

DTE Electric Company
One Energy Plaza, 688 WCB
Detroit, MI 48226-1279

DTE Energy®



David S. Maquera
(313) 235-3724
maquerad@dteenergy.com

June 27, 2013

Ms. Mary Jo Kunkle
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way, Suite 15
Lansing, Michigan 48909

Re: In the matter of the Application of The Detroit Edison Company for
Authority to Implement a Power Supply Cost Recovery Plan In Its Rate
Schedules for 2013 Metered Jurisdictional Sales of Electricity
MPSC Case No. U-17097 (Paperless e-file)

Dear Ms. Kunkle:

Attached for electronic filing is The Detroit Edison Company's Initial Brief, in the above captioned matter. Also attached is a Proof of Service.

Very truly yours,

David S. Maquera

DMS /lah
Attachments
cc: Service List

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Application of)
THE DETROIT EDISON COMPANY for)
Authority to Implement a Power Supply)
Cost Recovery Plan in its Rate Schedules)
For 2013 Metered Jurisdictional Sales)
Of Electricity.)
_____)

Case No. U-17097

THE DETROIT EDISON COMPANY'S
INITIAL BRIEF

Dated: June 27, 2013

TABLE OF CONTENTS

I. INTRODUCTION 1

 A. HISTORY OF PROCEEDINGS1

 B. OVERVIEW OF DETROIT EDISON’S DIRECT TESTIMONY AND EXHIBITS.....1

 C. OVERVIEW OF INTERVENORS’ TESTIMONY4

 D. OVERVIEW OF DETROIT EDISON’S REBUTTAL TESTIMONY AND EXHIBITS4

II. DISCUSSION 5

 A. APPLICABLE STANDARD FOR “REASONABLENESS AND PRUDENCE”.....5

 B. DETROIT EDISON'S PSCR PROPOSALS SHOULD BE APPROVED BECAUSE THEY ARE
 REASONABLE AND PRUDENT, CONSISTENT WITH ACT 304, AND LARGELY UNREBUTTED.7

 1. The Company’s Load Forecast.7

 2. The Company’s System Operation7

 3. The Company’s Transmission and MISO Expenses.....11

 4. The Company’s Fuel Supply Plan13

 5. The REF Project16

 a. The REF Project Provides Benefits for Detroit Edison Customers Now and in the Future.17

 b. The REF Project is Part of the Proper Technical Solution to Mercury Emissions Reduction. 22

 c. The REF Project Complies with the Code of Conduct.23

 6. The Company’s Mercury, Particulate Matter, and Acid Gas Emission-Related Expense for 2015
 and Thereafter25

 7. The Company’s Proposed PSCR Factor27

III. RELIEF REQUESTED..... 28

I. INTRODUCTION

A. HISTORY OF PROCEEDINGS

On September 28, 2012, The Detroit Edison Company (“Detroit Edison,” “Edison,” “DTE Electric Company,” the “Company,” or “Applicant”)¹ filed an application requesting authority to implement a power supply cost recovery (“PSCR”) Plan and PSCR factors, in accordance with 1982 PA 304, MCL 460.6j *et seq* (“Act 304”), in its rate schedules for metered jurisdictional sales of electricity for the 12-month period ending December 31, 2013. The Company’s filing also included a reasonable and prudent 5-year forecast. Detroit Edison seeks Commission approval to include a maximum PSCR Factor of 4.74 mills per kilowatt-hour (“kWh”) in customers' bills.

On November 27, 2012, a prehearing conference was conducted by Administrative Law Judge Sharon L. Feldman (the “ALJ”), at which time petitions to intervene filed by the Association of Businesses Advocating Tariff Equity (“ABATE”), Attorney General William D. Schuette (“Attorney General” or “AG”), the Michigan Community Action Agency Association (“MCAAA”), and the Michigan Environmental Council and National Resources Defense Council (collectively “MEC/NRDC”) were granted. The Commission Staff (“Staff”) also participated in the proceedings.

B. OVERVIEW OF DETROIT EDISON’S DIRECT TESTIMONY AND EXHIBITS

On September 28, 2012, Detroit Edison filed the direct testimony and exhibits of nine witnesses: James D. Wines, who is Detroit Edison's Lead Engineer – Nuclear Generation

¹ Effective January 1, 2013, The Detroit Edison Company changed its legal name to DTE Electric Company. Because this case was originally captioned under the legal name of The Detroit Edison Company, but will conclude subsequent to the legal name change to DTE Electric Company, both names may be used throughout this filing.

(qualifications and direct testimony at 2 T 24-35; Exhibit A-1);² William C. Rogers, who is a Senior Technological Specialist – Environmental Strategies, Environmental Management & Resources (qualifications and direct testimony at 2 T 114-31; Exhibit A-2);³ Kevin L. O’Neill, who is a Principal Project Manager in the Regulatory Policy & Operations Organization (qualifications and direct testimony at 2 T 238-55; Exhibits A-3 and A-4);⁴ Michael W. Shields, who is Detroit Edison's Manager - Wholesale Market Developments, Regulatory Affairs (qualifications and direct testimony at 2 T 37-74; Exhibits A-5 through A-7);⁵ Markus B. Leuker, who is Detroit Edison’s Manager of Corporate Energy forecasting (qualifications and direct testimony at 2 T 76-91; Exhibits A-8 through A-12)⁶; Angela P. Wojtowicz, who is Detroit Edison’s Manager of the Wholesale Power group in the Generation Optimization department

² Mr. Wines has a Bachelor of Science in Nuclear Engineering and the Radiological Sciences from the University of Michigan. Mr. Wines is a qualified Station Nuclear Engineer at Fermi 2 and a Nuclear Fuel Economist. Mr. Wines has worked for Detroit Edison since 1999 in several roles in the Nuclear Engineering field (2 T 25-26).

³ Mr. Rogers has an Associate in Applied Science degree, Industrial Chemical Technology, and a Bachelor of Science Degree in Mechanical Engineering, with a Thermal System Design Concentration. Since being hired by Detroit Edison in 1978, Mr. Rogers has held various positions of increasing responsibility related to compliance with environmental regulations. In his present role, Mr. Rogers maintains expert-level knowledge of air emission control technologies since he is responsible for managing and coordinating the development of the Company’s air issues strategy with regard to oxides of nitrogen (“NO_x”), sulfur dioxides (“SO₂”), fine particles (“PM2.5”), carbon dioxide (“CO₂”), mercury (“Hg”) and other air toxics. While in his present position, Mr. Rogers was selected for an Electric Power Research Institute (“EPRI”) Technology Transfer Award for Full Scale Tests of Mercury Controls (2 T 115-17).

⁴ Mr. O’Neill holds a Bachelor of Arts degree majoring in Economics, and a Master of Science degree in Economics majoring in Econometrics. He has 35 years of experience with Detroit Edison in analytical, management and regulatory areas (2 T 239-40).

⁵ Mr. Shields holds a Bachelor of Science degree in Nuclear Engineering and a Masters of Business Administration Degree. Mr. Shields is qualified as a Professional Engineer by examination in the State of North Carolina and has 36 years of utility experience involving nuclear power plants, resource planning and procurement, and coordinating the Company’s interfaces with the Midwest Independent System Operator (“MISO”). In his current position, he works directly with the MISO in support of Edison's participation in the MISO Energy and Ancillary Services Markets (2 T 38-40).

⁶ Mr. Leuker holds a Bachelor of Science degree in Business Administration with a concentration in Marketing and Management, and a Master of Business Administrations degree. He began working for Edison in 2010 and is responsible for the development of economic and electric sales forecasting (2 T 77-78).

