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June 21, 2024

Lisa Felice
Executive Secretary
Michigan Public Service Commission
7109 West Saginaw Highway
Lansing, MI 48917

RE: 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
MPSC Case No. U-21534

Dear Ms. Felice:

Attached for electronic filing in the above captioned matter on behalf of DTE Electric Company is Testimony of Matthew A. Fix, Testimony of Jerome Hooper, and Revised Testimony of Neal T. Foley, as well as A-13 C5.11.1 WTW Exhibit Revised and A-13 C5.11.2 Pwc Exhibit Revised. The exhibits have been revised due to the adoption of same by Mr. Fix and Mr. Hooper and do not reflect substantive changes from the exhibits originally sponsored by Mr. Cooper.

The Testimony of Matthew A. Fix adopts those portions of the Testimony of Michael Cooper and sponsored exhibits applicable to employee compensation practices and benefit expense related to retirement income for DTE Electric for the 2022 historical test period and the 12 months ended 12/31/25 projected test period without substantive change, with the exception of a numerical reference correction on p. 34 of Mr. Fix's Testimony.

The Testimony of Jerome Hooper adopts those portions of the Testimony of Michael Cooper and sponsored exhibits applicable to benefit expenses for DTE Electric for the 2022 historical test period and the 12 months ended 12/31/25 without substantive change.

The revised Testimony of Neal T. Foley adopts the Testimony of Adella Crozier as well as Exhibit A-27 without substantive change. Redline comparisons with the testimonies of Mr. Foley and Ms. Crozier are attached for ease of reference.

Also attached is the Proof of Service.

Very truly yours,

Paula Johnson-Bacon

PJB/cdm
Attachments

cc: Service List

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-21534

QUALIFICATIONS
AND
DIRECT TESTIMONY
OF
MATTHEW A. FIX

DTE ELECTRIC COMPANY
QUALIFICATIONS AND DIRECT TESTIMONY OF MATTHEW A. FIX

Line
No.

1 **Q1. What is your name, business address and by whom are you employed?**

2 A1. My name is Matthew A. Fix (he/him/his). My business address is DTE Energy
3 Company, One Energy Plaza, Detroit, Michigan 48226. I am employed by DTE
4 Energy Corporate Services, LLC (DTE LLC), a subsidiary of DTE Energy
5 Company (DTE Energy).

6

7 **Q2. On whose behalf are you testifying?**

8 A2. I am testifying on behalf of DTE Electric Company (DTE Electric or Company).

9

10 **Q3. What is your educational background?**

11 A3. I received a Bachelor of Business Administration with a major in human resources
12 and a Bachelor of Arts with a major in psychology from the University of Michigan
13 – Dearborn in 2008. I received a Master of Business Administration with a finance
14 concentration from the University of Michigan – Dearborn in 2013.

15

16 **Q4. What is your current position and work experience?**

17 A4. My current position is Director of Compensation and Retirement Income, which I
18 have occupied since 2022. I joined DTE LLC full-time in 2009 and held positions
19 with increasing responsibility in Human Resources. I became Manager of HR
20 Client Relations in 2013, Manager of Compensation in 2017, and assumed
21 responsibility for Retirement Income in 2021.

22

23 **Q5. What are your current responsibilities as Director of Compensation and**
24 **Retirement Income?**

DTE ELECTRIC COMPANY
QUALIFICATIONS AND DIRECT TESTIMONY OF MATTHEW A. FIX

Line
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1 A5. As Director of Compensation and Retirement Income, I have overall responsibility
2 for the design, implementation, and administration of DTE Energy's compensation
3 and retirement income related plans, policies, and practices.

4

5 **Q6. Have you participated in DTE Electric or DTE Gas proceedings before the**
6 **Michigan Public Service Commission (MPSC or Commission)?**

7 A6. Yes. I provided support to the compensation and benefits witness in the following
8 cases:

9	U-18999	2017 DTE Gas General Rate Case
10	U-20162	2018 DTE Electric General Rate Case
11	U-20561	2019 DTE Electric General Rate Case
12	U-20642	2019 DTE Gas General Rate Case
13	U-20836	2022 DTE Electric General Rate Case
14	U-20940	2021 DTE Gas General Rate Case
15	U-21291	2024 DTE Gas General Rate Case
16	U-21297	2023 DTE Electric General Rate Case

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1 **Purpose of Testimony**

2 **Q7. What is the purpose of your testimony?**

3 A7. My testimony will present an overview of employee compensation practices and
4 benefit expense related to retirement income for DTE Electric for the 2022
5 historical test period and the 12 months ended December 31, 2025, projected test
6 period. Specifically, I will:

- 7 1. Provide support for the Company's projected pension costs, Employee Savings
8 Plan Expense and other retirement income benefits;
- 9 2. Support the Company's labor cost escalation assumptions used in Company
10 Witness Uzenski's development of the composite inflation factors for the
11 projected test period;
- 12 3. Provide an overview of the Company's compensation philosophy for non-
13 represented employees and the role that the Company's incentive plans play in
14 the overall reasonableness of its total compensation policies, including an
15 analysis of salaries for non-represented positions as of December 31, 2022,
16 relative to the market medians for comparable positions;
- 17 4. Describe the components of the Company's short-term and long-term incentive
18 compensation plans and support the inclusion of such cost in the Company's
19 revenue requirement, exclusive of the costs related to DTE Energy's Top Five
20 Executive Officers; and
- 21 5. Demonstrate that the quantifiable customer benefits of the Company's incentive
22 compensation plans exceed the corresponding expense, as required by the
23 Commission's traditionally mandated cost/benefit analysis of incentive
24 compensation expense.

25

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1 In summary, my testimony will support the reasonableness and validity of the
2 projected employee benefits and compensation expense to be incurred by DTE
3 Electric for the projected test period.

4

5 **Q8. Are you sponsoring any exhibits in this proceeding?**

6 A8. Yes. I am sponsoring in whole, or in part, the following exhibits:

7	<u>Exhibit</u>	<u>Schedule</u>	<u>Description</u>
8	A-13	C5.11	Projected Operation and Maintenance Expenses -
9			Employee Pension and Benefits
10	A-13	C5.12.1	Projected Operation and Maintenance Expenses –
11			Pension Cost - Qualified
12	A-21	K1	Employee Compensation Market Analysis:
13			December 31, 2022
14	A-21	K2	2023 Annual Incentive Plan and Rewarding
15			Employees Plan Metrics: DTE Electric Company
16	A-21	K3	2023 Annual Incentive Plan and Rewarding
17			Employees Plan Metrics: Nuclear Generation
18	A-21	K4	2023 Annual Incentive Plan and Rewarding
19			Employees Plan Metrics: DTE Energy Corporate
20			Services LLC
21	A-21	K5	2023 Long-Term Incentive Plan Performance Shares
22			Metrics
23	A-21	K6	2023 Incentive Plans Cost/Benefit Analysis

24

25 **Q9. Were these exhibits prepared by you or under your direction?**

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No.

1 A9. Yes, they were. Portions of Exhibit A-13, Schedule C5.11 are sponsored by
2 Witnesses Hooper and Uzenski.

3

4 **EMPLOYEE PENSION COSTS**

5 **Q10. What are pension costs?**

6 A10. Pension costs are those costs related to retirement benefits for the employees of
7 DTE Electric that are eligible to participate in the Company's defined benefit
8 pension plans. The Company's defined benefit pension costs are recognized under
9 Financial Accounting Standard Board's Accounting Standard Codification (ASC)
10 Section 715-30 (ASC 715-30). Costs for the Company's Savings Plan and other
11 defined contribution benefits are recognized separately.

12

13 **Q11. What are the components of pension costs?**

14 A11. Pension costs are measured at the beginning of each fiscal year, under ASC 715-
15 30, and include the following four pension cost components:

16

17 Service Costs: Service Costs represent the pension benefits earned by active
18 employees, on a present value basis, during the current period. Service Costs are
19 measured based on the expected benefits to be paid based on actuarial assumptions
20 including current and projected salaries, expected employee turnover, and life
21 expectancy.

22

23 Interest Costs: Interest Costs are the increase in the Projected Benefit Obligation
24 (PBO) due to the passage of time during the current period. The PBO is the
25 actuarial present value of benefits attributable to the pension benefit formula and

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1 service accrued to date discounted back to current dollars at a discount rate selected
2 at the prior year-end. A discount rate of 5.19% was used in determining the PBO
3 as of December 31, 2022. Measuring the PBO as a present value at the beginning
4 of each fiscal year requires the accrual of an interest cost for the current period at a
5 rate equal to the prior year's discount rate. The discount rate used in measuring
6 Interest Costs, as well as Service Costs for the 2022 historical test period, was
7 2.91%, based on the interest rate environment at the end of 2021, and projected
8 benefit payments from the pension plan matched against a yield curve of corporate
9 bond rates, rated AA or higher, provided by Aon, the Company's independent
10 actuarial firm. This was then reviewed by PriceWaterhouseCoopers (PwC), the
11 Company's independent accounting firm in connection with its audit of the
12 Company's financial statements as filed with the Securities and Exchange
13 Commission (SEC). The 5.19% discount rate used for determining Interest Costs
14 and Service Costs for the projected test year is based on the discount rate as of
15 December 31, 2022, which reflects the traditional assumption that high-quality
16 corporate bond yields at the end of 2022 will remain unchanged from the rates
17 prevailing at the end of the historical test year.

18

19 Expected Return on Assets: The Expected Return on Assets (ERoA), which is an
20 offset to pension costs, is an estimate of the expected investment return during the
21 current period, on the Market Related Value of the assets invested in the pension
22 trust at the beginning of the year adjusted for any expected funding activity and
23 projected benefit payments for the year. While actual year-to-year investment
24 returns can vary significantly, the ERoA is determined based on forward-looking
25 long-term financial market expectations to avoid large swings in pension costs

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1 based on short-term investment performance. DTE Electric's expected annual
2 return was 6.80% during the 2022 historical test year, as developed by NEPC LLC,
3 the Company's independent investment consulting firm, and reviewed by PwC in
4 connection with its audit of the Company's financial statements as filed with the
5 SEC. The ERoA is 7.60%, 7.90% and 7.80% in 2023, 2024 and 2025, respectively.
6 The increase in the ERoA is due primarily to an increase in the forward-looking
7 long-term capital market assumptions that reflects the impact of the negative market
8 performance in 2022. These ERoAs are based on market conditions and pension
9 funding status as of late 2022.

10

11 Amortizations: In addition to current period costs described above, pension costs
12 also include the effect of the delayed recognition of prior period costs. This
13 includes Unrecognized Gains and Losses and Prior Service Costs. Unrecognized
14 Gains and Losses are changes in the amount of either the PBO or the plan's assets
15 resulting from experience different from that assumed in actuarial assumptions.
16 Most notably, since discount rates and return on assets assumptions are based on
17 either point in time measurements or long-term estimates of expected returns,
18 differences arise whenever a change is made in the discount rates or when the actual
19 asset returns differ from long-term expectations. These gains and losses are
20 deferred and the amount of the unrecognized balance in excess of a corridor equal
21 to 10% of the greater of the PBO or the Market Related Value of assets is amortized
22 based on a period equal to the average remaining service life of employees covered
23 by the plans. Prior Service Costs arise from pension plan amendments that affect
24 future benefits. When a plan provision is changed that will affect future benefit
25 payments for existing employees or retirees, the resulting change in the PBO

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1 liability is amortized over the average remaining years of service life of the active
2 employees.

3

4 **Q12. What is the level of pension funding reflected in the projected pension costs?**

5 A12. Based on the pension funding status on December 31, 2022, the Company is not
6 expected to fund pension plans in 2023, 2024 or 2025. While there is no planned
7 funding of DTE Electric's pension trust, \$50 million of pension assets related to the
8 DTE Gas Non-Union pension trust were transferred to DTE Electric's pension trust
9 assets in November 2023 in exchange for cash consideration. The reasons for these
10 transfers are explained by Witness Uzenski.

11

12 **Q13. How are pension costs expected to change between the historical test year and
13 the projected year?**

14 A13. As summarized on Exhibit A-13, Schedule C5.12.1, the Company's pension costs
15 are projected to decrease from \$90.987 million during the historical test year, which
16 includes the one-time cost of \$64.798 million related to settlement charges
17 recognized in 2022, to \$53.993 million for the projected test year. After adjustments
18 for the portion of pension costs capitalized and transferred, the Company's projected
19 pension expense is \$32.273 million, as reflected on Exhibit A-13, Schedule C5.12.1,
20 line 19.

21

22 **Q14. Is the pension expense included in the Company's proposed revenue
23 requirement?**

24 A14. No. Witness Uzenski sponsors the Company's proposal to continue to defer the
25 projected pension expense to the accumulated regulatory liability as initially

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1 authorized by the Commission in its Order in Case No. U-20836. Thus, the
2 projected pension expense is not reflected in the Company's proposed revenue
3 requirement and the pension expense is eliminated on line 20 of Exhibit A-13,
4 Schedule C5.12.1.

5

6 **EMPLOYEE SAVINGS PLAN COSTS**

7 **Q15. What is included in Employee Savings Plan expense reflected on Exhibit A-13,**
8 **Schedule C5.11, line 5?**

9 A15. The Company's Employee Savings Plan is an employee benefit plan that allows
10 eligible employees the opportunity to contribute a certain percentage of their annual
11 earnings that the Company matches, generally up to 6% of annual salaries and
12 wages for non-represented employees and for most represented groups. In addition,
13 employees hired after the Company's defined benefit pension plans were closed to
14 new hires receive an additional Company contribution of 4.0% of their pay,
15 although certain represented employees receive a Company contribution of 8.0%
16 of their pay.

17

18 **Q16. What adjustments are you proposing to the Company's Employee Savings**
19 **Plan expense?**

20 A16. As reflected on page 2 of Exhibit A-13, Schedule C5.11, line 5, I am proposing two
21 adjustments to Employee Savings Plan expense. The first, which is reflected on
22 column (c), represents a normalization of the Company's recorded 2022 Employee
23 Savings Plan expense and the second, which is reflected in column (h), represents
24 the projection of this expense through the end of the projected test year.

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1 **Q17. Why is a normalization adjustment required for the Company's recorded 2022**
2 **Employee Savings Plan expense as reflected on Exhibit A-13, Schedule C5.11,**
3 **page 2, line 5, column (c)?**

4 A17. The Company experienced an abnormally high level of employee resignations in
5 2021, which were likely driven by the transition out of the COVID-19 pandemic,
6 that resulted in an abnormally high level of forfeitures recognized in 2022.
7 Specifically, the Company recognized a reduction in its Employee Savings Plan
8 expense arising from forfeitures, predominately due to the departure of non-vested
9 employees in 2021 of \$0.837 million, whereas the five-year average of forfeitures
10 prior to 2022 was \$0.459 million, resulting in excess forfeitures of \$0.378 million.
11 Because the elevated level of forfeitures in 2021 was the result of a once in a
12 century pandemic, it is proper to normalize 2022 for the impact of forfeitures in
13 excess of a normal level. The elimination of excess forfeitures results in a
14 normalized 2022 Employee Savings Plan expense of \$30.077 million as shown on
15 page 2 of Exhibit A-13, Schedule C5.11, page 2, line 5, column (d).

16

17 **Q18. How was the projected Employee Savings Plan expense developed?**

18 A18. The projected Employee Savings Plan expense was developed based on the
19 normalized 2022 expense escalated by the four-year average of the annual increase
20 in the Company's Employee Savings Plan costs for the years 2017 through 2020 of
21 7.50%. This results in Employee Savings Plan expense for the projected test year
22 of \$37.406 million.

23

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1 **Q19. Why have you not included the annual percentage increase in the Company's**
2 **Employee Savings Plan costs for 2021 and 2022 in the historical average**
3 **annual increase?**

4 A19. In 2021, the Company's Employee Savings Plan costs were impacted by the low
5 level of new employees during the COVID-19 pandemic. Plus, in 2022 the
6 Company recognized an abnormally high level of forfeitures arising from
7 employee resignations in 2021, as the economy transitioned out of the pandemic.
8 Accordingly, the Company's experience in both 2021 and 2022 were impacted by
9 the same non-recurring item, to-wit, the once in a century worldwide pandemic.
10 Since both years were impacted, both the 2021 and 2022 annual increase should
11 be excluded from the historical annual rate of change in the Employee Savings
12 Plan costs. This is consistent with the methodology adopted by the Commission
13 in its Order in the Company's most recent rate case which adopted the
14 recommendation of the Administrative Law Judge (Case No. U-21297, Order
15 December 1, 2023, p. 191).

16

17 **Q20. Why did you escalate the adjusted historical test year Employee Savings Plan**
18 **expense by the average annual increase in the Company's Savings Plan costs**
19 **rather than the annual increase in the Company's Savings Plan expense?**

20 A20. Since the Company's Employee Savings Plan expense is impacted by the
21 proportion of the costs that are capitalized, the annual changes in the Company's
22 Employee Savings Plan expense reflects both the effect of the changes in costs and
23 changes in the proportion of the costs capitalized. For example, the five-year
24 average of the annual increase in Employee Savings Plan expense was 6.20% for
25 the years 2018 through 2022, but this reflects an increase in the proportion of costs

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1 capitalized from 31.3% in 2017 to 39.6% in 2022. This increase in the proportion
2 of costs capitalized reflects the significant increase in the Company's capital
3 expenditures over this time frame, which is assumed to remain constant through the
4 projected test year. Therefore, under the assumption that the proportion of costs
5 capitalized will not increase in the future, the historical average annual increase in
6 the Company's Employee Savings Plan costs of 7.50% for the years 2017 through
7 2020, as described in Q18 is a more accurate measurement of the projected increase
8 in the Company's Employee Savings Plan expense.

9

10 **OTHER EMPLOYEE BENEFITS COSTS**

11 **Q21. What are Other Benefits Costs?**

12 A21. The costs of the Company's Other Employee Benefits are also reflected on Exhibit
13 A-13, Schedule C5.11 (lines 13 through 25). These costs include a variety of other
14 benefits including, Executive and Supplemental Retirement Plans, Supplemental
15 Severance Plan, Supplemental Savings Plan (SSP), Deferred Compensation and
16 Retirement Administration Fees. The remaining Other Benefits Costs are described
17 by Witness Hooper.

18

19 **Q22. What is the basis for the Supplemental Severance Plan cost projections?**

20 A22. The Supplemental Severance Plan, which was implemented on July 1, 2016, is
21 designed to address the differences in full benefit eligibility retirement ages
22 between the DTE Traditional Pension Plan and the MCN Energy Group, Inc
23 (MCN) Traditional Pension Plan. As a severance plan, in accordance with the
24 regulations of the U.S. Department of Labor, it is not subject to participation,
25 vesting and funding requirements of ERISA. Eligible employees will receive a

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1 lump sum payment equal to the present value of the difference between the DTE
2 Pension Plan and the MCN Pension at the termination of employment. Aon
3 developed the projected cost of this plan, which is estimated to decrease from
4 \$0.734 million in 2022 to \$0.110 million for the projected test year, as reflected
5 on Exhibit A-13, Schedule C5.11, line 14.

6

7 **Q23. What is the Supplemental Savings Plan?**

8 A23. The SSP is a non-qualified benefit plan that does not meet the requirements under
9 the Internal Revenue Code to be eligible for certain tax advantages, such as the
10 deductibility by the Company of any contributions. Each year, the Internal
11 Revenue Service (IRS) establishes limitations on employee annual eligible
12 compensation and annual contributions to tax advantaged plans. To the extent an
13 employee's annual eligible compensation or annual contributions, including the
14 Company's match, to the Company's qualified plan exceeds the IRS limitations,
15 employees that are Director level and above are eligible to participate in the SSP.
16 By participating in the SSP, employees accrue benefits that are identical to the
17 benefits available under the qualified savings plan. As such, the SSP is a "make-
18 whole" benefit plan that merely puts the participating employees in the same place
19 they would be in the absence of the IRS limitations.

20

21 **Q24. What adjustments are you proposing to the SSP expense?**

22 A24. I am proposing two adjustments to SSP expense. The first relates to a
23 normalization of the actual 2022 SSP expense and the second relates to a
24 projection of the SSP expense through the end of the projected test year.

25

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1 **Q25. What is the normalization adjustment for 2022 SSP expense?**

2 A25. Since the Company does not separately fund the Company's matches to the
3 employees' contributions, the earnings and losses from the employees' directed
4 investments is a cost incurred by the Company. The SSP normalization adjustment
5 reflects an annual return on the investments of 6.80% in 2022, which is based on
6 the ERoA used in the determination of the Company's pension costs in the
7 historical test year. This results in a normalized SSP expense of \$2.456 million
8 compared to a negative expense of \$3.599 million recorded in 2022, which
9 represents an increase in SSP expense of \$6.055 million, as reflected on page 2 of
10 Exhibit A-13, Schedule C5.11, line 15, column (c). The increase in SSP expense
11 reflects the difference between the negative return on the investments in the SSP
12 and the ERoA of 6.80%.

13

14 **Q26. What is the basis for projected the SSP expense for the projected test year?**

15 A26. The increase in the normalized 2022 SSP expense of \$2.456 million to \$3.207
16 million for the projected test year, as shown on Exhibit A-13, Schedule C5.11, line
17 15, reflects an increase in the Company's matching contributions based on
18 projected salary escalations and an increase in the expected earnings on designated
19 investments. The SSP projection reflects an annual return on the investments of
20 7.60% in 2023, 7.90% in 2024 and 7.80% in 2025, consistent with the ERoA used
21 in the determination of the Company's pension costs in the projected test year.

22

23 **Q27. What adjustments are you proposing to Deferred Compensation Plan**
24 **expense?**

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1 A27. I am proposing two adjustments to Deferred Compensation expense. The first
2 relates to a normalization of the actual 2022 Deferred Compensation expense and
3 the second relates to a projection of the Deferred Compensation expense through
4 the end of the projected test year.

5

6 **Q28. What is the normalization adjustment for 2022 Deferred Compensation**
7 **expense?**

8 A28. Similar to the SSP, the Company's recorded costs are based on the return on the
9 investment directives of the participating employees since the deferrals are not
10 funded by the Company. The Deferred Compensation normalization adjustment
11 reflects an annual return on the investments of 6.80% in 2022, which is based on
12 the EROA used in the determination of the Company's pension costs in the
13 historical test year. This results in a normalized Deferred Compensation expense
14 of \$88,000 compared to a negative expense of \$85,00 recorded in 2022, which
15 represents an increase in Deferred Compensation expense of \$173,000, as
16 reflected on page 2 of Exhibit A-13, Schedule C5.11, line 16, column (c). The
17 increase in Deferred Compensation expense reflects the difference between the
18 actual negative return on the investments in the Deferred Compensation balances
19 in 2022 and the Pension EROA of 6.80%.

20

21 **Q29. What is the basis for the projected Deferred Compensation Plan expense?**

22 A29. The increase in the normalized 2022 Deferred Compensation Plan expense of
23 \$88,000 to \$95,000 for the projected test year, as shown on Exhibit A-13, Schedule
24 C5.11, page 2, line 16, column (j), reflects an increase in the expected earnings on
25 designated investments. The Deferred Compensation Plan projection reflects an

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1 annual return on the investments of 7.60% in 2023, 7.90% in 2024 and 7.80% in
2 2025, consistent with the ERoA used in the determination of the Company's
3 pension costs in the projected test year.

4

5 **Q30. How did you develop the projections for Retirement Administration Fees**
6 **included in Other Benefits on Exhibit A-13, Schedule C5.11?**

7 A30. Retirement Administration Fees (line 23) in 2022 of \$325,000 are projected to
8 increase to \$354,000, based on the projected overall inflation rate assumptions.

9

10 **LABOR COST ESCALATION**

11 **Q31. What annual labor cost escalation assumptions are appropriate for the**
12 **projected test period?**

13 A31. Annual labor cost escalation assumptions are required for both the Company's
14 represented and non-represented employees. Based on existing Collective
15 Bargaining Agreements, the Company is obligated to increase pay rates by at least
16 3% annually through the term of the contracts. In addition to scheduled pay rate
17 increases, the agreements also provide for progression increases for those
18 employees that have not yet achieved the maximum pay rate for their positions.

19

20 Non-represented employee compensation is generally adjusted annually based on a
21 review of pay practices of other employers, changes in the external competitive
22 market and internal pay equity. Consistent with this practice, all non-represented
23 non-management employees received an overall pay increase of 3% in 2023. This
24 3% pay adjustment was comparable to the annual pay adjustments in every year

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1 since 2010. In addition to the annual pay adjustment program, employees generally
2 receive pay increases based on promotions.

3 Based on the above, I have determined that annual escalations of 3.0% for 2023,
4 2024, and 2025 are a conservative estimate of the Company's expected increase in
5 its labor rates.

6

7 **EMPLOYEE COMPENSATION**

8 **Q32. What is the Company's compensation philosophy and framework for non-**
9 **represented employees other than Executives?**

10 A32. Non-represented employees are those employees not covered by any Collective
11 Bargaining Agreements with the Company's union organizations. Compensation
12 for employees covered by Collective Bargaining Agreements is established
13 pursuant to negotiations. Non-executive employees are generally defined as those
14 with titles below Vice President level. DTE Electric's compensation philosophy
15 is to provide pay programs that: 1) attract, retain, and motivate employees; 2)
16 ensure that pay is externally competitive (i.e., paid near market median); and 3)
17 differentiate total rewards based on both organizational unit results and individual
18 contributions.

19

20 At DTE Electric, total annual compensation for all non-represented employees has
21 two primary components: base pay and variable pay, as delivered through the
22 Company's incentive compensation programs. Employee base pay is reviewed
23 annually and adjusted (if appropriate) based on the position relative to what the
24 external market pays for similar positions and individual performance. Variable
25 pay is based on the achievement of Company, as well as departmental and

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1 individual results. Variable pay is made up of both short-term incentive and long-
2 term incentive plans.

3 **Q33. How does the Company's philosophy regarding incentive compensation**
4 **compare with that of its peers?**

5 A33. Incentive compensation programs are a component of total compensation practices
6 for the vast majority of energy companies for their non-represented employee
7 populations, as described below. Base pay is set lower than it otherwise would be
8 because of the variable pay component. When considered holistically, the
9 Company's base and variable pay plans provide a framework of market-based total
10 annual compensation pay opportunities for non-represented employees. It is the
11 total annual cash compensation, as represented by these two components, that
12 prospective and current employees use to gauge whether DTE Electric's
13 compensation is competitive with other potential employers.

14

15 **Q34. How does the Company's non-represented compensation philosophy and**
16 **framework benefit customers?**

17 A34. DTE Electric's compensation philosophy and framework provides a benefit to
18 customers by attracting and retaining employees with the requisite skills and
19 experience to ensure safe, reliable, and high-quality customer service delivery, and
20 by recognizing and rewarding effective and efficient performance. A competitive
21 compensation policy also serves to effectively retain employees, minimizing the
22 risks and costs of high employee attrition. This philosophy directly benefits all
23 customers by providing a high level of service at a competitive cost and provides
24 incentives to focus future job performance on those activities that provide the most
25 benefit to customers.

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1

2 **Q35. What is the external comparative market used by the Company to determine**
3 **the external market for compensation?**

4 A35. The external comparative market for positions varies based on the specific job.
5 Some jobs are compared to those in utilities of similar size (e.g., revenue, number
6 of employees, etc.), other jobs are compared to general industry located in
7 Southeastern Michigan, and yet other jobs to general industry located within the
8 United States. The relevant market will depend upon the requisite skills and
9 abilities required of the job and the nature of the recruitment source. For example,
10 the comparative market for an administrative assistant is the general industry
11 within Southeastern Michigan while the comparative market for a manager of
12 nuclear operations is utilities within the Midwestern United States (primarily), or
13 within the entire United States (secondarily).

14

15 **Q36. How is benchmark data obtained from the external comparative market?**

16 A36. The Company participates in and/or purchases published salary surveys from
17 several different organizations. The surveys typically report median base salary,
18 target incentives, and median total cash compensation by job classification.

19

20 **Q37. How are base salaries determined?**

21 A37. Base salaries are targeted around the median base salary levels of the competitive
22 market as adjusted for differences in company size and scope where appropriate.
23 All non-executive positions are placed in a salary zone based on external
24 benchmarking. The mid-point of the salary zone is based on the market median
25 for comparable work in comparable companies. A range is provided above and

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1 below the midpoint to allow for differentiation based on applicable skills and
2 experience, as well as demonstrated performance. The ranges are reviewed
3 periodically to help ensure they remain competitive in the external market.

4

5 **Q38. Does the Company benchmark the variable component of compensation?**

6 A38. Yes. The Company reviews several surveys that provide information on a number
7 of variable pay indices. In addition, the surveys report data for employee groupings
8 such as exempt employees, non-exempt employees, managers, and executives.

9

10 **Q39. Could an alternate compensation system be structured, eliminating variable**
11 **components?**

12 A39. Yes. The Company could raise employees' base pay to the market levels for total
13 compensation in lieu of providing variable pay opportunities to maintain a
14 competitive total compensation level. However, this would have several
15 undesirable effects. For example, raising employees' base pay to the total
16 compensation market levels would result in a higher level of fixed costs tied to base
17 salaries, such as certain defined contribution benefit plans, life insurance, disability
18 insurance, and other salary-based employee benefits. Moreover, given the well-
19 recognized motivational value of variable pay compensation programs, as
20 described below, delivering employee compensation solely in fixed salary would
21 diminish the performance incentive for employees to provide superior service to
22 customers. Annual incentives ensure that individuals have an element of "at risk"
23 compensation that allows the Company to differentiate pay based on performance
24 and allocate compensation to those employees that are most deserving.

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1 **EXECUTIVE COMPENSATION**

2 **Q40. How does the compensation program for executives differ from that for non-**
3 **executives?**

4 A40. The compensation program for executives differs in three respects. First, the
5 comparative market for compensation benchmarking is defined as a specific group
6 of peer companies from which data are obtained through a custom study generally
7 performed every two years. Second, a higher proportion of executives'
8 compensation is delivered in the form of variable pay. The third way in which the
9 executive compensation program differs is with respect to governance. The
10 compensation programs for Company executives must be approved by the
11 Organization and Compensation Committee of the DTE Energy Board of
12 Directors.

13

14 **Q41. What is the comparative market for executive compensation?**

15 A41. The comparative market used by DTE Energy for determining the alignment of its
16 executive compensation programs with similar companies consists primarily of
17 utilities (including utility holding companies) and broad-based energy companies
18 selected on the basis of revenues, financial performance, geographic location, and
19 availability of compensation information.

20

21 **Q42. What are the key components of the Executive Compensation Program?**

22 A42. The key elements of the Executive Compensation Program are base salary and
23 variable pay (annual incentive plan and long-term incentive awards).

24

25 **Q43. How are base salaries determined?**

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1 A43. Base salaries are targeted around the median of the comparative market.
2 Appropriate methods of measurement are used to consider differences in company
3 size and scope. In addition, midpoints are established for those executives whose
4 jobs cannot be easily matched in the comparative market. These midpoints are
5 designed to allow adequate differentiation for 1) individual potential, 2)
6 contributions made, and 3) the length of time the executive has been in his or her
7 position.

8

9 **COMPETITIVE COMPENSATION ANALYSIS**

10 **Q44. Has the Company prepared an analysis of its compensation practices relative**
11 **to the market medians?**

12 A44. Yes. DTE Electric has performed an analysis of virtually all incumbent salaries as
13 of December 31, 2022, showing that DTE's compensation practices are competitive
14 with market medians. Exhibit A-21, Schedule K1 reflects a summary of the market
15 median for all DTE Electric positions for which corresponding positions have been
16 identified, other than those employees covered by collective bargaining
17 agreements. In addition, Exhibit A-21, Schedule K1 reflects those positions at DTE
18 LLC that primarily support DTE Electric. Exhibit A-21, Schedule K1 reflects
19 employee compensation information organized based on Career Family
20 classifications used by DTE Electric. A Career Family is a grouping of jobs based
21 on similar skill requirements and job content in a specialized discipline (i.e.,
22 Finance, Engineering, Information Technology, etc.) that may or may not fit into a
23 business unit organizational structure. For example, Engineering or Finance Career
24 Families could exist in several organizational units.

25

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1 **Q45. How is an analysis of a competitive pay structure performed?**

2 A45. An analysis of market-based pay structure is performed by identifying comparable
3 positions and determining the compensation ranges paid by similar employers in
4 relevant locations. A more expansive description of the means of assessing a
5 competitive pay structure is provided in an article published by Salary.com,
6 entitled The Basics of Market Pricing a Job (January 26, 2017).

7

8 **Q46. Is the Company's use of a market pricing approach to employee compensation**
9 **consistent with others?**

10 A46. Yes. According to a recent survey performed by WorldatWork and Deloitte
11 Consulting, entitled 2019 Survey of Salary Structure Policies and Practices, more
12 than half of the companies surveyed use a market pricing model for setting
13 compensation levels.

14

15 **Q47. Why are employees covered by collective bargaining agreements excluded**
16 **from this analysis?**

17 A47. Compensation levels for unionized employees are determined through a negotiated
18 process, which involves a variety of work rules and benefit related issues, rather
19 than determined strictly through market analysis. Moreover, the specialized skills
20 and experience required by many of the positions are not readily comparable to
21 other positions in the local market. Thus, a comparison of pay levels for those
22 employees covered by collective bargaining agreements is not useful in this
23 context.

24

25 **Q48. What conclusions can be drawn from Exhibit A-21, Schedule K1?**

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1 A48. In summary, Exhibit A-21, Schedule K1 demonstrates that the weighted average
2 of the annual base compensation for all positions with incumbents as of December
3 31, 2022, with available position matches was a mere 0.1% higher than the average
4 of median market base compensation. Plus, this analysis further demonstrates that
5 total cash compensation for all positions with incumbents as of December 31,
6 2022, with available position matches was 0.4% less than the average of median
7 market for total cash compensation. This analysis concludes that the Company's
8 total compensation is insignificantly different from the market medians and
9 confirms that the Company's compensation practices are consistent with the
10 Company's compensation policy to pay employees near the market median for
11 comparable positions on a total cash compensation basis. Moreover, a comparison
12 of the Company's base salaries, which excludes short-term incentive
13 compensation, to the market medians for total cash compensation, which is
14 inclusive of short-term incentive compensation, shows that in the absence of the
15 Company's short-term incentive compensation programs, the Company's pay
16 would be 10.7% less than the market medians.

17

18 **Q49. What is included in the total cash compensation amounts?**

19 A49. Total cash compensation reflects base pay as of December 31, 2022, and the Target
20 payout levels for those employees eligible to participate in the Company's short-
21 term incentive compensation programs. Although the analysis on Exhibit A-21,
22 Schedule K1 does not reflect the value of the Company's Long-Term Incentive
23 Plan, as it is primarily for executive level positions, a separate analysis of
24 executive compensation prepared by Aon, which is inclusive of long-term plans,

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1 shows that total compensation is about 9% less than the median of the Company's
2 peer group, as discussed in more detail below.

3

4 **Q50. How was the market median for the positions determined?**

5 A50. As described above, the Company subscribes to several compensation survey
6 providers that create comprehensive databases of job descriptions that enables the
7 Company to match the job requirements, including education, expertise and
8 experience of existing positions with market surveys. After matching job positions
9 are identified, actual base and total compensation ranges are developed from the
10 salary survey database. The information on Exhibit A-21, Schedule K1 was
11 derived from the Company's compilation of the compensation for positions with
12 an incumbent as of December 31, 2022.

13

14 **Q51. What proportion of DTE Electric's total employee population as of December**
15 **31, 2022, is reflected in this analysis?**

16 A51. As of December 31, 2022, practically all (99.5%) of the employee population at
17 DTE Electric, as well as DTE LLC employees that provide supporting services to
18 DTE Electric. This is exclusive of those employees represented by collective
19 bargaining agreements.

