

**STATE OF MICHIGAN**  
**BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION**

In the matter of the Application of	)	
<b>DTE ELECTRIC COMPANY</b>	)	Case No. U-21909
for approval to implement a Performance Based	)	(Paperless e-file)
<u>Ratemaking mechanism.</u>	)	

**SETTLEMENT AGREEMENT**

Pursuant to Section 78 of the Administrative Procedures Act of 1969, as amended (1969 PA 306, § 78; MCL 24.278), and Rule 431 of the Rules of Practice and Procedure before the Michigan Public Service Commission (“MPSC” or “Commission”), R 792.10431, the undersigned Parties agree as follows:

WHEREAS, the Commission issued an order on April 24, 2023, initially establishing Case No. U-21400 and the Financial Incentives and Disincentives workgroup as part of the MI PowerGrid Initiative.

WHEREAS, the Commission published an initial straw proposal on August 30, 2023, in Case No. U-21400, and DTE Electric Company (“DTE Electric”) submitted comments on the initial straw proposal on September 22, 2023, and reply comments on October 20, 2023.

WHEREAS, the Commission issued an order on December 21, 2023, in Case No. U-21400 directing Commission Staff to convene another stakeholder session to discuss the revised straw proposal published on that same date, DTE Electric submitted comments on February 2, 2024, and reply comments on March 1, 2024, and Commission Staff filed a second revised straw proposal in Case No. U-21400 on May 3, 2024.

WHEREAS, the Commission issued an order on February 27, 2025, in Case No. U-21400 (“February 27 Order”) adopting the second revised straw proposal and directing DTE Electric to file an application in a new docket by April 15, 2025, with supporting testimony and exhibits to implement a Performance Based Rates (“PBR”) mechanism consistent with the guidance in the February 27 Order.

WHEREAS, DTE Electric submitted its application for a PBR mechanism in a new docket, Case No. U-21909, on April 15, 2025.

WHEREAS, a prehearing conference was conducted on June 3, 2025, before Administrative Law Judge Lesley C. Fairrow. In addition to DTE Electric, the Parties to this PBR proceeding are Commission Staff; Attorney General Dana Nessel; the City of Ann Arbor; the Citizens Utility Board of Michigan (“CUB”); the Association of Businesses Advocating Tariff Equity (“ABATE”); the Great Lakes Renewable Energy Association (“GLREA”) (collectively, the “Parties”).

WHEREAS, the Parties have agreed to enter into a full settlement of this case, and request that the Commission enter an order accepting and approving DTE Electric’s PBR mechanism as set forth in this Settlement Agreement.

NOW THEREFORE, for purposes of settlement of Case No. U-21909, the undersigned Parties agree as follows:

1. **Scope of Metrics.** The Parties agree that DTE Electric’s Performance Based Rates (PBR) mechanism will be limited to the following scope of metrics:

- a. SAIDI excl MED
- b. SAIDI All Weather
- c. 48-hour Catastrophic Storm Restoration

- d. 72-hour Catastrophic Storm Restoration
- e. 24-hour Gray Sky Restoration
- f. CEMI-4
- g. Worst Performing Circuits (SAIDI ex MED, System Basis)

2. **Targets, Thresholds, and Maximums for SAIDI excluding MED.** The Parties agree that the following targets, thresholds, and maximums will be used to determine any incentives or penalties that DTE Electric may earn or incur for performance under the SAIDI excluding MED metric. The baseline reflects the average of the two lowest years from 2022-2024. The target reflects 1% annual improvement per year from the baseline.

	2026	2027	2028	2029	2030
Target	150.0	148.5	147.0	145.4	143.9
Penalty Threshold					
Maximum Penalty	170.4	168.9	167.4	165.8	164.3
Incentive Threshold	128.1	125.0	122.0	119.0	116.0
Maximum Incentive	107.7	104.6	101.6	98.6	95.6

Any incentives and penalties will be applied on a linear basis between the applicable threshold and maximum. See Attachment 1 for Penalty and Incentive Schedules for 2026. Future years will utilize a consistent methodology.

