

S T A T E O F M I C H I G A N
B E F O R E T H E M I C H I G A N P U B L I C S E R V I C E C O M M I S S I O N

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In the matter of the application of)
THE DETROIT EDISON COMPANY)
for authority to implement a power supply) Case No. U-10965
cost recovery plan in its rate schedules for)
1996 metered jurisdictional sales of electricity.)

At the September 12, 1996 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. John G. Strand, Chairman
Hon. John C. Shea, Commissioner
Hon. David A. Svanda, Commissioner

OPINION AND ORDER

On September 29, 1995, The Detroit Edison Company (Detroit Edison) filed an application, together with prefiled testimony and exhibits, requesting authority to implement a power supply cost recovery (PSCR) plan for 1996, pursuant to 1982 PA 304 (Act 304), MCL 460.6h et seq.; MSA 22.13(6h) et seq. Accompanying the plan application was Detroit Edison's five-year forecast. As revised prior to the close of the record, the plan projected that Detroit Edison would incur \$663,081,000 in net power supply costs in 1996 to provide service for 44,615 gigawatt-hours of customer load, exclusive of interruptible service under its R-10 tariff and special manufacturing contracts. Exhibit A-14. Its proposed PSCR factor was negative 0.68 mills per kilowatt-hour (kWh).¹ Exhibit A-16.

¹To calculate its proposed factor of negative 0.68 mills per kWh, Detroit Edison subtracted its unit cost of power of 14.86 mills per kWh (\$663,081,000 ÷ 44,615,000,000 kWh) from the base unit cost of 15.49 mills per kWh and multiplied the difference by a line loss adjustment factor of 1.078. Exhibit A-16. Both the base unit cost and adjustment factor were set in Detroit Edison's last general rate case. January 21, 1994 order in Case No. U-10102, pp. 57-60.

At a prehearing conference on November 3, 1995, Administrative Law Judge James N. Rigas (ALJ) granted leave to intervene to Attorney General Frank J. Kelley (Attorney General), the Association of Businesses Advocating Tariff Equity (ABATE), and the Residential Ratepayer Consortium. The Commission Staff (Staff) also appeared. Detroit Edison's prefiled testimony was cross-examined on November 30, 1995, the testimony sponsored by the Attorney General was bound in by stipulation without cross-examination on January 23, 1996, and Detroit Edison's rebuttal testimony was cross-examined on February 15, 1996. Thereafter, Detroit Edison, the Attorney General, and the Staff filed briefs, and Detroit Edison, the Attorney General, and ABATE filed reply briefs.

On April 23, 1996, the ALJ issued a Proposal for Decision (PFD) recommending a 1996 PSCR factor of negative 0.81 mills per kWh. Detroit Edison, the Attorney General, and the Staff filed exceptions, and Detroit Edison and the Attorney General filed replies to exceptions.

The issues in dispute relate to the Attorney General's proposal to reduce PSCR costs for the consequences of a prolonged outage of the Fermi 2 nuclear power plant. The outage began on December 25, 1993, when the generator turbine malfunctioned, prompting a shutdown of the reactor and causing extensive damage to the turbine itself and other plant facilities.

In May 1994, Detroit Edison decided on a course of action for repairing the generator turbine. At the same time, it decided to substitute pressure plates for the blades of the damaged seventh and eighth stage low pressure turbines and to defer the replacement of the low pressure turbines for those stages until after the next fuel cycle (Cycle 5) was completed, when the plant would undergo a refueling outage in preparation for Cycle 6. Exhibit I-8. In the meantime, Detroit Edison used the forced outage to refurbish other parts of the plant and to perform the Cycle 5 refueling, which had originally been scheduled for March 21 to May 21, 1994. In implementing this plan, Detroit Edison rejected other alternatives that would have completed all repairs before returning the plant to service for Cycle 5. Cycle 5 began with the resumption of plant operation on January 18, 1995, and is scheduled to end with a refueling outage in September 1996.