(qualifications and direct testimony at 3 T 539-65; Exhibits A-13 through A-19);⁷ Karthik Krishnamurthy, who is the Supervisor – Fossil Fuel Resources, Business Development and Administration, Fuel Supply for Detroit Edison (qualifications and direct testimony at 3 T 606-32; Exhibits A-20 through A-23);⁸ Robert E. Palmer, who is the Manager of Asset Optimization in Detroit Edison’s Fossil Generation Organization (qualifications and direct testimony at 3 T 442-52; Exhibits A-24 through A-26);⁹ and James J. Musial, who is a Manager in Federal Regulatory Affairs, which is a group within the Regulatory Affairs Organization (qualifications and direct testimony at 2 T 93-108).¹⁰

⁷ Ms. Wojtowicz holds both a Bachelor of Science degree and Master of Science degree in Nuclear Engineering and has worked for Edison since 1995 in positions of increasing responsibility in engineering and operations. Ms. Wojtowicz is presently responsible for acquisition of wholesale power electric supply to reliably and economically serve the energy and reliability needs of the Company’s customers. She is also responsible for development of the generation resource plan and procurement of capacity to meet reliability requirements, oversight of Edison’s financial transmission rights (“FTR”) portfolio, management of the Renewable Energy Certificate (“REC”) portfolio for the Company’s voluntary GreenCurrents program, management of the REC portfolio for compliance with Public Act 295 of 2008 (the “clean, renewable, and efficient energy act”), management of emission allowance procurement, oversight of Edison’s generation asset registration with the MISO, participation in MISO Subcommittees, and review and advocacy of Company recommendations regarding proposed MISO rules, regulations, and business practices (3 T 540-42).

⁸ Mr. Krishnamurthy has Bachelor of Technology and Master of Science degrees in Mining Engineering, and a Masters degree in Business Administration. He has worked for Detroit Edison since 2001 in positions of increasing responsibility. In his current position, he is responsible for supervising the procurement of all fossil fuel (coal, natural gas and fuel oil) requirements, and the administration of associated agreements for Detroit Edison’s fossil-fueled electric generating assets (3 T 607-608).

⁹ Mr. Palmer has Bachelor of Science degrees in Chemical Engineering and a Masters degree in Finance, and he is a registered professional engineer in Michigan. He has worked for Detroit Edison since 1970 in positions of increasing responsibility. In his current position, he is responsible for projects that optimize fossil power plant investments, reliability, potential retirements, environmental compliance strategies, operating efficiency and MISO market offerings (3 T 443-45).

¹⁰ Mr. Musial holds an Associate Degree in Civil Engineering, a Bachelor of Science degree in Construction Engineering, and a Master of Arts degree in Economics. He has also completed short courses on power systems engineering, as well as utility accounting and ratemaking. Mr. Musial began working for Edison in 1977 and subsequently joined the Regulatory Affairs organization in 1979 where he has held positions of increasing responsibility within that organization. His present responsibilities include managing the activities and resources pertaining to regulatory filings and proceedings before Federal Energy Regulatory Commission (“FERC”), including monitoring and responding to regulatory developments related to the operation and initiatives of the MISO (2 T 94-95).

C. OVERVIEW OF INTERVENORS' TESTIMONY

On March 7, 2013, Intervenors; Attorney General, MCAAA, and MEC/NRDC, filed their direct testimony. ABATE and Staff did not file any testimony. The Attorney General sponsored Michael J. McGarry, Sr. (qualifications and direct testimony at 3 T 412-36) who recommended that the Commission should disallow inclusion of Reduced Emissions Fuel (“REF”) Project¹¹ costs in the PSCR Plan (3 T 416). MCAAA sponsored Geoffrey C. Crandall (qualifications and direct testimony at 2 T 327-38) who also addressed the REF Project. MEC/NRDC sponsored Patricia H. Richards (qualifications and direct testimony at 2 T 340-74) who suggested that Edison’s filing did not demonstrate that the Company took “all appropriate actions” to minimize its fuel supply costs, and that the Company’s fuel supply is overly-dependent on coal as a fuel source (2 T 345-46). MEC/NRDC also sponsored George E. Sansoucy (qualifications and direct testimony at 2 T 376-400) who addressed the REF Project (2 T 381-400).

D. OVERVIEW OF DETROIT EDISON’S REBUTTAL TESTIMONY AND EXHIBITS

On April 11, 2013, Detroit Edison filed the rebuttal testimony and exhibits of five witnesses:

- Mr. Rogers (rebuttal testimony at 2 T 132-35) to address Ms. Richards’ assertions regarding the certainty of future environmental regulations and potential for additional emission reduction requirements (2 T 133);
- Mr. O’Neill (rebuttal testimony at 2 T 256-65) to address Mr. McGarry’s criticisms regarding the inclusion of the REF adder in the PSCR, and Ms. Richards regarding

¹¹ The REF Project (sometimes referenced as the “REF Projects”) involves a process of applying chemical additives to coal to produce Reduced Emissions Fuel (a/k/a Refined Coal) burned at the Belle River, St. Clair, and Monroe power plants. Use of REF is expected to reduce SO₂, Hg, and NO_x emissions and, therefore, the related emission allowance expense as well as the reduced cost of Hg emission compliance incurred by Detroit Edison (3 T 563, 614-17).

Detroit Edison's compliance with the PA 304 filing requirements. Mr. O'Neill also addressed a criticism by Messrs. Crandall and Sansoucy regarding the Company's compliance with the Code of Conduct, and he further addressed Mr. Sansoucy regarding the level of working capital reductions in base rates (2 T 257);

- Mr. Palmer (rebuttal testimony at 3 T 453-63, Exhibits A-27 (Revised), A-28, A-29 (Revised) and A-30) to rebut various claims made by Ms. Richards (3 T 454):
- Mr. Krishnamurthy (rebuttal testimony at 3 T 633-52; Exhibits A-31 through A-38) to rebut the criticisms of the REF Project asserted by Messrs. Crandall and Sansoucy (2 T 74); and
- Ms. Wojtowicz (rebuttal testimony at 3 T 566-73; Exhibits A-39 and A-40) to address multiple incorrect claims made by Ms. Richards (3 T 567).

On May 2, 3, and 20, 2013, the direct and rebuttal testimony of Detroit Edison's witnesses was bound into the record, Exhibits A-1 through A-40 were admitted into the record, and the Intervenors conducted cross-examination of all the Company's witnesses except for Messrs. Wines, Shields, Leuker, and Musial, for whom cross-examination was waived (2 T 23, 36, 75, 92). The record consists of 4 volumes and 822 pages of transcript and 104 exhibits. Initial Briefs are due June 27, 2013, and Reply Briefs are due July 18, 2013.

II. DISCUSSION

A. APPLICABLE STANDARD FOR "REASONABLENESS AND PRUDENCE"

Public Act 304 of 1982 ("Act 304") provides the applicable standard for a PSCR plan. MCL 460.6j(5) relevantly states:

"If a utility files a power supply cost recovery plan and a 5-year forecast as provided in subsections (3) and (4), the commission shall conduct a proceeding, to be known as a power supply and cost review, *for the purpose of evaluating the reasonableness and prudence of the power supply cost recovery plan* filed by a utility pursuant to subsection (3), and establishing the power supply cost recovery

factors to implement a power supply cost recovery clause incorporated in the electric rates or rate schedule of the utility.” (emphasis added).

“Reasonableness and prudence” is not synonymous with perfection. *Attorney General v Public Service Comm*, 161 Mich App 506, 517; 411 NW2d 469 (1987)

In addition, the Michigan Supreme Court has opined that “[t]he proof required in an administrative proceeding...is the same as that required in a civil judicial proceeding: a preponderance of the evidence.” See *Aquilina v General Motors Corp*, 403 Mich 206, 210-211; 267 NW2d 923 (1978). The preponderance of the evidence standard is generally defined as follows:

“The greater weight of the evidence, not necessarily established by the greater number of witnesses testifying to a fact but by evidence that has the most convincing force; superior evidentiary weight that, though not sufficient to free the mind wholly from all reasonable doubt, is still sufficient to incline a fair and impartial mind to one side of the issue rather than the other.” *Black’s Law Dictionary* 1301 (9th ed 2009).