20

21 **INCENTIVE COMPENSATION**

22

23 **Q52. What are you proposing regarding the level of incentive compensation expense**
24 **to be included in the Company's revenue requirement?**

25 A52. I am proposing that the projected incentive compensation expense of \$59.504
26 million related to the Company's short-term and long-term incentive compensation

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1 plans be included in the revenue requirement adopted by the Commission in this
2 proceeding, as described in more detail below. The components of the projected
3 \$59.504 million of incentive compensation expense are detailed in Table 3 reflected
4 in response to Q79.

5

6 **Q53. Is the Company requesting recovery in rates for all incentive compensation**
7 **expenses?**

8 A53. No. While the Company's compensation expenses are reasonable, \$10.157 million
9 of incentive compensation expense related to DTE Energy's Top Five Executive
10 Officers has been excluded. This exclusion is reflected on Exhibit A-3, Schedule
11 C19 as supported by Witness Uzenski and has been excluded from Table 3 reflected
12 in the response to Q79.

13

14 **Q54. What is the basis for your proposed inclusion of \$59.504 million of incentive**
15 **compensation expense in the Company's revenue requirement?**

16 A54. In summary, my proposal to include all the Company's projected incentive
17 compensation expense, exclusive of the portion related to the Top Five Executive
18 Officers, is based on the prevalence of incentive compensation programs and the
19 resultant need for the Company to have total compensation programs that enable
20 it to be competitive with other employers. As described above, the Company's
21 existing total cash compensation is in line with the market, as is the total
22 compensation for its executives. Moreover, in the absence of the incentive
23 compensation programs, total cash compensation for the Company's employees
24 would be unreasonable as it would total 10.7% less than the market medians, as
25 reflected on Exhibit A-21, Schedule K1, and total compensation for its executives

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1 would be 70% less than market, as reflected in Table 2 below in Q59. The
2 remainder of my testimony will demonstrate that the Company's incentive
3 compensation programs are both reasonable and prudent and, therefore, a
4 necessary cost of the Company doing business that should be reflected in the
5 Company's revenue requirements.

6

7 **Q55. Are there any employee motivational advantages to including an incentive-**
8 **based compensation component in a company's overall compensation design?**

9 A55. Yes. The underlying principle of incentive compensation plans is to motivate
10 improved organizational performance. An effective incentive compensation plan
11 provides a "pay-for-performance" environment intended to motivate individual
12 and team achievement of measurable goals.

13

14 **Q56. Is there any evidence that incentive-based compensation is effective in**
15 **motivating improved organizational performance?**

16 A56. Yes. A comprehensive analysis of the impact of incentive compensation plans on
17 organizational performance concluded that programs that provide tangible
18 incentives for achievement of certain goals lead to a 27% increase in
19 organizational performance (Incentives, Motivation and Workplace Performance:
20 Research & Best Practices, The International Society for Performance
21 Improvement, Spring, 2002). This study observes that the source for such
22 organizational performance improvements is that employees 1) value their work
23 tasks more, 2) have more self-confidence and esteem for their employers, 3) are
24 more persistent at work tasks, and 4) strive for high levels of accomplishments.
25 Moreover, this study notes that long-term incentive plans provide even greater

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1 performance improvements. In addition, an Aon study of Variable Compensation
2 Measurement Survey issued in 2018 reported that 86% of participants in the
3 survey indicated that their variable compensation plans resulted in improved
4 business results.

5

6 **Q57. Are incentive compensation programs a typical element in compensation at**
7 **other companies?**

8 A57. Yes. According to a 2021 study issued by WorldatWork and Compensation
9 Advisory Partners, most companies had short-term and long-term incentive
10 programs. This indicates that incentive compensation programs are a prevalent
11 practice among most companies. (Incentive Pay Practices, Publicly Traded
12 Companies, WorldatWork and Compensation Advisory Partners). Moreover, a
13 2018 study by Aon of U.S. Salary Increases shows that 90% of Power and Gas
14 Service providers utilized broad-based incentive compensation programs.

15

16 **Q58. Do the Company's incentive compensation plans result in unreasonable**
17 **compensation?**

18 A58. No. As explained above, the Company benchmarks its total compensation for non-
19 represented employees against relevant peers, inclusive of incentive compensation,
20 and establishes a mid-point salary range based on the median market level.
21 Moreover, based on a recent survey by Aon, the total compensation of DTE
22 Energy's Executives is about 9% less than the median of its peers based on Target
23 level performance, inclusive of the long-term incentive compensation. The
24 Company's incentive compensation programs are merely a component of the total
25 compensation policies required for the Company to be competitive with its peers,

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1 rather than a supplement. Indeed, in the absence of the incentive compensation
2 programs, total compensation for the Company's non-represented population
3 would be more than 10% below market, as reflected on Exhibit A-21, Schedule K1.
4 Additionally, as indicated in Table 2 in the response to Q59 below, DTE Energy's
5 Executives would be substantially less than its peers, since about 70% of total
6 compensation is delivered through short and long-term incentive compensation
7 programs, by both DTE and its peers.

8

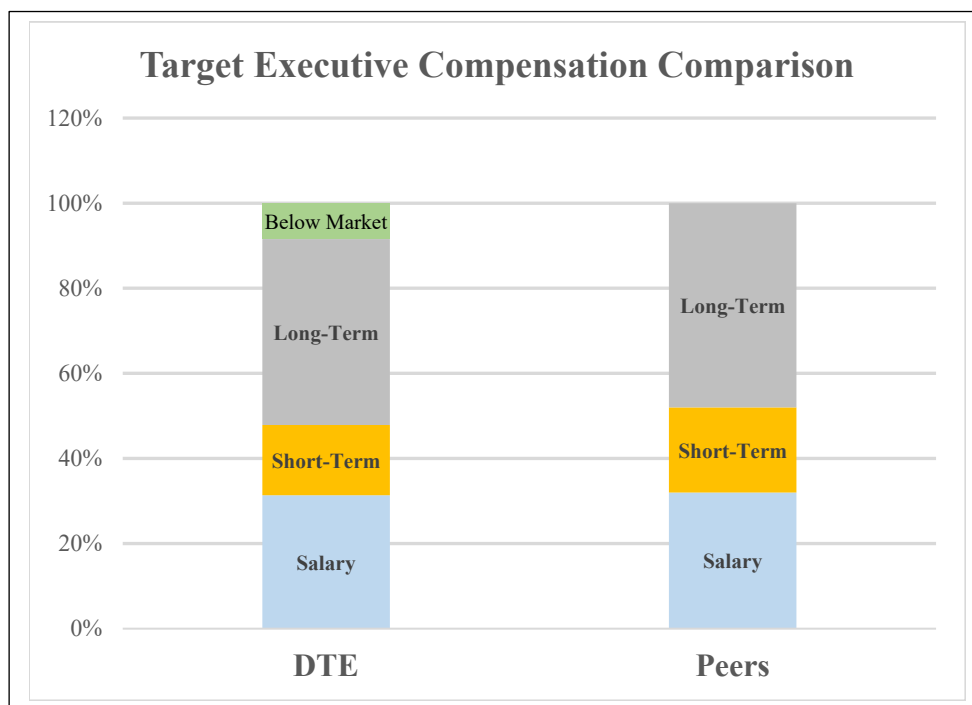
9 **Q59. How do the components of the Company's total Executive compensation**
10 **practices compare to the Company's peers?**

11 A59. Based on the Aon survey referenced above, a comparison of the relative magnitude
12 of the Company's salary, short-term and long-term pay components for Executives
13 to the 50th percentile of its peers is reflected in Table 2.

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1

Table 2



2

3 **Q60. What are the specific components of the Company’s incentive compensation**
4 **programs?**

5 A60. The Company has in place incentive compensation plans for both its Executive
6 and all other non-represented employees. Short-term incentive plans are provided
7 through the Annual Incentive Plan (AIP) and Rewarding Employees Plan (REP).
8 Additionally, a multiple year incentive plan, which is available to all managers and
9 above and up to 10% of other eligible non-represented employees, is delivered
10 through Performance Shares granted pursuant to the Long-Term Incentive Plan
11 (LTIP).

12

13 **Q61. What is the AIP?**

14 A61. The AIP is a short-term variable pay program available to senior management
15 level employees to motivate performance. The 2023 AIP measures and relative

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1 weights for DTE Electric (other than Nuclear Generation), Nuclear Generation,
2 and DTE Energy Corporate Services LLC are reflected on Exhibit A-21,
3 Schedules K2, K3 and K4, respectively. For each measure, a Target is established
4 for which a 100% payout will be earned. Performance less than Target, but above
5 a minimum Threshold, results in a payout between 25% of Target and 100%,
6 performance at Target results in a payout of 100%, and performance between
7 Target and the Maximum level results in a payout of up to 175% of Target for non-
8 executive participants of the AIP and up to 200% of Target for Executive
9 participants of the AIP.

10

11 **Q62. Which employee classifications are eligible to participate in the AIP?**

12 A62. All Executive level employees, generally those with titles of Vice President and
13 above, and Directors participate in the AIP. All other non-represented employees
14 are eligible to participate in the REP.

15

16 **Q63. What are the components of the REP?**

17 A63. The REP is identical to the AIP except that Threshold performance is at 50% of
18 Target and the Maximum performance payout is 150% of Target. The 2023 REP
19 measures and weightings are reflected on Exhibit A-21, Schedules K2 through K4.
20 The REP measures are identical to the AIP measures other than the REP excludes
21 the Gallup survey of employee engagement measure in recognition that the
22 Company's leadership is responsible for providing an environment of high
23 employee engagement.

24

25 **Q64. What are the categories of measures included in the AIP and REP?**

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1 A64. There are four categories of measures in both the AIP and REP. Specifically,
2 Financial Performance, Customer Satisfaction, Safety and Engagement, and
3 Operating Excellence.

4

5 **Q65. What are the financial measures included in the AIP?**

6 A65. There are three financial measures for DTE Electric employees that are designed
7 to create a clear line of sight for all employees to focus on operating excellence by
8 rewarding employees when the Company is successful.

9 1) DTE Electric Operating Earnings objective is based on the Company
10 realizing the Commission authorized return on equity.

11 2) DTE Electric's Cash from Operations is similarly based on the authorized
12 return on equity but is adjusted for non-cash items. The inclusion of a cash
13 flow measure recognizes the importance of DTE Electric maintaining a high
14 credit rating to allow continued access to the capital markets at reasonable
15 costs and terms to ensure sufficient capital investment to continue to serve
16 our customers.

17 3) DTE Energy's Earnings per Share measure is based on the midpoint of 2023
18 earnings guidance.

19 Nuclear Generation Financial Performance measures consist of DTE Electric
20 Operating Earnings and Nuclear Generation Operation and Maintenance Expense.

21 The Financial Performance measures for DTE LLC reflect DTE Energy's
22 Operating Earnings per Share and Cash from Operations.

23

24 **Q66. What are the Customer Satisfaction measures?**

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1 A66. There are two customer satisfaction measures that are intended to focus employees
2 on improving the experience that our customers have in their interactions with the
3 Company. The measures are:

4 1) The Net Promoter Score is a measure of the extent to which customers are likely
5 to recommend the Company to their friends and colleagues. The Target in 2023
6 is 39, which is the same as the actual NPS in 2022. However, macroeconomic
7 factors in 2022 and 2023, including 40-year high inflation and historically low
8 consumer confidence, as noted by the University of Michigan Consumer
9 Confidence Surveys results, among other factors, have resulted in reduced NPS
10 scores nationwide by virtually all industries. Therefore, considering these
11 conditions, maintaining a NPS score of 39 in 2023 is estimated to represent an
12 effective 4 point increase.

13

14 2) The MPSC Customer Complaints measure represents the number of formal
15 complaints made to the MPSC regarding both DTE Gas and DTE Electric as
16 reported to the Company by the MPSC. The MPSC Customer Complaints
17 Target for 2023 is 1,912.

18

19 **Q67. What are the measures related to Safety and Engagement?**

20 A67. There are three measures related to safety and engagement. One measure pertains
21 to employee engagement as measured by the Gallup survey, as well as two
22 employee safety related measures, as described below.

23

24 **Q68. What is the measure related to Employee Engagement?**

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1 A68. The Gallup measure of Employee Engagement is reflective of the direct correlation
2 between the level of active employee engagement and the performance of an
3 organization. The 2023 Target of 4.26 is based on a grand mean of the results of
4 the Gallup surveys of employees and represents top decile performance relative to
5 Gallup's overall database. Employee Engagement is a statistically significant
6 measure of the level of commitment employees have to an organization's success
7 and is not merely a measure of employee satisfaction.

8

9 **Q69. What are the Safety related measures?**

10 A69. DTE Electric has two safety-related measures.

11 1) The first is the OSHA Recordable Incident Rate (RIR), which measures the
12 recordable injuries per 100 employees divided by the actual number of hours
13 worked, as defined by the Occupational Safety and Health Administration
14 (OSHA). This is a standard measure of safety performance used nationwide.
15 The measure is intended to create a heightened focus on the importance of
16 safety in the workplace. The RIR Target for 2023 is .57, which is near the very
17 top performance in the industry.

18 2) The second is High Energy Serious Injury or Fatality (HSIF), which is a
19 measure adopted by the Edison Electric Institute that recognizes the degree of
20 seriousness of an injury in the context of a dangerous event. The 2023 Target
21 of two is based on an improvement from the five-year average of 4.

22

23 **Q70. What are the Operating Excellence measures for 2023?**

24 A70. DTE Electric has four Operating Excellence measures that reflect specific operating
25 priorities for 2023 to motivate the achievement of certain operating objectives

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1 important to the Company, its customers, and the Commission. Two of these
2 measures relate to Distribution System Reliability and the other two relate to
3 Generation Reliability.

4

5 The two Electric Distribution Reliability Measures are:

6 1) The System Average Interruption Duration Index (SAIDI) exclusive of
7 Major Event Days (MEDs). The 2023 Target is 150 minutes.

8 2) The percentage of customers that experience four interruptions or more
9 (CEMI4) in a calendar year. The Target in 2023 is 7.55%.

10

11 The two Generation Reliability Measures are:

12 1) The percentage of hours that DTE Electric's coal, gas, and renewable plants
13 are mechanically available to produce power. The 2023 Target is 81.8%.

14 2) Nuclear On-Line Reliability Loss Factor (ORLF), which is energy
15 generation losses corrected for refueling outage losses and exempt
16 activities. The 2023 ORLF Target is 1.03%.

17

18 **Q71. What are the operating measures applicable to the Nuclear Generation**
19 **business unit?**

20 A71. Nuclear Generation has four Safety and Engagement related measures and four
21 Operating Excellence measures, discussed below in further detail.

22

23 **Q72. What are Nuclear Generation's Safety and Engagement related measures?**

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1 A72. In addition to Employee Engagement, as measured by Gallup surveys, and the
2 OSHA Recordable Incident Rate, as described above, Nuclear Generation also has
3 two additional safety measures.

4 1) The first is the annual Total Industrial Safety Accident Events (TISA
5 Events), which is a nuclear industry measure that is aligned with the
6 Institute of Nuclear Power Operations (INPO). The Target is zero incidents
7 in any calendar year quarter.

8 2) The second relates to On-Line Radiation Exposure, which is designed to
9 maintain a focus on the safety of personnel. The 2023 Target is 50.6 Rem,
10 which is a standard unit of measure of exposure to radiation.

11

12 **Q73. What are the Operating Excellence measures related to Nuclear Generation?**

13 A73. Nuclear Generation has four Operating Excellence measures.

14 1) The first relates to On-Line Reliability Loss Factor, as described above.

15 2) The second measure regarding Operational focus pertains to a group of 11
16 measures that relate to Fermi 2 plant performance. The 2023 Target is 93.4.

17 3) The third measure is an index of Annualized Work Management, which
18 consists of 10 individual indicators. The 2023 Target is 99.8.

19 4) The final Nuclear Generation measure relates to the Nuclear Refuel Outage
20 Milestone, which is a measure of the effective planning and preparation for
21 refueling planned in 2024. The Target for 2023 is that 30 milestones are
22 achieved at 98% performance and four are achieved with performance
23 between 96% and 98%.

24

25 **Q74. Are there other AIPs and REPs that impact DTE Electric's expenses?**

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1 A74. Yes. In addition to the DTE Electric and Nuclear Generation measures described
2 above, there are also AIPs and REPs in place for corporate staff employees at DTE
3 LLC that provide services to all DTE Energy business units, including DTE
4 Electric. The DTE LLC measures reflect certain DTE Electric and Nuclear
5 Generation measures, as well as measures related to DTE Gas. The specific DTE
6 LLC measures and weightings related to DTE Electric and Nuclear Generation are
7 reflected on Exhibit A-21, Schedule K-4.

8

9 **Q75. What is the Company's Long-Term Incentive Plan?**

10 A75. The LTIP provides the opportunity for certain individuals to receive retention-
11 oriented or performance-based rewards delivered via shares of DTE Energy
12 common stock, either Performance Shares, which are based on the achievement of
13 multi-year performance objectives, or through Restricted Stock. Currently, 70%
14 of the value of awards for executives and directors is through grants of
15 Performance Shares and 30% of the value of awards is through Restricted Stock,
16 while 100% of the awards to other eligible employees are through Performance
17 Shares. The objective in granting shares through this program is to both motivate
18 superior results as well as provide a means to retain key employees and is
19 consistent with the practices of most companies, as reflected in the WorldatWork
20 and Compensation Advisory Partners survey, referenced in Q57 above.

21

22 **Q76. What are the performance share measures used in the 2023 LTIP?**

23 A76. The measures are shown on Exhibit A-21, Schedule K5.

24

25 **Q77. What is the rationale for the use of these measures?**

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1 A77. These measures generally reflect the long-term financial performance of DTE
2 Energy and are intended to motivate employees of the individual operating
3 companies, such as DTE Electric, to keep in mind the role of their own
4 contributions to the overall long-term success of DTE. Accordingly, the
5 predominate measure for DTE Electric and DTE LLC (80% for both) is the total
6 return to DTE Energy shareholders (i.e., capital appreciation and dividends)
7 relative to a group of peer companies over the next three years. The second
8 financial measure included in the LTIP, which contributes 20% to the total
9 weighting, is DTE Energy's three-year cumulative Operating Earnings per Share.
10 The three-year focus of the performance-based measures is designed to motivate
11 decisions and actions that produce sustainable benefits rather than short-term
12 actions that may entail long-term risks.

13

14 **Q78. What is the basis for the costs of the LTIP?**

15 A78. The LTIP costs incurred in 2022 pertain to the grants of Performance Shares and
16 Restricted Stock. The expense related to the Restricted Stock is not conditioned
17 on any Company performance measures but rather is exclusively based on the
18 number of shares granted at the date of grant. In contrast, Performance Shares
19 expense is based on the achievement of the predetermined performance objectives.
20 The recognized cost of Performance Shares is based on the number of shares
21 granted at the market price of DTE Energy's common stock at the date of grant
22 but with adjustment in the number of shares based on actual performance. The
23 Performance Shares expense included in Table 3 is based on Target performance.

24

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1 **Q79. What is the incentive compensation expense if the Company achieves all of its**
2 **Financial and Operating Targets?**

3 A79. The net expense to DTE Electric in the projected test period of the Company
4 achieving all its Targets for the incentive compensation plans, exclusive of the
5 expense related to the Top Five Executive Officers, is \$59.504 million. The table
6 below summarizes the expense for the projected test period by the nature of the
7 plans, the classification of the employees eligible and the basis of the metrics used.

Table 3

	<u>LTIP</u>	<u>AIP</u>	<u>REP</u>	<u>Total</u>
	(000's Omitted)			
Financial				
DTE Electric	\$5,858	\$615	\$7,029	\$13,502
Nuclear Gen	1,395	92	839	2,326
DTE LLC	13,154	3,509	6,741	23,404
	20,408	4,215	14,609	39,232
Operating				
DTE Electric	0	504	5,758	6,262
Nuclear Gen	0	200	2,527	2,727
DTE LLC	0	3,862	7,420	11,281
	0	4,566	15,705	20,271
Total				
DTE Electric	5,858	1,119	12,787	19,764
Nuclear Gen	1,395	292	3,367	5,054
DTE LLC	13,154	7,370	14,161	34,686
	\$20,408	\$8,781	\$30,315	\$59,504

10

11 **Q80. Why are the expenses for DTE LLC most of the incentive compensation**
12 **expenses?**

13 A80. DTE LLC provides a variety of administrative and other services that are common
14 to both DTE Electric and DTE Gas for which the costs are billed to the operating

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1 companies, as explained by Witness Uzenski. In addition, DTE LLC employs all
2 the Executives of DTE Energy, including the Officers of DTE Electric.

3

4 **Q81. How have you reflected the Operating Excellence measures related to DTE**
5 **Gas in the AIP and REP for DTE LLC?**

6 A81. While the AIP and REP expenses allocated to DTE Electric in the historic period
7 from DTE LLC include some measures related to DTE Gas, the AIP and REP
8 weightings for DTE LLC have been adjusted to exclude the measures specifically
9 related to DTE Gas.

10

11 **Q82. Are all incentive compensation costs dependent on the Company's financial or**
12 **operating performance?**

13 A82. No. As described earlier, a portion of the DTE Energy shares granted under the
14 LTIP are in the form of Restricted Stock. Unlike the Performance Shares, the
15 expense of Restricted Stock is not variable based on either the Company's
16 financial or operating performance. The only contingency is that the employee
17 forfeits the Restricted Stock if they leave the Company, other than through
18 retirement or the event of the employee's death or disability.

19

20 **Q83. How does the lack of variability in the LTIP expense affect its treatment in**
21 **your analysis of incentive compensation?**

22 A83. Although Restricted Stock grants are made under the LTIP, the ultimate payouts
23 are not dependent on future Company or employee performance, and therefore,
24 Restricted Stock is not regarded as an element of the Company's incentive

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1 compensation expense. Accordingly, the projected test year Restricted Stock
2 expense of \$8.960 million has been excluded from Table 3 above.

3

4 **Q84. Has the Commission provided any criteria for the inclusion of incentive**
5 **compensation expense in the Company's revenue requirements?**

6 A84. Yes. The Commission has indicated in all its recent Orders addressing incentive
7 compensation programs that inclusion of incentive compensation expense in a
8 company's revenue requirement was dependent on a showing that the incentive
9 compensation programs provided benefits to customers in excess of the expense.

10

11 **Q85. Has the Company performed an analysis of the customer benefits of the**
12 **Company's incentive compensation plans?**

13 A85. Yes. The Company has performed a comprehensive analysis of the customer
14 benefits that would be derived from the achievement of the financial and operating
15 metrics included in the Company's short and long-term incentive plans relative to
16 their expense. This analysis, as reflected on Exhibit A-21, Schedule K6,
17 demonstrates that the calculated aggregate benefit of \$104.478 million exceeds the
18 total incentive compensation expense of \$59.504 million by \$44.974 million.

19

20 **Q86. How did you calculate the benefits of the Financial measures?**

21 A86. While the Company has not quantified the benefits to customers of each of the
22 financial measures, one measure that had specifically quantifiable benefits is the
23 Cash Flow from Operations measure within the AIP and REP, as reflected on line
24 8 of Exhibit A-21, Schedule K6. This measure is focused on the Company
25 maintaining its "A" debt rating from Standard & Poor's and comparable ratings by

Line
No.

1 the other major debt rating firms. The yield spread between utility bonds for bonds
2 with an “A” rating compared to “BBB” rated bonds is 23 basis points. Based on
3 the long-term debt balances included in the capital structure sponsored by Company
4 Witness Vangilder, a downgrade in the Company’s credit rating would increase the
5 Company’s annual interest costs by \$19.9 million.

6

7 **Q87. How are the benefits of the Company achieving Target performance for the**
8 **Operating measures reflected on Exhibit A-21, Schedule K6 determined?**

9 A87. The benefits of the Operating measures are computed based either on the avoided
10 costs to the Company, which results in lower future revenue requirements, or
11 based on the value to customers of improved performance. The reference points
12 to determine improvement are, in most instances, based on the Company’s actual
13 performance in the 2022 historical test year, but when 2022 results are not
14 representative, either an historical average or a comparison to external peer groups
15 is used. In those instances, in which the Company’s Targets are based on superior
16 performance relative to peers, then measures of peer performance are used. The
17 benefits of achieving Target performance are allocated between the AIP and REP
18 components based on the relative incentive compensation expense for each
19 measure.

20

21 **Q88. How did you quantify the benefit of achieving Target performance levels in**
22 **the Customer Satisfaction measures?**

23 A88. The benefits of achieving the 2023 Target of 39 Net Promoter Score (NPS) are
24 based on the expectation that improvements in the NPS score will result in fewer

Line
No.

1 customer calls. The 2023 Target of 39 is expected to produce \$2.2 million of
2 customer benefits based on avoided Company costs and customer costs.

3

4 The customer benefits of attaining Target performance for MPSC Customer
5 Complaints measure is based on the avoided costs to both the Company and its
6 customers due to the reduced time spent by employees and customers resolving
7 complaints for a total savings of \$29,000.

8

9 While the total quantified benefits related to the Customer Satisfaction measures
10 are less than the related expense, there can be little doubt that an emphasis among
11 the Company's employees on improving the experiences customers have with the
12 Company results in additional significant non-quantifiable benefits to both
13 customers and the Commission.

14

15 **Q89. How did you determine the benefits of the Employee Engagement measure?**

16 A89. The quantifiable benefits of a highly engaged workforce are based on three critical
17 dimensions identified by Gallup: absenteeism, productivity, and safety incidents.
18 According to Gallup, a 0.1 improvement in the grand mean will result in a 3.1%
19 reduction in absenteeism, a 1.8% increase in productivity, and a 3.8% reduction in
20 safety incidents. Compared to the 80th percentile of Gallup survey results for all
21 companies included in Gallup's database, the achievement of the 2023 Target
22 Gallup Target will generate O&M savings of \$11.9 million, which is attributed
23 exclusively to the AIP because the Employee Engagement measure is not included
24 in the REP.

Line
No.

1 **Q90. What are the expected benefits of the Company achieving Target level**
2 **performance regarding the OSHA Recordable Incident Rate (RIR)?**

3 A90. The benefits of achieving the OSHA Recordable Incident Rate (RIR), and the
4 Nuclear Total Industrial Safety Accident Rate goal, are based on the estimated
5 direct costs of non-fatal incidents of \$50,000, as developed by OSHA, as adjusted
6 for inflation through 2022, and a study by Liberty Mutual that estimates the
7 indirect cost of an OSHA recordable incident is about 3.0 times the direct costs,
8 resulting in an estimated total cost of \$201,000 per incident, in current dollars.
9 Based on Target level performance, relative to the Company's five-year average
10 results in an estimated benefit of \$2.6 million net of the savings capitalized. The
11 benefits of achieving the OSHA RIR Target are allocated to all the other safety
12 measures in proportion to the costs of each measure, as reflected on lines 29
13 through 35 of Exhibit A-21, Schedule K6.

14
15 While the quantified savings of the safety related metrics are less than the related
16 costs, much like the customer service-related measures, the benefits of maintaining
17 an organizational focus on the safe operation of the Company's system for the
18 benefit of its employees, customers, and the communities where the Company
19 operates are undoubtedly substantial.

20

21 **Q91. How did you quantify the savings related to improvements in distribution**
22 **system reliability?**

23 A91. The benefit of achieving the SAIDI excluding MEDs Target is based on comparing
24 the 2023 Target of 150 minutes to the five year average of SAIDI excluding MEDs
25 of 161 minutes, which represents a reduction of 11 minutes. The derivation of the

Line
No.

1 benefits to customers is based on the Interruptions Cost Estimation Calculator as
2 developed by Nexant, Inc. and the Lawrence Berkeley National Lab. A reduction
3 of eleven minutes in the SAIDI excluding MEDs produces an annual customer
4 benefit of \$43.1 million. The benefits of achieving Target performance in the
5 SAIDI excluding MEDs measure have been allocated equally between the SAIDI
6 exclusive of MEDs measures and CEMI4 Percent of Customers measure due to
7 the close relationship of each of these measures to distribution system reliability,
8 as reflected on lines 40 and 42 of Exhibit A-21, Schedule K6.

9

10 **Q92. Have you quantified the benefits of the Generation Availability measure?**

11 A92. The 2023 Generation Availability Target of 81.8% reflects a modest increase from
12 the four-year average of actual Generation availability of 81.7%. Accordingly, I
13 have not quantified the customer benefits of the increase in Generation Availability.

14

15 **Q93. What are the benefits of an increase in the Nuclear On-Line Reliability Loss**
16 **Factor?**

17 A93. The benefits of an increase in the Nuclear Power Plant Reliability reflect an increase
18 from the On-Line Reliability Loss Factor at Fermi 2 from the five-year average of
19 4.39% to the 2023 Target of 1.03%. The savings computed are based on the
20 differential between Fermi 2's marginal fuel costs and the average market price of
21 avoided energy purchases combined with value of increased capacity for a total
22 annual savings of \$24.7 million. These savings are allocated to the Nuclear related
23 operating measures included in the AIP and REP in proportion to the costs of each
24 measure. Specifically, \$19.0 million is assigned to Nuclear On-Line Reliability

Line
No.

1 Loss Factor measure and \$1.9 million is assigned to each of the three other Nuclear
2 related measures, as reflected on lines 46 through 52 of Exhibit A-21, Schedule K6.

3

4 **Q94. Have you quantified any additional savings related to the other Nuclear**
5 **Generation measures included in the AIP and REP?**

6 A94. No. The Nuclear On-Line Reliability Loss Factor measure represents the only
7 quantifiable benefits of the Company meeting its Target performance levels for
8 Fermi 2. While there is indisputable value in the various specific measures within
9 the other Nuclear measures, the benefits of Fermi 2 achieving its On-Line
10 Reliability Loss Factor Target has been attributed to the other AIP and REP
11 Nuclear Operating Excellence measures.

12

13 **Q95. What is your conclusion regarding the cost effectiveness of the Company's**
14 **incentive compensation plans?**

15 A95. As reflected on Exhibit A-21, Schedule K6, it is clear the quantified customer
16 benefits of the Company achieving Target performance levels are substantially
17 greater than the related expense.

18

19 Because the Company's overall employee compensation approximates the market,
20 inclusive of incentive compensation and the quantified benefits exceed the
21 projected incentive compensation expense, the Company's total incentive
22 compensation expense should be included in the revenue requirement adopted by
23 the Commission in this proceeding as a reasonable and prudently incurred expense.

Line
No.

1 **Q96. Does this complete your direct testimony?**

2 A96. Yes, it does.

Michigan Public Service Commission
DTE Electric Company
Projected Operation and Maintenance Expenses
Pension Cost - Qualified
Projected 12 Month Period Ending December 31, 2025
(\$000)

Case No.: U-21534
Exhibit: A-13
Schedule: C5.12.1
Witness: M. A. Fix
Page: 1 of 1

Line No.	Description	(a)	(b)	(c)	(d)
		Pension Cost - Qualified			
		<u>Historical Period Ending 12/31/22</u>	<u>Projected Adjustments</u>	<u>Projected Period Ending 12/31/25</u>	
1	Cost Components:				
2	Service cost	71,546	(30,536)	41,010	
3	Non-Service Costs				
4	Interest cost	123,405	33,561	156,966	
5	Expected return on assets	(248,709)	35,531	(213,178)	
6	Amortization:				
7	Net (Gain)/Loss	81,126	(10,993)	70,133	
8	Prior service cost	(1,179)	241	(938)	
9	Total Non-Service Costs	(45,357)	58,340	12,983	
10	Net ASC 715-30 (SFAS 87) cost	26,189	27,804	53,993	
11	One-time cost	64,798	(64,798)	-	
12	Net ASC 715-30 (SFAS 87) after one-time cost	<u>90,987</u>	<u>(36,994)</u>	<u>53,993</u>	
13	<u>Reconcile Cost to Expense</u>				
14	Expense before capitalization & transfers	90,987	(36,994)	53,993	
15	Adjustments:				
16	Transfers	(435)	(1,260)	(1,695)	
17	Capitalization (Service Cost only effective 2018)	(33,359)	17,944	(15,416)	
18	Capitalization - Non-Service Costs to Reg (Asset)	(5,419)	810	(4,609)	
19	Subtotal Pension Expense	51,774	(19,501)	32,273	
20	Pension Regulatory Deferral	(39,527)	7,254	(32,273)	
21	Expense amount per Exhibit A-13 C5.11	<u>12,247</u>	<u>(12,247)</u>	<u>-</u>	

Michigan Public Service Commission
DTE Electric Company
2023 Annual Incentive Plan and Rewarding Employees Plan Metrics:
DTE Electric Company

Case No.: U-21534
Exhibit: A-21
Schedule: K2
Witness: M. A. Fix
Page: 1 of 1

Line No.	(a) Category	(b) Measure	(c) Weight		(e) Threshold	(f) Target	(g) Maximum
			AIP	REP			
1	Financial Performance						
2		DTE Electric Earnings	15.00%	15.00%	\$990	\$1,010	\$1,030
3							
4		DTE Electric Cash From Operations	15.00%	15.00%	\$2,113	\$2,348	\$2,583
5							
6		DTE Energy Operating Earnings Per Share	10.00%	10.00%	\$6.10	\$6.25	\$6.40
7							
8	Total Financial Measures		40.00%	40.00%			
9							
10	Customer Satisfaction						
11		Net Promoter Score	12.00%	12.00%	35	39	43
12							
13		MPSC Customer Complaints	8.00%	8.00%	2,008	1,912	1,816
14							
15	Total Customer Satisfaction Measures		20.00%	20.00%			
16							
17	Safety & Engagement						
18		DTE Electric Employee Engagement-Gallup	5.00%		4.17	4.26	4.45
19							
20		DTE Electric OSHA Recordable Incident Rate	5.00%	10.00%	0.71	0.57	0.48
21							
22		DTE Energy High Energy Serious Injury or Fatality	5.00%	5.00%	4	2	0
23							
24	Total Safety & Engagement Measures		15.00%	15.00%			
25							
26	Operating Excellence						
27		SAIDI Excluding Major Event Days	7.50%	7.50%	180	150	127
28							
29		Customers experiencing multiple interruptions (CEMI4%)	7.50%	7.50%	8.10%	7.55%	7.00%
30							
31		Generation Availability	5.00%	5.00%	79.8%	81.8%	83.8%
32							
33		Nuclear On-Line Reliability Loss Factor (ORLF)	5.00%	5.00%	1.45%	1.03%	0.61%
34							
35	Total Operating Excellence		25.00%	25.00%			
36							
37	Total Operating Measures		60.00%	60.00%			
38							
39	Total		100.00%	100.00%			

Michigan Public Service Commission
DTE Electric Company
2023 Annual Incentive Plan and Rewarding Employees Plan Metrics:
Nuclear Generation

Case No.: U-21534
Exhibit: A-21
Schedule: K3
Witness: M. A. Fix
Page: 1 of 1

Line No.	(a) Category	(b) Measure	(c) Weight		(e) Threshold	(f) Target	(g) Maximum
			AIP	REP			
1	Financial Performance						
2		DTE Electric Operating Earnings	5.00%	5.00%	\$990	\$1,010	\$1,030
3							
4		Nuclear Operations & Maintenance Expense	15.00%	15.00%	\$148	\$144	\$140
5							
6	Total Financial Measures		20.00%	20.00%			
7							
8	Safety & Engagement						
9		Nuclear Generation Employee Engagement-Gallup	5.00%		4.17	4.26	4.45
10							
11		Nuclear Total Industrial Safety Accident Events	5.00%	7.50%	1	0 in any Quarter	0 in all Quarters
12							
13							
14		DTE Electric OSHA Recordable Incident Rate	5.00%	7.50%	0.71	0.57	0.48
15							
16		On-Line Radiation Exposure	10.00%	10.00%	55.7	50.6	39.3
17							
18	Total Safety & Engagement Measures		25.00%	25.00%			
19							
20	Operating Excellence						
21		Nuclear On-Line Reliability Loss Factor (ORLF)	25.00%	25.00%	1.45%	1.03%	0.61%
22							
23		Nuclear Operational Focus	10.00%	10.00%	92.1	93.4	94.6
24							
25		Nuclear Annualized Work Management Index	10.00%	10.00%	99.6	99.8	100.0
26							
27		Nuclear Refuel Outage Milestone Completion	10.00%	10.00%	32 no more than 2 red	30 no more than 4 white	34 green
28							
29							
30	Total Operating Excellence		55.00%	55.00%			
31							
32	Total Operating Measures		80.00%	80.00%			
33							
34	Total		100.00%	100.00%			