As a result of the temporary measures for accommodating damage to the low pressure turbines, the plant is limited to an output of 870 megawatts (MW) during Cycle 5, even though its design electrical rating is 1,139 MW. By running in a derated condition, it burns fuel less efficiently, with a projected heat rate of 12,919 British thermal units (Btu) per kWh. This compares to heat rates of 10,571 Btu per kWh during previous Cycle 4 and 10,452 Btu per kWh projected for Cycle 6. Exhibit I-9. In effect, the plant achieves 870 MW during Cycle 5 by running at 96% reactor power. Exhibit I-8.

One of the Attorney General's proposed disallowances is for the additional cost of Fermi 2 fuel that will be burned during the portion of Cycle 5 occurring in the 1996 plan year. He calculated the amount by using an assumed heat rate of 10,570 Btu per kWh, which produced an \$8.3 million reduction in PSCR costs.

The second proposed disallowance related to interest charges paid to finance Load 5 nuclear fuel (installed prior to Cycle 5). The financing arrangement is structured as a lease of the fuel. In accordance with its usual accounting practices, Detroit Edison capitalized interest accrued on Load 5 prior to the January 18, 1995 beginning of the cycle as part of the cost of the fuel, charged interest accrued thereafter as a current PSCR cost, and amortized the Load 5 cost (including capitalized interest) over the life of the fuel as it is burned in the reactor. It recovers amortization expense through the PSCR process. Because one effect of the December 1993 accident was to delay the start date for Cycle 5 from May 21, 1994 until January 18, 1995, the Attorney General proposed that the interest capitalized during that period be disallowed. He calculated that the amount of the disallowed interest amortized in 1996 would be \$811,000. After reducing this amount for a related write-off from a settlement agreement in Case No. U-10702,² he calculated a reduction in PSCR costs of \$269,000. Exhibit I-20.³

²See the Commission's February 23, 1995 order in Case No. U-10702 (Detroit Edison's 1995 PSCR plan case) approving a partial settlement agreement. On page 5 of the settlement, at ¶5, Detroit Edison agreed to reduce its capitalized interest for Load 5 by \$2,567,000.

³The Attorney General's calculation was modified slightly for updated information during Detroit Edison's rebuttal case.

The ALJ adopted the Attorney General's first disallowance for the additional fuel consumed due to an inefficient heat factor. Although the ALJ found that the December 1993 outage was not reasonably foreseeable and that Detroit Edison responded to it in a reasonable and prudent manner, he also found that Detroit Edison should be responsible for additional outage costs because it committed to holding ratepayers harmless in ¶5 of its application in Cases Nos. U-10427-R and U-10683 (relating to Detroit Edison's 1994 PSCR reconciliation). PFD, pp. 10-14, 22-24. However, he rejected the second disallowance for additional interest costs, finding that those costs were based on an illusory accounting distinction. *Id.*, pp. 17-18. Detroit Edison excepted to the ALJ's first recommendation, and the Attorney General and the Staff excepted to his second.

Detroit Edison argued that it responded to the outage in a reasonable or prudent manner. The Attorney General did not directly attempt to show how Detroit Edison was unreasonable or imprudent, but instead argued that Detroit Edison failed to meet its evidentiary burden on this issue for outages in excess of 90 days, as set forth in MCL 460.6j(13)(c); MSA 22.13(6j)(13)(c). In addition, the Attorney General argued that his proposed disallowance for additional interest costs was justified by Detroit Edison's commitment to hold ratepayers harmless for outage-related costs in ¶5 of its application in Cases Nos. U-10427-R and U-10683.⁴ Tr. 296-297.