Thus, although the Company bears the burden of proof in this Act 304 proceeding for demonstrating that its proposed PSCR plan, factors and 5-year forecast are reasonable and prudent, the applicable standard of proof for purposes of determining whether they are reasonable and prudent is the “preponderance of the evidence” standard, which is a much lower standard than, for example, the “beyond a reasonable doubt” standard that is only applicable to criminal proceedings. *Thangavelu v Dep’t of Licensing & Regulation*, 149 Mich App 546, 554-555; 386 NW2d 584 (1986). For reasons more fully discussed below, Detroit Edison’s proposed PSCR plan, factors and 5-year forecast are “reasonable and prudent,” as discussed below and further demonstrated by the record.

B. DETROIT EDISON'S PSCR PROPOSALS SHOULD BE APPROVED BECAUSE THEY ARE REASONABLE AND PRUDENT, CONSISTENT WITH ACT 304, AND LARGELY UNREBUTTED.

1. The Company's Load Forecast.

Mr. Leuker, the Company's Manager of Corporate Energy Forecasting, explained the Company's general forecasting methodology, assumptions, data sources, and reliability (2 T 80-91), including that Edison uses the Hourly Electric Load Model ("HELM") to forecast peak system demand (2 T 90). Mr. Leuker also testified that service area electric sales are forecast to decrease from temperature-normalized sales of 49,894 GWh in 2011 to temperature-normalized sales of 47,280 GWh in 2017, which represents a 0.2% average annual decrease in sales (2 T 82). The Electric Choice sales forecast was held constant at the temperature-normalized sales level expected for 2012 at the time the forecast was developed of 5,342 GWh. Market clearing prices are not expected to increase significantly from current levels through 2014, and no change in Electric Choice sales is forecasted (2 T 89; Exhibit A-11). Mr. Leuker's testimony was un rebutted.

2. The Company's System Operation.

Ms. Wojtowicz testified that Detroit Edison's projections of generation, purchased power, emission compliance (NO_x, SO₂ and Hg)¹² and associated expenses in the total amount of \$1,511,833,000 for 2013 are reasonable and prudent (3 T 565; Exhibit A-13, line 52). There is no credible evidence to the contrary under a preponderance of the evidence standard. Therefore, the Commission should approve Detroit Edison's 2013 power supply plan and five-year forecast,

¹² Compliance costs are based upon the consumption of emission allowances, urea, and powdered activated carbon and Trona sorbents. Mercury emission compliance is in the 5-year forecast, but it is not required until 2015. Use of REF is expected to reduce NO_x, SO₂ and Hg emissions and, therefore, the related emission allowance expense as well as the cost of Hg emission compliance incurred by Edison (3 T 561-63).

as well as all of the costs and actions described in Ms. Wojtowicz's testimony and exhibits (3 T 544-65).

More specifically, Ms. Wojtowicz described Detroit Edison's capacity resource plan to supply its summer full service adjusted peak demand with resources available to Detroit Edison, and additional summer generation capacity as required for the years 2013 through 2017 (3 T 549-57; Exhibit A-15). This plan is based on Detroit Edison's load forecast as presented in the testimony of Mr. Leuker, the Company's owned generation resources, demand resources, and purchased capacity that is under contract to Detroit Edison (3 T 550-51).¹³

Ms. Wojtowicz further explained that under the then-current MISO resource adequacy construct, Edison had been procuring any required capacity for single month periods. Under the new MISO resource adequacy construct approved by the FERC in Docket No. ER11-4081, beginning June 1, 2013, capacity will be required for an annual period even though it is needed for only one or two of the summer months. Therefore, the Commission's pre-approval is required under MCL 460.6j(13)(b). Edison requests that the Commission provide MCL 460.6j(13)(b) approval for Edison's capacity purchases to meet MISO resource adequacy requirements as long as Edison uses one, or a combination, of the following competitive processes: (1) a competitive auction, similar to the ones held by the Company for procuring capacity for the summers of 2008 through 2012; (2) a request for proposals, or (3) participation in the MISO Planning Resource Auction ("PRA"), which will award bids based on least-cost offers (3 T 554-57). Edison's request appears to be unopposed.

¹³ In addition to its own generation, the Company has capacity rights from both PURPA/P.A.2 and Renewable Energy Contracts as shown on Exhibit A-16. (3 T 551, 557-58) The Company expects to have a total of 9,416 MW of planning resources in 2013. Detroit Edison also anticipates purchasing power from the wholesale power market to achieve the total resources required to serve the forecasted adjusted full service peak demand. Forecasting to make such purchases from the wholesale power market is economic and prudent given the uncertainties regarding the amount of Electric Choice load, market prices, and environmental regulations. (3 T 551-52)

Ms. Wojtowicz further explained how the Company reasonably and prudently developed its projections for generation and purchased power (3 T 565). Exhibit A-13 reflects the projected fuel, purchases and sales of power, and PSCR expense forecast for the years 2013 through 2017 (3 T 545). Ms. Wojtowicz also explained and justified related PSCR expenses for NO_x and SO₂ emission allowance costs, and supported the Company's emission allowance procurement strategy and projections of emission allowance expenses as reasonable and prudent (3 T 560-64; Exhibits A-17, A-18, and A-19).¹⁴

Mr. Palmer also supported Edison's generation, emissions quantities and urea expenses as reasonable and prudent (3 T 452), and presented the projections of Edison's generation, capacity, and emissions, along with the urea expense for NO_x control for the Company's 2013 PSCR factor. He also supported the 2014 through 2017 projections of the system generation, capacity, emissions and urea expense for NO_x control (3 T 446-52). Exhibit A-24 is the forecast of the Company's plant generation for the years 2013-2017 (3 T 447). Exhibit A-25 displays the projected emissions of SO₂, NO_x, and Hg for 2013 – 2017 from the Fossil Generation Power Plants. Exhibit A-26 displays the Company's projection of expense for urea for 2013 through 2017. Urea is used in the operation of the SCRs in the Monroe Power Plant's Units 1, 3, and 4. The commodity price of urea has increased recently, and Edison's demand for urea is expected to increase by approximately one-third in 2014 due to the scheduled start-up of the Monroe Unit 2 SCR (3 T 450-51).

Mr. Palmer also testified regarding changes in capacity projections of Company-owned generation resources (3 T 447-48) and explained:

¹⁴ NO_x and SO₂ emission allowance costs have been approved for recovery through the PSCR mechanism in prior proceedings (See, for example, Case No. U-13808 Order dated November 23, 2004, p. 112; Case No. U-14702 Order dated September 26, 2006, p. 5). The recovery of emission control costs is further discussed below.

“Modified environmental rules and combined Dry Sorbent Injection (DSI) / Activated Carbon Injection (ACI) testing performed by the Company indicate that River Rouge Units 2 and 3, St Clair Unit 7 and Trenton Channel Unit 9 can cost effectively comply with the MATS rules utilizing DSI for acid gas emissions reductions and ACI for mercury emissions reductions. . . . Operation of River Rouge Units 2 and 3, St Clair Unit 7 and Trenton Channel Unit 9 beyond 2015 will also allow the deferral of the assumed need to build a new combined cycle power plant. The Company has assumed for PSCR planning purposes the retirement of Trenton Channel Units 7 and 8 in 2015; however, the ultimate retirement remains uncertain” (3 T 448-49).

Mr. Palmer further explained that as a participant in the MISO market, the Company cannot unilaterally retire units. The Company must make a request to MISO to study the system reliability impacts of any retirements, and obtain MISO’s permission to retire units on a certain date. The Company made such a request for the Harbor Beach Power Plant (“Harbor Beach”). In response, MISO declared Harbor Beach to be a System Security Resource (“SSR”) and stated that the earliest date the plant would be allowed to retire would be December 31, 2015 (3 T 449).