Michigan Public Service Commission
DTE Electric Company
2023 Annual Incentive Plan and Rewarding Employees Plan Metrics:
DTE Energy Corporate Services LLC

Case No.: U-21534
Exhibit: A-21
Schedule: K4
Witness: M. A. Fix
Page: 1 of 1

Line	(a)	(b)	(c)	(d)	(e)	(f)	(g)
No.	Category	Measure	Weight		Threshold	Target	Maximum
			AIP	REP			
1	Financial Performance						
2		DTE Energy Operating Earnings Per Share	20.00%	20.00%	\$6.10	\$6.25	\$6.40
3							
4		DTE Energy Cash From Operations	20.00%	20.00%	\$2,746	\$3,051	\$3,356
5							
6	Total Financial Measures		40.00%	40.00%			
7							
8	Customer Satisfaction						
9		Net Promoter Score	12.00%	12.00%	35	39	43
10							
11		MPSC Customer Complaints	8.00%	8.00%	2,008	1,912	1,816
12							
13	Total Customer Satisfaction Measures		20.00%	20.00%			
14							
15	Safety & Er						
16		DTE Energy Employee Engagement-Gallup	5.00%		4.17	4.26	4.45
17							
18		DTE Energy OSHA Recordable Incident Rate	5.00%	10.00%	0.68	0.55	0.42
19							
20		DTE Energy High Energy Serious Injury or Fatality	5.00%	5.00%	4	2	0
21							
22	Total Safety & Engagement Measures		15.00%	15.00%			
23							
24	Operating Excellence:Electric						
25		Customers experiencing multiple interruptions (CEMI4%	6.25%	6.25%	8.10%	7.55%	7.00%
26							
27		SAIDI Excluding Major Event Days	6.25%	6.25%	180	150	127
28							
29		Nuclear On-Line Reliability Loss Factor (ORLF)	12.50%	12.50%	1.45%	1.03%	0.61%
30							
31	Total Electric Operating Excellence		25.00%	25.00%			
32							
33	Total Operating Measures		60.00%	60.00%			
34							
35	Total		100.00%	100.00%			

Michigan Public Service Commission
DTE Electric Company
2023 Long Term Incentive Plan Performance Shares Metrics

Case No.: U-21534
Exhibit: A-21
Schedule: K5
Witness: M. A. Fix
Page: 1 of 1

Line No.	Description	Weight			Threshold	Target	Maximum
		DTE Electric	Nuclear Generation	DTE Energy Corporate Services LLC			
1	Total DTE Energy Shareholder Return vs. Pee	80%	80%	80%	25th Percentile	55th Percentile	80th Percentile
2	Three Year Cumulative Operating EPS	20%	20%	20%	Board Approved	Board Approved	Board Approved
3	Total	100%	100%	100%			

Line No.	(a) Description	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
		Long Term Incentive Plan			Annual Incentive Plan			Rewarding Employees Plan			Total Incentive Plans		
		Expense	Benefit	Net	Expense	Benefit	Net	Expense	Benefit	Net	Expense	Benefit	Net
1	Financial Performance												
2	Total DTE Energy Shareholder Return vs. Peer Group	16,326		16,326							16,326		16,326
3													
4	Three Year Cumulative Operating EPS	4,082		4,082							4,082		4,082
5													
6	Nuclear Operations & Maintenance Expense				69		69	629		629	698		698
7													
8	DTE Electric Operating Earnings				254		254	2,846		2,846	3,099		3,099
9													
10	DTE Electric Cash From Operations				231	(1,605)	(1,374)	2,636	(18,341)	(15,705)	2,866	(19,946)	(17,079)
11													
12	DTE Energy Operating Earnings per share				1,908		1,908	5,128		5,128	7,036		7,036
13													
14	DTE Energy Cash From Operations				1,754		1,754	3,371		3,371	5,125		5,125
15													
16	Total Financial Measures	20,408	0	20,408	4,215	(1,605)	2,610	14,609	(18,341)	(3,731)	39,232	(19,946)	19,286
17													
18													
19	Customer Satisfaction												
20	Net Promoter Score				873	(556)	317	2,636	(1,679)	957	3,509	(2,235)	1,274
21													
22	MPSC Customer Complaints				582	(7)	575	1,757	(22)	1,735	2,339	(29)	2,310
23													
24	Total Customer Satisfaction Measures				1,455	(563)	892	4,393	(1,701)	2,692	5,848	(2,264)	3,584
25													
26	Safety & Engagement												
27	Employee Engagement-Gallup				376	(11,886)	(11,510)	0	0	0	376	(11,886)	(11,510)
28													
29	OSHA Recordable Incident Rate				376	(209)	167	2,368	(1,318)	1,050	2,745	(1,527)	1,217
30													
31	DTE Energy High Energy Serious Injury or Fatality				364	(202)	161	1,098	(611)	487	1,462	(814)	648
32													
33	Nuclear Total Industrial Safety Accident Events				13	(7)	6	172	(96)	76	184	(103)	82
34													
35	Nuclear On-Line Radiation Exposure				25	(14)	11	229	(128)	102	254	(141)	113
36													
37	Total Employee Engagement Measures				1,154	(12,319)	(11,165)	3,867	(2,152)	1,715	5,021	(14,471)	(9,450)
38													
39	Operating Excellence												
40	SAIDI Excluding Major Event Days				444	(4,921)	(4,476)	1,493	(16,533)	(15,041)	1,937	(21,454)	(19,517)
41													
42	Customers experiencing multiple interruptions (CEMI4%)				465	(5,153)	(4,688)	1,493	(16,533)	(15,041)	1,958	(21,686)	(19,728)
43													
44	Generation Availability				63	0	63	480	0	480	543	0	543
45													
46	Nuclear On-Line Reliability Loss Factor				909	(4,515)	(3,606)	2,914	(14,474)	(11,560)	3,823	(18,989)	(15,166)
47													
48	Nuclear Operational Focus				25	(124)	(99)	355	(1,765)	(1,410)	380	(1,889)	(1,509)
49													
50	Nuclear Annualized Work Management Index				25	(124)	(99)	355	(1,765)	(1,410)	380	(1,889)	(1,509)
51													
52	Nuclear Refuel Outage Milestone Completion				25	(124)	(99)	355	(1,765)	(1,410)	380	(1,889)	(1,509)
53													
54	Total Operating Excellence				1,957	(14,961)	(13,005)	7,445	(52,835)	(45,390)	9,402	(67,796)	(58,395)
55													
56	Total Operating Measures	0	0	0	4,566	(27,844)	(23,278)	15,705	(56,688)	(40,982)	20,271	(84,532)	(64,261)
57													
58	Total	20,408	0	20,408	8,781	(29,449)	(20,668)	30,315	(75,028)	(44,714)	59,504	(104,478)	(44,974)

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-21534

QUALIFICATIONS
AND
DIRECT TESTIMONY
OF
JEROME K. HOOPER

DTE ELECTRIC COMPANY
QUALIFICATIONS AND DIRECT TESTIMONY OF JEROME K. HOOPER

Line
No.

1 **Q1. What is your name, business address and by whom are you employed?**

2 A1. My name is Jerome K. Hooper (he/him/his). My business address is DTE Energy
3 Company, One Energy Plaza, Detroit, Michigan 48226. I am employed by DTE
4 Energy Corporate Services, LLC (DTE LLC), a subsidiary of DTE Energy
5 Company (DTE Energy).

6

7 **Q2. On whose behalf are you testifying?**

8 A2. I am testifying on behalf of DTE Electric Company (DTE Electric or Company).

9

10 **Q3. What is your educational background?**

11 A3. I received a Bachelor of Science Degree in Health Care Administration from
12 California Coast University in 2013. I have also completed graduate-level
13 coursework in Management at Colorado Technical University

14

15 **Q4. What is your current position and work experience?**

16 A4. My current position is Manager, Health & Welfare Benefits and Occupational
17 Health. I joined the DTE Electric full time in 2000 and have held positions with
18 increasing responsibility within Human Resources. These were Medical Assistant,
19 Disability Management Professional, and Sr. Labor Relations Specialist.. In 2017,
20 I became Supervisor, Health & Welfare Benefits, and assumed my current position
21 in 2021. Prior to joining DTE, I was employed by the Ingham County Health
22 Department as a Health Screening Technician. I was previously employed at
23 Sparrow Health System (now known as University of Michigan Health- Sparrow)
24 in various medical laboratory and patient care roles.

Line
No.

1 **Q5. What are your current responsibilities as Manager of Health and Welfare**
2 **Benefits and Occupational Health?**

3 A5. As Manager of Health and Welfare Benefits and Occupational Health, I have
4 responsibility for benefit design, strategy, and administration of DTE Energy's
5 employee benefits. I also am responsible for DTE's drug and alcohol program,
6 occupational health, and employee assistance program (EAP).

7

8 **Q6. Have you participated in DTE Electric or DTE Gas proceedings before the**
9 **Michigan Public Service Commission (MPSC or Commission)?**

10 A6. Yes. I provided support to the compensation and benefits witness in the 2024 DTE
11 Gas General Rate Case (Case No. U-21291).

12

13 **Purpose of Testimony**

14 **Q7. What is the purpose of your testimony?**

15 A7. My testimony will present an overview of benefit expense for DTE Electric for the
16 2022 historical test period and the 12 months ended December 31, 2025, projected
17 test period. Specifically, I will:

18 1. Provide support for the Company's, other post-employment benefits costs
19 (OPEB), active employee health care costs and the costs of other employee
20 benefits;

21 In summary, my testimony will support the reasonableness and validity of the
22 projected employee benefits expense to be incurred by DTE Electric for the
23 projected test period.

24

25 **Q8. Are you sponsoring any exhibits in this proceeding?**

Line
No.

1 A8. Yes. I am sponsoring in whole, or in part, the following exhibits:

2	<u>Exhibit</u>	<u>Schedule</u>	<u>Description</u>
3	A-13	C5.11	Projected Operation and Maintenance Expenses -
4			Employee Pension and Benefits
5	A-13	C5.11.1	Willis Towers Watson Healthcare Trend Projection
6	A-13	C5.11.2	PwC 2024 Medical Cost Trend
7	A-13	C5.11.3	Constant Dollar Active Healthcare Adjustment
8	A-13	C5.12.2	Projected Operation and Maintenance Expenses -
9			Other Post-Employment Benefits (OPEB)

10

11 **Q9. Were these exhibits prepared by you or under your direction?**

12 A9. Yes, they were. Portions of Exhibit A-13, Schedule C5.11 are sponsored by
13 Witnesses Fix and Uzenski.

14

15 **OTHER POST-EMPLOYMENT BENEFITS (OPEB) COSTS**

16 **Q10. What are OPEB Costs?**

17 A10. OPEB costs relate to the provision of retiree medical, dental, prescription drug and
18 life insurance benefits. OPEB is a cost recognized under U.S. GAAP Accounting
19 Standard Codification (ASC) section 715-60. Similar to ASC 715-30, as explained
20 by Witnesss Fix, OPEB costs are determined under ASC 715-60 at the beginning
21 of each fiscal year.

22

23 **Q11. What are the cost components of OPEB?**

24 A11. OPEB has the same basic cost components as pension costs, as described by
25 Witness Fix. They are:

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1 Service Costs: Service Costs are the portion of the expected post-retirement benefit
2 obligation, on a present value basis, attributable to employee participation service
3 during the current period. Service Costs reflect actuarial assumptions of employee
4 turnover, age at retirement, and expected longevity. Service Costs also depends on
5 the estimated costs of providing these benefits after the employee’s retirement and,
6 therefore, is impacted by both current medical cost levels and expected medical
7 cost inflation.

8

9 Interest Costs: Interest Costs are the costs arising from the current period interest
10 on the discounted Accumulated Post-Retirement Benefit Obligation (APBO). The
11 APBO was discounted to today’s dollars based on a discount rate of 2.91% as of
12 December 31, 2021, which was also used to determine Interest Costs in 2022. The
13 discount rate used to measure the APBO as of December 31, 2022, was 5.19%,
14 which was also used to determine the Interest Costs on the APBO during the
15 projected test year. The discount rate of 5.19% was determined based on the
16 interest rate environment at the end of 2022, as determined in a similar manner to
17 the measurement of the Company’s pension costs, as described by Witness Fix.

18

19 Expected Return on Assets: The Expected Return on Assets (ERoA), which is an
20 offset to OPEB costs, based on the forward-looking long-term financial market
21 expectations to avoid large swings in OPEB costs based on short-term investment
22 performance. The ERoA was 6.40% during the historical test year and is 7.20%,
23 7.30% and 7.30% in 2023, 2024 and 2025, respectively. The increase in the ERoA
24 is primarily due to an increase in the forward-looking long-term capital market
25 assumptions that reflects the impact of negative capital market performance in

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1 2022. These assumptions are based on market conditions and funded status at the
2 end of 2022.

3

4 Amortizations: This cost component includes the amortizations related to deferred
5 Gains and Losses as well as Prior Service Costs. Accumulated gains and losses,
6 outside the 10% corridor, as described for pension costs by Witness Fix, are
7 amortized over the current estimated remaining service life of active participants.
8 Prior Service Costs are amortized over the estimated remaining service life of active
9 participants, at the time of the last plan change, to the age at which these employees
10 are fully eligible for the benefits.

11

12 **Q12. How are these OPEB costs expected to change between the historical test year**
13 **and the projected test year?**

14 A12. As reflected on Exhibit A-13, Schedule C5.12.2, the Company's OPEB costs are
15 projected to increase from negative \$36.661 million in the historical test year to
16 negative \$14.459 million during the projected test year. After adjustments for the
17 portion of OPEB costs transferred and capitalized, the net OPEB expense is
18 projected to be negative \$8.395 million, as shown on Exhibit A-13, Schedule
19 C5.12.2, line 17.

20

21 **Q13. Is the negative OPEB expense included in the Company's proposed revenue**
22 **requirement?**

23 A13. No. Witness Uzenski sponsors the Company's proposal to continue to defer to the
24 projected negative OPEB expense to the accumulated regulatory liability. Thus,
25 the projected OPEB expense is not reflected in the Company's proposed revenue

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1 requirement and the negative OPEB expense is eliminated on line 18 of Exhibit A-
2 13, Schedule C5.12.2.

3

4 **Q14. Did the Commission address the OPEB regulatory liability in its Order in Case**
5 **No. U-21297?**

6 A14. Yes. In its Order in Case No. U-21297, the Company's most recent rate case, the
7 Commission adopted a seven-year amortization of the Company's OPEB
8 regulatory liability as of December 31, 2022, which resulted in an annual
9 amortization of \$18.300 million that reduced the Company's revenue requirement
10 (Case No. U-21297, Order, pp 223-224). This annual amortization of \$18.300
11 million is reflected on Exhibit A-13, Schedule C5.12.2, line 19, as a reduction to
12 OPEB expense and is also reflected on Exhibit A-13, Schedule C5.11, line 3.

13

14 **Q15. Has DTE Electric previously externally funded its OPEB costs?**

15 A15. Yes. DTE Electric has generally funded the OPEB costs included in the Company's
16 revenue requirement adopted by the Commission in previous orders through a
17 Voluntary Employees' Beneficiary Association (VEBA) trust and an Internal
18 Revenue Code Section 401(h) trust.

19

20 **Q16. Will the Company externally fund its OPEB liability in the future?**

21 A16. No. Since the Commission approved the Company's proposal in Case No. U-20836
22 to continue the deferral of the projected negative OPEB expense, initially approved
23 by the Commission in Case No. U-17767, the Company's current and projected
24 revenue requirements do not include any OPEB expense and thus there is no
25 obligation for the Company to externally fund its OPEB liability.

Line
No.

1 **NEW HIRE VEBA COSTS**

2 **Q17. What is the New Hire VEBA?**

3 A17. The New Hire VEBA expense on Exhibit A-13, Schedule C5.11, line 4 reflect the
4 costs of the plans that are offered in lieu of the traditional retiree healthcare plan
5 for eligible employees, as adjusted for the portion of those costs that are capitalized.
6 Because the New Hire VEBA is generally offered in lieu of the Company's
7 traditional retiree healthcare plan, which is closed to most new participants, this
8 increase in costs is offset by avoided OPEB costs.

9
10 **Q18. What are the components of the Company's New Hire VEBA costs?**

11 A18. The Company's New Hire VEBA costs consist of contributions generally made for
12 newly hired employees after 2012. Specifically, the Company contributes \$4,000
13 on behalf of non-represented and certain Local 17 employees in their year of hire,
14 as prorated for month of hire, and \$4,000 every year thereafter. For employees
15 represented by Local 223, the Company makes a payment of \$1,650 on their first
16 service anniversary and contributes \$40 per week thereafter. In 2022 the average
17 Company contribution for Local 223 employees was \$2,177.

18
19 In addition, the Company recognizes a true-up of the estimate of the Company's
20 liability for contributions for non-represented and Local 17 employees that reflects
21 final determinations of plan eligibility and any forfeitures by employees that leave
22 the Company before the end of the 10-year vesting period. No such true up is
23 required for Local 223 employees because payments are made through the bi-
24 weekly payroll process and the Company doesn't receive any benefit from
25 employee departures.

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1 **Q19. What adjustments are you proposing to the Company's New Hire VEBA**
2 **expense?**

3 A19. As reflected on page 2 of Exhibit A-13, Schedule C5.11, line 4, I am proposing two
4 adjustments to New Hire VEBA expense. The first, which is reflected on column
5 (c) represents a normalization of the Company's recorded 2022 New Hire VEBA
6 expense and the second, which is reflected in column (h) represents the projection
7 of this expense through the end of the projected test year.

8

9 **Q20. Why is a normalization adjustment required for the Company's recorded 2022**
10 **New Hire VEBA expense reflected on Exhibit A-13, Schedule C5.11, page 2,**
11 **line 4, column (c)?**

12 A20. In 2022, the Company recognized an unusually high true-up adjustment related to
13 the New Hire VEBA costs recognized in 2021 compared to the actual funding
14 requirement for 2021. Specifically, the 2021 true-up reflected as a reduction to the
15 Company's New Hire VEBA expense, which after reduction for the portion
16 capitalized, was \$1.336 million, whereas the average of the five prior years true-up
17 adjustments on a similar basis was only \$0.310 million. There were two primary
18 drivers of the large increase in the true-up recognized in 2022 related to 2021. First,
19 due to historically low levels of employee turnover during the COVID-19 pandemic
20 in 2020 there was a reduction in the number of new hires eligible to participate in
21 the plan in 2021. Second, as the economy transitioned out of the pandemic in 2021
22 and employee turnover increased, there was a substantial increase in the forfeitures
23 of accumulated balances by employees that left the Company before they were
24 vested in the plan. These two factors resulted in an unusually large true-up in 2022
25 that is non-recurring. Accordingly, the Company's 2022 recorded New Hire VEBA

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1 expense should be increased by \$1.027 million, which represents the excess of the
2 2021 true-up over the average of true-ups recognized in the prior five-years.

3

4 **Q21. What is the basis for the projected increase in the New Hire VEBA expense?**

5 A21. The New Hire VEBA expense is projected to increase from the normalized 2022
6 expense of \$7.707 million to \$9.847 million in the projected test year. This increase
7 reflects the growth in the number of plan participants due to new hires.

8

9 **Q22. How was the projected New Hire VEBA expense developed?**

10 A22. The projected New Hire VEBA expense was developed based on the number of
11 active participants in the plans as of December 31, 2022, which was increased by
12 the number of expected new participants based on the most recent five-year average
13 of actual new plan participants prorated for the assumption that the new participants
14 would be added evenly throughout the year (i.e., divided by two). The average plan
15 participants for each year were costed-out based on the Company's required
16 contributions for each plan, as described above, to determine the projected gross
17 cost for each plan. The amount for the non-represented employees and employees
18 represented by Local 17 was then reduced by the five-year average of employee
19 forfeitures for those plan participants that left the Company before they were vested
20 in the plan. Total costs for the projected test year are projected to be \$15.320
21 million, which is reduced by 35.7% to recognize the portion of costs to be
22 capitalized, resulting in net New Hire VEBA expense of \$9.847 million. This
23 represents an average annual increase of 13.8%.

24

Line
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1 **ACTIVE HEALTHCARE EXPENSE**

2 **Q23. What are the healthcare benefit programs offered to active employees?**

3 A23. The Company offers a competitive active healthcare benefits package for the
4 attraction and retention of a skilled workforce. The components of these benefits
5 are summarized on Exhibit A-13, Schedule C5.11 (lines 8 through 10) and consists
6 of medical, dental, and vision benefits for active employees that are projected to
7 increase from \$50.126 million in the historic test year to \$56.083 million. This
8 increase includes the normalization of the historical Active Healthcare costs to
9 reflect a historical average of constant dollar costs, as developed on Exhibit A-13,
10 Schedule C5.11.3, and annual escalations for the adjusted medical plan trend of
11 5.1% in 2023, 5.0% in 2024, and 4.0% in 2025, as more fully described below in
12 Q47 through Q54.

13

14 **Q24. What is the Normalization Adjustment to 2022 Active Healthcare costs as**
15 **reflected on Exhibit A-13, Schedule C5.11?**

16 A24. The year-to-year volatility of actual Active Healthcare costs makes the use of any
17 one historical period's cost a potentially unreliable starting point in the
18 determination of projected Active Healthcare costs. Accordingly, the adjustment
19 of negative \$1.260 million reflected on Exhibit A-13, Schedule C5.11, page 2 on
20 line 11 of column (c), represents a normalization of the Company's actual 2022
21 Active Healthcare costs that is designed to eliminate the volatility of the Company's
22 Active Healthcare costs through the quantification of the Company's historical
23 Active Healthcare costs per employee, as adjusted for national historical healthcare
24 cost trends. This results in an average of the Company's actual Active Healthcare
25 costs per employee that eliminates the impact of historical healthcare cost inflation

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1 and, therefore, reflects the cost volatility due to changes in the usage of healthcare
2 services.

3

4 **Q25. What is the basis for your conclusion that year-to-year Active Healthcare costs**
5 **are volatile?**

6 A25. The primary reason the Company's Active Healthcare costs reflect substantial
7 volatility among years is that the Company is self-insured for about 70% of its
8 total Active Healthcare costs. Self-insurance results in the level of Active
9 Healthcare costs incurred by the Company being highly impacted by the mix and
10 severity of medical treatments administered to employees and their eligible
11 dependents in any given year. For example, in 2020 DTE Electric's medical claims
12 related to outpatient specialty drugs decreased by almost \$0.6 million, or over
13 25%, compared to 2019 while in 2021 claims for the same category increased by
14 over \$1.4 million or almost 90%. In addition, in 2021, inpatient care related to the
15 treatment of COVID-19 infections increased by over \$1.0 million and then
16 declined by almost \$1.2 million in 2022. Also in 2022, the Company reinstated
17 its healthy living requirements for employee contributions for healthcare services
18 that were suspended during the pandemic. As a result, total employee contributions
19 increased in 2022 by \$2.3 million, which is an offset to the Company's Active
20 Healthcare costs. This single non-recurring increase in employee contributions
21 reduced the Company's Active Healthcare costs in 2022 by over 2.5%.

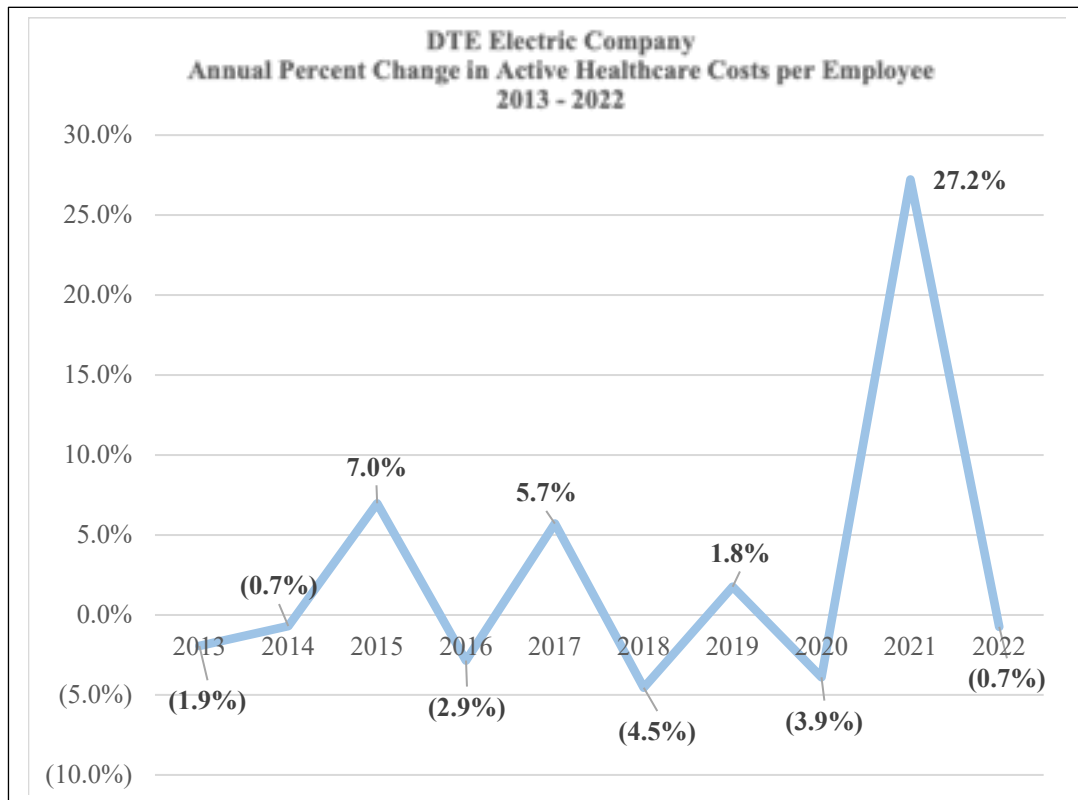
22

23 **Q26. Have you quantified the degree of volatility in the Company's Active**
24 **Healthcare Costs?**

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1 A26. Yes. The actual annual percentage change in the Company’s Active Healthcare
2 costs on a per employee basis, as adjusted for a one-time credit in 2018, is reflected
3 in Table 1 below.

4 **Table 1**



5 This chart shows that the Company’s actual Active Healthcare costs have changed
6 relative to the prior year by as much as 27.2% in 2021 to a decrease of 4.5% in
7 2018, demonstrating that Active Healthcare costs can vary significantly from year-
8 to-year. While the average percent change in the Company’s Active Healthcare
9 costs for the years 2013 through 2022 was 2.7%, the standard deviation of this
10 average is 9.4%.

11

12 **Q27. What is the significance of this high degree of variability in the percentage**
13 **change in the Company’s actual Active Healthcare costs?**

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1 A27. Since the Company's actual Active Healthcare costs can be impacted by variations
2 in usage, the effect of benefit plan design, and changes in pricing, any given year's
3 Active Healthcare costs will likely be an unreliable basis to establish a starting point
4 for future Active Healthcare costs. Moreover, the small sample size of the
5 experience of the Company makes it a poor predictor of future experience. In 2022,
6 the Company had about 3,400 employees enrolled in its self-insured medical plans,
7 which inclusive of dependents, represented about 9,800 total participants. The total
8 number of participants represents too small of a sample to infer that the experience
9 over a few years will reflect the long-term trends in the Company's Active
10 Healthcare costs. This small sample size is a key contributor to the year-to-year
11 variability as reflected in the high Standard Deviation relative to the average.

12

13 **Q28. Is there a method of normalizing the Company's historical Active Healthcare**
14 **costs to determine a more reliable starting point in determining Active**
15 **Healthcare costs for the projected test year?**

16 A28. Yes. The variability in the Company's actual Active Healthcare costs can be
17 normalized using constant dollar Active Healthcare costs on a per employee basis.
18 This allows for the normalization of the inherent volatility in historical Active
19 Healthcare costs through the elimination of both the impact of healthcare price level
20 changes and changes in the level of employees.

21

22 **Q29. How did you determine a constant dollar average of the Company's Active**
23 **Healthcare costs on a per employee basis?**

24 A29. Exhibit A-13, Schedule C5.11.3 reflects the Company's actual Medical, Dental, and
25 Vision components of the actual Active Healthcare costs for the years 2018 through

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1 2022, before the impact of the costs capitalized and transferred. These costs are
2 divided by the simple average of employees at the beginning and end of each year
3 to develop the Active Healthcare costs per employee. The Active Healthcare costs
4 per employee for each year is then adjusted for the actual percent increase in medical
5 trends, as reported by PwC on page 2 of Exhibit A-13, Schedule C5.11.2. Adjusting
6 the Company's actual Active Healthcare costs for the overall increases in medical
7 costs experienced by a broad universe of employers and insurance providers, as
8 reflected in the PwC study, enables the separation of the Company's year-to-year
9 variability that is driven by changes in utilization by the Company's employees and
10 their dependents from changes to overall healthcare cost trends.

11

12 The adjustment of each year's Active Healthcare costs per employee produces a
13 five-year average cost per employee on a constant dollar basis of \$12,081. By
14 multiplying this amount by the 2022 average number of employees of 6,697, a total
15 constant dollar Active Healthcare cost of \$80.911 million is generated. This
16 represents a \$2.087 million decrease relative to the Company's incurred Active
17 Healthcare costs in 2022. This amount is adjusted for the portion of Active
18 Healthcare costs charged to expense and results in a constant dollar normalization
19 adjustment of negative \$1.260 million, as reflected on Exhibit A-13, Schedule
20 C5.11.3, column (m), line 16.

21

22 **Q30. How has the Commission traditionally addressed cost elements that are**
23 **subject to volatility?**

24 A30. The Commission has routinely adopted prior year's average of the ratio of
25 uncollectibles to revenues to project the Company's future uncollectibles expense,

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1 and for DTE Gas, has used an average of historical Lost and Unaccounted for Gas
2 volumes to project future Lost and Unaccounted for Gas expense. The difference
3 is that in those instances the pricing is separated from the level of activity because
4 the ratios of uncollectibles and the volumes of Lost and Unaccounted for Gas were
5 determined first, and then those ratios are priced by applying the percentage of
6 historical uncollectibles for projected revenue or the average Lost and Unaccounted
7 for Gas volumes are multiplied by the projected cost of gas rate.

8

9 In contrast, for Active Healthcare costs there is no available segregation of the
10 impact of changes in activity, as reflected in usage of health services, and the
11 pricing of those services. Because the price of healthcare services increases each
12 year, it would be unreasonable to predict future Active Healthcare costs based on
13 an average of the historical Active Healthcare costs. As a result, the only means of
14 producing a starting point for Active Healthcare costs that is normalized for
15 changes in utilization is to develop an historical average of costs that neutralizes
16 the impact of changes in price levels. This is what the constant dollar normalization
17 adjustment achieves.

18

19 **Q31. Are there any useful analogies to the Company's constant dollar Active**
20 **Healthcare adjustment?**

21 A31. Yes. From a broad perspective, the constant dollar Active Healthcare adjustment
22 should be regarded as means to neutralize the inherent volatility in the Company's
23 actual Active Healthcare costs by restating the historical costs in current dollars,
24 much as "nominal" price levels are routinely adjusted for the effects of inflation to

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1 develop inflation adjusted “real” prices. This allows for a meaningful comparison
2 of costs among years without the distortion of changes in price levels.

3

4 More specifically, DTE Electric has traditionally adjusted its actual annual
5 historical emergent replacement expenditures for inflation to develop a base
6 spending level used in developing projected costs. This approach was explicitly
7 adopted in a DTE Electric rate case where the Commission concluded “Adding
8 inflation to the historic five-year historical actual spend is appropriate for
9 calculating the starting point for normalized expenditures.” (Case No. U-20561,
10 Order issued May 8, 2020, p. 86). The continued use of a five-year inflation
11 adjusted average of Emergent Replacement Expenditures was adopted by the
12 Commission in other recent Company rate cases (Case No. U-20836, Order issued
13 November 18, 2022, p. 63, Case No. U-21297 Order issued December 1, 2023, p.
14 76).

15

16 **Q32. Has the normalization of emergent replacement expenditures for historical**
17 **inflation been contested in the Company’s recent rate cases?**

18 A32. Yes. The Attorney General has consistently opposed the normalization of historical
19 emergent replacement expenditures. In the Company’s most recent rate case the
20 Attorney General claimed that the normalization of historical expenditures for
21 inflation compounds inflationary increases and amounts to inflating forecasted
22 capital expenditures by increasing the base used in the projections (Case No. U-
23 21297, Order, p. 74). Based on this claim, the Attorney General proposed the
24 elimination of the historical inflation normalization of emergent replacement
25 expenditures. However, the Commission properly rejected the Attorney General’s

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1 proposal and adopted the Company's historical inflation normalization of emergent
2 replacement expenditures.

3

4 **Q33. Did the Commission also address the issue of the constant dollar normalization**
5 **of Active Healthcare costs in its Order in Case No. U-21297?**

6 A33. Yes. In that case the Attorney General opposed the Company's constant dollar
7 Active Healthcare cost adjustment. Like the Attorney General's arguments in
8 opposition to the historical inflation normalization of emergent replacement
9 expenditures, the Attorney General claimed the adjustment for historical healthcare
10 increases compounded inflationary increases (Case No. U-21297, Order, p. 229).
11 The Commission declined to adopt the constant dollar normalization in this matter,
12 stating that the Company did not sufficiently demonstrate that the "proposed
13 constant dollar normalization will not result in compounded inflationary pressures"
14 (Case No. U-21297 Order, p. 232).

15

16 **Q34. Does the constant dollar adjustment result in compound inflationary**
17 **pressures?**

18 A34. No. Just like the normalization of historical emergent replacement expenditures,
19 the constant dollar Active Healthcare costs adjustment merely recasts the
20 Company's historical Active Healthcare costs for the impact of historical medical
21 cost escalations. This adjustment enables the development of a five-year average
22 Active Healthcare costs per employee on basis that excludes the impact of changes
23 in prices. The only difference between the two normalization adjustments is that
24 emergent replacement expenditures are adjusted for overall inflation as measured
25 by the Consumer Price Index whereas the Active Healthcare normalization

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1 adjustment is based on actual historical national medical cost trends as measured
2 by the PwC actual medical cost increases. This difference in historical bases for
3 escalation recognizes that overall inflation is an inappropriate measure of historical
4 medical cost escalations. The escalation of the Company's historical Active
5 Healthcare costs per employee for actual national medical cost increases allows the
6 establishment of a normalized Active Healthcare costs per employee for the years
7 2018 through 2022, which is used to create a five-year average as a starting point
8 to be used to project the Company's future Active Healthcare costs. Accordingly,
9 it is inaccurate to conclude that the normalization of the Company's Active
10 Healthcare costs per employee results in the compounding of inflationary pressures.

11

12 **Q35. How is this constant dollar normalization adjustment reflected on Exhibit A-**
13 **13, Schedule C5.11?**

14 A35. The total constant dollar normalization adjustment of negative \$1.260 million is
15 allocated to the Active Healthcare cost components of Medical Expense, Dental
16 Expense, and Vision Expense based on the proportion of the expenses for each of
17 these categories in 2022 on Exhibit A-13, Schedule C5.11, page 2 of 2, column (c),
18 lines 8 through 10, to determine the Adjusted Historical Test Period expenses in
19 column (d), which is then adjusted for the projected active healthcare trend factors
20 through the end of the projected test period.

21

22 **Q36. What is the basis for your future trend factor in active healthcare costs used**
23 **for the projected periods in this proceeding?**

24 A36. The annual unadjusted medical plan trend factors of 7.10% for 2023, 7.50% for
25 2024, and 7.00% for 2025, are based on projections for healthcare trends provided

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1 by the healthcare experts at Willis Towers Watson (WTW), as reflected in Exhibit
2 A-13, Schedule C5.11.1. These unadjusted trend factors are reduced by 2.00% in
3 2023, 2.50% in 2024, and 3.00% in 2025 to reflect the expected savings to be
4 realized by the Company's Wellness program. Accordingly, the active healthcare
5 expense projections are based on the Company's 2022 normalized expense as
6 escalated by the adjusted trend factors of 5.10% in 2023, 5.00% in 2024, and
7 4.00% in 2025.

