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July 7, 2023

VIA ELECTRONIC CASE FILING

Executive Secretary
Michigan Public Service Commission
7109 W. Saginaw Highway
Lansing, Michigan 48917

Re: Case No. U-21297 – In the matter of the application of DTE Electric Company for authority to increase its rates, amend its rate schedules and rules governing the distribution and supply of electric energy, and for miscellaneous accounting authority.

Dear Executive Secretary:

Enclosed for filing please find the ***Association of Businesses Advocating Tariff Equity's Rebuttal Testimony of Brian C. Andrews*** and ***Proof of Service*** for the same in the above referenced proceeding.

Sincerely,

CLARK HILL PLC

Stephen A. Campbell

Digitally signed by: Stephen A. Campbell
DN: CN = Stephen A. Campbell email = scampbell@clarkhill.com C = US O = Clark Hill PLC
Date: 2023.07.07 15:35:36 -04'00'

Stephen A. Campbell

SAC/lkd
cc: Parties of Record

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of DTE ELECTRIC COMPANY for Authority to Increase Its Rates, Amend Its Rate Schedules and Rules Governing the Distribution and Supply of Electric Energy, and for Miscellaneous Accounting Authority.	)	**Case No. U-21297**

Rebuttal Testimony of

Brian C. Andrews

On behalf of

Association of Businesses Advocating Tariff Equity

July 7, 2023

Project 11447

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of DTE ELECTRIC COMPANY for Authority to Increase Its Rates, Amend Its Rate Schedules and Rules Governing the Distribution and Supply of Electric Energy, and for Miscellaneous Accounting Authority.	)	**Case No. U-21297**

Rebuttal Testimony of Brian C. Andrews

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Brian C. Andrews. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q ARE YOU THE SAME BRIAN C. ANDREWS WHO PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING ON JUNE 13, 2023?

A Yes. I filed Direct Testimony on behalf of Association of Businesses Advocating Tariff Equity ("ABATE") on June 13, 2023.

Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A The purpose of my Rebuttal Testimony is to respond to the Direct Testimony of Justin R. Barnes, filed on behalf of the Michigan Energy Innovation Business Council, the Institute for Energy Innovation, and Advanced Energy United ("Michigan EIBC/IEI/United"). Specifically, I address his claims that demand rates are

economically inefficient[1] and that DTE should establish two new optional Time-of-Use ("TOU") rates for commercial and industrial customers.

My silence in this testimony with regard to any issue should not be construed as an endorsement of the position of any party on that issue in this proceeding.

Q MICHIGAN EIBC/IEI/UNITED'S WITNESS MR. BARNES, ON PAGES 14 THROUGH 18 OF HIS DIRECT TESTIMONY, PROPOSES TWO NEW OPTIONAL TOU RATES FOR COMMERCIAL AND INDUSTRIAL CUSTOMERS. DOES ABATE TAKE ISSUE WITH THE PROPOSED CREATION OF THESE TWO NEW OPTIONAL TOU RATES?

A No. ABATE agrees that it is beneficial for customers to have additional rate options available to them, provided each rate on a going forward basis is modeled as a separate customer class in DTE's class cost of service study and is allocated revenues consistent with the class cost of service study results. Provided this will be the case on a going forward basis, the proposed optional TOU rates that Mr. Barnes has suggested pose no problems for ABATE.

Q WHAT THEN IS YOUR ISSUE WITH THE STATEMENTS MADE BY MR. BARNES?

A Mr. Barnes claims that demand rates provide customers with an economically inefficient price signal and provides citations to a Regulatory Assistance Project ("RAP") Policy Brief that claims demand charges are archaic and have little to no place in modern rate design.[2]

[1]Direct Testimony of Justin R. Barnes at page 12, lines 4-13.
[2]Direct Testimony of Justin R. Barnes at page 5, lines 16-20 and pages 10-14.

Q IN YOUR OPINION, ARE DEMAND RATES CONSISTENT WITH THE PRINCIPLE OF COST-CAUSATION?

A Yes, demand rates are indeed consistent with cost-causation. The primary reason is that the bulk of costs for electric utilities are fixed costs associated with infrastructure. This infrastructure - including power generation plants, transmission lines, and distribution equipment - is constructed not based on the average usage of electricity, but rather, it is built to meet the highest, or peak, demand on the system.

In other words, even if a customer only contributes to the peak demand a few times a year, the system still needs to be robust enough to meet that customer's demand when it does occur. Essentially, the infrastructure has to be designed and maintained to handle the maximum load, even if such a load situation is infrequent.