MEC/NRDC witness Ms. Richards made a number of unfounded criticisms and suggestions that appear to be driven by an ideological agenda, without regard to factual reality or the lawful limits of this PSCR plan case. In response, Mr. Palmer further outlined the extensive amount of data provided by the Company in its PSCR plan filing and discovery responses (3 T 455-56), and corrected several of her misstatements regarding the Company’s fuel diversity, operations, and planning, as well as historical and forecasted natural gas prices, and how the MISO market works (3 T 457-63; Exhibits A-27 (Revised), A-28, A-29 (Revised) and A-30). Ms. Wojtowicz similarly corrected several of Ms. Richards’ misstatements about the Company’s operations and how the MISO market works (3 T 567-73). Mr. Rogers further explained that Ms. Richards mischaracterized Edison’s DSI testing results (which are further discussed below) and that she overstated the possibility of any potential requirements resulting from potential future environmental rules or regulations (2 T 133-35).

Moreover, MCL 460.6j(3) provides that a PSCR plan shall “include the utility’s evaluation of the reasonableness and prudence of its decisions to provide power supply in the manner described in the plan, **in light of its existing sources of electrical generation . . .** (Emphasis added). MCL 460.6j(6) similarly provides that in evaluating the decisions underlying a PSCR plan, the Commission “shall consider the cost and availability of the electrical generation **available to the utility**” (Emphasis added). Thus, MEC/NRDC’s attempt to advance its anti-coal agenda through Ms. Richard’s speculative and inaccurate discussion of a hypothetical (rather than “available”) plant mix is not a proper topic for this PSCR plan case, as Mr. O’Neill observed (2 T 263-64).

Ms. Wojtowicz’s and Mr. Palmer’s testimony was otherwise largely un rebutted with respect to the reasonableness and prudence of the Company’s power supply plans (and in any event, there was no meritorious criticism). Therefore, the ALJ should find, and the Commission should determine, that the Company’s projected PSCR system operation in its 2013 Plan and 5-year forecast are reasonable and prudent by a preponderance of the evidence.

3. The Company’s Transmission and MISO Expenses.

Mr. Shields explained the transmission expenses included in the PSCR, and further supported Edison’s projected expenses associated with being a network transmission customer of ITC Transmission (“ITC”) and a Market Participant in MISO (2 T 42-74). He testified that all of these MISO/transmission expenses are required in order for Edison to serve the anticipated full service customer load requirements from the MISO Energy Market and the MISO Ancillary Services Market (“ASM”) (2 T 42). The Total Base Transmission and MISO Energy Market Costs, which are the total costs of procuring transmission services from MISO/ITC and

participating in the MISO Energy and ASM Markets, are estimated to be approximately \$251.0 million for 2013 (2 T 72-73; Exhibit A-5, line 40).¹⁵

Mr. Shields further testified that there are a number of changes being contemplated to MISO Energy and ASM Market Rules (2 T 36-37), and explained:

“When these additional MISO and/or ITC related charges do occur, they should be approved for recovery in this case and future PSCR proceedings, as they are largely beyond Detroit Edison's control and will continue to be incurred by the Company in order to participate in the MISO wholesale energy and ancillary services markets and to provide retail electric service to Detroit Edison's full service customers.” (2 T 73)

Mr. Shields also testified that all of the MISO Energy and ASM Market and transmission expenses that he supported are necessary, explaining:

“All of the expense items listed on Exhibit A-5, Exhibit A-6, and Exhibit A-7 are necessary and integral to Detroit Edison being able to provide retail electric service to its full service customers. The rates upon which the expenses are determined are subject to approval by FERC and comply with FERC's vision for the operation and expansion of the interconnected electric grid.” (2 T 73-74).

Mr. Shields' transmission, MISO Energy Market, and ASM Market expense testimony was un rebutted.

Mr. Musial provided an overview of federal regulatory and appellate issues that may substantively impact the cost of MISO services received by Detroit Edison's customers during the 2013 through 2017 PSCR forecast period. Mr. Musial addressed various matters pending before the Seventh Circuit Court of Appeals, FERC and MISO, and explained Detroit Edison's reasonable and prudent responses to address any new, material rate impacts the Company might influence, including Edison's expectation to meet its capacity obligation under MISO's new

¹⁵ Exhibit A-5 reflects Edison's projected 2013 through 2017 network transmission expense, and MISO Energy Market expense and Ancillary Services Market cost items. Exhibit A-6 reflects actual line items included in a typical MISO Settlement Statement, which are charges that Edison has to pay as a MISO network customer and Market Participant. Exhibit A-7 reflects the projections of the more significant MISO Energy and Ancillary Services Market-related charges/credits that will apply for the years 2013-2017 (2 T 43).

resource adequacy construct, as further addressed by Ms. Wojtowicz (2 T 96-108). Mr. Musial's testimony was also un rebutted. Therefore, the ALJ should find, and the Commission should determine, that Detroit Edison's Transmission and MISO expenses for the Company's 2013 PSCR Plan and 5-year forecast are appropriate for recovery by a preponderance of the evidence.

4. The Company's Fuel Supply Plan.

Mr. Krishnamurthy explained the method that Detroit Edison used to develop its forecast of fossil fuel expenses for 2013 through 2017 (3 T 610-14; Exhibit A-20), and supported Detroit Edison's fuel supply plan including projected expenses of \$973,112,000 for 2013 for all Detroit Edison fossil-fueled plants as reasonable and prudent (3 T 610; Exhibit A-20, line 32).

Mr. Krishnamurthy specifically supported the forecast of coal, oil, gas and coke oven gas ("COG") prices for 2013 through 2017 (reflected in Exhibit A-20) as reasonable and prudent (3 T 611-14). He testified that Detroit Edison expects to supply its projected coal requirements for the forecast period through a combination of long-term and spot market purchases. This mix of purchases provides reliability of supply with sufficient flexibility to meet the needs of Detroit Edison's electric generating plants, and also serves to mitigate price risk (3 T 612). Detroit Edison expects to supply the No. 2 oil that will be consumed in the forecast period under agreements that are three years or less in duration, and based on a spot market index price. Detroit Edison expects to supply its No. 6 oil requirements under spot market agreements that are one year or less in duration, which would include the purchase and utilization of used oil that is generally less expensive when available, and also the utilization of internally-generated waste oil (3 T 613). Detroit Edison expects to supply its natural gas requirements through purchases from local distribution companies (LDCs) under Commission-approved tariffs, spot market purchases, and one-long term (greater than one year) supply agreement based on a spot market price (3 T

613-14). In addition, some COG will be burned at Detroit Edison's River Rouge Power Plant, under an agreement that has been in effect and recoverable through the PSCR process since June 2009, and that continues to be reasonable and prudent since COG displaces a portion of higher cost coal and natural gas consumption at Detroit Edison's River Rouge Power Plant, resulting in lower electric rates for Edison's customers. Mr. Krishnamurthy also testified that the long-term forecast of coal prices assumes that Edison will continue to rely on low sulfur western ("LSW") coal for a significant portion of its coal requirements (3 T 614).

Mr. Krishnamurthy also supported the Company's REF Project (further discussed below), and summarized its nature and benefits as follows:

"The REF Project is a process that involves the application of chemical additives to the coal prior to conveying the coal into the plant coal silos or bunkers. This process produces what is referred to as a Reduced Emissions Fuel (a/k/a Refined Coal) and is done for the primary purpose of reducing emissions and their related costs. The Refined Coal is expected to reduce SO₂, mercury (Hg), and NO_x emissions and, therefore, the related emission allowance expense as well as the reduced cost of Hg emission compliance incurred by Detroit Edison." (3 T 614-15).