3. **Targets, Thresholds, and Maximums for SAIDI All Weather.** The Parties agree that the following targets, thresholds, and maximums will be used to determine any incentives or penalties that DTE Electric may earn or incur for performance under the SAIDI All Weather metric. The baseline reflects the average of 2020-2024. The target reflects 1% annual improvement per year from the baseline.

	2026	2027	2028	2029	2030
Target	769.8	762.0	754.3	746.5	738.7
Penalty Threshold					
Maximum Penalty	1031.9	1024.1	1016.3	1008.6	1000.8
Incentive Threshold	500.0	484.4	468.9	453.3	437.8
Maximum Incentive	237.9	222.4	206.8	191.3	175.7

Any incentives and penalties will be applied on a linear basis between the applicable threshold and maximum. See Attachment 1 for Penalty and Incentive Schedules for 2026. Future years will utilize a consistent methodology.

4. **Targets, Incentive, and Penalty Ranges for All Other Metrics.** The Parties agree that the following thresholds will be used to determine any incentives or penalties that DTE Electric may earn or incur for performance under the remaining metrics included in DTE Electric's PBR mechanism:

Metric	Penalty Range	Target	Incentive Range
48-hour Catastrophic Storm Restoration	$\leq 90\%$	$> 90\%$	$> 90$ to $100\%$
72-hour Catastrophic Storm Restoration	$\leq 95\%$	$> 95\%$	$> 95$ to $100\%$
24-hour Gray Sky Restoration	$\leq 90\%$	$> 90\%$	$> 90$ to $100\%$
CEMI-4	$\geq 6$	$< 6\%$	$0$ to $< 6\%$

Worst Performing Circuits (SAIDI ex MED, System Basis)	<p><u>For Penalty:</u> A circuit is listed in top 10 during the review year and listed in the top ten in any of the four years prior.</p> <p><u>For Incentive:</u> None of the circuits listed in the top 10 during the review year are listed in the top ten in any of the four years prior.</p> <p><u>For both Penalty and Incentive:</u> Review Year 2026 shall be compared with 2023- 2025. Review year 2027 shall be compared with 2023-2026. Review year 2028 shall be compared to 2024-2027. And so on.</p>
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Any incentives and penalties will be applied on a linear basis between the applicable threshold and maximum. See Attachment 1 for Penalty and Incentive Schedules for 2026. Future years will utilize a consistent methodology.

5. **Maximum Incentive and Maximum Penalty.** The Parties agree that the maximum total incentive that DTE Electric can earn for its performance across all of the metrics in this PBR mechanism cannot exceed \$10 million per year. The Parties also agree that the maximum total penalty that DTE Electric can incur for its performance across all of the metrics in this PBR mechanism cannot exceed \$10 million per year.

6. **Metric Weights.** The Parties agree that the metrics will have the following weights and maximum incentives and penalties:

Metric	Weight (% of Total)	Maximum Incentive / Penalty
SAIDI excl MED	15%	\$1.5 M
SAIDI All Weather	15%	\$1.5 M

48-hour Catastrophic Storm Restoration	25%	\$2.5 M
72-hour Catastrophic Storm Restoration	20%	\$2.0 M
24-hour Gray Sky Restoration	10%	\$1.0 M
CEMI-4	10%	\$1.0 M
Worst Performing Circuits (SAIDI ex MED, System Basis)	5%	\$0.5 M

7. **Net Incentive (Penalty).** The Parties agree that the resulting net incentive or net penalty is the simple sum of incentives earned and penalties incurred individually across the seven metrics described in this Agreement. The incentive is subject to the condition that for DTE Electric to earn any incentives under this mechanism, it must meet or exceed all existing Service Quality and Reliability Standards (SQRS) for the applicable year, beginning in 2026, per R 460.741(1).

8. **Discussion of Performance Data and Calculations.** The Company will provide to the Parties to the Settlement Agreement a complete description of how it presently compiles the data underlying each PBR metric, the source of the data, the computerized processes used, how it validates the accuracy of the data and resulting calculations, and identify and explain any external adjustments to the outcomes of computerized processes. This information will be shared during a presentation to the Parties by October 31, 2025, which will be scheduled by DTE Electric. The presentation will be filed under the Case No. U-21909 docket before the end of 2025.