Generally, Act 304 requires the Commission to evaluate a utility's procurement and use of fuel and purchased power under the standard of reasonableness and prudence. For purposes of determining whether to allow outage-related costs in a reconciliation case, the act provides:

In its order in a power supply cost reconciliation, the commission shall . . . [d]isallow net increased costs attributable to a generating plant outage of more than 90 days in duration unless the utility demonstrates by clear and satisfactory evidence that the outage, or any part of the outage, was not caused or prolonged by the utility's negligence or by unreasonable or imprudent management.

⁴Paragraph 5 of the application filed on September 27, 1994 in Cases Nos. U-10427-R and U-10683 states in part:

Detroit Edison believes that, for this particular outage at Fermi, customers should not have their rates increased to pay for the Fermi Outage but, instead, the Company will make refunds to customers taking service under R-10, and forego power supply cost increases to PSCR customers associated with the replacement power costs for Fermi.

MCL 460.6j(13)(c); MSA 22.13(6j)(13)(c).⁵

The record in this case does little to shed light on whether Detroit Edison's outage-related costs should be disallowed. Although Wayne D. Romberg, Detroit Edison's Assistant Vice-President and Manager, Technical Nuclear Generation, testified without contradiction regarding the events of December 25, 1993 and Detroit Edison's subsequent response, he did not address whether the outage itself occurred as the outcome of negligence or unreasonable or imprudent management. He also did not address the effects of ¶ 5 of the application in Cases Nos. U-10427-R and U-10683. None of the other witnesses devoted much of their testimony to evaluating Detroit Edison's conduct before or after the onset of the outage. The record does not provide an adequate basis for making findings regarding disallowances of outage-related costs.

The Commission will defer issues related to the Fermi 2 outage to the reconciliation case instead of attempting to make findings on the basis of this record. Detroit Edison will have an opportunity during the reconciliation to show that outage-related costs should not be disallowed. The reconciliation will also provide the other parties with an opportunity to address and argue outage-related issues in more extensive detail. Moreover, the reconciliation may lend a sharper focus to these issues by presenting them in the context of actual costs incurred in the plan year.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1909 PA 106, as amended, MCL 460.551 et seq.; MSA 22.151 et seq.; 1919 PA 419, as amended, MCL 460.51 et seq.; MSA 22.1 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq.; MSA 22.13(1) et seq.; 1982 PA 304, as amended, MCL 460.6h et seq.; MSA 22.13(6h) et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; MSA 3.560(101) et seq.; and the Commission's Rules of Practice and Procedure, 1992 AACs, R 460.17101 et seq.

⁵In a PSCR plan case, the Commission approves monthly factors, which "shall not reflect items the commission could reasonably anticipate would be disallowed under subsection (13)." MCL 460.6j(6); MSA 22.13(6j)(6).

b. Based strictly on the record in the present case, Detroit Edison's 1996 PSCR plan and factors are reasonable and prudent, and should be approved.

THEREFORE, IT IS ORDERED that:

A. The Detroit Edison Company's 1996 power supply cost recovery plan is approved.

B. During 1996, The Detroit Edison Company is authorized to implement a power supply cost recovery factor of negative 0.68 mills per kilowatt-hour.

C. Within 30 days of the date of this order, The Detroit Edison Company shall file tariff sheets reflecting the power supply cost recovery factor approved by this order.

D. Should The Detroit Edison Company desire to apply a lesser power supply cost recovery factor than that approved by this order, it shall notify the Commission ten days prior to the use of the lesser factor and shall file during that billing month tariff sheets showing the lesser factor applied.

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

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26; MSA 22.45.

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MICHIGAN PUBLIC SERVICE COMMI

(S E A L)

/s/ John G. Strand

Chairman

/s/ John C. Shea

By its action of September 12, 1996. Commissioner

/s/ Dorothy Wideman
Its Executive Secretary

/s/ David A. Svanda
Commissioner

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Case No. U-10965

Suggested Minute:

“Adopt and issue order dated September 12, 1996 approving the power supply cost recovery plan and factor proposed by The Detroit Edison Company, as set forth in the order.”