"[A]t Detroit Edison's Belle River and St. Clair Power Plants, the additional PSCR cost for Refined Coal is limited to the lower of the PSCR benefit of reduced SO₂ emissions and the reduced cost of mercury emissions compliance associated with the consumption of the Refined Coal, or the revenue requirement associated with the REF Project production facility. Thus, the cost of the Refined Coal Adder at Belle River and St. Clair Power Plants will be zero until such time as the plants experience an actual and measurable reduction in SO₂ emissions or the reduced cost of mercury emissions compliance. Once the plants experience measurable reduced emissions, the cost of the Refined Coal Adder will be capped at the revenue requirement associated with the REF Project facility. Once the calculated cost of the Refined Coal Adder reaches this cap, any additional benefits of reduced emission allowances will flow directly through to the PSCR customers.

"It is expected that the use of the Refined Coal will also result in reductions of NO_x emissions and, therefore, a reduction in annual and seasonal NO_x emissions allowance expense. These benefits will flow directly to the PSCR customer and will not be reflected in the determination of the Refined Coal Adder. Detroit Edison negotiated this benefit because the level of NO_x emissions can be

impacted by various factors and it would be difficult to measure the precise level of reduced NO_x emissions related to the Refined Coal.

“At Detroit Edison’s Monroe Power Plant, there will be a Coal Fee Rate paid to Detroit Edison for the consumption of Refined Coal. This discount will be used to provide the PSCR customer a fuel savings. In addition, reduced emissions will further provide the PSCR customer a further savings.” (3 T 616-17).

Mr. Krishnamurthy also summarized why Detroit Edison’s fuel supply plan is reasonable and prudent:

“I believe that the fuel supply plan I have described meets Detroit Edison’s fossil fuel requirements, is consistent with both the Company’s policies and objectives, provides for the delivery of electric generation to customers at a reasonable price given market conditions, and is a reliable supply plan that is both reasonable and prudent.

“The Company has aggressively tested and burned LSW coal at various Company electric power plants. This supply option is not only economic, but also among the cleanest coals available.

“The Company has also continued to expand the “arena of competition” for both eastern and western coals. The ability to blend and burn coals from several coal supply regions along with utilizing multiple transportation options has provided the Company with the leverage to negotiate some of the most competitive delivered fuel prices available.

“The Company maintains a railcar fleet, not only to facilitate control over delivery of coal, but also to optimize the cost savings associated with rail transportation in private equipment.

“Detroit Edison continues to aggressively market coal and transshipment services to third parties through its subsidiary, Midwest Energy Resources Company (MERC). Third party revenues and the equity received from MERC’s joint venture contribute to a reduction in Detroit Edison fuel expense and, ultimately, the rates for Detroit Edison electric customers.

“The Company is also determined to pursue all reasonable avenues to resolve disputes with its suppliers, including negotiation, arbitration and litigation, when necessary.

“Considering the above, as well as the actions the Company has taken to minimize fuel costs, and given that the Company expects to provide a majority of its fossil fuel requirements with coal, I believe that Detroit Edison’s present fuel

supply policy, objectives, and strategies (as set forth in my testimony and exhibits) are reasonable and prudent.” (3 T 631-32).

Mr. Wines supported the (2013-2017) five-year projection of Detroit Edison's Fermi 2 nuclear fuel expense presented in Exhibit A-1 (2 T 27, 32-35), and explained the concerted efforts that contributed to Fermi 2's reasonable fuel expenses for 2013-2017 (2 T 34-35). He also supported Fermi 2's fuel expenses of \$55,229,000 for 2013 (reflected in Exhibit A-1, column (f)) as reasonable and prudent, explaining:

“Fermi has been successful in managing its ore, enrichment services and fabrication fuel expenses for many cycles. An industry benchmark for ore and enrichment service pricing is the long term market indicator. Fermi ore and enrichment services prices have been below the long term market indicator for many cycles and this trend is expected to continue. The projected unit prices for ore and enrichment services assume the price will be less than market price. Fabrication pricing does not have an equivalent benchmark. Fermi controls fabrication costs with engineering time, which maintains small reload batch sizes. Thus, the number of fuel bundles remains optimum, which lowers fabrication costs and reduces the required amount of ore and enrichment services. Projected prices and the total unit price are expected to remain below the sum of the component market prices, all of which have experienced significant changes in past years. I am confident the Company can continue to manage these expenses effectively going forward and therefore, I believe the projected Uranium, enrichment services, and fabrication fuel costs for Fermi are reasonable.” (2 T 34).

Mr. Krishnamurthy's testimony concerning the reasonableness and prudence of the Company's fuel supply plan was largely un rebutted and any criticisms were not credible. Mr. Wines' testimony was un rebutted. Therefore, the ALJ should find, and the Commission should determine, that Detroit Edison's fuel supply plan is reasonable and prudent by a preponderance of the evidence.

5. The REF Project.

In addition to the summary above, Mr. Krishnamurthy provided an extensive discussion of the REF Project, its operation, its compliance with the Code of Conduct, and its benefits for

Detroit Edison customers (3 T 617-31; Exhibit A-21 “Overview of REF Project”; Exhibit A-22 “Refined Coal Adder Inputs Calculations Worksheet; Exhibit A-23 “REF Transactions: MPSC Code of Conduct”). Mr. Krishnamurthy testified that REF is being consumed at the St. Clair Power Plant (“St. Clair” or “SCPP”) Units 1 through 4, and 6, with a targeted annual REF consumption of approximately 1.8 million tons. The Monroe Power Plant (“Monroe” or “MPP”) has been consuming REF at all four units since November 28, 2011. REF is continuing to be tested at the Belle River Power Plant (“Belle River” or “BRPP”), and the Company’s PSCR forecast assumes both units at Belle River will begin consuming REF fulltime in 2014 (3 T 618).

The REF business arrangements at the St. Clair and Belle River power plants allow Detroit Edison customers to receive cost reductions through their base rates without increasing costs to PSCR customers, since the Refined Coal Adder at St. Clair and Belle River will never exceed the environmental benefits realized by customers. The REF business arrangement at Monroe allows Detroit Edison customers to receive cost reductions through their base rates while PSCR customers realize lower cost through the Coal Fee Rate paid by the Monroe Fuels Company (“MFC”) ¹⁶ and the value of reduced NO_x, SO₂, and mercury emissions. In all instances, Detroit Edison’s customers benefit without assuming any technology, tax or capital risk (2 T 247; 3 T 615-17, 619-21).

a. The REF Project Provides Benefits for Detroit Edison Customers Now and in the Future.

The REF Project is a reasonable and prudent way for reducing SO₂, NO_x, H_g emissions and their related costs. (3 T 615) Mr. Krishnamurthy explained the numerous reasonable and

¹⁶ The Fuels Companies are the Belle River Fuels Company (“BRFC”), St. Clair Fuels Company (“SCFC”), and Monroe Fuels Company (“MFC”).

prudent reasons why Detroit Edison did not do the REF Project itself, including, but not limited to, the capital expenditures that would have to be made by Detroit Edison, the tax risks and IRS Rules, and the technology risks at its power plants (3 T 619-21; See Exhibit A-21 for a more detailed explanation of the REF Project).

On a total rate basis (base rates plus PSCR), there are no REF Project costs to Detroit Edison customers. On a PSCR basis, the costs of the REF Project to Detroit Edison customers are effectively zero *or less* and constitute a risk free option to help Detroit Edison attain the mercury emission reduction requirements contained in Michigan Rule 1503 beginning in 2015 (2 T 247). Additional benefits also inure to Detroit Edison customers, including an immediate reduction in annual working capital expense through the sale of a portion of Detroit Edison coal inventory to the Fuels Companies. Edison customers are experiencing this benefit right now, every year, through reduced Detroit Edison base rates (2 T 247-48, 265). REF also provides a cost-free reduction in NO_x emission allowance expense (3 T 621-23). Edison's customers will also benefit from reduced SO₂ emissions, and the reduced cost of mercury emissions compliance (3 T 628).