8

9 **Q37. How were these trend factors determined?**

10 A37. WTW's first step is to develop the Allowed Trend, which is based on its internal
11 guidance and represents its consensus expectation for medical and prescription drug
12 costs. WTW developed the Allowed Trend based on its internal book of business
13 and national survey as well as data from United States government offices and
14 agencies, and various third-party sources, as described on page four of Exhibit A-
15 13, Schedule C5.11.1. The Allowed Trend is adjusted for the Company's average
16 fixed plan design leveraging to develop the future Medical Plan Trend, which is the
17 basis of the Company's projected active healthcare costs.

18

19 **Q38. What assumptions are reflected in WTW's overall trend factors?**

20 A38. WTW's key assumptions for 2023 are described on page five of Exhibit A-13,
21 Schedule C5.11.1. Specifically, WTW assumes that overall inflation will be
22 between 2.50% and 4.00%. Added to the overall inflation is the incremental
23 healthcare inflation of between 1.00% and 2.15%, which is premised on the
24 assumption that healthcare inflation will likely revert to the historical pattern of
25 healthcare inflation exceeding overall inflation. This assumption reflects the

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1 expectation that labor shortages in the healthcare industry will become more acute
2 as well as the likelihood of increased pricing for long-term contracts between
3 insurance carriers and healthcare providers. Finally, WTW expects the impact of
4 higher utilization will add between 1.75% and 3.25% to the expected trend factors,
5 which recognizes traditional experience in the low end assumption and the high
6 end assumption reflects the risk that COVID-19 related disruptions in the delivery
7 of healthcare services will lead to future increases in utilization. In sum, WTW
8 expects the overall medical trend in 2023 will increase between 5.25% and 9.40%.

9

10 **Q39. How was the 2023 trend of 7.10% developed by WTW for the escalations used**
11 **by Company in its projections?**

12 A39. As also reflected on page five of Exhibit A-13, Schedule C5.11.1, in the column
13 labeled DTE Energy, the assumptions used in the development of the 6.60%
14 unleveraged medical trend are detailed. Specifically, WTW assumes general
15 inflation of 3.20%, which is based on the actual increase in the CPI through July
16 2023. Added to the general inflation assumption is 1.50% for the assumed
17 incremental medical cost related inflation, which is slightly less than the midpoint
18 of the range of 1.00% to 2.15% identified for the overall medical trend. Finally,
19 1.90% is added to reflect the expected change in the Company's utilization and
20 service mix. This 1.90% addition for the impact of expected increase related to
21 utilization and service mix at the Company is based on relative risk scores
22 developed by Merative, a firm specializing in healthcare analytics, that projects that
23 the Company's relative risk will increase by 5.30% over the next three years or
24 about 1.70% annually. An additional 0.2% is added to the 1.70% to reflect the
25 expected impact of the Company's increased utilization of higher cost specialty

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1 prescription drugs, resulting in a total increase due to utilization and service mix of
2 1.90%. A description of Merative and the support for the relative risk scores is
3 reflected on page six of Exhibit A-13, Schedule C5.11.1.

4

5 Based on these assumptions WTW's 2023 medical trend is 6.60% before the impact
6 of the Company's fixed plan design leveraging or 7.10% inclusive of the
7 Company's fixed plan design leveraging.

8

9 **Q40. Can you describe fixed plan design leveraging?**

10 A40. Yes. Fixed plan design leveraging is the impact on the Company's costs of fixed
11 cost-sharing plan design items, such as deductibles, coinsurance, copays and out of
12 pocket maximum.

13

14 **Q41. Are you aware of any corroborating sources that support the reasonableness
15 of WTW's projections?**

16 A41. Yes. A study released in 2023 by PwC's Health Research Institute, as reflected in
17 Exhibit A-13, Schedule C5.11.2, projects that medical costs will increase by 6.0%
18 in 2023 and 7.0% in 2024.

19 These studies support the reasonableness of the healthcare trend projections
20 provided by WTW.

21

22 **Q42. Have the projections of future medical trends relied upon by the Company in
23 recent years been accurate?**

24 A42. Yes. In recent years the Company's average projected medical trend rates were
25 5.5%, 6.1%, 5.9% and 6.7% for the years 2019, 2020, 2021 and 2022, respectively,

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1 or a four-year average of 6.1%. The actual increase in national medical costs
2 compiled by PwC, as reflected on Exhibit A-13, Schedule C5.11.2, page 2, were
3 5.7%, 6.0%, 7.0% and 5.5% for the years 2019, 2020, 2021 and 2022, respectively,
4 or a four-year average of 6.1%. In summary, the Company's projected trend rates,
5 which were developed consistent with the method used by WTW in the trend rates
6 reflected on Exhibit A-13, Schedule C5.11.1, have matched the actual national
7 medical trend rates. This demonstrates that the Company's projected trend rates
8 have been accurate predictors of actual medical trend rates.

9

10 **Q43. Is the Company's recent experience a reliable basis for predicting future**
11 **increases?**

12 A43. No. The high variability of the annual percent change in the Company's actual
13 Active Healthcare costs per employee, as reflected in Table 1 discussed in response
14 to Q37, highlights the inherent flaw in using historical annual changes in the
15 Company's Active Healthcare costs as basis for projecting future increases. As I
16 previously discussed, the average annual percentage increase in the Company's
17 actual Active Healthcare costs for the year 2013 through 2022 was 2.7%, the
18 Standard Deviation of that average is 9.4%. This means that for about 68% of the
19 years, the Company's annual change in Active Healthcare costs could range from
20 negative 6.7% to a positive 9.1%. This extreme level of volatility renders historical
21 changes in Active Healthcare costs to be virtually worthless in determining future
22 Active Healthcare costs.

23 Given the unreliability of the Company's actual annual change in Active Healthcare
24 costs, it is prudent to project future increases in Active Healthcare costs based on

Line
No.

1 the adjusted WTW medical trend rates, which have a proven record of accuracy,
2 rather than the Company's historical experience.

3

4 **OTHER EMPLOYEE BENEFITS COSTS**

5 **Q44. What are Other Benefits Costs?**

6 A44. The costs of the Company's Other Employee Benefits are also reflected on Exhibit
7 A-13, Schedule C5.11 (lines 13 through 25). These costs include a variety of other
8 benefits including Accrued Vacation, Wellness Program, Life Insurance, Long-
9 Term Disability, associated with the Affordable Care Act (ACA), General Benefits,
10 and Benefit Plan Administration Fees. The remaining Other Benefits Costs are
11 described by Witness Fix. In total, these expenses are projected to increase from
12 \$5.318 million in the historic test year to \$18.554 million in the projected test year,
13 as shown on line 26 of Exhibit A-13, Schedule C5.11. As described in detail below,
14 as well as by Witness Fix, and as reflected on page 2 of Exhibit A-13, Schedule
15 C5.11, column (c), \$11.170 million of this increase relates adjustments to normalize
16 the Other Benefits expense reported in 2022 and \$2.067 million relates to projected
17 increases, as reflected on column (i).

18

19 **Q45. What adjustments are you proposing to Accrued Vacation expense?**

20 A45. As reflected on page 2 of Exhibit A-13, Schedule C5.11, line 13, I am proposing
21 two adjustments to Accrued Vacation expense. The first, which is reflected on
22 column (c), represents a normalization of the Company's recorded 2022 accrued
23 Vacation expense and the second, which is reflected in column (i), represents the
24 projection of this expense through the end of the projected test year.

25

Line
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1 **Q46. What is the Normalization of the Company's Accrued Vacation expense?**

2 A46. Accrued Vacation expense can vary from year to year based on the timing of the
3 vacation earned and usage of vacation time by employees, as well as forfeitures.
4 This volatility in annual accrued vacation expense has been traditionally addressed
5 using a five-year average of the annual expense. Accordingly, the adjustment to
6 Vacation Accrual expense reflected on page 2 of Exhibit A-13, Schedule C5.11,
7 line 13, column (c), is based on the average of the recorded expense for the years
8 2018 through 2022 of negative \$0.497 million. This results in an increase to
9 Accrued Vacation expense of \$4.942 million.

10

11 **Q47. What is the basis for your projection of the Company's Accrued Vacation**
12 **expense?**

13 A47. The adjusted five-year average is escalated by the projected 3.0% labor annual
14 cost increases through the end of the projected test year.

15

16 **Q48. How did you project the increase in the Company's Wellness Program**
17 **expense?**

18 A48. As referenced in my discussion of Active Healthcare expense, the Company has a
19 Wellness Program designed to produce significant reductions in future active
20 healthcare expense. Wellness Program expense is projected to increase from
21 \$4.995 million in the historical test year to \$5.560 million in the projected test year
22 based on the adjusted healthcare trend annual escalations of 5.10% in 2023, 5.00%
23 in 2024, and 4.00% in 2025 (Exhibit A-13, Schedule C5.11, line 17).

24

25 **Q49. How did you project the Company's Life Insurance Expense?**

Line
No.

1 A49. The Company's Life Insurance expense relates to life insurance provided to
2 employees that provides coverage that is generally equal to the employees base
3 annual salary. Because the coverage is based on employee salaries, I have adjusted
4 the 2022 expense of \$252,000 by the annual wage escalation of 3.0%, which
5 produces a Life Insurance expense in the projected test year of \$276,000, as
6 reflected on line 18 of Exhibit A-13, Schedule C5.11.

7

8 **Q50. How have you projected the Company's Long-Term Disability Expense?**

9 A50. Actual 2022 Long-Term Disability Expense is projected to increase from \$1.354
10 million to \$1.480 million during the projected test year based on the assumption
11 that disability claims costs are primarily driven by labor costs escalations, which
12 are assumed to be 3.0% per year between 2022 and the end of the projected test
13 year, as reflected on line 19.

14

15 **Q51. How did you develop the projections for the other items included in Other
16 Benefits on Exhibit A-13, Schedule C5.11?**

17 A51. On lines 20 through 25 of Exhibit A-13, Schedule C5.11 are the components of the
18 other items included in the Company's Other Benefits. The 2022 ACA expense of
19 \$19,000 on line 20 reflects the actual expense recognized for the Comparative
20 Effectiveness Research Fee, which is escalated at the annual Active Healthcare
21 inflation rates, resulting in \$22,000 of ACA expense for the projected test year.
22 General Benefits Expense is reflected on line 21 and is projected based on the actual
23 amounts recorded in 2022 of \$2.198 million and escalated at the overall rate of
24 inflation as measured by the Consumer Price Index through the end of the projected
25 test year, which results in projected General Benefits Expense of \$2.395 million.

Line
No.

1 Benefit Plan Administration Fees (line 22) are projected to increase to \$7.296
2 million based on the projected overall inflation rate assumptions. Also included in
3 Other Benefits, Exhibit A-13 Schedule C5.11 are Medical Refund Amortization
4 (line 24) and O&M Project reimbursements (line 25), which are both sponsored by
5 Witness Uzenski.

6

7 **Q52. What are the Company's total projected employee pensions and benefits**
8 **expenses for the projected test year?**

9 A52. The total projected employee pensions and benefits expenses of \$103.590 million
10 is reflected on Exhibit A-13, Schedule C5.11, line 27. After adjustments for the
11 impact of the portion of these costs to be capitalized and transferred, as well as the
12 elimination of costs allocated to the Company's separate surcharge programs, as
13 sponsored by Witness Uzenski, employee pensions and benefits expenses for the
14 projected test year are reduced to \$84.259 million, as reflected on Exhibit A-13,
15 Schedule C5.11, line 31.

16

17 **Q53. Does this complete your direct testimony?**

18 A53. Yes, it does.

Michigan Public Service Commission
DTE Electric Company
Projected Operation and Maintenance Expenses
Employee Pensions and Benefits
Projected 12 Month Period Ending December 31, 2025
(\$000)

Case No.: U-21534
Exhibit: A-13
Schedule: C5.11
Witness: J. K. Hooper
Page: 1 of 2

Line No.	(a) Description	(b) Employee Pensions and Benefits Expense		
		(c) Historical Period Ending 12/31/22	(d) Adjustments	(e) Projected Period Ending 12/31/25
1	Post-Employment Benefits			
2	Pension	12,247	(12,247)	-
3	Post Empl Health Care (OPEB)	-	(18,300)	(18,300)
4	New Hire VEBA	6,680	3,167	9,847
5	Employee Savings Plan	29,699	7,706	37,406
6	Subtotal Post-Employment Benefits	48,627	(19,674)	28,953
7	Active Healthcare			
8	Medical Expenses	46,676	5,548	52,224
9	Dental Expenses	3,193	379	3,572
10	Vision Expenses	256	30	286
11	Subtotal Active Healthcare	50,126	5,957	56,083
12	Other			
13	Accrued Vacation Expense	(5,439)	4,896	(543)
14	Supplemental Severance Plan Expense	734	(624)	110
15	Supplemental Savings Plan	(3,599)	6,806	3,207
16	Deferred Compensation Plan	(85)	180	95
17	Wellness Plan Expenses	4,995	565	5,560
18	Life Insurance	252	23	276
19	Long-Term Disability Expenses	1,354	126	1,480
20	Affordable Care Act	19	3	22
21	General Benefit Expenses	2,198	197	2,395
22	Benefit Plan Admin Fees	6,697	599	7,296
23	Retirement Administration Fees	325	29	354
24	Medical Refund Amortization	(578)	578	-
25	O&M Project Reimbursements	(1,558)	(139)	(1,698)
26	Subtotal Other	5,318	13,237	18,554
27	Total before Other Allocations	104,071	(481)	103,590
28	A&G Capitalization	(13,204)	(1,181)	(14,384)
29	Other Transfers & Allocations	(928)	(83)	(1,011)
30	Eliminate Surcharge Programs	-	(3,936)	(3,936)
31	Total Benefit Expense (Account 926)	89,939	(5,680)	84,259

Michigan Public Service Commission
DTE Electric Company
Projected Operation and Maintenance Expenses
Employee Pension and Benefits (\$000)
Projected 12 Month Period Ending December 31, 2025
(\$000)

Case No.: U-21534
Exhibit: A-13
Schedule: C5.11
Witness: J. K. Hooper
Page: 2 of 2

Line No.	(a) Description	(b) Historical Period Ending 12/31/22	(c) Normalization Adjustments	(d) Adjusted Historical Test Period Col (b) + Col (c)	(e) - (g) Projected Adjustments			(h) Other Adjustments	(i) Total Projected Adjustments Sum (e) thru (h)	(j) Projected Period Ending 12/31/25 Col (d) + Col (i)
					1/1/23 - 12/31/23 Inflation 1/	1/1/24 - 12/31/24 Inflation 1/	1/1/25 - 12/31/25 Inflation 1/			
1	Post-Employment Benefits									
2	Pension 12/	12,247	(12,247) 2/	-	-	-	-	-	-	-
3	Post Empl Health Care (OPEB)	-	-	-	-	-	(18,300)	(18,300)	(18,300) 3/	
4	New Hire VEBA	6,680	1,027 4/	7,707	-	-	2,140	2,140	9,847	
5	Employee Savings Plan 12/	29,699	378 5/	30,077	-	-	7,328	7,328	37,406	
6	Subtotal Post-Employment Benefits	48,627	(10,843)	37,784	-	-	(8,832)	(8,832)	28,953	
7	Active Healthcare									
8	Medical Expenses	46,676	(1,173) 6/	45,504	2,321	2,391	2,009	-	6,721	52,224
9	Dental Expenses	3,193	(81) 6/	3,113	159	164	137	-	460	3,572
10	Vision Expenses	256	(7) 6/	249	13	13	11	-	37	286
11	Subtotal Active Healthcare	50,126	(1,260)	48,866	2,492	2,568	2,157	-	7,217	56,083
12	Other									
13	Accrued Vacation Expense	(5,439)	4,942 7/	(497)	(15)	(15)	(16)	-	(46)	(543)
14	Supplemental Severance Plan Expense 12/	734	-	734	-	-	-	(624)	(624)	110
15	Supplemental Savings Plan 12/	(3,599)	6,055 8/	2,456	-	-	-	751	751	3,207
16	Deferred Compensation Plan 12/	(85)	173 8/	88	-	-	-	7	7	95
17	Wellness Plan Expenses	4,995	-	4,995	255	263	221	(173)	565	5,560
18	Life Insurance	252	-	252	8	8	8	-	23	276
19	Long-Term Disability Expenses	1,354	-	1,354	41	42	43	-	126	1,480
20	Affordable Care Act	19	-	19	1	1	1	-	3	22
21	General Benefit Expenses	2,198	-	2,198	90	55	52	-	197	2,395
22	Benefit Plan Admin Fees	6,697	-	6,697	275	167	157	-	599	7,296
23	Retirement Administration Fees 12/	325	-	325	13	8	8	-	29	354
24	Medical Refund Amortization	(578)	-	(578)	-	-	-	578	578	- 9/
25	O&M Project Reimbursements	(1,558)	-	(1,558)	(64)	(39)	(37)	-	(139)	(1,698) 10/
26	Subtotal Other	5,318	11,170	16,487	603	489	436	538	2,067	18,554
27	Total before Other Allocations	104,071	(933)	103,137	3,095	3,057	2,593	(8,293)	453	103,590
28	A&G Capitalization	(13,204)	-	(13,204)	(541)	(330)	(310)	-	(1,181)	(14,384)
29	Other Transfers & Allocations	(928)	-	(928)	(38)	(23)	(22)	-	(83)	(1,011)
30	Eliminate Surcharge Programs	-	(3,936) 11/	(3,936)	-	-	-	-	-	(3,936)
31	Total Benefit Expense (Account 926)	89,939	(4,869)	85,070	2,516	2,704	2,262	(8,293)	(811)	84,259

1/ Inflation Adjustment Factors: see table below
2/ Deferral of pension expense per Order in Case No.U- 21297
3/ Carried from Line 21 of Exhibit A-13, Schedule C5.12.2
4/ Adjust 2021 True-Up adjustment to five year average
5/ Adjust Forfeitures to five year average
6/ Constant Dollar Active Healthcare Adjustment (A-13, C5.11.3)
7/ Normalization adjustment to reflect five year average
8/ Normalize return on assets to 6.80%
9/ Medical Refund regulatory liability of \$5.2M amortized over 3 years May 1, 2019 - April 30, 2022 (sponsored by Witness Uzenski)
10/ Related to Belle River Power Plant chargeout agreement (sponsored by Witness Uzenski)
11/ Eliminate benefits expense included in separate surcharge mechanisms (sponsored by Witness Uzenski)
12/ Sponsored by Witness Fix

Annual Inflation Rates applied to benefits:	Annual 2023	Annual 2024	Annual 2025	Annual 2023	Annual 2024	Annual 2025
Medical Expenses	5.10%	5.00%	4.00%	Wellness Plan Expenses	5.10%	5.00%
Dental Expenses	5.10%	5.00%	4.00%	Disability Expenses	3.00%	3.00%
Vision Expenses	5.10%	5.00%	4.00%	General Benefit Expenses	4.10%	2.20%
Life Insurance	3.00%	3.00%	3.00%	Retirement Administration Fees	4.10%	2.20%
Benefit Plan Admin Fees	4.10%	2.40%	2.20%	O&M Project Reimbursements	4.10%	2.20%
Accrued Vacation Expense	3.00%	3.00%	3.00%	A&G Capitalization	4.10%	2.20%
				Other Transfers & Allocations	4.10%	2.20%

Trend Considerations for 2024 Plan Year

(Active/Pre-Medicare Self-Funded Plans)

DTE Energy

November 2023

Disclaimer and Limitations on Use

Case No.: U-21534
Exhibit No.: A-13
Schedule No.: C5.11.1
Witness: J.K. Hooper
Page: 2 of 8

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Executive Summary

- WTW recommends a composite 2023 to 2024 trend assumption of **7.1%** for medical and prescription drug claim costs
 - Trend recommendation is given for plan trend, which includes allowed trend plus trend leveraging on fixed-level cost sharing provisions
 - Plan trend is appropriate for underwriting, cost forecasting and reserve development
 - This recommendation applies to active and pre-65 medical and pharmacy self-funded claims
 - The current trend recommendation is 0.6% higher than last year's trend recommendation
 - Increase in trend assumption is driven primarily by external economic factors (general inflation)

Component	2022 Plan Trend	2023 Plan Trend	% of Claim Cost ¹
Medical	5.5%	6.5%	75%
Prescription Drugs	9.5%	9.0%	25%
Composite	6.5%	7.1%	100%

1. Average claim distribution for DTE Energy based on DTE's experience for calendar year 2022.

Methodology for Trend Assumption Development

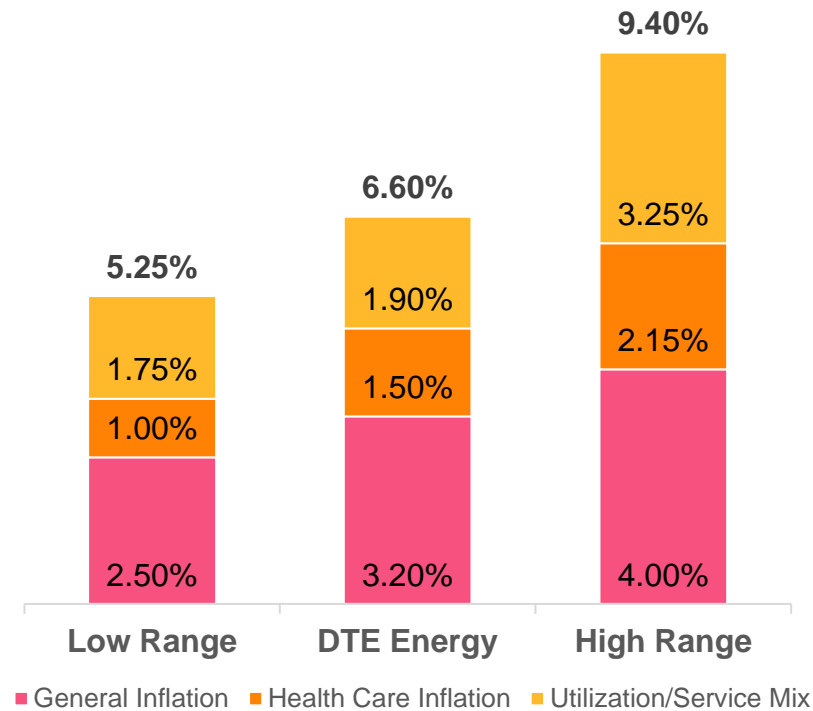
Historical trends are not the best predictor of future trends and are not appropriate without an analysis of the drivers of past trends and a consideration of potential future changes that may affect both the unit cost and utilization components in trend

	Allowed Trend	Plan Design Trend
Definition	Measures changes in unit cost, utilization and service mix	Measures allowed trend, plus the impact of trend leveraging against fixed cost sharing designs (i.e., deductibles, copays, and out-of-pocket maximums)
	<ul style="list-style-type: none"> General inflation July 2022 – July 2023 	
	<ul style="list-style-type: none"> Medical inflation above general inflation: typically 1% to 2.15% 	
	DTE data <ul style="list-style-type: none"> Increase assumed from utilization and service mix Increase from breakthrough GLP-1 and oncology DTE Energy has a large prevalence of oncology 	
	<ul style="list-style-type: none"> Total 	
Sources	<ul style="list-style-type: none"> WTW’s book of business and national surveys (Financial Benchmarks Survey) United States government offices and agencies (CMS, CBO, BLS) Third-party data sources (Merative MarketScan, Health Care Cost Institute, Kaiser Family Foundation) DTE Energy data from Merative Advantage Suite database 	WTW’s recommended plan trends consider national allowed trends and DTE Energy-specific plan design leveraging, rather than historical DTE Energy trend experience

1. Plan Trend is used for DTE Energy’s forecasting

Allowed Trend - Building Block Approach

Medical and Prescription Drugs (2022 to 2024)



General Inflation

- 2.5% is the lower bound of the Fed's December 2022 forecast
- 4.0% is slightly above the upper bound of the Fed's December 2022 forecast
- General inflation June 2022 through July 2023 is 3.2% per BLS
- Major externalities outside of the Fed's influence include the war in Ukraine and COVID-19

Incremental Health Care Inflation

- Health care inflation is likely to revert to the historical pattern of exceeding general inflation
- Labor shortages are becoming more acute
- Expectations of future inflation written into recent three- to five-year contracts between carriers and health care providers likely to mitigate the rate of decrease once inflation begins to abate

Utilization/Service Mix

- Historically, US utilization has been about 1.75% of trend
- Recent disruptions to access to care may result in additional future utilization.
- Merative risk analysis shows anticipated medical cost of DTE Energy increasing 5.3% (assume about 1.7% per year for 3 years)
- Based on DTE data, impact from specialty Rx expected to be 0.5% to 1.0% per year

Source: <https://www.bls.gov/news.release/cpi.nr0.htm>.

Merative Background

Merative is a data warehouse that combines trusted technology and real world expertise to help leading organizations improve their decision making and performance. They work with more than 4500 clients across the health ecosystem including:

- 4,000+ providers including 9 of top 10 US hospitals
- 40% of Fortune 100 employers and 7 of the top 9 US health plans
- 35+ state, local and federal government agencies
- All top 20 pharma

Medical risk score represents a measure of expected medical cost relative to an average person based on age, gender and all diagnoses during the time period. A medical risk score of greater than one means costs are predicted to be higher compared to the average person.

- **Concurrent Relative Risk Score:** An indicator of the expected relative cost risk of a patient compared to the average, based on claims experience between 6/1/2022 and 5/31/2023
- **Prospective Relative Risk Score:** An indicator of the expected relative cost risk of a patient compared to the average, in the year subsequent to the experience period

DTE Energy Concurrent Relative Risk Score	DTE Energy Prospective Relative Risk Score	% Change
.563	.593	5.3%

1. Risk scores are proprietary and developed by Merative

Plan Trend

Medical and Prescription Drugs (2022 to 2024)

Plan cost trends for 2023 are expected to be **6.5% for medical** and **9.0% for prescription drugs for composite trend of 7.1%**.

- Fixed-level provisions (i.e., deductibles, copays, and out-of-pocket maximums) cause member cost sharing to increase at a lower rate than allowed costs
 - Trend leveraging was estimated based on DTE Energy’s actual claims experience for self-funded plans in 2020, 2021 and 2022
 - WTW estimates the impact of trend leveraging against fixed-level cost sharing provisions to be approximately 0.5% for medical and prescription drugs across all plans

Component	Allowed Trend	Estimated Effect of Leveraging	Plan Trend	% of Claim Cost ¹
Medical	6.0%	+0.5%	6.5%	75%
Prescription Drugs	8.5%	+0.5%	9.0%	25%
Composite	6.6%	+0.5%	7.1%	100%

1. Average claim distribution for DTE Energy based on DTE’s experience for calendar year 2022.

Future Plan Trend Expectation

Medical and Prescription Drugs

- Medical and prescription drug cost trends are expected to remain relatively stable in the short term, barring any significant industry or regulatory changes
- Elevated inflation poses a significant risk to short-term claim trends. Trend expectations for 2023 and 2024 have increased to account for this risk
- Medical and prescription drug plan trends will be used by WTW to project historical experience to the projection period for rate setting, before plan design and other program changes are considered
- WTW will review and update prospective trend assumptions annually

Plan Years	Trend Rate
2023	7.10%
2024	7.50%
2025	7.00%
2026	6.50%
2027	6.50%

Medical cost trend: Behind the numbers 2024

Increased pressure in healthcare





Heart of the matter: The cost of treating patients is on the rise

In 2022, inflation in the United States reached rates not seen since the 1980s.¹ With rising wages and expenses compounded by clinical workforce shortages, providers across the nation are fighting against declining profit margins. In turn, health plans are pressured to raise reimbursement levels in price negotiations with providers.

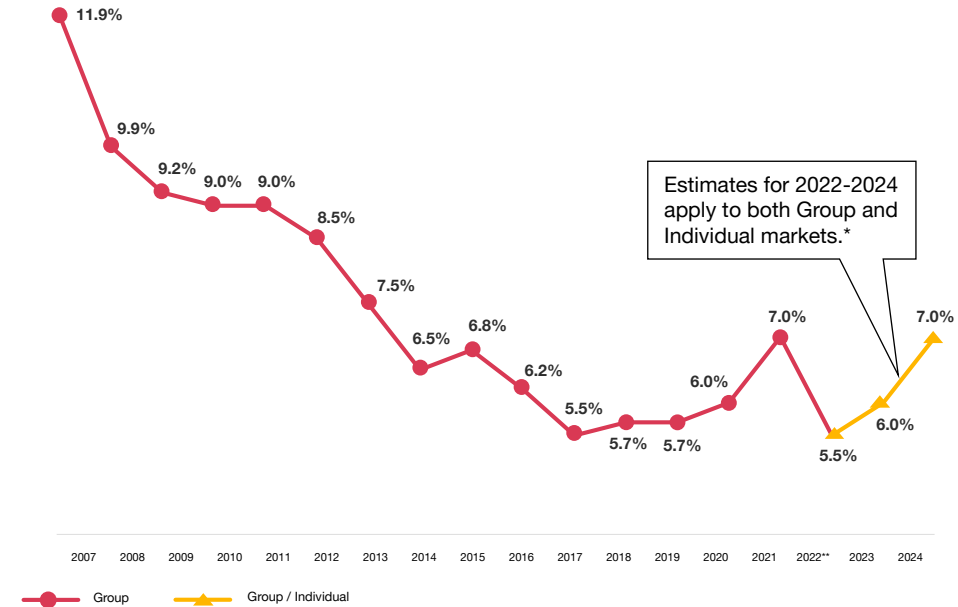
On May 11, 2023, the Public Health Emergency (PHE) officially ended, symbolizing a new stage in the pandemic. The past three years have seen not only a concerted effort to make available safe and effective COVID-19 diagnostics, therapies, and vaccines, but also shifts in how and where Americans gain access to care with an acceleration in technology and alternative sites of care. While some of these changes are temporary, others will likely persist into the post-pandemic world and become a different future.

PwC's Health Research Institute (HRI) surveyed and spoke with actuaries working at US health plans to generate an estimate of medical cost trend for the coming year. After considering various inflators and deflators of cost, HRI is projecting a 7.0% year-on-year medical cost trend in 2024 for both Individual and Group markets. This trend is higher than the projected medical cost trends in 2022 and 2023, which were 5.5% and 6.0%, respectively (see Figure 1). The higher medical cost trend in 2024 reflects health plans' modeling for inflationary unit cost impacts from their contracted healthcare providers, as well as persistent double-digit pharmacy trends driven by specialty drugs and the increasing use of the GLP-1 agonists for Type 2 Diabetes or weight loss. PwC updated its 2022 medical cost projection for the Group market to 5.5%, 1.0% down from the initial projection in 2022, primarily driven by a shift in sites of care from inpatient hospital settings to less costly alternatives such as outpatient and ambulatory surgical centers.

The inflationary impact is further exacerbated by continued clinical workforce shortages in 2023-24, prompting hospitals to increase salaries and consequently seek higher reimbursement from payers. On the pharmacy side, the introduction of new [cell and gene therapies](#) (11 approved in the past three years) is a key inflator expected to increase the median price of treatment going into 2024.

Although health plans reported some deflationary relief through shifts in site of care and the introduction of biosimilars, the overall impact is muted by the various inflators.

Figure 1: PwC Health Research Institute medical cost trends, 2009-2024
 HRI projects medical cost trend to be 7.0% in 2024, up from 6.0% in 2023



Source: PwC Health Research Institute medical cost trends, 2009-2024

*For 2022-2024, medical cost trend was estimated separately for Group and Individual market based on the surveys and interviews conducted April-May 2023. HRI found no significant difference in the estimates for the two markets.

**The 5.5% medical cost trend for 2022 was revised from 6.5% originally projected in PwC Health Research Institute's "Medical Cost Trend: Behind the Numbers 2022" report, released in 2021. This revision reflects the average medical cost trend that was used for 2022 premium rate setting in 2021, shared with HRI during surveys and interviews.

See "About this research" for more details.

Inflators

Inflation and its ramifications across the healthcare landscape are the main factors driving spending in 2024.

- **Inflationary impacts on healthcare providers.** Hospitals and physicians are expected to seek higher rate increases (potentially also at a higher frequency) in contract negotiations. Workforce shortages and physician consolidation can further amplify the effect. Further, provider “burnout” and increased patient demand are expected to keep the pressure up on clinical workforces across the industry.
- **Increasing cost of pharmaceuticals.** Plans are experiencing inflationary pressure from the rising median price of new drugs, as well as the increasing price of existing drugs. Combined with the accelerated approvals of new cell and gene therapies, pharmacy trends are not expected to slow down in 2024.

Deflators

Some positive changes in the pharmaceutical market and care setting are expected to help counteract inflationary pressure, but their effect will be overshadowed by the inflators.

- **Biosimilars coming to market.** The prices of biosimilars are, on average, more than 50% lower than the reference products at the time of biosimilar launch. The launch of adalimumab biosimilars to Humira in 2023 is a new milestone in the market that is already driving significant savings.
- **Shift in site of care.** Plans reported a decrease in inpatient utilization as well as a shift towards outpatient care, allowing a two-pronged benefit to contain costs.

Recent reports of increases in outpatient utilization among Medicare plans was not commented on during the research period for this report.

Trends to watch

In addition to the inflators and deflators summarized in this report, there were several other factors reported by health plans as being impactful for trend development, but were not considered a significant trend bender as an inflator or deflator.

- **Total cost of care management.** Many health plans continued to invest in total cost of care management initiatives such as value-based care that helped maintain year over year trend. National health plans generally demonstrated better cost management and subsequently achieved lower cost trends. As these national plans continue to grow, they will have a deflator effect overall on medical cost trends.
- **COVID-19.** Impacts of changes in federal and state policies and the need for vaccines, testing and treatment vary, with the net effect likely being neutral. Health plans did not report a causal relationship between pent-up demand for care during the pandemic and utilization of care. The consensus among health plans is that inflationary pressures continuing in 2023 and going into 2024 will be driven by provider unit cost increases and pharmacy trends rather than a recovery in surgery utilization post-pandemic.
- **Health equity.** Health equity is a focus of every health plan. The impact of related efforts to improve population health in the long term has not yet factored into plans’ cost of care models. Further, all plans are still working through CMS guidance on health equity.
- **Behavioral health.** While utilization of behavioral health grew during the pandemic and continues to grow, its cost remains relatively lower than other medical costs. Health plans did not account for behavioral health in their pricing and forecasting.

- **Centers for Medicare and Medicaid Services (CMS) Price Transparency Rule.** Health plans expect the impact of this rule on the 2024 trend will be neutral, given the immaturity of the data. In the long run, plans could see both upward and downward pressures.
- **Medicaid redetermination.** The impact is likely to be felt in the Individual market only, with magnitude and direction depending on the number of disenrollees who eventually purchase Individual plans and their risk profile.



This year, the scope of this report was broadened to include both small and large group ("Group")² and ACA marketplace ("Individual) plans.

The Individual market has seen significant growth from 12 million in enrollment in 2021 to 16.4 million in 2023. In addition to Individual market-focused plans, all major health plans in the group market also offer plans in the Individual marketplace, where competition has intensified in recent years. The impact of major factors driving medical cost is mostly felt in a similar way across the two markets. Meanwhile, there are distinct considerations that apply to one of the markets, most prominently Medicaid redetermination and network adequacy for the Individual market.

This report does not focus on trends in Medicare and Medicaid.

What is medical cost trend?