9. **Internal Audit of Performance Data and Calculations.** DTE Electric will direct its internal audit group to perform an internal audit of the data gathering and calculation processes for the PBR metrics. The Company will file a letter from its internal audit group certifying the

underlying data for the PBR metrics and calculations that will be filed with its first PBR report in Case No. U-21909 on or about March 15, 2027. The internal audit report will be available for review by the Parties.

10. **Annual Review Process.** The Parties agree that DTE Electric will submit a report in the Case No. U-21909 docket on or about March 15<sup>1</sup> of each year, containing the actual performance data from the prior year for each metric in the PBR mechanism, as well as the applicable targets and thresholds, a calculation of the incentive or penalty earned or incurred under each, and the net incentive or penalty earned in aggregate across all metrics. Following the filing, the Commission Staff and any interested parties will review the data and the Commission will issue an order before the end of the calendar year approving DTE Electric to book a regulatory asset (or liability) for the net incentive (or penalty) that the Company earned (or incurred) in aggregate from the prior year. The metric calculation, the regulatory asset (or liability), and proposed disposition of the incentive or penalty will be included for review and approval in a general rate case. Should the Company not file a general rate case within 24 months of an annual filing, the Company will file with the Commission an application to address the corresponding metric calculations and results, which will be conducted as a contested case under Case No. U-21909.

11. **Framework Review.** The Parties agree that the terms of this Settlement Agreement, including but not limited to metrics, targets, thresholds, weights, and review process, will remain in effect until the Commission orders any changes or updates to the mechanism.

12. **Waiver of Jury Trial.** DTE Electric waives any right to a jury trial in connection with the PBR mechanism approved in Case No. U-21909, including the treatment of any resulting

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<sup>1</sup> Actual date consistent with the annual Service Quality and Reliability Standards filing pursuant to R460.741.

incentives or penalties as regulatory assets or liabilities. Notwithstanding this waiver, DTE Electric's rights to challenge or appeal Michigan Public Service Commission regulations or decisions related to performance-based ratemaking and financial incentives and disincentives are fully preserved.

13. This Settlement Agreement is entered into for the sole and express purpose of reaching a compromise among the Parties. All offers of settlement and discussions relating to this Settlement Agreement are considered privileged under MRE 408.

14. If the Commission approves this Settlement Agreement without modification, neither the Parties to this settlement nor the Commission shall make any reference to, or use this Settlement Agreement or the order approving it, as a reason, authority, rationale, or example for taking any action or position or making any subsequent decision in any other case or proceeding; provided however, such references may be made to enforce or implement the terms of the Settlement Agreement and the order approving it.

15. This Settlement Agreement is based on the facts and circumstances of this PBR mechanism proceeding and is intended for the final disposition of Case No. U-21909. So long as the Commission approves this Settlement Agreement without modification, the Parties agree not to appeal, challenge, or otherwise contest the Commission Order approving this Settlement Agreement. Except as otherwise set forth herein, the Parties agree and understand that this Settlement Agreement does not limit any party's right to take new and/or different positions on similar issues in other administrative proceedings, or appeals related thereto.

16. This Settlement Agreement is not severable. Each provision of this Settlement Agreement is dependent upon all other provisions of this Settlement Agreement, including the attachments. If the Commission rejects or modifies this Settlement Agreement, this Settlement



Agreement shall be deemed to be withdrawn, and shall not constitute any part of the record in this proceeding or be used for any other purpose and shall not operate to prejudice the pre-negotiation positions of any party.

17. This Settlement Agreement is reasonable and in the public interest and will reduce the time and expense of the Commission, its Staff, and the Parties.

18. The Parties agree to waive Section 81 of 1969 PA 306 (MCL 24.281), as it applies to the issues in this proceeding, if the Commission approves this Settlement Agreement without modification.

19. This Settlement Agreement may be executed in any number of counterparts, each considered an original, and all counterparts that are executed shall have the same effect as if they were the same instrument.

**IN WITNESS WHEREOF**, the Parties have caused this Settlement Agreement to be duly executed by their respective duly authorized officers as of the date first written below.

[SIGNATURE PAGES]