More specifically, at Edison's Monroe power plant, Edison receives a "Coal Fee Rate," which has the effect of reducing the cost of every ton of REF coal consumed (as compared to non-REF coal at the Monroe power plant). The forecasted Coal Fee Rate is \$4.7 million, which represents the fuel savings in 2013 to PSCR customers (3 T 615; Exhibit A-20, line 5).

At Edison's St. Clair and Belle River power plants, the Refined Coal Adder is the lower of Edison Environmental Benefits (*i.e.*, the PSCR benefit of reduced SO₂ emissions and the reduced cost of mercury emissions compliance resulting from the consumption of Refined Coal), or the revenue requirement associated with the REF Project production facility. The forecasted

Refined Coal Adder for 2013 is \$1,907 (Exhibit A-20), which represents Edison's St. Clair¹⁷ SO₂ Benefit, and is equivalent to the avoided emission allowance cost for 1,271 tons (see Exhibit A-19, line 49, column (b)), valued at \$0.75 per allowance. (3 T 564) The PSCR cost of the Refined Coal Adder is entirely offset by a corresponding savings in PSCR emission allowance expense. The Refined Coal Adder will never exceed the benefits received by Edison, and is capped at the revenue requirement of the SCFC and BRFC. Edison retains any environmental benefits in excess of the REF Project revenue requirement (3 T 615-16).

The total projected Environmental Benefit from the use of REF at Edison power plants in 2013 is \$6,297 (Exhibit A-19, page 1, line 48, column (b)). This \$6,297 includes the value of reduced SO₂ emissions from both MPP (\$4,390) and SCPP (\$1,907). There is no impact on PSCR costs for SCPP, since the value of the Refined Coal Adder is equal to and offset by the value of reduced SO₂ emissions. Edison retains the entire value of reduced emissions at Monroe, so the PSCR forecast includes the emission cost savings of \$4,390,000 from the use of REF at Monroe (3 T 626-27).

Mr. O'Neill explained that in addition to the environmental benefits of the emission reductions, Detroit Edison's use of REF is expected to reduce the need for NO_x and SO₂ emission allowances, the cost of which are recovered in Detroit Edison's PSCR process. In addition, mercury emissions will become regulated in 2015, and REF use will also reduce the expense for reducing mercury emissions. The cost of REF is a cost of fuel burned for electric generation, is an integral part of prudent fuel procurement and utilization, and constitutes a disposal cost of fuel. Therefore, it is properly recovered in Edison's PSCR for the same reasons that urea is recovered in the Company's PSCR, as there would be a direct tradeoff between the

¹⁷ For 2013, REF is being tested at Belle River Power Plant, and during the testing phase the Refined Coal Adder is waived (3 T 616).

use of REF and Detroit Edison's consumption of NO_x and SO₂ emission allowances, and the reduction of mercury emissions (2 T 245-46, 257-59; see also MCL 460.6j(1)(a) permitting "...the utility to recover the booked costs, including transportation costs, reclamation costs, and disposal and processing costs, of fuel burned by the utility for electric generation," and the Commission's November 13, 2008 Order in Case No. U-15415, pp 11-12).

AG witness Mr. McGarry apparently misperceived the REF Project, and made a number of inaccurate assertions and attempted analogies based on that misperception. There is little meriting discussion once one recognizes that refined coal is burned in the boilers, and that the REF Project does not involve Detroit Edison O& M or capital costs, as Mr. O'Neill explained (2 T 63). However, two points bear noting.

First, Mr. McGarry mischaracterized the REF Project as involving coal handling costs that he further suggested should not be recoverable as a PSCR expense under MCL 460.6j(13)(d), which provides for the Commission to "disallow unloading and handling expenses incurred after receipt of the fuel by the utility." The AG's suggested position is factually inaccurate and legally incorrect. The statute must be applied in accordance with its plain language, which simply disallows unloading and handling expenses "incurred after" the utility receives the fuel. *See, for example, Di Benedetto v West Shore Hosp*, 461 Mich 394, 402; 605 NW2d 300 (2000), where our Supreme Court held that "we presume that the Legislature intended the meaning it clearly expressed - no further judicial construction is required or permitted, and the statute must be enforced as written." Mr. O'Neill further explained that the statute has been consistently interpreted in accordance with its plain language, which does not apply to the REF Project because Edison does not receive fuel from the Fuels Companies until the REF enters the power plants for "just in time" consumption (2 T 259). Mr. Krishnamurthy similarly explained: "There

is no fuel handling expense whatsoever included in PSCR expense, either fuel handling related to Detroit Edison or its affiliates” (3 T 624).

Second, Mr. McGarry further suggested that the REF Project does not involve a disposal cost of fuel. Mr. O’Neill explained that expenses associated with the separation and disposal of various byproducts and emissions associated with coal combustion are a disposal cost of fuel, similar to urea expense. The REF Project involves burning treated coal is to generate cleaner energy at a lower cost. Like urea, the REF chemicals applied to the treated coal reduce emissions expense. Utilizing REF to facilitate the economic separation and disposal of various byproducts and emissions associated with the combustion of coal is an act designed to eliminate and dispose of those elements of coal combustion that require disposal. Webster’s Ninth New Collegiate Dictionary defines “disposal” to mean “orderly placement or distribution.” Utilization of REF in combination with other activities results in an orderly placement or distribution of those elements of coal combustion (2 T 260-61). Therefore, REF expenses are properly viewed as a disposal cost of fuel under plain statutory language and the Commission’s November 13, 2008 Order in Case No. 15415, pp 11-12.

In addition, MCAAA witness Mr. Crandall’s suggestion that Edison’s customers should also receive REF tax credits is frivolous (as is Mr. Sansoucy’s related suggestion about the proportionality of benefits) because Edison does not qualify for the tax credits. Refined coal must be sold to an unrelated person to qualify for the tax credits. The Fuels Companies were created to comply with Internal Revenue Code §45(e)(8), and only they qualify for the tax credits (3 T 635-42; Exhibits A-31, A-32, A-33, A-34, A-35). See also, April 25, 2013 Order in Case No. U-16047-R, p 8 (rejecting MCAAA’s exceptions regarding the REF Program because, among other things, “MCAAA fails to address the fact that Detroit Edison did not incur the costs

associated with building the REF facilities, and thus could not accrue the tax credit benefits that flow therefrom”).

b. The REF Project is Part of the Proper Technical Solution to Mercury Emissions Reduction.

The REF project is also a reasonable and prudent way of achieving the maximum emissions reductions for the minimum cost, from a technical point of view. Mr. Rogers explained Detroit Edison’s strategy for compliance with mercury control requirements, and how the REF Project at the St. Clair and Belle River plants, combined with Activated Carbon Injection (“ACI”) supports compliance with mercury rules at the lowest reasonable cost to customers. He also explained that, at Detroit Edison’s Monroe power plant, REF, combined with Flue Gas Desulfurization (“FGD”) supports compliance with mercury rules at the lowest reasonable cost (2 T 120, 123, 130-31).

Over the course of a decade, Detroit Edison has investigated, tested, and considered a variety of mercury compliance alternatives. The Company worked with the industry, including the U.S. Department of Energy National Energy Technology Laboratory (“DOE NETL”), the Electric Power Research Institute (“EPRI”), Lehigh University Energy Research Center and the U.S. Environmental Protection Agency (“EPA”) and hosted several development and demonstration projects at Detroit Edison facilities that furthered the state of the art. The Company studied ACI, ACI-enhancing technologies, Wet Flue Gas Desulfurization (“FGD”), Selective Catalytic Reduction (“SCR”) and various multi-pollutant technologies. The Company also worked with multiple third party technology developers (2 T 121-23).