Medical cost trend is defined as the projected percentage increase in the cost to treat patients from one year to the next, assuming benefits remain the same. While medical cost trends can be defined in several ways, this report estimates the projected increase in per capita costs of medical services and prescription medications that affect insurers' Group and Individual plans. Insurance companies use the projection to calculate health plan premiums for the coming year. For example, a 5.0% trend means that a plan that costs \$10,000 per member this year would cost \$10,500 next year. The medical cost trend, or growth rate, is influenced primarily by:

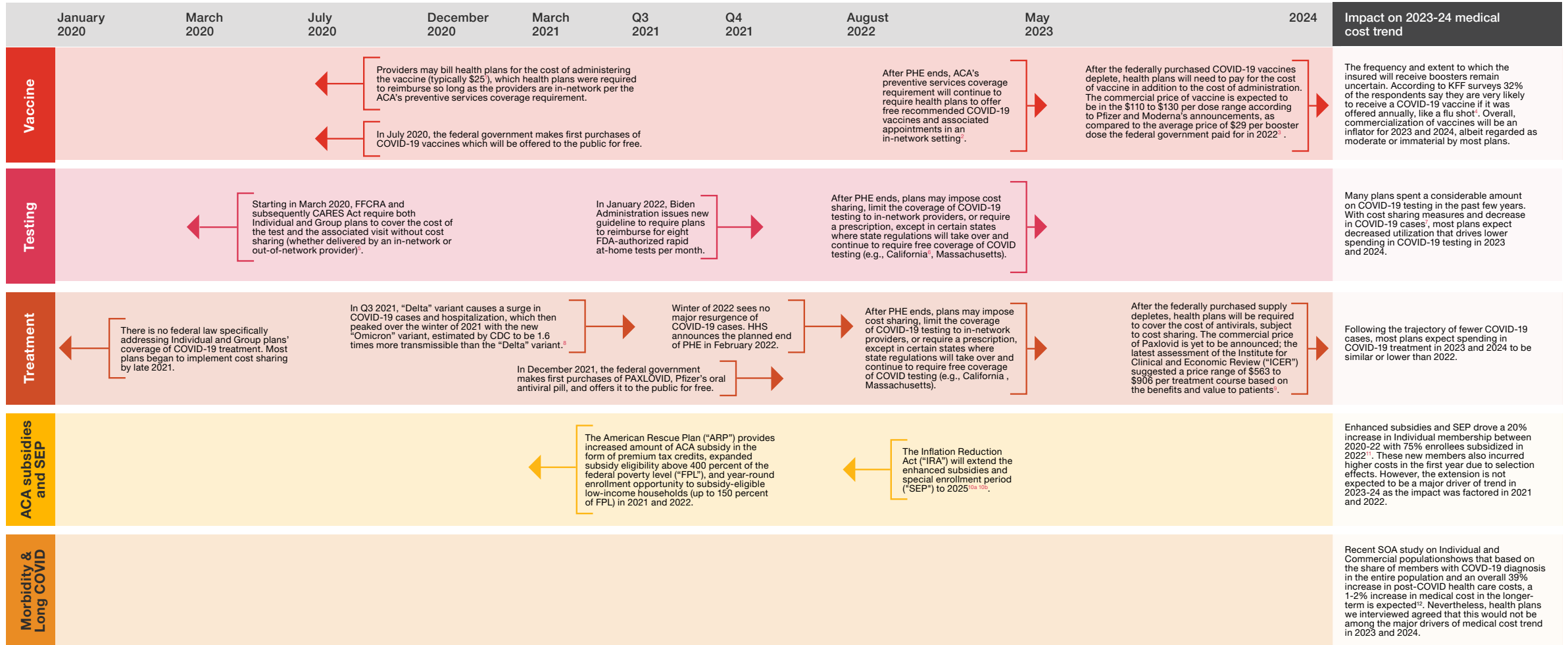
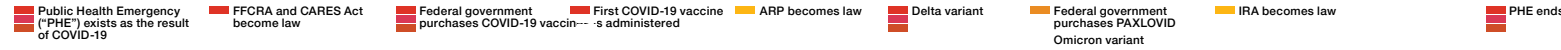
- Changes in the price of medical products and services and prescription medications, known as unit cost inflation.
- Changes in the number or intensity of services used or changes in per capita utilization.



COVID-19 timeline: From pandemic to present

On May 11, 2023, Public Health Emergency (“PHE”) officially ended, symbolizing a new stage in our co-existence with the COVID-19 pandemic. The past three years have seen not only a concerted efforts to make available safe and effective COVID-19 diagnostics, therapies, and vaccines, but also shifts in how and where Americans gain access to care. While some of these changes are temporary, others will persist

into the post-pandemic world and become the new-normal. The timeline below looks both past and ahead at the key events that impacted and will impact health plans’ spending. Overall, our survey and interview indicated a consistent view among health plans that different factors as laid out below tend to cancel out and the net impact is expected to be neutral or immaterial as compared to other major inflators / deflators.



1. <https://www.healthsystemtracker.org/chart-collection/where-do-americans-get-vaccines-and-how-much-does-it-cost-to-administer-them/>
 2. <https://www.kff.org/womens-health-policy/fact-sheet/preventive-services-covered-by-private-health-plans/>
 3. <https://www.kff.org/coronavirus-covid-19/issue-brief/how-much-would-covid-19-vaccines-cost-the-u-s-after-commercialization/>
 4. <https://www.kff.org/coronavirus-covid-19/poll-finding/kff-covid-19-vaccine-monitor-march-2023/>
 5. <https://www.doi.gov/sites/doi.gov/files/EBSA/about-ebbsa/our-activities/resources-center/faqs/aca-part-51.pdf>
 6. <https://www.dhmc.ca.gov/Portals/0/Docs/DO/COVID-FactSheet2022.pdf>

7. <https://www.hhs.gov/about/news/2023/02/09/letter-us-governors-hhs-secretary-xavier-becerra-renewing-covid-19-public-health-emergency.html>
 8a. <https://coronavirus.jhu.edu/region/united-states-8b>, <https://www.cdc.gov/museum/timeline/covid19.html>
 9. <https://icar.org/news-insights/press-releases/icar-provides-update-on-value-based-pricing-of-paxlovid-as-an-outpatient-treatment-for-covid-19/>
 10a. <https://www.healthinsurancetopics.org/glossary/inflation-reduction-act/>
 10b. <https://www.kff.org/policy-watch/5-things-to-know-about-renewal-of-extra-affordable-care-act-subsidies-in-inflation-reduction-act/>
 11. <https://www.kff.org/policy-watch/as-aca-marketplace-enrollment-reaches-record-high-fewer-are-buying-individual-market-coverage-elsewhere/>

12. <https://www.soa.org/resources/research-reports/2023/hcc-covid-effects-longterm/> The study does not publish the total cost of members with versus without COVID-19 diagnosis. Based solely on member count of 626,142 with COVID-19 diagnosis and total membership of 33.0 million over the three-year period, the impact on overall medical cost trend will be approximately 0.7%. However, the members with COVID-19 diagnosis includes high-risk groups and are likely to have higher overall cost than the rest of the population, thus the impact on overall medical cost trend shall be higher than 0.7%.

Inflator:

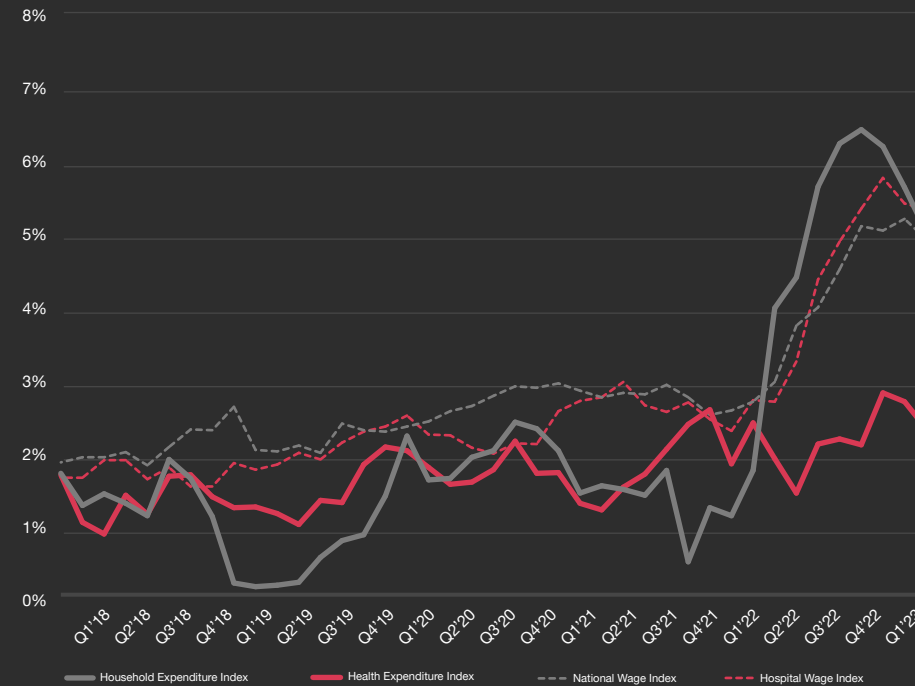
Inflationary impacts on healthcare providers

Inflation in the United States has reached rates not seen in decades. All health plans ranked inflationary impacts on providers among the top three inflators for 2024.

In 2022, while inflation was felt across the US economy, its impact on healthcare spending was dampened by existing annual or multiyear provider contracts. Figure 2 illustrates the lag between the household expenditure index, with a rise starting in the second quarter of 2021 and persisting at a high rate of 6.0% or more throughout 2022, and the health expenditure index, with a modest 2% to 3% increase. Generally, health expenditure inflation lags behind hospital wage inflation.

In a persisting high inflationary environment, hospitals and providers will ultimately be pushed to seek significant rate increases from payers. Many health plan actuaries said they are facing increasing inflationary pressure on unit cost in 2023 and 2024. Their ability to manage price increases during contract renewals will be a key factor in determining how the impact of inflation will materialize in the coming years.

Figure 2: Expenditure and Wage Indices year-over-year growth 2017-2022



Source: Bureau of Labor Statistics Consumer Price Index, PwC analysis

Clinical workforce shortages add to the contractual pressure from providers

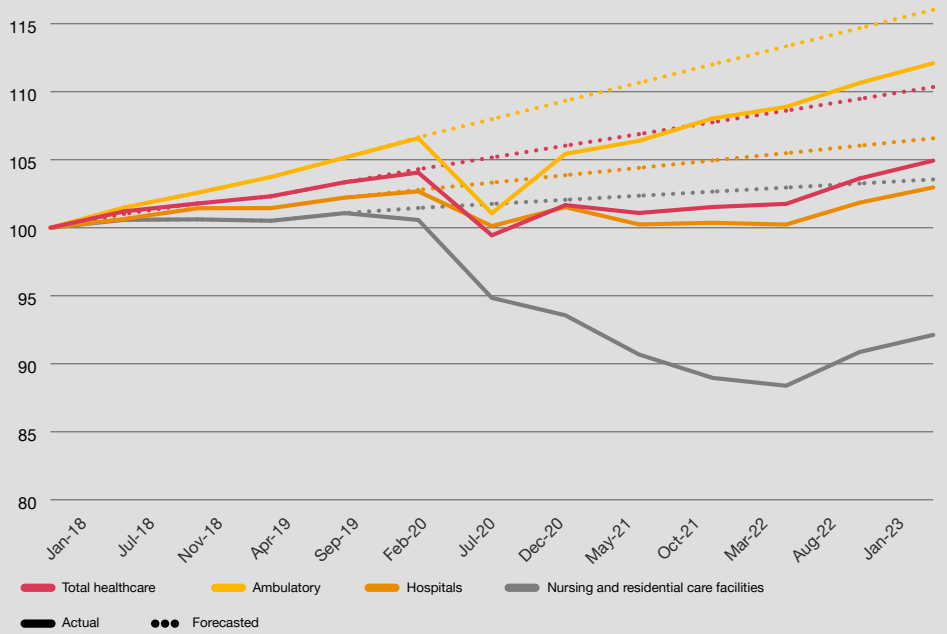
Healthcare employment plummeted during the pandemic, leading hospitals to incur much higher labor costs. During the peak of the pandemic in 2021, hospitals experienced an estimated 16% increase in labor expenses per adjusted discharge compared to September 2019³, not only due to paying higher wages but also from using temporary clinical staff through “traveler agencies” that can often charge high prices.

Though healthcare employment started to steadily recover in 2022, total employment still has not returned to pre-COVID levels, and a noticeable gap persists for the nursing/residential care facilities segment.

Several health plans expect no short-term resolution of the clinical staff shortage. Assuming the persistence of such shortages in 2024, hospitals will continue to be financially challenged and forced to seek higher reimbursement from payers. On the other hand, if healthcare employment levels return to a stable level in 2024, pent-up demand for care is likely to drive utilization up. In both cases, health plans can expect to face inflationary pressure in 2024.



Figure 3: Healthcare employment - actuals vs. pre-COVID forecast index 2017-2022*



Source: Bureau of Labor Statistics Employment Cost Index, PwC analysis
 *Forecasted employment (dotted lines) is estimated by applying pre-COVID employment growth rates.

Hospital, private equity and other physician consolidation amplifies the inflationary pressure

Recent physician practice acquisition activities, including actions by hospitals, private equity firms and insurers amplify the inflationary pressure during contract renewals. Studies find that such acquisitions accelerated during the COVID-19 pandemic, and over the three-year period starting from 2019, the percentage of physicians employed by hospitals or corporate entities increased by 62% to 74% (Figure 4).⁴ Specifically, private equity activities in the healthcare services sector set record highs in 2020-2022.⁵ The ongoing consolidation of physician groups is expected to compound the inflationary pressure on medical cost in the near term.⁶ In the long term, many consolidated physician groups aim to enter value-based care and thus lower total cost of care.

Individual market can be most impacted

We note potentially a higher impact of inflation on the Individual market due to network configuration. Compared to the Group market, more Individual plans utilize a narrow network to lower consumer premiums. Plans typically negotiate more favorable rates with select providers through membership steerage. These lower rates are expected to command a higher increase on a percentage basis to compensate for inflation, compared to the higher rates in the wide network plans that dominate the Group market, as illustrated in Figure 5.



Implications

Health plans and payviders: Confront affordability and disrupt costs. Health plans will encounter greater unit cost increase pressure from providers, which can play out for several years to come. Health plans should rethink their strategies as affordability is key to winning in the Individual and Group market. Value-based care, targeted care management, versatile in-house data analytics and harnessing the power of AI technology can help plans aggressively counteract the forces of inflation.

Providers: Solve systemic clinical workforce shortages, which have led to significant margin losses and, in some cases, even hospital closures. Providers should be proactive in attracting healthcare talent and doing more with less while also moving quickly to leverage technology such as AI to ease the workforce strain.

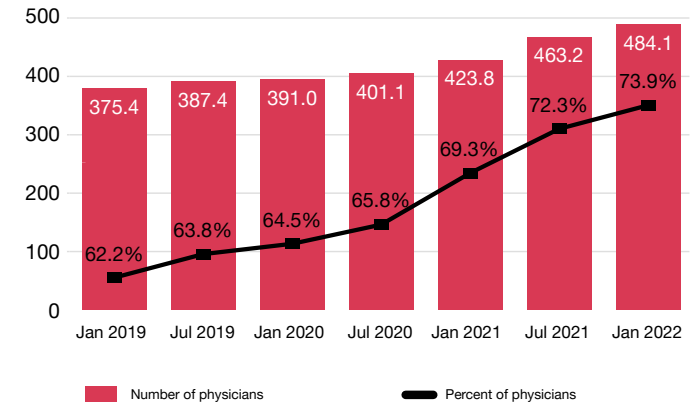
Employers: Because of continued talent concerns, employers are generally not expected to increase employee cost sharing. Instead, there will be an increased emphasis on network strategies, including the use of narrow/high-performing networks, centers of excellence to target high-cost claims (particularly cancer and orthopedic cases), plan designs that steer patients to lower-cost providers, and a renewed attempt at finding effective navigation tools.



Inflation and clinical workforce shortages will continue to exert pressure on healthcare.

Source: PwC Medical cost trend: Behind the Numbers 2024

Figure 4: Number and percentage of U.S physicians employed by hospitals or corporate entities 2019-21



Source: Physician Advocacy Institute report on COVID-19's impact on acquisitions of physician practices and physician employment 2019-2021



Inflator:

Increasing cost of pharmaceuticals

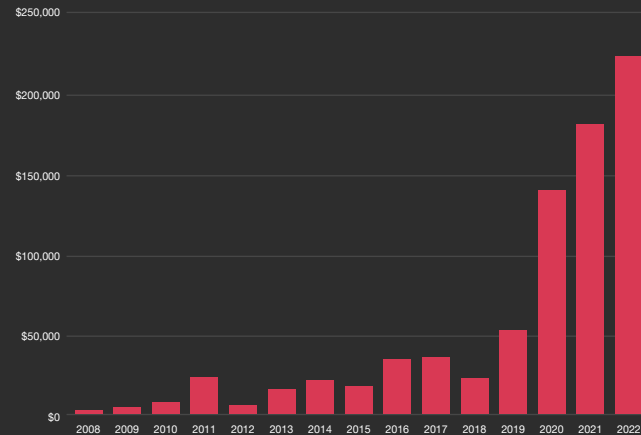
The new pharmaceutical pipeline is anticipated to be a strong headwind to any medical cost trend improvement. The median annual price for new drugs being approved by the U.S. Food and Drug Administration’s (FDA) Center for Drug Evaluation and Research (CDER) increased from \$180,000 in 2021 to \$222,000 in 2022, implying double-digit annual growth in price.⁷ This underlines a historical trend that led to median launch prices increasing from ~\$2,000 per year in 2008 (37% annualized growth).⁸ This surge in price is driven by a concurrent increase in the approval of high-cost drugs. The proportion of approved drugs priced at \$150,000 per year or more was 9% in 2008-13 but increased to 47% in 2020-21.

Pharmaceutical manufacturer pricing is expected to be in the high single or double digits from 2023-2024. New drugs typically exist in the market for 15 years on average without competition from generic drugs, along with general increases in drug prices over time. Multiple insurers report that the trend used for pricing 2023 plans was lower than actual experience, driven by higher-than-expected pharmacy trends for both brand and specialty drugs. Plans also reported facing consistently increasing average wholesale price (AWP) over the last two years and do not anticipate this trend to flip.

This inflation is compounded by drug shortages and supply chain issues. In a report to Congress from the Office of the Assistant Secretary for Planning and Evaluation (ASPE), an analysis of the data showed a 16.6% increase in the price of drugs in shortage, driven mostly by an increase in the price of generics (14.6%).⁹

The largest increase in the number of drugs experiencing an increase in price was in 2021-22, and 2022 observed the largest historical increase in the average price (Figure 6).¹⁰

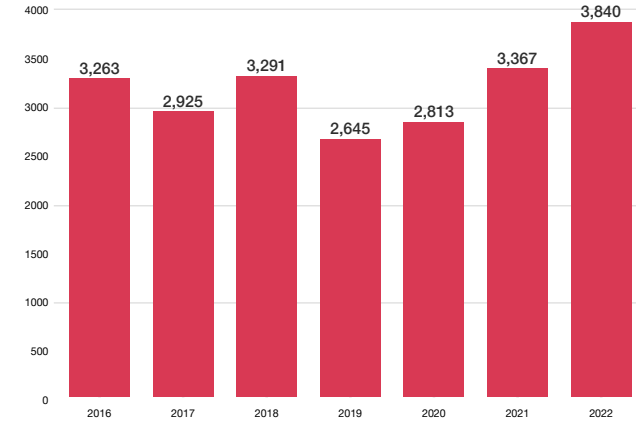
Figure 5: Median price of newly marketed drugs 2008-2022



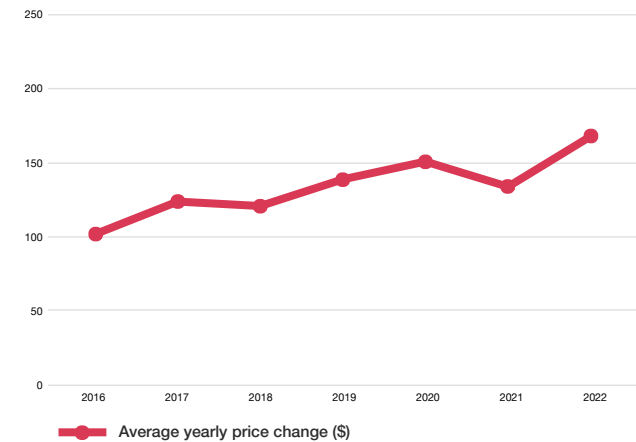
Source: Trends in Prescription Drug Launch Prices, 2008-2021; Reuters survey⁸

Figure 6: Number of drugs with price increases per year and average dollar price changes per year 2016-2022 (January and July only)

Number of drugs with price increase per year



Average dollar price change per year



Source: Price Increases for Prescription Drugs, 2016-2022¹⁰

*Based on January and July price increases only; the research finds that these months historically account for most of the increases that occur each year.

New cell and gene therapies

Inflationary impacts from new drugs go hand-in-hand with the introduction of new cell and gene therapies. Of the 29 gene therapies currently approved by the FDA, 11 have been approved since 2021. Another 30 are in late-stage development with the potential for future approval. However, the development of these therapies includes extensive costs that will be passed on to payers who are already navigating an uncertain post-pandemic utilization and cost dynamic.

Payers are responding by more thoroughly assessing the cost/benefit of therapies in their coverage decisions, contracting with manufacturers to tie reimbursement to [real-world evidence](#), exploring alternative financing arrangements (including stop-loss policies), and enacting prior authorization and other controls to manage drug utilization.

Some key gene therapies on payers' radars include Hemgenix, which was approved by the FDA in November 2022 as a one-time treatment for patients with Hemophilia B and cost \$3.5 million; and Roctavian for severe Hemophilia A, expected to be approved in 2023 following European approval in 2022. In the first half of this year, three additional gene therapies are expected to be approved, and they will likely be highly priced, putting increased pressure on the healthcare system.¹¹

GLP-1 (Glucagon-like Peptide-1) Agonist drugs in diabetes and obesity

In the US alone, about 130 million adults may become eligible for GLP-1 agonist medications because of their weight and other health conditions.¹² The prohibitive cost (upwards of \$10,000 a year), however, has kept utilization down. Ozempic, Novo's weekly GLP-1 shot for diabetes, went on sale in 2018, followed in 2021 by Wegovy, a higher dose of the same medication developed for obesity.

Eli Lilly's Mounjaro, approved for diabetes last year, has shown even more dramatic weight loss results through a large trial published last year and reinforced through another trial this year.¹³ Lilly is filing for approval to treat obesity. Wegovy, which has approval as an obesity treatment, costs more than \$17,000 a year — 40% more than Ozempic, which is the same drug in a smaller dose.¹⁴

At the moment, most health plans do not cover the use of GLP-1 agonists for nondiabetic treatment unless specifically approved as a prescription weight-loss drug, meaning a drug like Ozempic is not being covered for weight-loss use. However, the FDA has already set a precedent after approving Wegovy in 2021¹⁵ and perhaps Lilly's Mounjaro in the future. Should the FDA approve all of these drugs for weight-loss, utilization can be expected to increase substantially going forward.

Figure 7: List of gene therapies to watch

Gene Therapy	Estimated Cost
Abecma™	\$482,000 per suspension
Astiladrin*™	\$160,000 - \$260,000 per therapy
Breyanzi™	\$471,000 per suspension
Carvykti™	\$500,000 per suspension
Hemgenix™	\$3,500,000 per dose
Omisrige™	\$338,000
Rethymic™	\$2,700,000 per implant
Skysona™	\$3,000,000 per infusion (single use)
Vyjuvek™	\$25,000 per vial
Zynteglo™	\$2,800,000 per infusion (single use)

Source: PwC analysis
*Forthcoming in 2H 2023



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Implications

Health plans and payviders: Track new pipeline and related costs closely for accurate modeling

Payers are anticipating the new pharmaceutical pipeline will increasingly drive the medical cost trend. Plans have begun modeling double-digit pharmacy trends into their cost projection models to avoid underestimating overall cost trend heading into 2024 and beyond. The recent growth in the number of approved gene therapies is expected to drive cost to a historic high as consumers shift to alternative medicines. Adding to this, as the scope of physician prescriptions widens to allow GLP-1 agonist drugs to be prescribed for weight loss, plans will have a new challenge in 2024. Formulary management will be a key consideration for health plans.

Pharmaceutical manufacturers: Adjusting to regulations, removal of Medicaid rebate cap, and other impacts while navigating continued public pressures

Pharmaceutical manufacturers face pricing and Gross-to-Net impacts from regulatory changes, such as the Inflation Reduction Act (IRA) and the removal of the cap on Medicaid rebates based on average manufacturer price (AMP) in 2024. Pressure continues to be applied from potential federal and state government legislation, increased PBM/payer utilization management and competitive RFPs, patient copay and assistance program dynamics, and other key trends. Manufacturers will face continued challenges as they balance optimally enabling patients access to their therapies while continuing to invest in R&D and innovation.



Deflator:

Biosimilars coming to market

The FDA defines biosimilars as a biological product that is “highly similar” to and has “no clinically meaningful differences” from an existing FDA-approved reference product.¹⁶ The adoption of biosimilars to specialty drugs has substantial potential to manage rising drug costs.

Research finds that, on average, biosimilar sales prices are more than 50% lower than the reference product’s price was at the time of the biosimilar launch, and similarly, the sales price of brand biologics competing with biosimilars fell on average 25% since the biosimilar launch.¹⁷

This year, there is a new milestone in the biosimilar market — the arrival of the first biosimilar to a major specialty drug — adalimumab biosimilars to Humira™. In 2022, the revenue from this blockbuster drug totaled more than \$18 billion in the US.¹⁸ In January 2023, Amgen launched its adalimumab biosimilar, Amgevita™, and to date, the FDA has approved nine adalimumab biosimilars and most others are likely launching within a year following Amgevita™.¹⁹

As a reference point for the potential savings, Amgevita™ was launched with two price points, one 55% below Humira™’s list price and the other 5% below, the latter likely coming with larger rebates to the payers²⁰ and plan sponsors. Health plan actuaries also reported manufacturers offering larger rebates for their flagship drugs to retain market share.

Overall, the biosimilar market continues to accelerate. Figure 7 shows biosimilars to 15 reference biologics in the pipeline for 2023-25, as compared with only two approved by the FDA in 2020-22. Moreover, heightened regulatory interest and support have been reflected in a comprehensive plan for addressing high drug costs published by the US Department of Health and Human Services (HHS) earlier in 2021, which calls out “promote biosimilars and generics” in one of the three guiding principles.²¹

Many health plans are watching biosimilar trends and conducting assessments to understand their impact. For 2024, the savings from biosimilars are expected to have a relatively moderate impact on the overall medical cost trend (two health plans cited expected impacts close to -0.5%), given biologics with existing biosimilars make up a small portion of the overall medical cost. Nevertheless, 65% of health plans surveyed ranked biosimilars coming to market among their top three deflators, and many have hopes of more savings to come.



Implications

Health plans and payviders: Evaluate options to integrate biosimilars into pharmacy benefits

The idea that biosimilars offer lower-cost alternatives to biologics is simple, but the actual implementation can be complex. For health plans, the first step is likely to be working closely with pharmacy benefit managers to understand which biologic/biosimilar(s) is the most cost-efficient — sometimes staying with the existing biologics might be as cost-efficient as switching to biosimilars through competition-driven larger rebates. Next, health plans may explore alternative cost sharing design and utilization management tools, such as prior authorization that can be leveraged to incentivize members towards more cost-efficient options. An important consideration is the impact on member experience should the plans change existing benefit terms. Additionally, plans should consider potential increased utilization if the price of previously expensive drugs becomes more accessible. All the various factors need to be weighed and each health plan may make a different decision depending on its unique priority and membership characteristics.

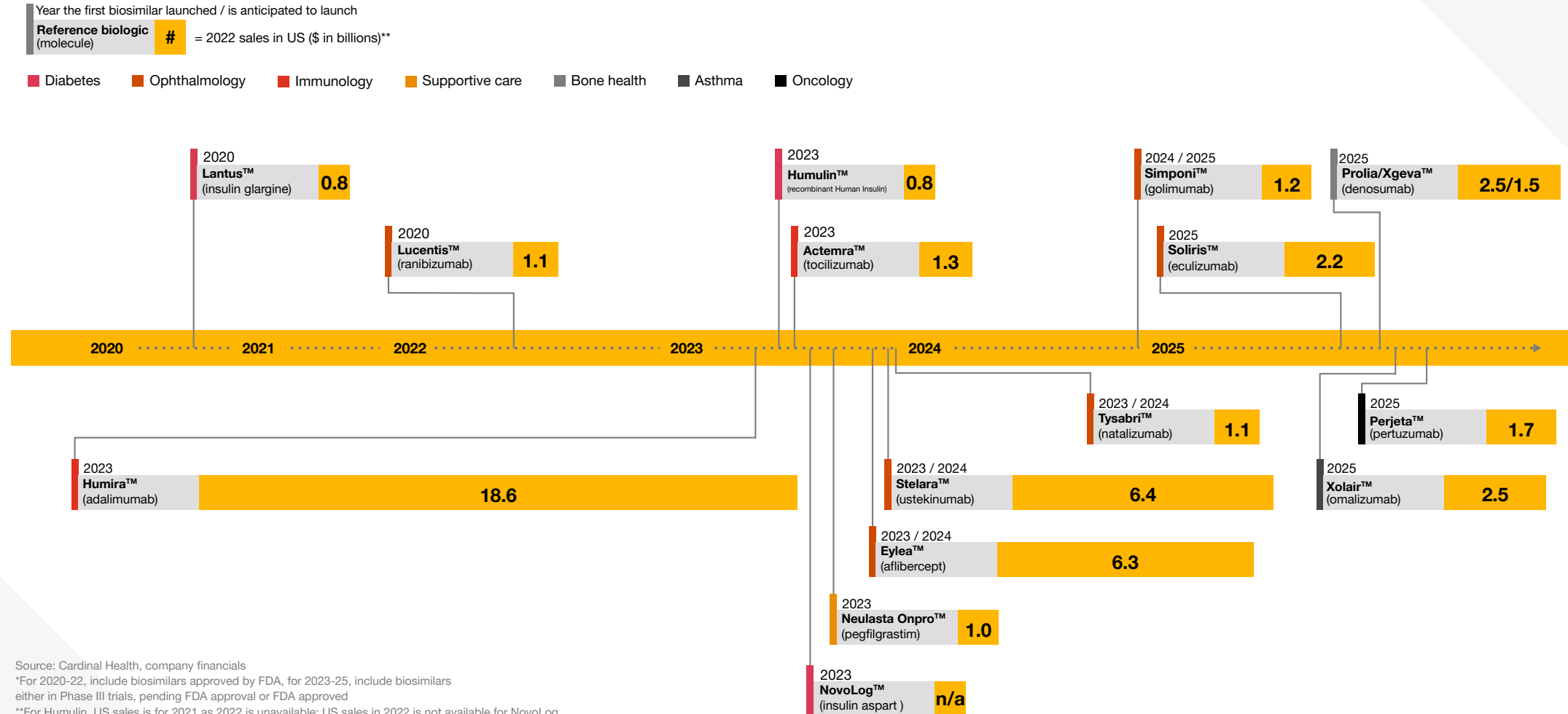
Pharmaceutical manufacturers

While biosimilars have grown and carved out a space on the medical benefit side, particularly within physician-administered drugs in oncology, biosimilar market maturity within the pharmacy benefits space is just beginning. The entry of Lantus biosimilars last year and Humira™ this year have provided the first and largest tests of biosimilar penetration on the pharmacy benefit, with growing tests throughout 2023 (January Amgevita™ launch, multiple launches in July). Despite the uncertainty, there are some early strategies and implications emerging. First, manufacturers have launched with both high and low wholesale acquisition cost versions to appeal to different market segments, a trend that shows no sign of stopping with the Coherus + Mark Cuban Cost Plus Drugs recent announcement. Second, biosimilar entry in some cases replaces the innovator on the formulary and in other cases is disadvantaged / excluded vs. the innovator. Every entry has come at the expense of the innovator’s Gross-to-Net. Payers/PBMs are leveraging biosimilar entry to lower the cost of these drugs, and at times the entire class/therapeutic area. The industry will keep watching for any future regulatory/legislative actions that impact the biosimilar market as many players appear to remain committed to near and long-term growth of the biosimilar market.

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Figure 8: Historical and anticipated future biosimilar launches 2020-25*



Deflator:

Shift in site of care

The pandemic revolutionized the dynamics of the US healthcare system by rapidly shifting the site of care from more expensive inpatient hospitals to less expensive outpatient. While this trend started before the pandemic with cataracts and cosmetic surgery in the 2000s, it accelerated toward the end of the pandemic when employment in ambulatory care settings recovered the fastest.

As a result, lower-cost freestanding and non-acute sites were able to absorb a large portion of the demand for these healthcare services that were previously only available through inpatient settings.

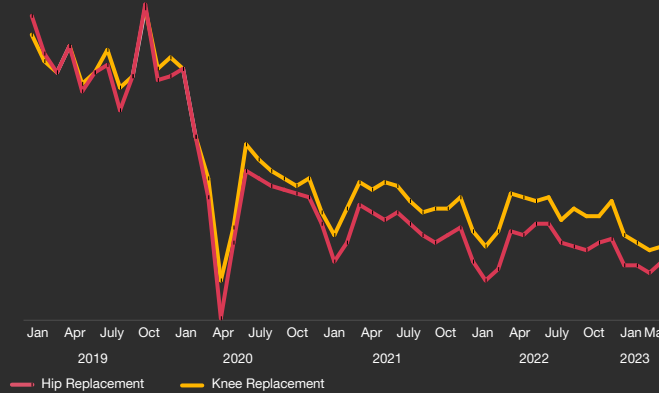
With the increased demand for outpatient surgeries, home-based services and virtual care, the healthcare delivery system has reached a new phase. Plans are factoring in higher utilization of less expensive in-person settings and virtual care going forward when pricing their 2023 plans and beyond.

Non-acute sites have lower costs for plans, which in turn is expected to decrease the share of revenue received by inpatient hospitals. With lower-cost in-person settings and virtual delivery setting the path going forward, the overall cost of care is expected to decline,²² helping plans offset the trend inflators.

Plans have noted a material difference in the 2022 and 2023 expected trends as compared to actual experience when factoring in the uptick in utilization in less expensive in-person settings.

Figure 9: Shift in primary hip / knee replacement to Outpatient

National Volume Changes - Inpatient



National Volume Changes - Outpatient



Source: Strata National Patient and Procedure Volume Tracker



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Health plans and payviders: Model trend impact from shifting site of care and associated reduction in costs

The pandemic decreased inpatient utilization over the last two years — which has helped control the cost of care while also shifting care towards outpatient, allowing plans to reap the benefits from both aspects.

As inpatient surgery trends continue to decline every year, health plans do not know yet how much lower they will go and what their models will look like. There is enough evidence to support a deflationary impact on trend until inpatient utilization in general and surgery utilization, in particular, recovers to pre-pandemic levels, if at all.

Providers: Incentivize shift of care to gain a share in profits

Providers also have an important role to play. They can work with plans to establish ownership models that share financial gains and incentivize physicians to accelerate the shift to outpatient care. This will help ease the pressure on inpatient settings whose capacity has been the slowest to recover across the country driven by an acute lack of skilled labor.

It's important to note, however, that not all care can be shifted to ambulatory service settings and may not be appropriate for frail patients, for instance, or those with complex comorbidities. There needs to be clear criteria for defining use cases and when patients can safely be shifted to less costly in-person settings.

Recent reports of increased outpatient utilization among Medicare plans was not commented on by health plans during the research period for this report.

Employers: Encourage telemedicine for primary care and behavioral health

Through plan design changes and adding new third-party telemedicine vendors, employers will likely continue to encourage the use of telemedicine. Virtual visits for behavioral health have exploded in recent years, allowing for increased flexibility in addressing the pressing need for mental health treatment, especially to address significantly increased anxiety and depression issues among adolescent patients. Virtual primary care visits are expected to increase in the coming years as well.

