.67	\$ 26.34	\$ 80.73	\$ 1.38	\$ 55.77	\$ 57.84
7	2011	56.32	40,000	\$ 4.57	\$ 5.07	\$ 61.40	\$ 5.71	\$ 62.03	\$ 35.12	\$ 91.45	\$ 1.84	\$ 58.16	\$ 60.62
8	2012	71.73	60,000	\$ 6.83	\$ 7.59	\$ 79.32	\$ 8.54	\$ 80.27	\$ 52.54	\$ 124.27	\$ 2.75	\$ 74.49	\$ 77.49
9	2013	72.32	90,000	\$ 10.27	\$ 11.42	\$ 83.74	\$ 12.84	\$ 85.17	\$ 79.03	\$ 151.35	\$ 4.14	\$ 76.47	\$ 80.12
10	2014	73.05	125,000	\$ 14.27	\$ 15.85	\$ 88.90	\$ 17.84	\$ 90.88	\$ 109.76	\$ 182.81	\$ 5.75	\$ 78.80	\$ 82.97
11	2015	76.01	156,154	\$ 17.83	\$ 19.81	\$ 95.82	\$ 22.28	\$ 98.29	\$ 137.12	\$ 213.13	\$ 7.19	\$ 83.20	\$ 88.05
12	2016	78.06	162,831	\$ 18.54	\$ 20.60	\$ 98.65	\$ 23.17	\$ 101.23	\$ 142.59	\$ 220.65	\$ 7.47	\$ 85.53	\$ 90.61
13	2017	79.12	169,393	\$ 19.34	\$ 21.49	\$ 100.60	\$ 24.17	\$ 103.29	\$ 148.75	\$ 227.87	\$ 7.80	\$ 86.92	\$ 92.18
14	2018	81.20	176,047	\$ 20.10	\$ 22.33	\$ 103.53	\$ 25.12	\$ 106.32	\$ 154.59	\$ 235.79	\$ 8.10	\$ 89.30	\$ 93.86
15	2019	84.75	182,846	\$ 20.87	\$ 23.19	\$ 107.95	\$ 26.09	\$ 110.85	\$ 160.56	\$ 245.31	\$ 8.42	\$ 93.17	\$ 97.57
16	2020	88.04	189,960	\$ 21.63	\$ 24.03	\$ 112.07	\$ 27.03	\$ 115.07	\$ 166.35	\$ 254.39	\$ 8.72	\$ 96.76	\$ 100.97
17	2021	92.34	197,423	\$ 22.54	\$ 25.04	\$ 117.38	\$ 28.17	\$ 120.51	\$ 173.36	\$ 265.70	\$ 9.09	\$ 101.43	\$ 105.78
18	2022	96.36	205,164	\$ 23.42	\$ 26.02	\$ 122.38	\$ 29.28	\$ 125.63	\$ 180.16	\$ 276.51	\$ 9.44	\$ 105.80	\$ 110.33
19	2023	101.25	213,210	\$ 24.34	\$ 27.04	\$ 128.29	\$ 30.42	\$ 131.67	\$ 187.22	\$ 288.47	\$ 9.81	\$ 111.06	\$ 115.76
20	2024	106.78	221,470	\$ 25.21	\$ 28.01	\$ 134.80	\$ 31.52	\$ 138.30	\$ 193.95	\$ 300.73	\$ 10.17	\$ 116.95	\$ 121.69
21	2025	107.68	230,268	\$ 26.29	\$ 29.21	\$ 136.89	\$ 32.86	\$ 140.54	\$ 202.20	\$ 309.88	\$ 10.60	\$ 118.28	\$ 123.05
22	2026	111.74	239,304	\$ 27.32	\$ 30.35	\$ 142.09	\$ 34.15	\$ 145.89	\$ 210.14	\$ 321.88	\$ 11.02	\$ 122.76	\$ 127.66
23	2027	116.34	248,730	\$ 28.39	\$ 31.55	\$ 147.89	\$ 35.49	\$ 151.83	\$ 218.41	\$ 334.75	\$ 11.45	\$ 127.79	\$ 132.88
24	2028	124.68	258,620	\$ 29.44	\$ 32.71	\$ 157.39	\$ 36.80	\$ 161.48	\$ 226.48	\$ 351.16	\$ 11.87	\$ 136.55	\$ 141.88
25	2029	129.94	268,341	\$ 30.63	\$ 34.04	\$ 163.98	\$ 38.29	\$ 168.23	\$ 235.64	\$ 365.58	\$ 12.35	\$ 142.29	\$ 147.79
26													
27	Technology		Capacity Factor %	On-Peak Capacity Credit %									
28	Landfill		90%	100.0%									
29	Anaerobic/Cellulosic Digester		80%	100.0%									
30	Solar		13%	100.0%									
31	Wind		31%	12.5%									
32													
33	(1) 2006-2008 Actual LMPs & Capacity Prices												