As a result of these decade-long efforts, the Company has determined that the most cost-effective mercury reductions will occur as a co-benefit through the combination of Wet FGD systems (installed primarily for reduction of SO₂) and SCR systems (installed primarily for

reduction of NOx) at the Monroe power plant. REF improves the operation and efficiency of the Wet FGD system at the Monroe power plant, avoids capital expenditures by Detroit Edison, and removes the need for additional costly additives to achieve full mercury control requirements (2 T 123, 127, 130-31).

At the Company's other coal-fired plants that do not have Wet FGD systems, including St. Clair and Belle River, the most cost effective means of mercury reductions will be achieved with installation and operation of ACI systems. REF improves the economics of the operation of these ACI systems by permitting use of a less expensive form of powdered activated carbon ("PAC")¹⁸ in the operation of the ACI system (2 T 123, 125-27, 130-31).

c. The REF Project Complies with the Code of Conduct.

The REF Project complies with the relevant Code of Conduct admonitions (See Exhibit A-23 "REF Transaction; MPSC Code of Conduct" for a more detailed explanation). For example, there is structural separation (Case No. U-12134 Code of Conduct Section II) between Detroit Edison and the Fuels Companies (employees, equipment, facilities, books and records) and there is no preferential treatment for or subsidization (Case No. U-12134 Code of Conduct Section III) of the Fuels Companies by Detroit Edison (3 T 618-19, 622-24, 629).

MEC/NRDC witness Mr. Sansoucy and MCAA witness Mr. Crandall were critical of Edison selling and repurchasing coal at booked cost, but Mr. Krishnamurthy explained that the pricing was consistent with the Code of Conduct's intent: "With respect to fully allocated cost, the price at which Detroit Edison is selling the coal is equal to Detroit Edison's fully allocated cost, or book cost. The Fuels Companies will simply use the coal to produce REF and sell the REF back to Detroit Edison for consumption at the BRPP, SCPP and MPP and any adjustments

¹⁸ PAC is available in a variety of forms, including the more expensive Brominated PAC ("BrPAC") (2 T 126).

to the sale price to reflect any higher market pricing would only serve to increase the resale price to Detroit Edison. Since the asymmetrical pricing provision of the Code of Conduct is intended to prevent Detroit Edison from subsidizing its unregulated affiliates, it is clear that this transaction is consistent with that intent and effectuates the proper outcome” (3 T 619. See also 2 T 264).

There is also no sound basis for any of Messrs. Sansoucy’s and Crandall’s criticisms and recommendations regarding REF because, at most, they merely offer speculation and innuendo about how they think the Project should look, but they cannot credibly challenge how it works. The record demonstrates that there is no subsidization of the Fuels Companies, and no net cost to ratepayers (3 T 642-44); Edison negotiated reasonable and prudent agreements at arms-length with the Fuels Companies, and ensured that the REF Project minimizes customers’ rates; and perhaps most importantly, absent the REF Project, PSCR and total rates would be higher (3 T 644-47; Exhibits A-33, A-34, A-37, A-38).

In summary, the REF Projects are reasonable and prudent by a preponderance of the evidence because, at the St. Clair and Belle River power plants, the REF business arrangements allow Edison’s customers to receive cost reductions through their base rates without increasing costs to PSCR customers since the REF adder will never exceed the environmental benefit realized by the customer. The REF business arrangement at the Monroe power plant allows Edison’s customers to receive cost reductions through their base rates while PSCR customers realize lower cost through the Coal Fee Rate paid by the MFC and the value of reduced NO_x, SO₂ and mercury emissions compliance costs. In all instances, Edison’s customers benefit without assuming any technology, tax or capital risk (2 T 247; 3 T 630-31). Therefore, the ALJ should find, and the Commission should determine, that the Company’s REF Project and related

expenses are reasonable and prudent by a preponderance of the evidence.

6. The Company's Mercury, Particulate Matter, and Acid Gas Emission-Related Expense for 2015 and Thereafter.

As explained above, the Company has worked for a decade to analyze, evaluate, and address mercury control requirements. Act 304 states in pertinent part:

“In its final order in a power supply and cost review, the commission shall evaluate the decisions underlying the 5-year forecast filed by a utility pursuant to subsection (4). The commission may also indicate any cost items in the 5-year forecast that, on the basis of present evidence, the commission would be unlikely to permit the utility to recover from its customers in rates, rate schedules, or power supply cost recovery factors established in the future.” (MCL 460.6j(7)).

The Company requests that the Commission enter its order pursuant to MCL 460.6j(7) indicating whether the Commission is unlikely to permit the Company to recover the mercury emission-related expense associated with sorbents (*e.g.*, PAC and BrPAC) for 2015 and thereafter (Application, p. 7, paragraph D), as well as indicating whether the Commission is unlikely to permit the Company to recover the trona and sodium bicarbonate (“SBC”) expense related to control of particulate matter and acid-gas emissions for 2015 and thereafter (*Id.*, paragraph E).

Mr. Rogers explained that the EPA's Mercury and Air Toxics Standards (“MATS”) establishes emissions limits for mercury (discussed in section 5. B above), as well as particulate matter (“PM” which is a surrogate for certain non-mercury metals) and HCl (which is a surrogate for certain acid gases) (2 T 120-21, 127). In addition, 2015 is the first compliance year for Michigan Rule 1503 (R 336.2503 Mercury emission standards for electric generating units) (2 T 121).

Mr. Rogers further explained that the Company plans to use Dry Sorbent Injection (“DSI”) technology to comply with the MATS HCl emission limitations. DSI is designed to

remove acid gases from the flue gas stream by injecting alkaline sorbents in the flue gas leaving a coal-fired boiler. The Company's test program demonstrated that trona and SBC are the most cost-effective sorbents to use for the MATS requirements. The Company currently forecasts that it will use trona to control acid gases and PM. Exhibit A-2 provides the Company's projection of PAC and BrPAC expense associated with mercury emissions reduction starting in 2015. Exhibit A-2 also provides the Company's projection of trona expense associated with acid gas (HCl) reductions from DSI, which are required for MATS compliance beginning in 2015. Each of these chemicals is a reasonable and prudent cost of fuel burned and disposal cost of fuel (2 T 120, 127-30).

Mr. O'Neill testified that the Company is not requesting recovery in 2013 of the costs of mercury sorbents, trona or SBC in the Company's PSCR Plan; however, for purposes of providing a complete 5-year power supply forecast, Mr. Rogers provided an estimate of the cost of mercury sorbents and mercury emission-related expense with and without REF beginning in 2015, which is the first compliance year for both the Michigan Rule 1503 and the MATS. Mr. Rogers similarly provided an estimate of the cost of trona beginning in 2015 to control acid gases and particulate matter as required by the MATS. The Company expects to use activated carbon as the mercury sorbent to address the mercury reduction requirements at several of its power plants, and that DSI in combination with ACI will allow the Company to meet the MATS acid gas and particulate matter environmental requirements at some of its coal-fired generating units (2 T 248-250).

The Company expects to request recovery in 2015 of the cost of mercury sorbents (PAC and BrPAC) and alkaline sorbents (trona and SBC) used in these processes through the PSCR as an integral part of the cost of power supply, a cost of fuel burned, and a disposal cost of

fuel. MCL 460.6j(1)(a) allows:

“...the utility to recover the booked costs, including transportation costs, reclamation costs, and disposal and processing costs, of fuel burned by the utility for electric generation.”

The Commission approved the recovery of urea as a disposal cost, explaining:

“Just as there is a direct connection between the quantity and type of fuel burned and the need to purchase emissions allowances there is also a direct connection between fuel burned, emissions, and urea expense. Allowing the recovery of urea expense as a disposal cost of the fuel burned by the utility is consistent with the language of MCL 460.6j(1)(a).” (November 13, 2008 in Case No. U-15415, pp. 11-12).¹⁹

The use of sorbents to reduce mercury, HCl, and other acid gas emissions is similar to the use of urea to reduce NO_x emissions. Therefore, these sorbent costs are also disposal costs and should be included in the PSCR process. However, the Company now seeks guidance from the Commission regarding cost recovery for PAC, BrPAC, trona and SBC in the Company's 2015 PSCR Plan (2 T 249-50).