Trends to watch

Not all trends are new or clear inflators or deflators of the medical cost, but they are important influencers to watch. These are the areas that we will be following over the next year to track and forecast medical cost trend.

Continued efforts to manage total cost of care

To confront the ever-rising costs, health plans have continued to execute and innovate.

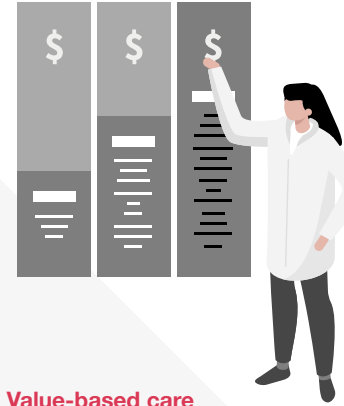
Value-based care, which better aligns incentives across payers and providers, has gained ground in recent years — analyses show that around 60% of health care payments in 2020 included some form of quality and value component, up from 38% in 2015.²³ For some plans, value-based care has proven to be a cost deflator. Meanwhile, long-standing efforts such as payment integrity and care management have continued to evolve with more sophisticated approaches and more advanced digital intelligence.

None of these cost strategies is new to the healthcare industry. National plans tend to lead in this sphere, given the high return on investment through scale. Meanwhile, more regional plans have been catching up — one plan actuary cited achieving a negative medical cost trend in 2022 by launching refocused cost of care programs. Any plan that has not made similar investments will likely need to do so soon to keep up with the market.

Overall, the largest players in the market reported a greater impact of cost of care initiatives on trend than smaller plans. Some regional players, however, reported large one-time deflators as they catch up in the implementation of these programs. As National plans acquire smaller regional plans, this category is expected to be a deflator for medical cost trend. In the meantime, for plans that are mature in managing total cost of care, the effects of such efforts have become part of the year-over-year baseline, not explicitly a deflator but helping to keep the trend at the same level.

The COVID hangover

Impacts of changes in federal and state policies and the need for vaccines, testing and treatment vary, with the net effect likely being neutral. Health plans did not report a causal relationship between pent-up demand for care during the pandemic and utilization of care. The consensus among health plans is that inflationary pressures continuing in 2023 and going into 2024 will be driven by provider unit cost increases and pharmacy trends rather than a recovery in surgery utilization post-pandemic.



Value-based care

Move along the pathway to value from fee-for-service to shared savings and capitation arrangements



Payment integrity

Intelligent and automated process both pre- and post-payment to reduce duplication, errors and fraud or abuse with minimal provider abrasion



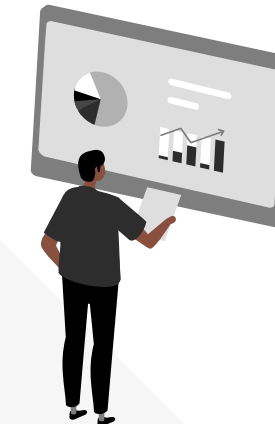
Utilization management

Fast but informed decisions that ensure appropriateness and drive overall value of care



Care management

Target at the right member at the right time, broaden sources of value from both medical cost and revenue sides



Advanced data analytics

Accessible to all functions, help identify new opportunities and support existing business cases



Preventive Care & Wellness Programs

Improve both member experience and health outcomes



Behavioral health

While utilization of behavioral health grew during the pandemic and continues to grow, its cost remains relatively lower than other medical costs. Most health plans are not accounting for behavioral health in their pricing and forecasting.

During the COVID-19 pandemic, behavioral health (BH) and mental health/substance abuse services (MH/SA) saw a significant and consistent uptick in utilization. Outpatient visits related to this category trended upward in double digits year over year, reaching a new level of utilization. Omitting care for COVID-19, behavioral health visit volume was 16.8% above pre-pandemic levels in the first quarter of 2022.²⁴ Although the increase has slowed, health plans do not anticipate usage to go back down to pre-pandemic levels.

This large increase has been sustained across all types of BH services, whether it be in-person or telehealth and virtual care. When it comes to BH, plans reported a significant push from their consumer base for telehealth services during the pandemic that has continued since, growing from 32% pre-pandemic to 60% of all BH visits in the first quarter of 2022.²⁵ The growing focus on access to care improvement further motivated the use of telehealth services. An America's Health Insurance Plans (AHIP) survey covering 95 million lives showed that the number of in-network BH providers increased by an average of 48% in three years among commercial health plans, and that all plans provided coverage for telehealth services specifically for BH.²⁶ This trend to improve access will continue to be a hot topic as provider networks credentialed to provide these services grow and expand.

A related concern in this category is fraud, waste and abuse. A common example has been out-of-state behavioral health facilities that are covered by health plans to allow access to care but have limited, if any, oversight on the cost, quality and quantity of services being rendered. Striking the balance between network adequacy and fraud, waste and abuse will be a challenge for health plans going forward.

In most cases, while the dollars associated with these services are growing, they are still low and do not materially impact the trend development compared to other inflators. Additionally, recent studies have shown that promoting outpatient behavioral health (OPBHT) as a part of a population health strategy can help improve overall medical spending. Results indicate that healthcare costs for patient groups with OPBHT use were 10%-15% lower compared to those without OPBHT visits.²⁷ These findings support the cost-effectiveness of OPBHT utilization, which can act as a deflator on overall medical cost trend in the long term.

Health equity

Health equity is a focus area for health plans, although the impact of population health efforts was not factored into their medical cost trend. A broad array of factors within and beyond the healthcare system — including social, economic, and environmental factors — drive disparities in health and healthcare. Recent years have seen increasing attention and resources invested to address such disparities. On the regulatory side, the CMS published its Framework for Health Equity 2022-2032, stating its “unwavering commitment to advancing health equity” and, in practice, introduced new policies with reference to health equity to Medicare (ACO REACH benchmark adjustment)²⁸ and the individual marketplace (network adequacy).²⁹ Health equity is an important topic among health plans.

Network adequacy is a measure to ensure more equal access to care in the rural areas. On the Individual market, in the 2023 Final Rule³⁰ CMS set forth that it will resume its network adequacy review, which was paused in 2018, evaluating Qualified Health Plans (QHPs) for compliance with quantitative standards based on time and distance standards starting plan year (PY) 2023. As mentioned before, narrow networks are common in the Individual market. Many health plans can become noncompliant with their current network configuration — as of August 2022, CMS identified 243 out of 375 issuers that were not in compliance with network adequacy standards as part of the agency's certification review of QHPs for PY 2023, either out of errors in completing the paperwork or actual noncompliance.³¹ To stay compliant, many plans need to rapidly broaden their networks and contract with more providers, which will highly likely drive the unit cost up.

Setting network adequacy aside, for 2024, all of the health plans regarded health equity as having a neutral or low impact on the medical cost trend. At this stage, most plans are gathering data and forming necessary analyses to come up with actionable plans to address the disparities in health and health care and have not factored health equity into their cost of care models with respect to shifts in near-term utilization pattern changes nor long-term population health impact.

Centers for Medicare and Medicaid (CMS) Health Plan and Hospital Price Transparency Rule

Starting January 1, 2021, hospitals have been required by CMS to provide clear, accessible pricing information online, including a comprehensive machine-readable file listing gross charges, discounted cash prices and charges negotiated between the hospital and third-party payers for all the items and services provided. In July 2022, the rule was extended to include both plans and Issuers as well.³²

In theory, the implementation of the Price Transparency Rule would expand visibility into unit prices and have wide implications for all stakeholders, including both hospitals and payers. On the one hand, hospitals could analyze the price transparency data to identify services where their charges are low relative to the market, or payers that are more generous in their reimbursements for competitor hospitals, and demand greater price increases for these services or with these payers in future contract negotiations. On the other hand, payers could similarly leverage price transparency data to improve their contracted prices as related to high-cost services or hospitals.³³

Nevertheless, in the short term, the utility of price transparency data could be limited given several practical issues. Data accuracy is one concern. One plan reported that it found that the prices published by the hospitals could not be reconciled with the contracted prices per their own database. In addition, published in various formats, machine-readable files require data analytics efforts to be transformed and merged into a meaningful dataset.

Overall, 75% of the plans surveyed deemed the impact of the Price Transparency Rule on 2024 medical cost trend to be neutral or immaterial mainly given the immaturity of the data. In the long run, plans could see both upward and downward pressures during the contract negotiation (for example, price increases demanded by low-paid providers and price control on high-cost providers). The extent to which more transparency will shift the balance of power in negotiations, which currently favor providers and payers with higher market share and in less competitive markets, remains to be seen.

Medicaid redetermination

In response to the public health crisis, Congress passed the Families First Coronavirus Response Act in 2020, which prohibits state Medicaid agencies from disenrolling people unless they specifically request it. The Kaiser Family Foundation reported that, as a result, enrollment in Medicaid and Children's Health Insurance Program (CHIP) has grown by 21.9 million to nearly 93.0 million from February 2020 to January 2023.³⁴ This continuous enrollment provision ended on March 31, 2023, after which states have 12 months to initiate redeterminations of Medicaid and CHIP eligibility for all enrollees and two additional months (14 months total) to complete all pending actions.

The HHS projects the unwinding of the continuous enrollment provision to result in 15 million people losing Medicaid/CHIP coverage.³⁵ Specifically, among the disenrolled, 6.8 million are still eligible for Medicaid/CHIP but lost coverage due to administrative churning (they will not qualify for ACA subsidies³⁶). For the remaining 8.2 million who are no longer Medicaid/CHIP eligible, HHS estimates 3.6 million to obtain employer-sponsored insurance (ESI), 2.7 million to qualify for ACA premium tax credits (PTC), including 1.7 million also eligible for zero-premium Individual plans under the provisions of the ARP and IRA. A separate study by the Urban Institute estimates 18 million people losing Medicaid/CHIP coverage, of which 2.5 million will be eligible for PTCs.³⁷

A consensus among health plans is that the impact of Medicaid redetermination is likely to be felt predominantly in the Individual market. Disenrollees who obtain employer-sponsored insurance can either be previously double-covered by Medicaid/CHIP and ESI or obtain ESI through new employment as unemployment recovers back to the pre-pandemic level. It is uncertain how many will eventually be covered by small or Large Group plans, but these new members are not expected to significantly alter the risk pool of Group plans. On the Individual side, among the 2 million to 3 million disenrollees who become eligible for PTCs, not all of them will enroll in Individual plans. Many health plans expect a selection effect in which those who choose to enroll in Individual plans tend to have higher risk. Nevertheless, per the HHS projection, the Medicaid/CHIP disenrollees are much younger than the existing Individual market population and thus potentially lower risk.³⁸ Overall, the net impact of Medicaid redetermination could be an inflator or deflator, as believed by most health plans, and 80% of the plans indicated the impact to be neutral or low on the 2024 medical cost trend.

Between 2.5 to 2.7 million members disenrolled from Medicaid/CHIP are estimated to qualify for ACA subsidies.

About this research

Each year, PwC's Health Research Institute (HRI) projects the growth of employer medical costs in the coming year and identifies the leading trend drivers. Health insurance companies use the medical cost trend to help set premiums by estimating what this year's health plan will cost next year. In turn, employers use the information to make adjustments to benefit plan design to help offset health insurance cost increases. The report identifies and explains what it refers to as "inflators" and "deflators" to describe why and how the healthcare spending growth rate is affected.

This forward-looking report is based on the best available information through June 2023. HRI conducted 21 surveys and 12 interviews from April through May 2023 with health plan actuaries whose companies cover nearly 100 million employer-sponsored large and small group members and 10 million ACA marketplace members. Participants were asked about their trend experience for 2022, and trend estimates for 2023-24, and the factors driving those trends.

Results from the surveys and interviews were aggregated using a weighted average approach based on the number of self-reported lives in the survey. Results for Group and Individual trend were not aggregated for any purposes or results during this process.



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Slide 1/Main Trend Chart:

Source: PwC Health Research Institute medical cost trends, 2009-2024

Slide 2/Medical Inflation/ wages:

Source: Bureau of Labor Statistics Consumer Price Index, PwC Analysis

Slide 3/Employment:

Source: Bureau of Labor Statistics Employment Cost Index, PwC Analysis

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Slide 4/Physician acquisitions:

Source: Physician Advocacy Institute report on COVID-19's impact on acquisitions of physician practices and physician employment 2019-2021

Footnote this alongside the text above →

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Slide 5/Median price of newly marketed drugs:

Source: Article on Trends in Prescription Drug Launch Prices, 2008-2021 published in The Journal of the American Medical Association

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Slide 6/ Number of drugs with price increases:

Source: Report on Price Increases for Prescription Drugs, 2016-2022 published by The Office of The Assistant Secretary for Planning and Evaluation

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Slide 7/Gene Therapies Table:

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<https://pharmaphorum.com/news/fda-clears-vyjuvek-first-topical-gene-therapy>

Fraiser Kansteiner, "UPDATED: Bluebird bio's \$2.8M gene therapy Zynteglo wins FDA backing. Will its US launch take flight?" Fierce Pharma, Aug 17, 2022.
<https://www.fiercepharma.com/pharma/bluebirds-28m-gene-therapy-zynte>

Slide 8/Biosimilars chart timeline:

Deena Beasley, "U.S. new drug price exceeds \$200,000 median in 2022," Reuters, Jan 5, 2023.
<https://www.reuters.com/business/healthcare-pharmaceuticals/us-new-drug-price-exceeds-200000-median-2022-2023-01-05/>

Slide 9/Both knee charts:

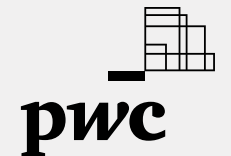
Source: Strata National Patient and Procedure Volume Tracker

Footnote this alongside the text above ->

"The National Patient and Procedure Volume Tracker," StrataSphere, June 2023.
<https://www.stratadecision.com/national-patient-and-procedure-volume-tracker/>

www.pwc.com

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Michigan Public Service Commission
DTE Electric Company
Constant Dollar Active Healthcare Adjustment
2018 - 2022
(\$000's Omitted)

Case No.: U-21534
Exhibit: A-13
Schedule: C5.11.3
Witness: J. K. Hooper
Page: 1 of 1

Line No.	(a) Description	(b) 2018 (1)	(c) 2019	(d) 2020	(e) 2021	(f) 2022	(g) Constant Dollar Average Cost Per Employee	(h) 2022 Average Employees	(i) Constant Dollar 2022 Costs	(j) Actual 2022 Costs	(k) Difference	(l) Percent Expended	(m) Constant Dollar Adjustment
									Col.(g) X Col.(h)	Col.(f), L.4	Col.(i) - Col.(j)		Col. (k) X Col.(l)
1	Medical Costs	\$63,824	\$65,627	\$63,551	\$78,455	\$77,234							
2	Dental Costs	3,827	4,276	3,203	5,319	5,307							
3	Vision Costs	526	516	448	510	457							
4	SubTotal Active Healthcare Costs	68,178	70,419	67,201	84,284	82,998							
5	Average Annual Number of Employees	6,795	6,896	6,848	6,751	6,697							
6	Cost/Employee	\$10.034	\$10.211	\$9.813	\$12.485	\$12.393							
7													
8		10.034											
9	2019 PwC Actual Annual Healthcare Trend	5.7%											
10		10.606	10.211										
11	2020 PwC Actual Annual Healthcare Trend	5.5%	5.5%										
12		11.190	10.773	9.813									
13	2021 PwC Actual Annual Healthcare Trend	6.0%	6.0%	6.0%									
14		11.861	11.419	10.402	12.485								
15	2022 PwC Actual Annual Healthcare Trend	4.0%	4.0%	4.0%	4.0%								
16		\$12.335	\$11.876	\$10.818	\$12.985	\$12.393	\$12.081	6,697	\$80,911	\$82,998	(\$2,087)	60.4%	(\$1,260)
17													
18													
19	(1) Excludes one-time credit recognized in 2018.												
20													
21													
22													
23	(2) Derivation of Annual Healthcare Trend:	2019	2020	2021	2022 Est.								
24	PwC Actual Annual Healthcare Trend	5.7%	6.0%	7.0%	5.5%								
25	Wellness Adjustment	0.0%	(0.5%)	(1.0%)	(1.5%)								
26	Adjusted PWC Annual Healthcare Trend	5.7%	5.5%	6.0%	4.0%								

Medical Costs	(\$1,173)
Dental Costs	(81)
Vision Costs	(7)
Total	<u>(\$1,260)</u>

Michigan Public Service Commission
DTE Electric Company
Projected Operation and Maintenance Expenses
Other Post Employment Benefits (OPEB)
Projected 12 Month Period Ending December 31, 2025
(\$000)

Case No.: U-21534
 Exhibit: A-13
 Schedule: C5.12.2
 Witness: J. K. Hooper
 Page: 1 of 1

Line No.	Description	(a)	(b)	(c)	(d)
		Other Post Employment Benefits (OPEB)			
		Historical Period Ending 12/31/22	Projected Adjustments	Projected Period Ending 12/31/25	
1	Cost Components:				
2	Service cost	20,456	(8,307)	12,149	
3	Non-Service Costs				
4	Interest cost	36,687	12,629	49,316	
5	Expected return on assets	(84,742)	8,758	(75,984)	
6	Amortization:				
7	Net (Gain)/Loss	4,659	(4,659)	-	
8	Prior service cost	(13,721)	13,781	60	
9	Total Non-Service Costs	(57,117)	30,509	(26,608)	
10	Net ASC 715-60 (SFAS 106) Cost	(36,661)	22,202	(14,459)	
11	<u>Reconcile Cost to Expense</u>				
12	Expense before capitalization & transfers	(36,661)	22,202	(14,459)	
13	Adjustments:				
14	Transfers	(68)	(3)	(71)	
15	Capitalization (Service Cost only effective 2018)	(7,412)	2,878	(4,534)	
16	Capitalization - Non-Service Costs to Reg Liability	22,276	(11,606)	10,670	
17	Subtotal OPEB Expense	(21,865)	13,470	(8,395)	
18	OPEB Regulatory Deferral	21,865	(13,470)	8,395	
19	Amortization of OPEB Regulatory Liability	-	(18,300)	(18,300)	
20	OPEB Expense per Exhibit A-13 C5.11 (Line 3)	-	(18,300)	(18,300)	

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-21534

QUALIFICATIONS
AND
REVISED DIRECT TESTIMONY
OF
NEAL T. FOLEY

DTE ELECTRIC COMPANY
QUALIFICATIONS AND REVISED DIRECT TESTIMONY OF NEAL T. FOLEY

Line
No.

1 **Q1. What is your name, business address and by whom are you employed?**

2 A1. My name is Neal T. Foley (he/him/his). My business address is One Energy Plaza,
3 Detroit, Michigan 48226. I am employed by DTE Energy Corporate Services, LLC,
4 a subsidiary of DTE Energy Company as Director, Regulatory Affairs.

5

6 **Q2. On whose behalf are you testifying?**

7 A2. I am testifying on behalf of DTE Electric Company (DTE Electric or Company).

8

9 **Q3. What is your educational background?**

10 A3. I received a Bachelor of Science in Aerospace Engineering and a Bachelor of
11 Science in Mechanical Engineering from the University of Michigan. I also
12 received a Master of Science in Systems Engineering from Johns Hopkins
13 University and a Master of Business Administration from Georgetown University.

14

15 **Q4. What is your work experience?**

16 A4. In 2007 I was employed by Lockheed Martin Corporation as a Satellite Operations
17 Engineer. In 2008, I was hired by Booz Allen Hamilton as an Associate Consultant
18 in its Federal consulting practice. In 2012, I was hired by Deloitte as a Manager of
19 Financial Analysis in its Federal consulting practice. In 2014, I was hired by
20 McKinsey & Company as an Associate Consultant, ultimately being promoted to
21 Engagement Manager before my departure in 2017. In 2017 I was hired by DTE
22 Energy Company as Manager of Corporate Strategy. In this role I was broadly
23 responsible for tracking and assessing utility industry trends, executing analyses to
24 better understand the economic impacts of emerging technologies and business

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1 models, and leading strategic initiatives for the Company. I was promoted to my
2 current role as Director of Regulatory Affairs in 2020.

3

4 **Q5. What are your current duties and responsibilities?**

5 A5. My responsibilities broadly include the management of regulatory activities
6 relative to DTE Electric's Load Research, Tariffs, Pricing, and Rate Design.

7

8 **Q6. Have you previously sponsored testimony before the Michigan Public Service
9 Commission (MPSC or Commission)?**

10 A6. Yes. I have sponsored testimony in the following cases:

11 U-20836 DTE 2022 Electric Rate Case

12 U-21376 DTE 2023 Distributed Generation Tariff Options

13 U-21297 DTE 2023 Electric Rate Case

Line
No.

1 **Purpose of Testimony**

2 **Q7. What is the purpose of your testimony in this proceeding?**

3 A7. The purpose of my testimony is to:

- 4 • Provide an overview of the Company's entire general electric rate case
5 including a summary of the drivers for filing this case at this time, and the
6 amount of the Company's projected revenue deficiency starting January 1,
7 2025;
- 8 • Review the overall methodology used to develop the Company's projected
9 test year amounts in this case;
- 10 • Address the following ratemaking and policy; propose unique or different
11 ratemaking treatments; respond to prior Commission orders; highlight
12 noteworthy regulatory issues; or address topics of interest expressed by
13 stakeholders:
 - 14 ○ The Company's future securitization of costs associated with the
15 Company's tree trimming surge;
 - 16 ○ Recovery of certain outage credits paid to customers;
 - 17 ○ Corporate memberships and costs included for ratemaking as ordered in
18 the Company's last general rate case, U-21297;
- 19 • Introduce the Company's other witnesses.
- 20 • Describe and support the key components of a proposal that the Company
21 is putting forth in this case related to the scope and duration of its
22 Distribution Infrastructure Recovery Mechanism (Distribution IRM or
23 IRM)

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- 1 • Describe and support the key components of a proposal that the Company
2 is putting forth in this case to establish a Storm Restoration Cost Sharing
3 Mechanism (SRCSM).

4
5 As reflected above, I am adopting the previously filed direct testimony and exhibit
6 of Company Witness Adella F. Crozier.

7
8 **Q8. Are you sponsoring any exhibits in this proceeding?**

9 A8. Yes. I am sponsoring the following exhibits:

<u>Exhibit</u>	<u>Schedule</u>	<u>Description</u>
A-27	Q1	Corporate Memberships
A-33	X1	Distribution IRM Proposed Investment and In-Service Levels

14
15 **Q9. Were these exhibits prepared by you or under your direction?**

16 A9. Exhibit A-33, Schedule X1 was prepared under my direction. Exhibit A-27,
17 Schedule Q1, which I am adopting, was prepared under the direction of Company
18 Witness Crozier.

19
20 **Case Overview**

21 **Q10. Can you summarize the circumstances that have led to the Company’s request
22 for rate relief?**

23 A10. Yes. DTE Electric is pursuing two strategic imperatives. First, we are working to
24 rebuild, modernize, and automate our 46,000 miles of electric circuits (the “grid”)
25 to achieve reliability that is better than industry average by 2029. Second, we are

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1 replacing aging coal plants with modern power generation assets, such as wind
2 turbines, large scale solar arrays, and large battery installations. Both pursuits
3 represent multi-year initiatives that can only be accomplished with the support of
4 our customers, the Michigan Public Service Commission (MPSC), and the
5 investors that provide the capital needed to fund the necessary investments.

6

7 **Q11. What benefits should the Company's customers expect to realize from these**
8 **initiatives?**

9 A11. The benefits to DTE Electric's customers of these strategic initiatives are:

- 10 • Fundamental improvements in the reliability of the grid and in its ability to
11 accommodate electric vehicles and other distributed energy resources.
12 • Reduced carbon emissions from more efficient and cleaner sources of
13 power generation.

14

15 **Q12. What is the expected level of capital investment for grid modernization and**
16 **generation transformation initiatives?**

17 A12. Fully realizing these benefits will require significant investment - approximately \$9
18 billion of investment in the grid and \$7 billion of investment in cleaner generation
19 between 2024 and 2028. We appreciate that we are asking our customers to support
20 these investments in the form of bill increases. However, as described below, we
21 believe that these investments will generate significant benefits and value to our
22 customers.

23

24 **Q13. Specifically, what improvements is DTE Electric expecting to achieve relative**
25 **to grid reliability?**

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1 A13. These system investments, for which this rate case represents the next step in the
2 multi-year journey described above, can provide tremendous benefits to our
3 customers and to the state. More specifically, DTE Electric is focused on improving
4 reliability for our customers – reducing power outages by 30% and cutting outage
5 time in half in the next five years. As explained in more detail by the Company’s
6 Distribution Operations (DO) witnesses in this case (i.e., Company Witnesses
7 Kryscynski, Deol, Elliott Andahazy, Hartwick, and Steudle) the Company is
8 strengthening, rebuilding, and/or using technology to create a smarter, stronger,
9 more resilient grid that will reliably deliver the energy our customers demand and
10 deserve. Our commitment can be summarized as: “*30% fewer... 50% faster... by*
11 *2029.*”

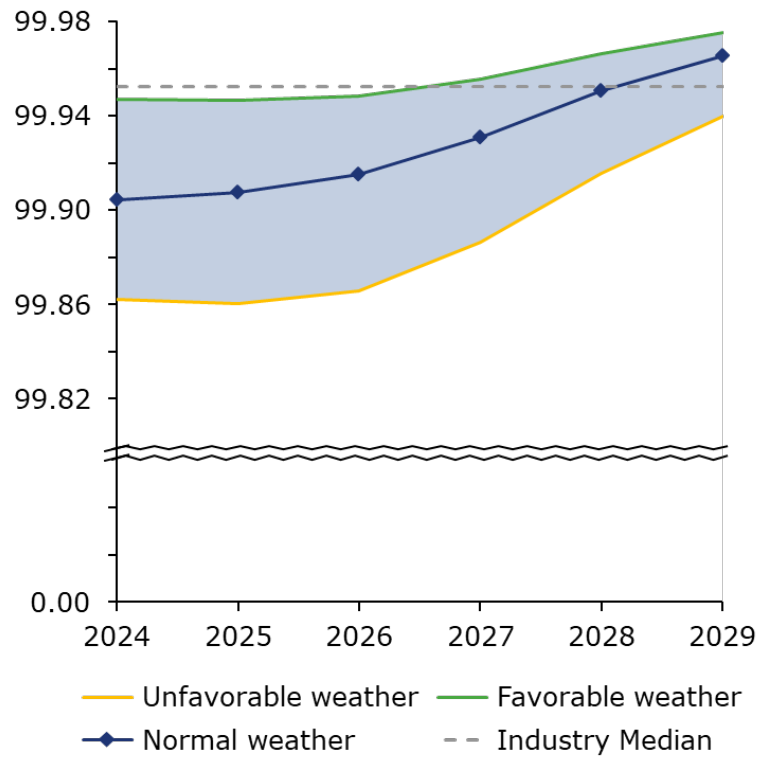
12

13 As can be seen in Figure 1 and Figure 2, this commitment translates to better than
14 industry median performance by 2029 for Average System Availability Index and

Line
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1 All-Weather SAIDI¹. These projections are based on the Reliability Model
2 described by Company Witness Kryscynski.
3
4

Figure 1 Projected Average System Availability Index (%)



5

¹ System Average Interruption Duration Index

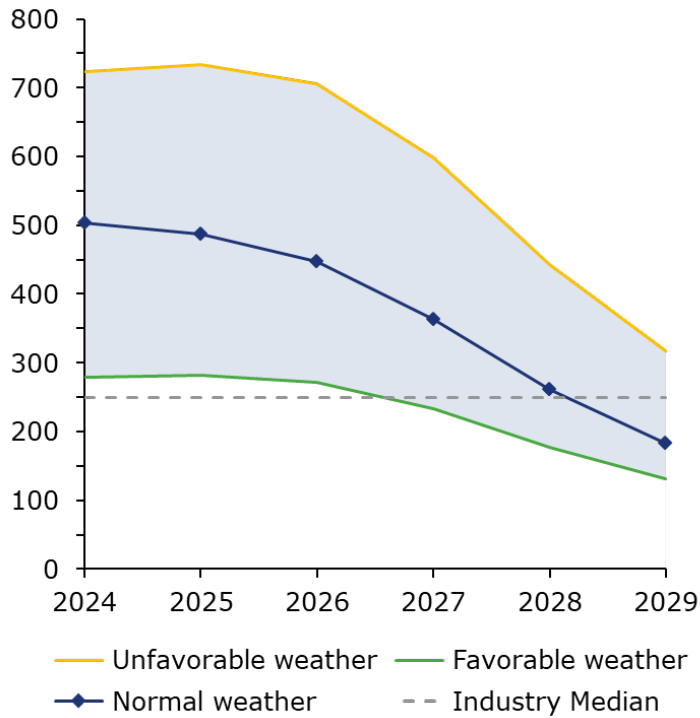
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1

Figure 2 Projected All-Weather SAIDI (or Average Outage Minutes Per

2

Customer) (minutes)



3

4

5 **Q14. Besides the benefit of improved reliability, are there other potential benefits**
6 **that customers could realize from DTE Electric’s grid modernization**
7 **initiative?**

8 A14. Yes. These forecasted improvements will not only substantially improve DTE
9 Electric customers’ qualitative experience but have the potential to unlock
10 significant economic value. The publicly available Interruption Cost Estimator
11 (ICE) Calculator, which was developed by the Lawrence Berkeley National
12 Laboratory, provides one approach to examine and estimate the potential value that
13 might be realized through improved electric system reliability. While not definitive,
14 based on the ICE Calculator the Company’s forecasted reliability improvements
15 could generate more than \$15 billion of positive economic impact. Realizing such

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1 estimated benefits is dependent upon achieving improved reliability through
2 continued investment in the Company's grid, enabled by timely recovery of capital
3 expenditures.

4

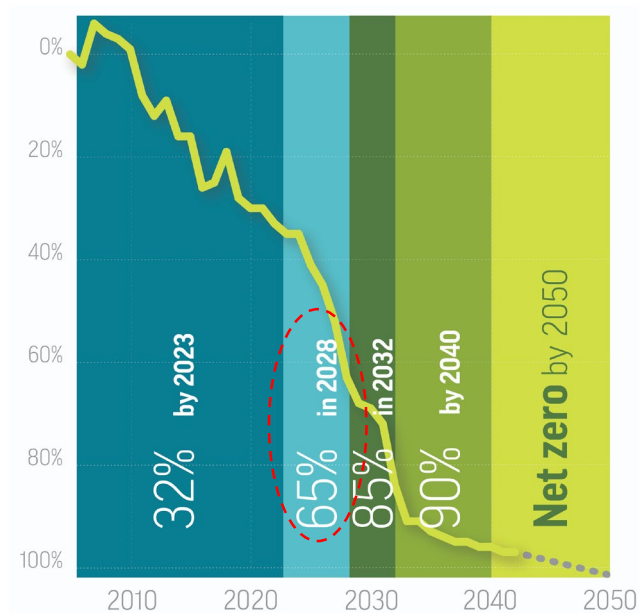
5 **Q15. What benefits will customers realize due to DTE Electric's generation
6 modernization initiative?**

7 A15. DTE's planned investments in new generation assets will enable the transition to
8 cleaner generation and allow a reduction of CO₂ emissions of 65% by 2028 when
9 compared to the 2005 baseline, as shown in Figure 3.

10

11

Figure 3 DTE Green Generation Journey



12

13 **Q16. Can you summarize the Company's plans to execute on the proposed
14 investments?**

15 A16. The Company is fully prepared to execute our plans and have built an organization
16 that is capable of making these historic investments. We have proven our ability to

Line
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1 significantly ramp up project and program execution as evidenced by the increase
2 in electric distribution strategic capital deployment over the last few years.

3

4 Our specific capital investments and associated plans are discussed in detail by the
5 Company's DO witnesses identified earlier, and can be summarized as follows:

6 • Maintain high performing circuits so that they remain high performing
7 circuits

8 • Fundamentally improve low performing circuits

9 • Build capacity for the future

10

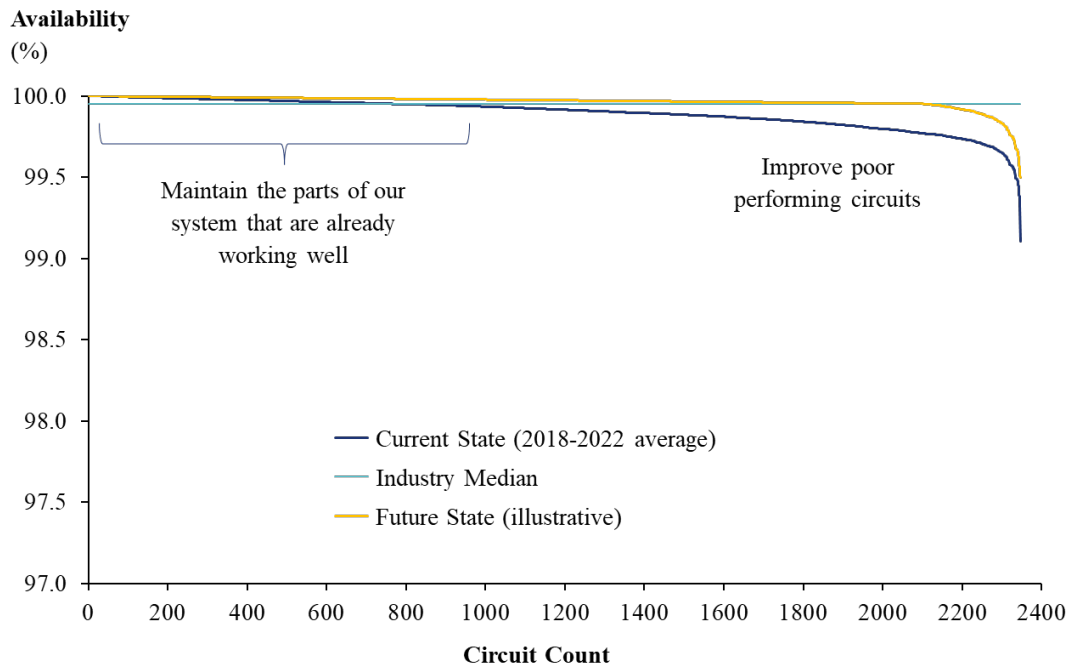
11 Figure 4 illustrates this strategy as we look at the performance of our circuits and
12 the 46,000 miles of electric lines that make up the DTE Electric grid covering 7,600
13 square miles of DTE Electric service territory.

14

Line
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1

Figure 4 Circuit Availability (2018-2022 average)²



2

3 **Q17. How will investors support these initiatives?**

4 A17. Investors will provide the necessary capital to execute DTE Electric’s planned
5 investments assuming reasonable recovery of costs through the Company’s rates.
6 As shown in Figure 5, to execute its investments DTE Electric requires cash in
7 excess of what it generates internally from its operations (cash that includes DTE
8 Electric profits). As such, external investors are needed to provide the incremental
9 capital that enables us to execute our plans.

10

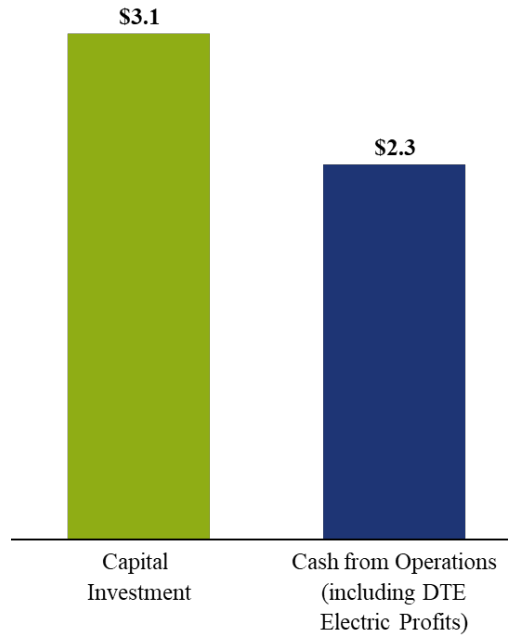
11

² Only circuits with at least 50 customers are shown on chart

Line
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1

Figure 5 DTE Electric 2023 Cashflow³



2

3 **Q18. Have there been any reliability impacts from ongoing grid modernization**
4 **efforts?**

5 A18. Yes, where investments have been made, we are seeing benefits. For example, as
6 supported by Company Witness Elliott Andahazy and shown in Figure 6, the
7 Company's 4.8 kV Hardening program has led to a 61% reduction in frequency of
8 outages (SAIFI⁴) on hardened circuits compared to non-hardened circuits.