Demand rates, therefore, reflect this cost-causation more accurately as they are designed to recoup the fixed costs associated with meeting the peak demand. By billing customers based on their maximum usage within a billing period, demand rates signal to customers the true cost of maintaining the capacity to meet their highest level of demand.

Q CAN YOU ELABORATE ON WHY DEMAND RATES SEND AN EFFICIENT PRICE SIGNAL?

A Yes. Demand rates send a price signal to customers that their individual peak demand, even if it occurs infrequently, has a cost. This signal encourages customers to manage their peak demand, which can result in more efficient utilization of the system's capacity and less need for investment in additional capacity. It's a direct and tangible way of linking customers' usage behavior to the costs they impose on the system. This

ultimately enhances economic efficiency by enabling cost-reflective pricing and promotes equity by ensuring that those who cause costs bear them.

Therefore, demand rates align well with the principle of cost-causation, which posits that the costs of providing a service should be borne by those who cause the costs to be incurred. This is fundamental to the fair and equitable allocation of costs in utility rate design.

Q MR. BARNES SUGGESTS THAT TIME-DIFFERENTIATED VOLUMETRIC RATES ARE MORE EFFICIENT THAN DEMAND RATES. DO YOU AGREE WITH THIS ASSESSMENT?

A No. While time-differentiated rates can provide a more granular price signal, they are not a substitute for demand rates. They send a different price signal which is about the TOU rather than the level of demand. Both signals are important and can be complementary. The time-differentiated portion of the rate should be to recover costs that actually vary throughout times of the day or months of the year, not to recover fixed costs that do not change.

Q CAN YOU EXPLAIN WHY THE FIXED COSTS FOR ELECTRIC INFRASTRUCTURE ARE LARGELY INVARIANT TO THE TOU?

A Yes. The majority of electric infrastructure costs are fixed in nature, and they are determined primarily by the need to meet peak demand levels, not by when electricity is used throughout the day.

Consider an example of building a power plant, a transmission line, or a distribution transformer that requires a significant investment upfront. These costs are fixed and have to be incurred irrespectively of how much, or how often, electricity is

produced or transmitted through these facilities. Importantly, these infrastructure components need to be sized and designed to meet the maximum or peak demand on the system.

Take a power plant for instance. It's not built to meet the average demand, but rather the peak demand. If the highest demand that the system ever experienced is, say 1,000 megawatts, then the power plant must have a capacity of at least 1,000 megawatts to meet this demand. This is necessary even if the peak demand of 1,000 megawatts is only experienced for a few hours a year, and much of the rest of the time the demand is significantly lower.

This is precisely why these costs are not variable by TOU. Whether it's the middle of the night when demand is low or the middle of a hot summer day when demand is at its peak, the infrastructure costs remain the same because the facilities were designed to meet the peak demand.

Therefore, demand rates, which are intended to recover these fixed costs based on customers' contribution to peak demand, are a fair and effective way to ensure that these costs are allocated appropriately among customers. They directly connect a customer's demand with the costs their demand imposes on the system, consistent with the principle of cost-causation.

Q DOES MR. BARNES' DIRECT TESTIMONY ALTER YOUR CONCLUSIONS THAT THE D11 DEMAND CHARGES SHOULD RECOVER 62% OF THE POWER SUPPLY COSTS AND ENERGY CHARGES SHOULD RECOVER 38% OF THE POWER SUPPLY COSTS?

A No. As demonstrated in my Direct Testimony, the power supply costs for DTE's primary customer classes is approximately 62% fixed and 38% variable. As such, I

recommended that D11 demand charges recover 62% of the power supply costs and energy charges recover 38% of the power supply costs. The statements made by Mr. Barnes do not change my conclusions, nor should they be used by the Commission to make any substantive changes to Rate D11. Again, ABATE has no issue with the creation of an optional TOU rate for commercial or industrial customers as detailed earlier in my testimony herein; however, Mr. Barnes' arguments against the use of demand charges are not valid.

Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A Yes, it does.

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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the Application of	)	
DTE ELECTRIC COMPANY	)	Case No. U-21297
for authority to increase its rates, amend	)	
its rate schedules and rules governing the	)	ALJ Sharon Feldman
distribution and supply of electric energy, and	)	
for miscellaneous accounting authority.	)	
_____	)	

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss
COUNTY OF WAYNE)

Stephen A. Campbell, being first duly sworn, deposes and says that on July 7, 2023, he did cause to be served the ***Association of Businesses Advocating Tariff Equity's Rebuttal Testimony of Brian C. Andrews*** and ***Proof of Service***, in the above docket, via electronic mail, to the persons identified on the attached service list.

/s/ Stephen A. Campbell

_____

Stephen A. Campbell

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