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Detroit Edison

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Nuclear Operations

March 19, 1987
VP-NO-87-0050

U. S. Nuclear Regulatory Commission
Attn: Document Control Desk
Washington, D. C. 20555

Reference: Wall Street Journal Article Regarding
Detroit Edison on March 6, 1987

The article appearing in the Wall Street Journal referenced above discussed Detroit Edison's investment outlook as it is impacted by the regulatory treatment and operation of Fermi 2. Actually, the article contained no new information regarding the Company's investment outlook beyond what has already been available and widely reported by various financial analysts.

Investors recognize that when Fermi 2 is declared "commercial", there will no longer be substantial Allowance for Funds Used During Construction (AFUDC) which has supported current earnings. It is also recognized that the authorized rate increase did not cover the total cost of Fermi 2. Consequently, the Company must file a new rate case to cover the additional Fermi 2 costs.

Detroit Edison's earnings will likely decline somewhat when Fermi 2 achieves commercial operation because the authorized rate increase does not cover the total cost of Fermi 2. However, internal cash flow will increase as the Company experiences rate increases for Fermi 2. A rate increase has already been approved by the Michigan Public Service Commission totaling $475.8 million (including interest) phased in over five years once the plant enters commercial operation. The first year's increase will be $77.9 million.

A substantial volume of Detroit Edison common stock was traded on Monday, March 9, following publication of the article on Friday, March 6. However, this was due to the fact that Monday, March 9, was the last trading day the stock could be purchased in order to receive the quarterly dividend payment. It is a normal occurrence for the common stock of Detroit Edison and other

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electric utilities with high yields to exhibit heavy trading volume on or just before the dividend record date as financial institutions "buy" the quarterly dividend payment. There has been no serious subsequent movement in the stock price.

New accounting standards adopted by the Financial Accounting Standards Board will require the recognition of accounting losses related to the regulatory treatment of Fermi 2. Maintaining earnings at current levels in the future poses a significant challenge to the Company as was highlighted in the article, but the Company believes that it is prepared to meet that challenge. Furthermore, the Company is committed to maintaining the common stock dividend at its current level.

The Company still faces significant regulatory and operational hurdles. This prompts various amounts of scrutiny by investors, but the fact remains that cash flow will continue to improve following commercial operation of Fermi 2. A more complete description of Detroit Edison's financial position is contained in the enclosed 1986 Annual Report, including the effect of the new accounting standard.

Sincerely,

Enclosure

cc: Mr. A. B. Davis
Mr. W. G. Rogers
Mr. J. J. Stefano