9

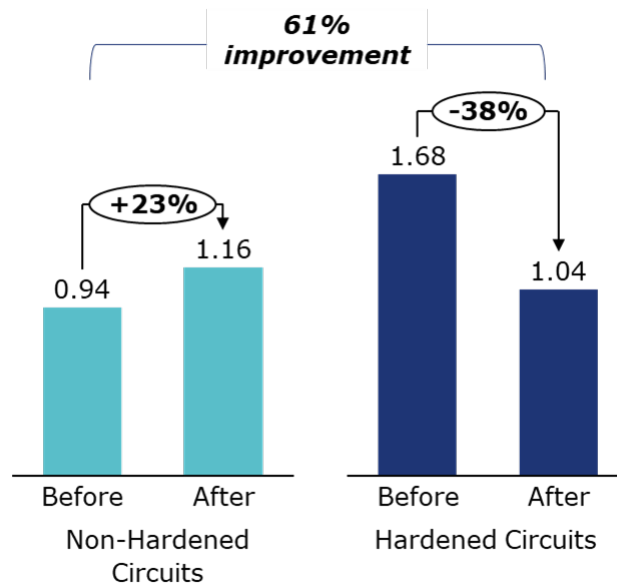
³ Source: DTE Electric Form 10k

⁴ System Average Interruption Frequency Index

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1
2

Figure 6 Outage frequency of circuits 1-year post 4.8 kV hardening
(# of outages; All-Weather SAIFI)



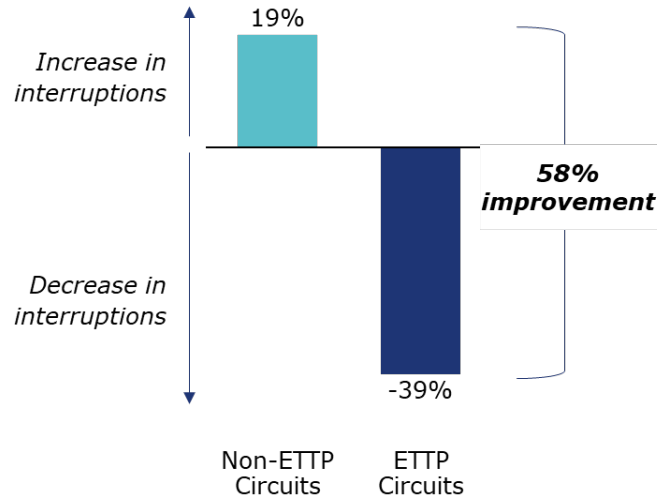
3
4
5
6
7

Similarly, as supported by Company Witness Steudle and shown in Figure 7, the Company's Enhanced Tree Trim Program (ETTP) has resulted in a 58% reduction in tree related outages for circuits for which the program has been deployed.

Line
No.

1
2

**Figure 7 Change in tree-related customer interruptions 1-year post trim
(% change)**



3

4 **Q19. How does this case support the strategic initiatives described previously in**
5 **your testimony?**

6 A19. This case supports approximately \$2.6 billion of total new capital investment in
7 2025, the projected test year in this case, as well as additional capital in the bridge
8 and historical test year. The Company is also seeking approval to extend its
9 Distribution Infrastructure Recovery Mechanism (IRM), with associated revenues,
10 through 2027. As discussed previously, DTE Electric will need additional support
11 from customers to execute on its capital plans and achieve the forecasted reliability
12 improvements. That support takes the form of the requested rate relief, which is
13 driven primarily by capital investments. When combined with other factors
14 described in the case, the total requested test year base rate relief is approximately
15 \$456 million, of which \$321 million (70% of the total) is related to capital recovery
16 and financing (\$285 million for direct capital costs and \$36 million for the increased
17 cost of debt and changes in capital structure).

Line
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1 **Q20. What is the present status of the Company initiatives you described?**

2 A20. In prior years, the Company has made investments in line with its strategic plans to
3 improve reliability and provide cleaner generation, even if those investments were
4 not fully authorized for recovery in a prior rate case. Specifically, as of 2024 the
5 Company anticipates that actual net plant in-service will be approximately \$775
6 million higher than what is currently authorized for recovery in rates. Given the
7 carrying costs associated with this plant in-service balance, timely recovery of
8 prudent capital investment is necessary to support the Company continuing to make
9 the investments that are needed to improve reliability and transition to cleaner
10 generation.

11

12 With that said, and as described later in my testimony, the Company acknowledges
13 the Commission's desire that, within a reasonable range of flexibility, the Company
14 make capital investments consistent with Commission approvals in rate cases. To
15 that end, in this case the Company is proposing to extend its Distribution IRM
16 through 2027 and indicating its support for an expansion of the IRM in the test year
17 (2025). Such an approach would have the dual benefits of both ensuring that
18 investments are made consistent with Commission orders and supporting timely
19 recovery of those investments.

20

21 **Q21. How will the Company's grid modernization and generation transformation**
22 **initiatives impact the cost to its customers?**

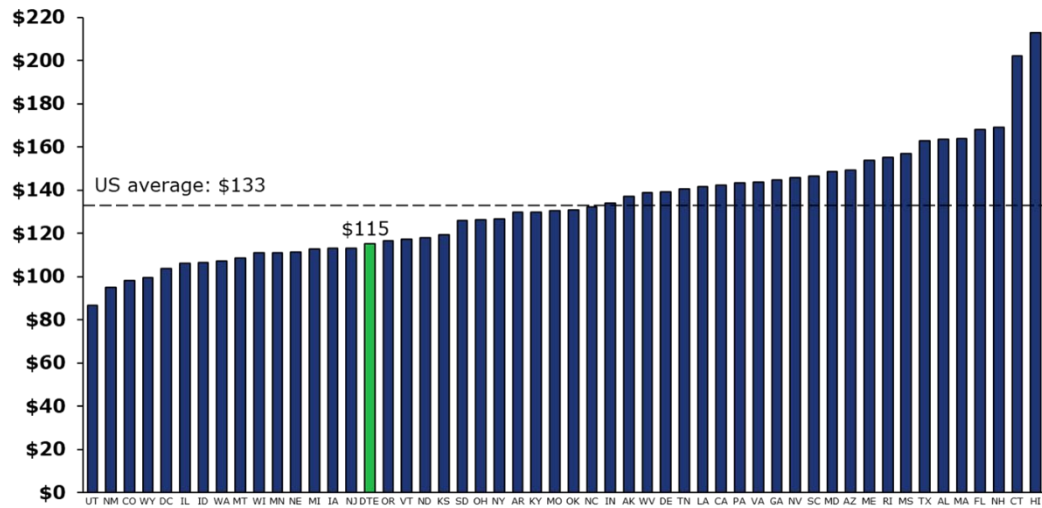
23 A21. The Company understands that with the requested rate relief it is asking its
24 customers to pay more to support improvements in reliability and the transition to
25 cleaner generation. According to the Energy Information Administration (EIA)

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1 average bills for DTE Electric customers remained below the national average in
2 2023, as seen in Figure 8. Specifically, in 2023 DTE Electric’s Residential Electric
3 Bills were 13% below the national average, and in 2022 were 11% below the
4 national average⁵.

5
6

Figure 8 2023 Average Residential Electric Bills⁶



7
8
9
10
11
12
13
14

In addition to having below average bills, since 2021 DTE Electric’s residential bill growth has remained below the rate of inflation and below the rate of increase for peers in both the Great Lakes and nationally. Rate relief as proposed by the Company in this case would continue this trend. The requested test year rate relief of approximately \$456M would result in an increase of 37 cents/day for the average residential customer and would translate to average annual bill growth of 3.1% since 2021., This is below the projected level of average inflation of 4.2% over the

⁵ DTE Electric 2022 Average Residential Bill: \$118.45; 2022 National Average Residential Bill: \$132.90.
Source: EIA 861M
⁶ Source: EIA 861M

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1 same time. Between 2021 and 2023, Great Lakes region residential electric bill
2 growth has been 4.5% per year, and national electric bill growth has been 5.8% per
3 year.

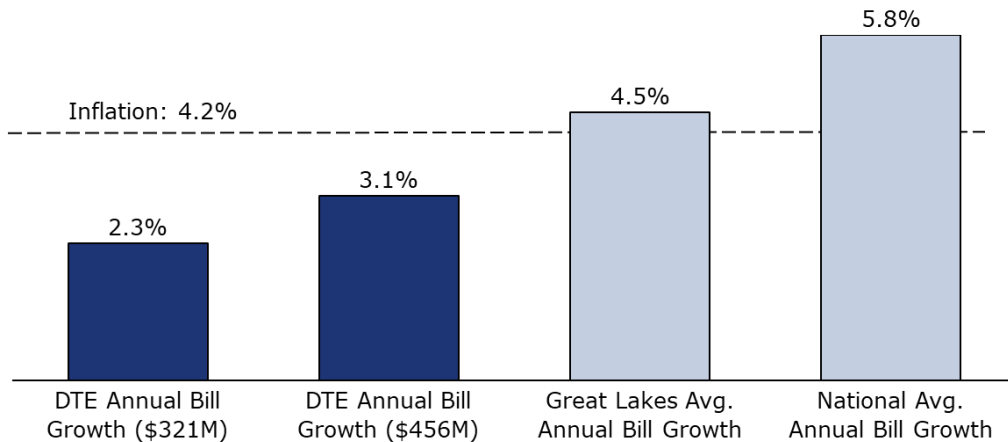
4

5 Rate relief of \$321M, which would cover the recovery and financing costs for the
6 capital as described above, would result in a bill CAGR over that same period of
7 2.3%. This is illustrated below in Figure 9.

8

9 **Figure 9 Average Residential Bill Growth Since 2021⁷**

10



11

12 In summary, the rate relief sought in this case will allow DTE Electric to take
13 another important step on its multi-year journey toward improved reliability and
14 cleaner generation. As discussed previously, we are already realizing the reliability
15 benefits of our grid investments where they have been made, but there is much work

⁷ 12-month trailing average through May 2021; DTE forecasted through Jan 2025, peers actual through November 2023; inflation is actual CPI through Jan 2024 and core inflation projection from the Federal Open Markets Committee for 2024

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1 to be done. Approval of the requested rate relief supports the Company's plan to
2 deliver reliability that is better than industry average by 2029 and unlock potential
3 economic value, while also continuing the transition to cleaner generation.

4

5 **Q22. Can you elaborate on how the requests in this general rate case filing support**
6 **the Company's strategic imperatives described above?**

7 A22. This rate case represents the Company's continued commitment to improved
8 reliability and innovation. The Company is seeking approval of significant
9 infrastructure investments to improve the reliability and resilience of its electric
10 distribution system as detailed in its 2023 Distribution Grid Plan filed in Case No.
11 U-20147. This involves redesigning, hardening, and rebuilding antiquated
12 infrastructure, modernizing how the electric grid is monitored and operated, and
13 performing preventive and proactive maintenance and tree trimming at standards
14 that reflect today's operating conditions, including security risks and more extreme
15 weather. These investments will not only reduce how often and how long
16 customers experience power outages but will also enable the Company to support
17 greater optionality for customers in adopting technologies such as batteries, solar,
18 and electric vehicles (EVs).

19

20 To support innovation during this period of transformational change in the energy
21 industry, the Company is also proposing new technology deployments, including
22 enhanced information technology capabilities to reduce costs and improve the
23 customer experience; energy storage in the form of batteries; non-wires

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1 alternatives; and expanded programs to support deployment of EVs. The
2 Company's generation fleet continues to evolve towards cleaner resources with
3 new renewable energy facilities and the recently approved conversion of the Belle
4 River Power Plant to a natural gas peaking resource. The Belle River Unit 1
5 conversion is scheduled for completion in 2025 while Belle River Unit 2's
6 conversion is scheduled for completion in 2026. DTE Electric has retired six of its
7 coal-fired facilities, which accounts for all of its Tier 2 coal units (Marysville,
8 Harbor Beach, Conners Creek, River Rouge, St. Clair, and Trenton Channel). In
9 addition, the Company's Integrated Resource Plan (Case No. U-21193) resolved in
10 2023 will require the development of additional renewable energy and battery
11 storage resources, while accelerating the retirement of its remaining two coal-fired
12 facilities, Belle River and Monroe. The Company committed to all these actions
13 prior to the State's recently passed legislation establishing a 100% clean energy
14 standard by 2040 and as such, is well positioned for compliance.

15

16 **Q23. Why has DTE Electric filed this general rate case at this time?**

17 A23. DTE Electric strives to provide safe, reliable, and affordable electric service to its
18 customers. In pursuit of these objectives, DTE Electric seeks to deliver reasonable
19 and appropriate compensatory returns to DTE Energy shareholders while
20 maintaining the Company's financial health. As discussed above, DTE Electric has
21 undertaken a major capital investment program to improve reliability and
22 resilience, most notably for the distribution system and is also moving toward
23 cleaner sources of generation. However, the Company's existing rates and
24 projected electricity sales cannot sustain this level of infrastructure investment
25 without a rate increase. The level of investments undertaken by the Company since

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1 2022 and projected to be spent through the projected test year in this case requires
2 the Company to make this filing. The only way that DTE Electric can adequately
3 provide the required service levels that our customers desire and deserve is by being
4 financially healthy. The Company's current authorized rates are not expected to
5 provide DTE Electric with adequate revenues to make necessary infrastructure
6 investments while providing a reasonable opportunity to earn a fair return on equity
7 beginning in January 2025.

8

9 **Q24. What are the measures used to determine the Company's financial health?**

10 A24. Maintaining DTE Electric's financial health requires that the Company has a
11 reasonable opportunity to earn its cost of capital, that the Company has a well-
12 balanced capitalization (no less than 50% equity to total permanent capitalization),
13 and that the Company is able to maintain its A/Aa3/A+ credit ratings for senior
14 secured debt from the three major rating agencies. These preconditions are
15 necessary to ensure DTE Electric has full access to capital markets at reasonable
16 rates, terms, and conditions regardless of business cycle timing or industry
17 conditions. As discussed by Company Witness Lepczyk, without full access to
18 capital markets at reasonable terms and conditions, the cost of providing utility
19 services can increase significantly.

20

21 **Q25. Why is the Company's financial health important for customers?**

22 A25. To attract the capital necessary for the prudent operation and maintenance of its
23 facilities, the Company must be able to demonstrate its ongoing financial health.
24 Inadequate rates will ultimately result in higher financing costs and have a
25 significant negative impact on the ability to adequately serve our customers and

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1 maintain the integrity of the Company's electric distribution and generation assets.
2 This negative impact will occur because greater expenditures would be required to
3 support financing costs, and therefore, would not be available for system
4 maintenance or customer service. Similarly, inadequate funding for capital and
5 maintenance programs, over time, would result in the deterioration of DTE
6 Electric's generation and distribution infrastructure, ultimately resulting in reduced
7 system reliability and service quality.

8

9 Thus, it is essential to DTE Electric's financial health that the ultimate cost that
10 customers are asked to pay for the Company's services generate sufficient cash
11 flow from operations to fund the necessary capital expenditures to maintain and
12 improve service as well as pay a reasonable dividend.

13

14 **Q26. Does DTE Electric's continued implementation of infrastructure maintenance**
15 **and investment programs provide additional benefits to customers and the**
16 **region?**

17 A26. Yes. DTE Electric has an important positive economic impact on the communities
18 it serves. DTE Electric is one of the largest employers in Southeast Michigan with
19 over 4,800 employees. Through the Pure Michigan Business Connect campaign,
20 the Company utilizes the services of numerous local contractors and vendors. DTE
21 Energy spent over \$2.5 billion with Michigan based companies in 2023. Through
22 property taxes, DTE Electric contributes to the financial health of local
23 communities. In the historical test year, DTE Electric paid approximately \$280
24 million in property taxes to Michigan communities. To maintain facilities, comply
25 with various regulations, implement its Distribution Grid Plan, and continue the

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1 transformation of its generation fleet, DTE Electric continues to make major capital
2 investments in the communities in which it operates. Thus, DTE Electric supports
3 additional job growth opportunities and provides continuing and incremental tax
4 revenue for our local communities.

5

6 **Q27. Does DTE Electric provide assistance to customers who have trouble paying**
7 **their utility bill or provide opportunities to customers needing assistance to**
8 **participate in some of the Company's offerings?**

9 A27. Yes. The Company has programs to help customers who are having trouble paying
10 their utility bill as well as offerings that help low-income customers participate in
11 some of the Company's other programs. For example, DTE Electric works to help
12 customers maintain service and reduce arrears and also offers residential income
13 assistance (RIA) and low-income assistance (LIA) credits to help vulnerable
14 customers manage utility bills. These are discussed by Witness Sparks along with
15 details regarding a percentage of income payment plan pilot the Company launched
16 in 2022. Additionally, Witness Bennett discusses our electric vehicle program
17 which will help income qualified customers. Lastly, any customer taking service
18 under the Company's MIGreenPower (Rider 17) tariff, as well as any other
19 interested parties, can support a low-income donation pilot on a monthly basis or
20 as a one-time contribution. These voluntary contributions provide fully subsidized
21 subscriptions to low-income customers who are eligible to participate.

22 **Requested Relief**

23 **Q28. What rate relief was approved in the Commission's Order in the Company's**
24 **last general rate case, Case No. U-21297?**

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1 A28. The Company's last general rate case, Case No. U-21297, was filed in February
2 2023 requesting \$618.5 million in rate relief. This deficiency assumed that the
3 Company's proposed IRM would be approved. In the Commission's December 1,
4 2023 Order, DTE Electric received approval for \$368 million in rate relief and
5 approval to establish an IRM.

6

7 **Q29. What rate relief is DTE Electric requesting in this case?**

8 A29. As calculated by Company Witness Vangilder, DTE Electric expects a revenue
9 shortfall of \$456.4 million for the January 1, 2025 through December 31, 2025
10 projected test year. As supported by various Company witnesses, factors
11 contributing to this shortfall are the revenue requirement associated with increased
12 investments made in plant and the associated depreciation and property tax
13 increases as well as the impact of inflation on DTE Electric's O&M and borrowing
14 costs.

15

16 **Q30. Can you highlight some of the major investments and expenses included in the**
17 **Company's request for rate relief?**

18 A30. This general rate case sets forth the rationale, spending, timing, and expected
19 customer benefits associated with significant investments in distribution,
20 generation, and customer service. Several programs to highlight are summarized
21 below.

22 • Strategic infrastructure investments in substations, poles, wires,
23 transformers and other electric distribution assets to modernize equipment,
24 support growth in customer demand in specific areas, improve worker and
25 public safety, and reduce the frequency and duration of power outages. This

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1 also includes plans to accelerate the conversion of the 4.8 kV system to a
2 higher voltage, ramping up the pole top maintenance program, and
3 increased investment in distribution automation and telecommunications
4 technologies.

5 • Continuation of the multi-year tree trimming “surge” program that reduces
6 outages on circuits trimmed to the new, more protective standard. The
7 continuation of the Commission-approved tree trimming program will
8 allow the Company to complete the surge, which is expected in 2025. This
9 program remains critical to improving reliability and resilience across the
10 system and is foundational to the Company’s overall efforts to improve
11 reliability.

12 • Conversion of Belle River Power Plant’s fuel source from coal to natural
13 gas, consistent with the IRP Order in Case No. U-21193, which included
14 preapproval of the Belle River Fuel Conversion project.

15 • Plant removal associated with the retirement and decommissioning of
16 power generation assets at Harbor Beach, Connors Creek, River Rouge, St.
17 Clair, and Trenton Channel Power Plants. With the Company’s final Tier
18 2 plants having been retired in 2022, DTE Electric is committed to the
19 removal of these retired steam generating units. The process involves three
20 primary activities, namely decommissioning, decontamination, and
21 demolition. Witness Guillaumin addresses this project in detail in her
22 testimony.

23

24 **Q31. What investments is the Company making to promote greater levels of**
25 **advanced technology and customer satisfaction?**

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1 A31. The Company is working to deploy advanced technologies in all areas of its
2 business as well as furthering its commitment to deploy proven technology to
3 improve our customers' experience with DTE Electric's services. Examples are
4 briefly described below:

- 5 • Energy storage projects proposed for the Energy Supply portfolio include
6 two grid-scale battery applications. One is the continuation of the 14 MW
7 Slocum battery pilot project slated to replace retiring peaking generation
8 located in Trenton, Michigan. The other project, also located in the City of
9 Trenton, is a 220 MW battery that is consistent with the build plan included
10 in the Company's 2022 IRP planned course of action. This project will be
11 located at the site of the recently retired Trenton Channel Power Plant.
12 Witness Guillaumin addresses this project in detail in her testimony.
- 13 • Distribution Operations also continues to evaluate different use cases for
14 energy storage. Examples include the use of batteries to help relieve certain
15 substation overloads and a battery trailer which can be sited in place of
16 traditional portable generators. Witness Hartwick addresses these projects
17 in detail in her testimony.
- 18 • As outlined in the Company's information technology (IT) plans, the
19 customer IT portfolio of investments prioritizes the enhancement of
20 customer experiences and increased operational efficiencies. Witness
21 Hatsios addresses these customer service IT plans in detail in his testimony.

22

23 **Rate Case Methodology**

24 **Q32. Can you describe the methodology the Company is using to support its**
25 **projected test year positions and its recommendations in this case?**

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1 A32. Yes. DTE Electric has used actual historical data as the point of departure for most
2 estimated cost levels for the projected test year. These historical costs were then
3 adjusted for the impact of inflation. As has been DTE Electric's practice in prior
4 rate cases, certain other costs reflect specific estimates or projections where general
5 impacts of inflation alone would be insufficient to capture known changes. For
6 example, some of these include, but are not limited to, capital expenditures for new
7 plant and uncollectible expense. All these cost components and the circumstances
8 involved are explained and supported by other Company witnesses.

9

10 **Q33. What historical and projected test year periods are being used by DTE Electric**
11 **for purposes of calculating its projected revenue deficiency?**

12 A33. The historical test year used by DTE Electric is the calendar year ended December
13 31, 2022. This 12-month period was then normalized and adjusted for known and
14 measurable changes, as supported by the Company's witnesses in this case, to
15 arrive at the Company's January 1, 2025 through December 31, 2025 projected test
16 year. As this case is being filed in early 2024, the Company has included 10 months
17 (January – October) of actual capital investments in the 2023 bridge period.

18

19 **Q34. Are there any new recovery mechanisms being requested in this rate case?**

20 A34. Yes. As described later in my testimony, the Company is requesting a new storm
21 restoration O&M cost sharing mechanism to better align storm restoration O&M
22 cost recovery with the actual costs incurred by the Company.

23

24 As described later in my testimony, the Company is also proposing an extension of
25 the IRM approved by the Commission in Case No. U-21297. In Case No. U-21297,

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1 the Company requested a roughly three-year IRM starting concurrent with the
2 forward test year in that case (December 1, 2023) and extending through calendar
3 year 2026. The Commission approved the first two years (December 1, 2023
4 through December 31, 2025) of the proposed IRM but not the last (calendar year
5 2026). The Company is requesting the IRM be extended to cover calendar years
6 2026 and 2027. In addition, the Company is indicating its support for an expansion
7 of the IRM in 2025 if the Commission finds it appropriate to do so as a way to grow
8 the stakeholder benefits realized through the IRM.

9

10 **Tree Trimming Surge**

11 **Q35. Has the Commission previously approved tree trim “surge” funding in the**
12 **Company’s recent rate cases?**

13 A35. Yes. In the Company’s last four general electric rate cases (Case No. U-20162,
14 Case No. U-20561, Case No. U-20836, and Case No. U-21297), the Commission
15 approved the deferral of “surge” amounts for the Company’s tree trimming
16 program. These “surge” amounts represent an increase in annual funding above the
17 baseline tree trimming O&M and have been supporting the Company’s goal of
18 achieving a five-year trim cycle for its distribution system.

19

20 The Commission approved \$43.7 million in surge funding for calendar year 2025
21 in the Company’s most recent general rate case, U-21297. As discussed in detail
22 by Company Witness Steudle, this “surge” in tree trimming spending was
23 established to occur over an approximately seven-year period (2019 – 2025). At
24 the program’s termination, the Company expects to maintain all circuits on-cycle
25 to the enhanced tree trimming specification, as discussed by Witness Steudle.

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1

2 **Q36. Is the Company requesting that the Commission approve incremental funding**
3 **for the 2025 surge?**

4 A36. Yes. The program remains on track to be completed in the seven years originally
5 contemplated but as detailed and supported by Witness Steudle, the Company has
6 identified a funding gap to complete the surge in 2025 and maintain on-cycle miles
7 at the intended 5-year cycle. As such, the Company is requesting an incremental
8 \$87 million be approved for the 2025 surge deferral. To complete the tree trim
9 surge program, the Company is requesting that the Commission approve a total
10 surge funding deferral of \$131 million for calendar year 2025. Witness Steudle
11 provides a detailed explanation of the funding gaps and the proposal to complete
12 the surge and maintain on-cycle miles.

13

14 **Q37. What other parameters did the Commission specify related to the deferral of**
15 **the tree trimming surge amounts in previous orders?**

16 A37. In the Case U-20162 May 2, 2019 Order, the Commission specified that the return
17 earned on the tree trim surge regulatory asset deferrals would accrue at the short-
18 term debt rate. Lastly, the Commission stated that the Company may seek recovery
19 of the regulatory asset in a future rate case or through securitization.

20

21 **Q38. Has the Company sought the securitization of any of the previously deferred**
22 **tree trimming assets yet?**

23 A38. Yes. In Case No. U-21015, the Company requested securitization of \$116.2 million
24 of its tree trim deferred asset balance through June 30, 2021. The requested amount
25 represented the total qualified assets of \$156.9 million (\$43.3 million in 2019, \$74.1

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1 million in 2020, and \$38.3 million through June 30, 2021, plus interest of \$1.2
2 million) net of deferred federal income tax charges (DFIT) of \$40.6 million. The
3 Commission approved the securitization of and recovery up to the total qualified
4 costs for the tree trim deferred asset of \$156.9 million inclusive of DFIT and the
5 Company has securitized that expense.

6

7 **Q39. How has the Company treated the tree trim surge regulatory asset in this**
8 **general rate case filing?**

9 A39. The Company has included a “return on” the tree trim surge regulatory asset at the
10 cost of permanent capital (i.e., long-term debt and equity) included in this case.
11 Witness Lepczyk discusses why the Company believes the return on should be
12 comprised of both permanent debt and equity. The Commission’s Order in the Case
13 No. U-21015 securitization filing required the proceeds from the securitization be
14 used to retire both permanent debt and equity for the tree trim surge regulatory
15 asset. Consistent with that determination, the Company should be allowed to
16 recover its actual financing cost in a commensurate manner. The revenue
17 requirement for the deferred amount is calculated by Company Witness Vangilder
18 on Exhibit A-11, Schedule A1.1 using debt and equity costs supported in this case
19 by Witness Lepczyk.

20 **Q40. When does the Company anticipate making its next securitization filing for**
21 **the tree trim surge regulatory asset?**

22 A40. Previously, the Company proposed securitizing balances once they reach
23 approximately \$150 million. Current projections show the Company will reach this
24 cumulative balance in 2025, the proposed last year of the surge program. However,
25 since the upfront costs associated with securitization bonds are sizable and largely

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1 fixed, the Company intends to wait until the projected 2025 surge completion
2 before making its next securitization filing. The larger deferred balance will more
3 efficiently spread the fixed costs and reduce overall securitization costs to
4 customers. Although a securitization filing capturing costs through early 2025 is
5 technically feasible in 2025, the Company also needs to consider the size of the
6 anticipated surge amounts through the remainder of the surge scheduled to end late
7 in 2025. Given the fixed costs of securitizing and the time between reaching a \$150
8 million balance and the conclusion of the program, DTE Electric is planning to file
9 a final tree trim related securitization after the surge program concludes in 2025,
10 capturing all expenditures not previously securitized.

11

12 **Outage Credit Recovery**

13 **Q41. Is the Company currently recovering the costs of any credits paid to customers**
14 **for outages?**

15 A41. No. In the last two general rate cases, the Company has not included any expenses
16 for the cost of credits it has paid to customers for outages.

17

18 **Q42. Did DTE Electric propose a framework for the future inclusion of these costs**
19 **in either of its last two general rate cases?**

20 A42. Yes. In Case U-20836, the Company proposed that those credits paid for outages
21 caused by events outside DTE Electric's control be deferred for subsequent
22 recovery starting with the final order in that case. On page 366 of the order in that
23 case, the Commission directed:

24 *...DTE Electric to work with the Staff toward the full development of the*
25 *Staff's proposed limited recovery of outage credits. The Commission*

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1 *upholds the company's responsibility to timely restore electric service to*
2 *customers in all circumstances under the Commission's Service Quality and*
3 *Reliability Standards for Electric Distribution Systems (Mich Admin Code,*
4 *R 460.701-752) and customers' entitlement to an outage credit on their*
5 *power bill in circumstances where the company fails to do so. However, it*
6 *is reasonable that the company have the ability to recover outage credits*
7 *when the outage was caused by customer negligence or the transmission*
8 *system operator, among other limited circumstances as developed in*
9 *collaboration with the Staff.*

10

11 **Q43. Did the Company and Staff meet to discuss outage credit cause codes and**
12 **Company recoverability?**

13 A43. Yes. Prior to the filing of this case, the Company and Staff discussed outage cause
14 codes as well as the reasonableness of recoverability for credits paid as a result of
15 outages that exceed the outage duration limits and those outages exceeding the
16 outage frequency limits outlined in the Commission's Service Quality and
17 Reliability Standards (rules R460.744 and R460.745 respectively).

18

19 **Q44. What is the Company's position regarding the outage causes that should have**
20 **their related credits recovered by the Company?**

21 A44. The Company's position is that recoverability of the credits paid for outages differs
22 based on which of the two broad categories of outages triggers the payment: 1)
23 duration limit or 2) frequency limit.

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1 DTE Electric believes that credits paid for outages that exceed the duration limit
2 should include the following outage causes:

- 3 • Transmission operator or other utility
- 4 • Public interference
- 5 • Animal interference

6
7 The Company also believes that for credits paid to customers for exceedance of the
8 outage frequency limits, that recoverability would include the following outage
9 causes in addition to the two above:

- 10 • Ice
- 11 • Lightening
- 12 • Wind
- 13 • Other weather

14

15 **Q45. What is the rationale for including weather related events for recoverability**
16 **when there is an exceedance of outage frequency limits but not recommending**
17 **the same for exceedances of the duration limit?**

18 A45. The rationale is that the Company controls the restoration time when there is a
19 weather event but not the frequency with which weather events occur.

20

21 **Q46. How is the Company proposing to recover the expense for credits related to**
22 **those outage causes approved by the Commission for recovery?**

23 A46. The Company's proposed recovery treatment of outage credit costs is consistent
24 with its original proposal in Case No. U-20836. With the Commission's approval
25 of the underlying outage causes that result in recoverable credits, the Company will

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1 defer the costs related to those credits starting after an order in the instant case. The
2 deferred amounts would be reviewed for reasonableness and prudence in the
3 subsequent general electric rate case. Only after the deferred amounts are approved
4 would the Company begin amortizing and recovering them. Witness Uzenski
5 describes the deferral mechanism including the amortization period in her
6 testimony.

7

8 **Q47. Does the Company have a proposal for how recoverable credits related to**
9 **frequent outages would be calculated?**

10 A47. The Company would like to spend more time with Staff to design a methodology
11 for the recovery of these credits but has an initial proposal. If a customer meets the
12 criteria for the outage credit based on outage frequency, there will likely be a mix
13 of underlying causes. Though mathematically simple to determine the percentage
14 of the outage credit that is recoverable, it will be expensive and complicated to
15 implement an algorithm into the billing system to calculate a unique percentage to
16 apply to each \$38 credit that is being deferred for recovery. The Company proposes
17 that a common percentage be applied to all outage credits paid for outage frequency
18 exceedances that reflects some analytics from the previous year. In this way, a
19 simple and consistent factor can be applied to each outage credit paid for frequency
20 exceedances, avoiding the need for complicated and costly system programming.

21

22 It would be less costly to analyze the prior year's data and apply a common
23 percentage than to analyze each payment real-time and apply a unique factor. The
24 Company would like to work with Staff to develop a methodology that is reasonable
25 and able to be implemented without billing system complexities.

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1 **Corporate Memberships**

2 **Q48. How does the Company determine which corporate memberships to acquire?**

3 A48. The Company acquires and maintains corporate memberships that help in its
4 mission to provide safe, affordable, clean and reliable energy. Decisions regarding
5 which memberships to obtain are typically made by individual business units. A
6 list of the corporate memberships included in DTE Electric's O&M expense are
7 shown on Exhibit A-27, Schedule Q1. As shown in this exhibit, each membership
8 generally falls under the auspices of one business unit.

9

10 **Q49. Has the Commission provided guidance on how the Company should support**
11 **its Corporate Memberships in this and future rate cases?**

12 A49. Yes. In its November 18, 2022 Order in Case No. U-20836 on page 306, the
13 Commission directs the Company as follows:

14 *“The Commission directs DTE Electric to file in its future rate cases an*
15 *exhibit containing an itemized list of projected costs associated with*
16 *membership fees and justification for why these costs are in customers’*
17 *interest.”*

18 Further, in its December 1, 2023 Order in Case No. U-21297, on page 221, the
19 Commission directs the Company as follows:

20 *“Therefore, to ensure continued recovery of these corporate membership*
21 *fees, DTE Electric shall provide in its next general rate case a detailed*
22 *description of how these organizations specifically impact/benefit*
23 *customers as outlined by the DAAOs, which will convey DTE Electric’s*
24 *roles and responsibilities in advancing ratepayer interests through its*
25 *participation in each organization.”*

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1

2 **Q50. Has the Company itemized the projected costs associated with membership**
3 **fees and included justifications for why these costs are in customers' best**
4 **interest?**

5 A50. Yes. Exhibit A-27, Schedule Q1 includes the customer benefits and cost for each
6 membership included in the Company's projected test year. The exhibit is seven
7 pages with pages 1 - 2 displaying, in alphabetical order, the corporate memberships
8 which are nondiscretionary. Pages 3 – 7 display, in alphabetical order, those
9 memberships which are discretionary. The descriptions include the specific benefit
10 these memberships offer. Additionally, corporate memberships which are
11 discretionary and exceed \$100,000 are further supported by other witnesses in the
12 case representing the primary business unit that utilizes the membership. Exhibit
13 A-27, Schedule Q1 columns (d) and (e) provides the witness names along with their
14 associated business unit for those customer and membership benefits.

15

16 **Q51. Do any of the membership costs included in the Company's revenue**
17 **requirement in this case involve lobbying activities?**

18 A51. No. Any memberships, or portions of memberships, related to lobbying activities
19 are excluded from DTE Electric's revenue requirement. Witness Uzenski supports
20 how certain memberships and their related costs have been excluded. As mentioned
21 above the costs shown on Exhibit A-27 Schedule Q1 represent the costs that are
22 proposed for inclusion in rates, exclusive of lobbying fees. The amounts have not
23 been adjusted for inflation on Exhibit A-27 Schedule Q1 but are included in the
24 Company's revenue requirement with an inflation adjustment.