7. The Company's Proposed PSCR Factor.

Mr. O'Neill calculated a maximum levelized monthly billing factor of 4.74 mills per kWh for 2013 based upon projected total PSCR expense of \$1,511,833,000 (2 T 244; Exhibit A-3). Mr. O'Neill further calculated a 2012 projected PSCR under-recovery of \$81,182,000 for a total PSCR cost of \$1,593,015,000 (2 T 251-52; Exhibit A-3). He also calculated projected average annual PSCR billing factors for 2014 through 2017 (2 T 244; Exhibit A-4). The calculations are based on the change in the average unit cost of power supply above or below a base of 31.26 mills per kWh, using a methodology that is consistent with prior years'

¹⁹ For the 2013 PSCR Plan, the Company is including the total cost of urea in its calculation of the 2013 PSCR factor. The Company has previously included the incremental cost of urea as an integral part of the cost of power supply, a cost of fuel burned and a disposal cost of fuel in PSCR expenses in its 2009, 2010, 2011 and 2012 PSCR Plans. Allowing the recovery of urea expense as a disposal cost of the fuel burned by the utility is consistent with the language of MCL 460.6j(1)(a). (November 13, 2008 Order in Case No. U-15415, pp. 11-12).

calculations, prior Commission orders (including the January 13, 2009 Order in MPSC Case No. U-15244) and Section C8.1 of the Detroit Edison Company Rate Book for Electric Service (2 T 244-45).

The evidence outlined above shows that Detroit Edison developed a reasonable and prudent PSCR plan and 5-year forecast by a preponderance of the evidence. Few aspects of the Company's plan were challenged (and never credibly) and its case was largely un rebutted.

III. RELIEF REQUESTED

Based on its testimony, exhibits, legal authorities and arguments presented in its testimony, exhibits, and this Initial Brief, Detroit Edison has clearly demonstrated that its PSCR plan is reasonable and prudent by a preponderance of the evidence. Accordingly, Edison requests the following relief from the Commission:

- A. Enter its Order approving the implementation of Applicant's proposed PSCR Plan and maximum PSCR Factor in Applicant's rates for 2013 metered jurisdictional sales of electricity, and otherwise expedite approval of Applicant's request for a levelized 2013 maximum PSCR Factor of 4.74 mills per kWh in customers' bills for the period January 1, 2013 through December 31, 2013, inclusive of Detroit Edison's projection of a PSCR under-recovery for the 2012 PSCR period amounting to \$81.182 million, which could change based upon actual results for the balance of the 2012 PSCR Plan period, and/or the final order in its 2011 PSCR Reconciliation Case No. U-16434-R, and/or the final order in its 2012 PSCR Reconciliation Case No. U-16892-R.

- B. Enter its Order, pursuant to MCL 460.6j(7), providing indication from the Commission whether it is unlikely to permit the Company to recover the mercury emission-related expense for Powdered Activated Carbon (“PAC”) and Brominated Powdered Activated Carbon (“BrPAC”) for 2015 through 2017 and thereafter.
- C. Enter its Order, pursuant to MCL 460.6j(7), providing indication from the Commission whether it is unlikely to permit the Company to recover the trona and sodium bicarbonate (“SBC”) expense related to control of particulate matter and acid-gas emissions for 2015 through 2017 and thereafter.
- D. Approve the capacity purchases that may be made to meet the Company’s resource adequacy requirements for the 2013 Resource Adequacy Planning Year and otherwise grant Commission authority under MCL 460.6j(13)(b) to procure the necessary capacity resources enabling Detroit Edison to comply with FERC’s directive under ER11-4081 as described in Ms. Wojtowicz’ testimony
- E. Enter its Order approving Applicant’s 5-year PSCR forecast.
- F. Enter its Order approving the Transfer Price treatment of renewable energy in Detroit Edison’s PSCR process as proposed, described and explained in its Application and the Company’s Testimony, and Exhibits.
- G. Express the Commission’s approval of the REF projects and related expenses as explained in this Company’s testimony, exhibits, and in this Initial Brief.
- H. Enter its Order approving all other proposals made by the Company in its testimony, exhibits, and in this Initial Brief.

- I. Grant Applicant such further additional relief and authority as the Commission may deem necessary, suitable and appropriate.

Respectfully submitted,

THE DETROIT EDISON COMPANY

Dated: June 27, 2013

Legal Department
Bruce R. Maters (P28080)
Michael J. Solo (P57092)
David S. Maquera (P66228)
Attorneys for Detroit Edison
One Energy Plaza, 688 WCB
Detroit, Michigan 48226
(313) 235-3724

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

| | | |
|--|---|--------------------|
| In the matter of the Application of |) | |
| THE DETROIT EDISON COMPANY for |) | |
| Authority to Implement a Power Supply |) | Case No. U-17097 |
| Cost Recovery Plan in its Rate Schedules |) | (Paperless e-file) |
| For 2013 Metered Jurisdictional Sales |) | |
| Of Electricity |) | |
| _____ |) | |

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss
COUNTY OF WAYNE)

Marilyn Y. Oliver, being duly sworn, deposes and says that on the 27th day of June, 2013, a copy of The Detroit Edison Company’s Initial Brief, in the above captioned matter was served upon the persons on the attached service list via e-mail.

Marilyn Y. Oliver

Subscribed and sworn to before
me this 27th day of June, 2013

Karyn B. Kazyaka, Notary Public
Macomb County, Michigan
My Commission Expires: 7-21-2017
Acting in Wayne County

MPSC Case No. U-17097
SERVICE LIST

ADMINISTRATIVE LAW JUDGE

Hon. Sharon L. Feldman
Administrative Law Judge
Constitution Hall
525 West Allegan
Lansing, MI 48913
feldmans@michigan.gov

ABATE

Robert A.W. Strong
Clark Hill, PLC
151 S. Old Woodward, Suite 200
Birmingham, MI 48009
rstrong@clarkhill.com

Leland R. Rosier
Clark Hill PLC
212 E. Grand River Avenue
Lansing, MI 48906
lrosier@clarkhill.com

MCAAAA

Don L. Keskey
Public Law resource Center PLLC
139 W. Lake Lansing Road, Suite 210
East Lansing, MI 48823
donkeskey@publiclawresourcecenter.com

**MICHIGAN ENVIRONMENTAL
COUNCIL (MEC);**

Christopher M. Bzdok
Emerson Hilton
Olson, Bzdok & Howard, P.C.
420 E. Front St.
Traverse City, MI 49686
chris@envlaw.com
emerson@envlaw.com
ruthann@envlaw.com
Kimberly@envlaw.com

**NATURAL RESOURCES DEFENSE
COUNCIL (NRDC)**

Christopher M. Bzdok
Emerson Hilton
Olson, Bzdok & Howard, P.C.
420 E. Front St.
Traverse City, MI 49686
chris@envlaw.com
emerson@envlaw.com
ruthann@envlaw.com
Kimberly@envlaw.com

Jessie Rossman
2 N. Riverside Plaza, Suite 2250
Chicago, IL 60606
jrossman@nrdc.org

Shannon W. Fisk
1617 John F. Kennedy Blvd., Suite 1675
Philadelphia, PA 19103
sfisk@earthjustice.org

**MICHIGAN ATTORNEY
GENERAL**

Donald E. Erickson
John A. Janiszewski
525 W. Ottawa Street
Sixth Floor Williams Bldg
P.O. Box 30755
Lansing, MI 48909
ericksond@michigan.gov
janiszewskiJ2@michigan.gov

STAFF

Patricia S. Barone
Lauren DuVal Donofrio
Assistant Attorney General
6520 Mercantile Way, #1
Lansing, MI 48911
baronep@michigan.gov
donofriol@michigan.gov