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1 **Q52. What benefits are realized from DTE Electric's memberships in the**
2 **organizations listed on Exhibit A-27, Schedule Q1?**

3 A52. In addition to the benefits included in each membership's description and
4 supporting witnesses' testimony (reference column e of Exhibit A-27, Schedule Q1
5 pages 2 -7), the benefits the Company and its customers receive from the
6 memberships listed in Exhibit A-27, Schedule Q1 pages 2 through 7 generally fit
7 into one or more of the following broad categories:

- 8 • Benchmarking - helps the Company understand how its performance and
9 practices compare to its peers,
- 10 • Best practices - provides insights into industry best practices and potential
11 opportunities for implementation based on those insights,
- 12 • Research – provides access to research that the Company would otherwise
13 have to perform on its own, and leads to access to information at a lower
14 cost than if each member organization performed the research on their own,
- 15 • Networking – helps build relationships with peers that improves the flow of
16 communication between people and companies leading to a greater
17 awareness of industry trends, emerging technologies, emerging issues, and
18 resources.

19

20 **Q53. Are you providing additional support for any of the corporate memberships**
21 **requested for recovery?**

22 A53. Yes. As noted above, Exhibit A-27, Schedule Q1 lists the supporting witness for
23 non-discretionary memberships over \$100,000. The one membership that I am
24 supporting is the Edison Electric Institute (EEI).

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1 In addition to our operating groups (e.g., Distribution, Generation), the Company
2 leverages EEI to the benefit of its customers through many of the Company's
3 workstreams (e.g., IT, Supply Chain) as outlined below. EEI members are afforded
4 the opportunity to establish connections with other companies through the EEI
5 network. Some examples of how the Company's EEI participation benefits
6 customers include:

- 7 • Mutual assistance coordination across the nation which enables DTE
8 Electric to quickly secure resources for storm restoration. The industry has
9 no other mutual assistance structure;
- 10 • Information on technology industry security initiatives and best practices;
- 11 • Assistance identifying and networking with diverse suppliers specific to the
12 utility industry as well as sharing best practices regarding supplier diversity;
- 13 • Benchmarking on utility-driven economic development;
- 14 • Knowledge building regarding FERC Order 2222 (addressing Distributed
15 Energy Resource participation in electricity markets) and its implications
16 for utility system preparation and operation;
- 17 • Best practice sharing from transportation electrification programs around
18 the nation; and
- 19 • Learning from industry experts and leaders on important topical subjects
20 such as battery operations and risk mitigation, decarbonization, and non-
21 wire alternatives.

22
23 **Introduction of Other Witnesses**

24 **Q54. How will the Company present evidence in support of its requested relief in**
25 **this case?**

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- 1 A54. The Company will present its case through 27 witnesses, including myself, as
2 described below (in alphabetical order).
- 3 1) Mr. Robert A. Bellini, Manager – Community Lighting, supports the energy
4 forecast for outdoor lighting; the development of the proposed rate design
5 for the outdoor lighting rate schedules (municipal lighting and other) as well
6 as supports the reasonableness of the historic and projected Community
7 Lighting O&M and the Community Lighting capital expenditures. He also
8 discusses the preventative maintenance programs and outage restoration
9 activities for community lighting.
- 10
- 11 2) Ms. Pina Bennett, Director – Electric Marketing supports the expenditure
12 status for existing Charging Forward programs and pilots and discusses the
13 Transportation Electrification Plan. She also supports Merchant Fees
14 expense and certain expenditures related to the 2023 full time-of-day roll
15 out; and the Electric Regulated Marketing O&M expense.
- 16
- 17 3) Mr. Shawn D. Burgdorf, Manager of the Power Supply Strategy &
18 Modeling – Generation Optimization, establishes the projected wholesale
19 market energy sales revenue net of fuel.
- 20
- 21 4) Mr. Jeffery C. Davis, Expert – Nuclear Strategic Business Operations,
22 supports the Company’s actual nuclear O&M and capital expenditures for
23 the 12-month historical test period ended December 31, 2022. He also
24 discusses and supports the reasonableness of the projected nuclear O&M
25 and capital expenditures for the interim forecast period and the 12-month

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1 projected test period ending December 31, 2025. In addition, he supports
2 the reasonableness of the projected Nuclear Surcharge for the projected test
3 period ending December 31, 2025.

4

5 5) Mr. Satvir Deol, Director – Substation Operations, supports, as reasonable
6 and prudent, the historical capital expenditures for 2022 and projected
7 capital expenditures for 2023 through December 31, 2025, in the
8 distribution strategic investment category of Infrastructure Redesign and
9 Modernization and discusses programs associated with the Company’s IRM
10 discussed later in my testimony.

11

12 6) Ms. Morgan Elliott Andahazy, Director – Project Management
13 Organization, supports, as reasonable and prudent, the historical capital
14 expenditures for 2022 and projected capital expenditures for 2023 to
15 December 31, 2025, in the distribution strategic category of Infrastructure
16 Resilience and Hardening. In addition, her testimony will include support
17 for specific programs included in the IRM discussed later in my testimony.

18

19 7) Mr. Keegan Farrell, Manager - Demand Response (DR), discusses the
20 development of DR efforts that DTE Electric is conducting and provides
21 support for the expenditures and activities associated with the continuation
22 of existing programs and pilots, as well as the Company’s proposals for new
23 pilots. He also discusses the DTE Insight Program and projected capital
24 expenditures.

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- 1 8) Mr. Matthew A. Fix, Director of Compensation and Retirement Income will
2 present an overview of employee compensation practices and benefit
3 expense related to retirement income for DTE Electric for the 2022
4 historical test period and the 12 months ended December 31, 2025,
5 projected test period. He provides support for the Company's projected
6 pension costs, Employee Savings Plan Expense and other retirement income
7 benefits; supports the Company's labor cost escalation assumptions used in
8 Company Witness Uzenski's development of the composite inflation
9 factors for the projected test period, provides an overview of the Company's
10 compensation philosophy for non-represented employees and the role that
11 the Company's incentive plans play in the overall reasonableness of its total
12 compensation policies, including an analysis of salaries for non-represented
13 positions as of December 31, 2022, relative to the market medians for
14 comparable positions; describe the components of the Company's short-
15 term and long-term incentive compensation plans and support the inclusion
16 of such cost in the Company's revenue requirement, exclusive of the costs
17 related to DTE Energy's Top Five Executive Officers. In addition, Witness
18 Fix demonstrates that the quantifiable customer benefits of the Company's
19 incentive compensation plans exceed the corresponding expense, as
20 required by the Commission's traditionally mandated cost/benefit analysis
21 of incentive compensation expense.
- 22
- 23 9) Ms. Margaret E. Guillaumin, Plant Director, Energy Supply Operations
24 Performance, supports the reasonableness and prudence of the O&M and
25 capital expenditures for Energy Supply steam power generation, hydraulic

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1 power generation (Ludington), and other power generation for the historical
2 test year ended December 31, 2022, the 24-month bridge period ending
3 December 31, 2024, and the 12-month projected test period ending
4 December 31, 2025. She provides a review of the Fossil Generation base
5 coal unit availability performance for five years prior and five years
6 following the projected test year in this instant case. She also discusses how
7 the Environmental Protection Agency's Steam Electric Effluent Limitation
8 Guidelines Rule affects required coal-fired generation investment and
9 supports the historical 2022 level of capital expenditures on a plant level
10 basis and the forecast of capital expenditures planned for 2023 through
11 December 31, 2025.

12

13 10) Ms. Shannen M. Hartwick, Director of Automation supports, as reasonable
14 and prudent, the historical capital expenditures for 2022, the projected
15 capital expenditures for 2023 through December 31, 2025 in the distribution
16 strategic investment category of the Technology and Automation Pillar, and
17 the programs associated with the Company's IRM.

18

19 11) Mr. Michael J. Hatsios, Director – Customer Service Operations supports
20 the reasonableness and prudence of a subset of the capital projects in the
21 Company's Customer IT Portfolio. Specifically, he discusses the details
22 and benefits to customers of those projects that align with DTE Electric's
23 priorities to save customers money, enhance the customer experience, and
24 promote and provide energy efficiency (EE) and renewable energy

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1 opportunities for customers. He also supports the Customer Service O&M
2 for the 2022 historical test year and the 2025 projected test period.

3

4 12) Mr. Brian L. Hill, Director –Southwest Regional Customer Operations and
5 Scheduling & Coordination, supports, as reasonable and prudent, the
6 historical capital expenditures and proposed capital expenditures related to
7 base capital programs (emergent replacements, customer connections,
8 relocations, and others). In addition, he provides an explanation of the
9 Company’s purchase and use of Portable Generators and an update on MISS
10 DIG (which is not a capital program or expenditure) reporting changes made
11 since Case No. U-21297.

12

13 13) Mr. Jerome K. Hooper, Manager, Health & Welfare Benefits and
14 Occupational Health presents an overview of benefit expense for DTE
15 Electric for the 2022 historical test period and the 12 months ended
16 December 31, 2025, projected test period. He supports the Company’s,
17 other post-employment benefits costs (OPEB), active employee health care
18 costs and the costs of other employee benefits.

19

20 14) Mr. Allen J. Kryscynski, Acting Director – Distribution Operations
21 Regulatory Strategy and Grid Modernization, supports the historical
22 Operations and Maintenance (O&M) expenses related to electric
23 distribution activities for 2022 historical period and for the projected test
24 period 12-months ending December 31, 2025, the Distribution Operations’
25 Global Prioritization Model, Infrastructure Investment and Jobs Act

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1 funding grants, updates the Distribution Operations approach to
2 Environmental Justice, as well as supports several other DO related issues.

3

4 15) Mr. Robert J. Lee, Manager - Environmental Strategy, describes the status
5 of two significant Environmental Protection Agency regulations: the Steam
6 Electric Effluent Limitation Guidelines Rule and the Coal Combustion
7 Residuals Rule which impact the Company's coal-fired power plants.

8

9 16) Mr. Timothy J. Lepczyk, Assistant Treasurer and Director – Corporate
10 Finance, Insurance and Development supports DTE Electric's projected
11 capital structure and the cost of its long and short-term debt to be used in
12 the determination of DTE Electric's overall rate of return in this proceeding.

13

14 17) Mr. Markus B. Leuker, Manager – Corporate Energy Forecasting, provides
15 the Company's current electric sales, maximum demand, and system output
16 forecast for the period 2023-2028, including the projected 12-month test
17 period January 1, 2025 through December 31, 2025. He discusses the
18 outlook for the national and local economy which is the basis of the forecast.
19 Witness Leuker also describes how the forecast of electric sales, maximum
20 demand and system output is developed and supports the reasonableness of
21 the electric sales forecast used by DTE Electric in this proceeding.

22

23 18) Mr. Habeeb J. Maroun, Regulatory Strategy Consultant – Revenue
24 Requirements Department, presents Unbundled Cost of Service (UCOS)
25 Studies for DTE Electric's projected test year ending December 31, 2025.

Line
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1 He also provides an Alternate Cost of Service Study (Alternate COSS) with
2 DC Fast Charging (DCFC) as a separate class, as required by the
3 Commission in its December 1, 2023 Order in Case No. U-21297. He also
4 supports revenue requirement calculations for: (1) customer-related costs,
5 (2) capacity charge by customer class, and (3) IRM by voltage class.

6

7 19) Mr. David C. Milo, Fuel Resource Specialist – Fuel Supply, supports DTE
8 Electric Fuel Supply’s and Midwest Energy Resources Company’s (MERC)
9 operations and maintenance expense and capital expenditures for the twelve
10 months ended December 2022 historical actual, and as projected for 2023
11 through December 31, 2025. He also addresses how the Company’s
12 transition from coal generated electricity will affect MERC transshipment
13 operations and the railcar fleet for the Company as well as the planned
14 retirement of operations at MERC.

15

16 20) Mr. Pankaj Sharma, Director – Information Officer within the Information
17 Technology Services organization, discusses the IT Capital investment
18 framework and planning process that drives prioritization of both single and
19 multi-year projects and programs; supports the Company’s IT capital
20 expenditures beginning with the historic test year and extending through the
21 projected test year; and describes the variances in the actual 2022 capital
22 spend compared to the spend approved in the Company’s previous general
23 rate case.

24

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1 the normalized historical electric operating income. She supports that costs
2 recovered from other mechanisms are excluded from the financial
3 statements in this case (including the Renewable Energy Program, and
4 Energy Waste Reduction). She also supports the Corporate Staff Group
5 capital and O&M expenses for the historical and forecasted periods and
6 explains the function of this group including the method for allocating costs
7 to DTE Electric and other DTE Energy subsidiaries through the Shared
8 Asset charge. She also, explains the accounting treatment of the Monroe
9 regulatory asset and amortization over 15 years and requests approval of
10 regulatory asset and liability accounts for the Company's storm cost tracker
11 proposal discussed later in my testimony.

12

13 24) Mr. Kirk M. Vangilder, Principal Financial Analyst - Revenue
14 Requirements, supports DTE Electric's twelve months ended December 31,
15 2022 historical revenue sufficiency. In addition, he is sponsoring Net
16 Operating Income (NOI) adjustments for interest synchronization and
17 income tax savings, as well as the revenue conversion factor. Mr. Vangilder
18 is sponsoring DTE Electric's twelve months ending December 31, 2025
19 projected revenue deficiency. He also calculates the incremental revenue
20 requirement for DTE Electric's Tree Trim Surge Regulatory Asset and the
21 return on the Monroe Regulatory Asset. Lastly, he supports the incremental
22 revenue requirements for DTE Electric's IRM as well as the Company's
23 proposed reconciliation process should a different amount of IRM capital be
24 placed in service than what has been approved.

Line
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1 the end of 2026. More specifically, the Company proposed the following IRM Plan
2 Years:

- 3 • IRM Plan Year 1: December 1, 2023 to December 31, 2024
- 4 • IRM Plan Year 2: January 1, 2025 to December 31, 2025
- 5 • IRM Plan Year 3: January 1, 2026 to December 31, 2026

6

7 The Company proposed that IRM treatment be authorized for the following five
8 capital programs focused on safety and reliability:

- 9 • Conversions
- 10 • Subtransmission Redesign & Rebuild
- 11 • Breaker Replacement
- 12 • Underground Residential Distribution (URD) Replacement
- 13 • 4.8 kV Circuit Automation

14

15 For each capital program and IRM Plan Year, the Company proposed investment
16 levels with associated maximum in-service amounts that would be authorized for
17 IRM treatment. Based on these investment and in-service amounts, the Company
18 proposed an IRM revenue requirement and associated IRM surcharges for each
19 IRM Plan Year. Importantly, the Company proposed that if it were to invest and
20 place into service less capital than authorized, it would trigger a credit to customers.
21 If the Company were to invest and place into service more capital than authorized,
22 it could seek recovery of the additional investment in a future general rate case.

23

24 Finally, the Company proposed two new stakeholder processes:

Line
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1 • IRM Planning Process occurring before the start of each IRM Plan Year
2 whereby the Company would make its investment plans for the upcoming
3 IRM Plan Year available to Staff, such that Staff could raise any questions
4 or concerns before execution of the investment plan. The investment plans
5 would be submitted to Staff no later than two months prior to the start of
6 each IRM Plan Year.

7

8 • IRM Reconciliation Process occurring after the conclusion of each IRM
9 Plan Year whereby the Company would describe its actual investments,
10 report its performance against a series of program execution metrics, and
11 calculate any over-recovery to be returned to customers based on actual
12 investment and plant in-service.

13

14 In its proposal the Company highlighted four benefits that would be immediately
15 realized with the establishment of the IRM; specifically:

- 16 • Certainty of investment in key distribution capital programs;
17 • Greater transparency into both the Company's investment plans and its
18 execution of those plans;
19 • Additional opportunities for Staff to review and provide input on the
20 Company's investment plans; and
21 • Increased accountability for the Company through the reporting of new
22 program execution metrics.

23

24 Further, the Company highlighted that a potential future benefit of the IRM is to
25 extend the time between contested rate cases.

Line
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1 In its December 1, 2023 order in that case (December 2023 Order), the Commission
2 stated that it “finds that there is value in the company’s proposal, with some
3 limitations.” (page 289). As such, it elected to approve the Company’s proposed
4 IRM with modifications. Specifically, the Commission ordered the following
5 modifications to the Company’s proposal:

- 6 • The Company shall submit its annual IRM Investment Plan no later than
7 four months prior to the start of each IRM Plan Year and it shall be
8 submitted to all intervening parties in the Company’s most recently filed
9 general rate case.
- 10 • The Company shall schedule and provide a forum, no later than two months
11 before the start of the IRM plan year, for Staff and intervening parties to
12 raise any questions or concerns that they have before execution of the plan
13 begins.
- 14 • The annual IRM reconciliation shall be filed as a contested case proceeding,
15 noting that:
16 *“...a contested reconciliation process will provide additional opportunities*
17 *for input from interested parties. Further, developing a record in a*
18 *contested proceeding will provide even greater transparency and*
19 *opportunity for review of the reasonableness and prudence of the*
20 *company’s expenditures, as well as accept input to address equity concerns*
21 *such as those raised by the DAAOs to avoid racialized disparities in*
22 *service.” (page 290)*
- 23 • The Company shall remove any allocation of IRM costs from transmission
24 level customers.

Line
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1 Finally, the Commission elected to approve only IRM Plan years 1 and 2. In
2 declining to approve the Company’s proposed IRM Plan Year 3, the Commission
3 provided the following guidance:

4

5 *“...there is ongoing discussion regarding [Performance Based Ratemaking] in*
6 *Case No. U-21400 and an ongoing audit in Case No. U-21305. Therefore, the*
7 *Commission finds that limiting the approval to the first two years will allow the*
8 *company to move forward with the IRM without precluding the incorporation*
9 *of any potential insights gained from those proceedings to better inform the*
10 *potential continuation of the IRM.” (page 289)*

11

12 **Q56. What is the current status of the Company’s Distribution IRM?**

13 A56. As discussed above, the Commission’s December 2023 Order established the IRM
14 effective starting on December 1, 2023 (with surcharges being implemented on
15 December 15, 2023). In that Order, the Commission acknowledged the challenged
16 timing of IRM Plan Year 1, stating:

17

18 *“Regarding the time constraints for the first investment recovery mechanism*
19 *plan year recognized in this order, the company shall use best efforts to provide*
20 *its investment recovery mechanism plan as soon as practicable that will in turn,*
21 *allow the company to schedule the forum as soon as practicable.” (page 375)*

22

23 As such, the Company submitted its IRM Year 1 Investment Plan to stakeholders
24 on February 7, 2024, and subsequently presented the plan during a stakeholder
25 forum on February 23, 2024.

Line
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1 **Q57. What is the Company proposing in this case related to its Distribution IRM?**

2 A57. The Company is proposing to extend the IRM through calendar years 2026 and
3 2027. The Company's proposal does not include any modifications to what was
4 previously approved for 2024 and 2025, although it does offer an alternative
5 scenario for 2025 that would increase the amount of capital authorized for IRM
6 treatment during that year, as described later in my testimony.

7

8 As part of the extension, the Company is proposing two adjustments to the capital
9 programs previously authorized for IRM treatment. Specifically, the Company is
10 proposing:

- 11 • Starting in 2026, Pole and Pole Top Maintenance and Modernization
12 (PTMM) be authorized for IRM treatment. Company Witness Elliott
13 Andahazy provides additional support for this proposed modification in her
14 testimony; and
- 15 • Starting in 2026, the scope of the automation program be modified from
16 "4.8 kV Circuit Automation" to "Distribution Automation." Company
17 Witness Hartwick provides additional support for this proposed
18 modification in her testimony.

19

20 For 2026 and 2027, the Company is proposing a level of capital investment and
21 maximum in-servicing amount for each program and year. The full detail of the
22 Company's proposed investment and in-service levels for 2026 and 2027 is
23 captured in Exhibit A 33, Schedule X1, and is summarized in Table 1 below.

24

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1

Table 1 – Proposed IRM Investment Levels (\$M)

Capital Program	Previously Approved Investment		Proposed Investment	
	2024	2025	2026	2027
Conversions	1.6	185.8	190.0	240.0
Subtransmission Redesign & Rebuild	5.5	53.8	55.0	65.0
Breaker Replacement	13.7	12.6	15.0	15.0
URD Replacement	14.6	13.5	15.0	20.0
Distribution Automation ⁸	26.4	24.4	105.0	180.0
Pole & Pole Top Maintenance & Modernization	n/a	n/a	150.0	200.0
Total	61.9	290.1	530.0	720.0

2

3 The Company is not proposing any modifications to the annual planning process,
4 annual reconciliation process, or underlying mechanics of the Distribution IRM
5 approved by the Commission through its December 2023 Order.

6

7 In their testimony, Company Witness Vangilder supports the revenue requirement
8 associated with the Company’s proposed IRM investments, Company Witness
9 Maroun supports the cost-of-service treatment, and Company Witness Willis
10 supports the rate design of the surcharges to collect the allocated revenue
11 requirement.

⁸ Previously 4.8 kV Circuit Automation

Line
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1 **Q58. How is the Company's proposed extension in this case different than the 2026**
2 **IRM investment proposed in Case No. U-21297?**

3 A58. In Case No. U-21297, the Company proposed 2026 IRM investment of \$532.7
4 million, including the following program-specific investments:

- 5 • Conversions: \$371.6 million
- 6 • Subtransmission Redesign & Rebuild: \$107.6 million
- 7 • Breaker Replacement: \$14.0 million
- 8 • URD Replacement: \$15.0 million
- 9 • 4.8 kV Circuit Automation: \$24.4 million

10

11 In the current case, the Company's proposed total investment for 2026 is similar at
12 \$530.0 million, although the investment mix is different. More specifically, the
13 Company's proposal in this case reflects increasing emphasis on Distribution
14 Automation and PTMM for the IRM. Company Witnesses Hartwick and Elliott
15 Andahazy further support the increasing emphasis on these programs in their
16 testimonies.

17

18 **Q59. Are there other issues before the Commission that impacted the Company's**
19 **decision to propose an extension of its Distribution IRM?**

20 A59. Yes. The Company is proposing an extension of its Distribution IRM to ensure its
21 continued and efficient operation while pending Case No. U-21400 related to
22 Performance Based Ratemaking (PBR) and pending Case No. U-21305 related to
23 the Company's Distribution System Audit can progress and ultimately conclude.
24 Absent an extension granted in this case, the existing IRM will cease at the end of
25 2025 and could only be re-established through a Commission order in a future case.

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1 Such stopping and restarting of the IRM and its associated processes could lead to
2 inefficiencies and reduce the ability to improve upon the process through
3 stakeholder feedback. Importantly, the proposed extension will ensure that the
4 customer and stakeholder benefits realized through the IRM do not lapse.

5
6 With that said, the Company also acknowledges the Commission's desire for future
7 iterations of the IRM to potentially incorporate the findings of pending Case No.
8 U-21400 related to PBR and pending Case No. U-21305 related to the Company's
9 Distribution System Audit. The Company supports the Commission's desire to
10 incorporate findings from these cases into future iterations of the IRM as discussed
11 later in my testimony.

12
13 At the same time, to make the IRM successful there must be robust, transparent,
14 and repeatable processes in place that give all stakeholders confidence that the IRM
15 is working as planned and the intended benefits are being realized. Given that many
16 of these processes are new, including the IRM planning and reconciliation
17 processes, having the IRM and its associated processes lapse at the end of 2025
18 would challenge the ability of stakeholders to gain experience with the IRM and
19 identify opportunities for improvement.

20
21 For example, absent an extension approved in the current case, the Company will
22 not submit an IRM Investment Plan for 2026 (otherwise due no later than August
23 31, 2025) or hold a stakeholder forum on its 2026 plans since the IRM will not yet
24 have been authorized for 2026.

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1 As such, an extension is appropriate to avoid a lapse in the IRM and its associated
2 benefits, while allowing for the cases related to PBR and the Company's
3 Distribution System Audit to conclude.

4

5 **Q60. What is the status of Case No. U-21400 related to PBR?**

6 A60. In its April 24, 2023 Order in Case No. U-21400 (April 24 Order), the Commission
7 directed Staff to convene a Financial Incentives and Disincentives Workgroup to
8 study PBR and to file a report of the workgroup's investigations and findings by
9 December 31, 2023. Among other things, the Commission directed that:

10

11 *"...an initial focus of the Financial Incentives and Disincentives workgroup*
12 *shall include developing appropriate metrics relating to reliability including,*
13 *but not limited to, SAIDI (including and excluding MEDs), SAIFI, CEMI,*
14 *CAIDI, and resilience, including, but not limited to, downed wire response and*
15 *the frequency and duration of outages during extreme weather, and shall use*
16 *the recently updated Service Quality rules as a baseline." (page 12)*

17

18 and

19

20 *"After developing metrics around distribution performance, the workgroup*
21 *shall explore rate structures and the methods by which incentives and*
22 *disincentives may be applied." (page 12)*

23

24 In its August 23, 2023 Order in the same case, the Commission released its initial
25 PBR straw proposal and invited comments from interested stakeholders to be

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1 submitted by September 22, 2023 with reply comments to be submitted by October
2 20, 2023. The Commission also directed Staff to convene a stakeholder session
3 following the initial comment period to discuss the straw proposal and alternative
4 approaches.

5

6 In response, the Company submitted initial comments on September 22, 2023 and
7 reply comments on October 20, 2023. The Company also participated in the
8 stakeholder session that was held on October 10, 2023, including presenting its
9 perspectives related to the initial straw proposal.

10

11 On November 29, 2023, the Commission released a revised straw proposal and held
12 a stakeholder session on November 30, 2023 to discuss the revised proposal and
13 gather any initial feedback from attendees. The Company attended the November
14 30, 2023 stakeholder session.

15

16 On December 19, 2023 Staff filed in the same docket its status report required by
17 the Commission's April 24 Order. In its report Staff recommended that the
18 Commission formally invite comments on its revised straw proposal and indicated
19 it would hold an additional stakeholder session on February 12, 2024.

20

21 In its December 21, 2023 Order in the same case, the Commission adopted the
22 Staff's recommendation and invited comments from interested stakeholders on the
23 revised straw proposal to be submitted by February 2, 2024 with reply comments
24 to be submitted by March 1, 2024. The Commission further directed Staff to submit

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1 a status report on the workgroup’s investigations and findings no later than May 3,
2 2024.

3

4 In response, the Company submitted comments on the revised straw proposal on
5 February 2, 2024, participated in the stakeholder session on February 12, 2024, and
6 submitted reply comments on March 1, 2024.

7

8 At the time of this filing, the Company is awaiting the release of Staff’s second
9 status report and any additional guidance from a Commission order in the case.

10

11 **Q61. How is the Company planning to incorporate the findings from Case No. U-**
12 **21400 into potential future iterations of its Distribution IRM?**

13 A61. If an order in Case No. U-21400 is received in mid-2024, and barring any future
14 guidance from the Commission to the contrary, the Company plans to propose a
15 PBR mechanism in its first general rate case after the current case. Given that IRM
16 proposals are made during general rate cases, the Company believes that a general
17 rate case is the most appropriate venue to establish PBR such that it can be
18 considered together with a potential future IRM proposal. In that rate case filing,
19 the Company could address how a potential future IRM proposal is informed and/or
20 complimented by an application of PBR.

21

22 This approach is consistent with Staff’s December 19, 2023 status report in which
23 it stated:

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1 *“This revised proposal anticipates that a contested case proceeding would*
2 *follow this workgroup process. The final decision in the contested case would*
3 *implement performance metrics for each utility.” (page 6)*
4

5 **Q62. What is the status of Case No. U-21305 related to the Company’s Distribution**
6 **System Audit?**

7 A62. The Distribution System Audit was formally launched in August 2023 with the
8 awarding of a contract to Liberty Consulting Group for the comprehensive
9 independent audit of Consumers Energy and DTE Electric.

10

11 On December 20, 2023, The Liberty Consulting Group submitted its “Utility
12 Distribution Audit Status Report” in compliance with the terms of its contract. The
13 report summarized its progress to date on the audits of Consumers Energy and DTE
14 Electric but did not include any preliminary findings or recommendations.

15

16 At the time of the filing of this case, the audit is ongoing. A final report is expected
17 in late summer or early fall of 2024.

18

19 **Q63. How is the Company planning to incorporate the findings from Case No. U-**
20 **21305 into potential future iterations of its Distribution IRM?**

21 A63. The Company anticipates that at the conclusion of the Distribution System Audit
22 there will be a series of recommendations from Liberty Consulting Group. The
23 Company plans to carefully consider these recommendations and, as determined
24 appropriate by the Company, incorporate them into future Distribution Grid Plans
25 (DGPs) and capital investment plans.

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1 Likewise, future IRM proposals would incorporate the recommendations from the
2 Distribution System Audit where appropriate. For example, while the Company
3 cannot predict what those recommendations will be, it is possible that the Company
4 may propose changes to either the programs or the investment levels authorized for
5 IRM treatment based on Liberty Consulting Group's findings.

6
7 If a final report is submitted by Liberty Consulting Group in late summer or early
8 fall of 2024, the Company anticipates that there would be sufficient time to
9 incorporate the recommendations from the audit where appropriate into an IRM
10 proposal in the first rate case filed after the current rate case.

11

12 **Q64. Given the timing of these other proceedings, why is the Company proposing a**
13 **two-year extension of the IRM?**

14 A64. The Company believes a two-year extension is most appropriate to (1) avoid a lapse
15 in the IRM and its associated benefits, (2) provide greater certainty related to use
16 of the IRM as a regulatory mechanism, and (3) maintain the ability to incorporate
17 findings from the pending cases related to PBR and the Distribution System Audit
18 into future iterations of the IRM.

19

20 While a one-year extension would likely allow the pending cases related to PBR
21 and the Distribution System Audit to conclude, it would also create additional
22 uncertainty as to the long-term disposition of the IRM. As discussed previously, to
23 make the IRM successful there must be robust, transparent, and repeatable
24 processes in place that give all stakeholders confidence that the IRM is working as
25 planned and the intended benefits are being realized. Uncertainty related to the

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1 ongoing use of the IRM challenges the establishment and evolution of the IRM and
2 its associated processes as stakeholders cannot effectively plan for its long-term
3 use.

4

5 **Q65. In addition to the proposal described above, would the Company support an**
6 **increase in the amount of capital authorized for IRM treatment in 2025?**

7 A65. Yes. As described previously, the Company's proposed IRM extension does not
8 impact the authorization for IRM treatment previously granted by the Commission
9 for 2024 and 2025.

10

11 However, increasing the amount of capital authorized for IRM treatment in 2025
12 would also increase the benefits associated with the IRM. For example, increasing
13 the amount of capital authorized for IRM treatment will also increase the certainty
14 of investment of this incremental IRM capital for its intended purpose, with any
15 under-investment triggering a refund to customers.

16

17 As such, the Company would support increasing the amount of capital authorized
18 for IRM treatment in 2025 beyond what was previously authorized as a way to also
19 increase the benefits associated with the IRM. If the Commission were to find such
20 an approach appropriate, the Company's request for recovery of 2025 capital
21 expenditures through base rates could be reduced by an amount equal to the
22 additional IRM authorization.

23

Line
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1 **Q66. Has the Company identified investments it believes would be appropriate for**
2 **IRM treatment if the Commission were to expand IRM authorization beyond**
3 **what was previously approved for 2025?**

4 A66. Yes. The Company has identified four areas of capital investment it believes are
5 appropriate for IRM authorization in 2025 (beyond what was previously
6 authorized):

- 7 • Distribution Automation - \$125.6 million of proposed 2025 investment⁹
- 8 • PTMM - \$121.0 million of proposed 2025 investment¹⁰
- 9 • 4.8 kV Hardening - \$125.0 million of proposed 2025 investment¹¹
- 10 • Frequent Outage Program (CEMI) - \$62.5 million of proposed 2025
11 investment¹²

12

13 As mentioned above, if the Commission were to authorize, either in full or in part,
14 the above capital programs and investment amounts for IRM treatment in 2025,
15 that capital could be removed from the Company's base rate recovery request.

16

17 **Storm Restoration Cost Sharing Mechanism (SRCSM)**

18 **Q67. How are storm restoration O&M costs currently projected and recovered?**

19 A67. Company Witness Kryscynski supports the calculation of projected storm
20 restoration O&M expenses in his testimony and Exhibit A-13, Schedule C5.6, Page
21 2 of 2, Lines 1-8.

⁹ Company Witness Hartwick (Exhibit A-12, Schedule B5.4, Page 17 of 26, Line 2); this represents automation investment beyond what was previously approved for IRM treatment for 2025

¹⁰ Company Witness Elliott Andahazy (Exhibit A-12, Schedule B5.4, Page 13 of 26, Line 13)

¹¹ Company Witness Elliott Andahazy (Exhibit A-12, Schedule B5.4, Page 13 of 26, Line 12)

¹² Company Witness Elliott Andahazy (Exhibit A-12, Schedule B5.4, Page 13 of 26, Line 15)

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1 As described by Company Witness Kryscynski, projected storm restoration O&M
2 expenses are based on a five-year trailing average (i.e., historical test period and
3 preceding four years), adjusted for inflation. Based on the five-year trailing average
4 methodology, for the forward test period in this case, the Company is projecting
5 \$64.5M of storm restoration O&M expenses. These projected expenses are
6 proposed to be recovered through base rates as they have been historically.

7

8 **Q68. Does the Company have any concerns with the current method for storm**
9 **restoration O&M expense recovery?**

10 A68. Yes. The current approach to storm restoration O&M expense recovery does not
11 address the uncertainty and variability of these expenses in any given year and
12 therefore puts both customers and the Company at risk of either over-recovering or
13 under-recovering storm restoration O&M costs.

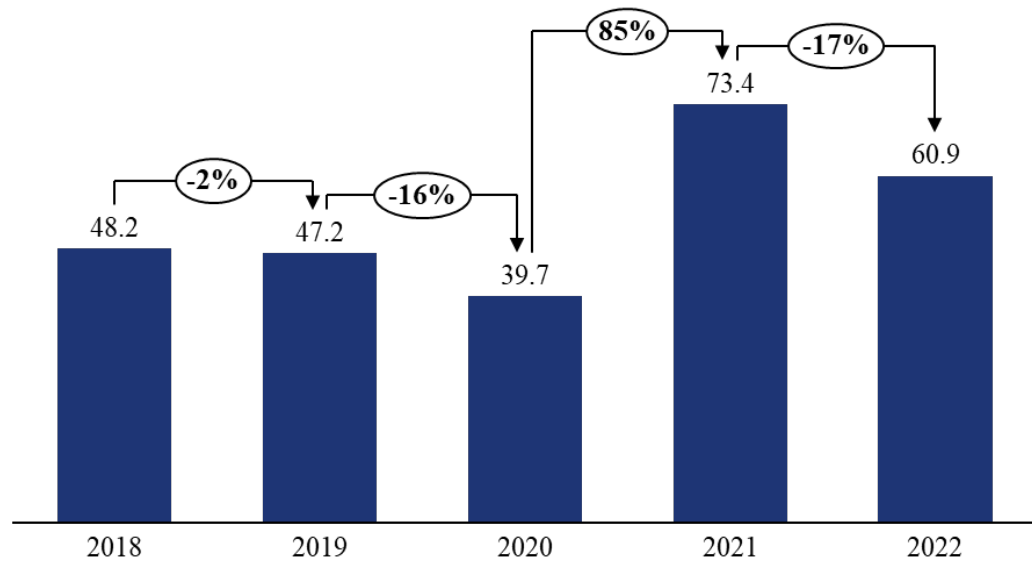
14

15 Figure 10 below captures actual storm restoration O&M expenses incurred by the
16 Company between 2018-2022 as supported by Company Witness Kryscynski.

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1

Figure 10 Actual Storm Restoration O&M Expense (\$ million)¹³



2

3

As can be seen in the chart, year-over-year changes to actual costs are volatile, ranging from a 17% decrease in costs between 2021 and 2022 to an 85% increase in costs between 2020 and 2021.

4

5

6

7

In years when actual costs are less than what was authorized for recovery, customers would pay more in rates than the actual storm restoration costs incurred in that year. In years when actual costs are greater than what was authorized for recovery, the Company must absorb any difference. Either way, the current approach to storm restoration O&M cost recovery risks misalignment between what is recovered from customers and the actual expenses incurred by the Company.

8

9

10

11

12

13

14

Q69. Does the Company expect storm restoration O&M expenses to remain uncertain and volatile?

15

¹³ Exhibit A-13, Schedule C5.6, Page 2 of 2, Line 2

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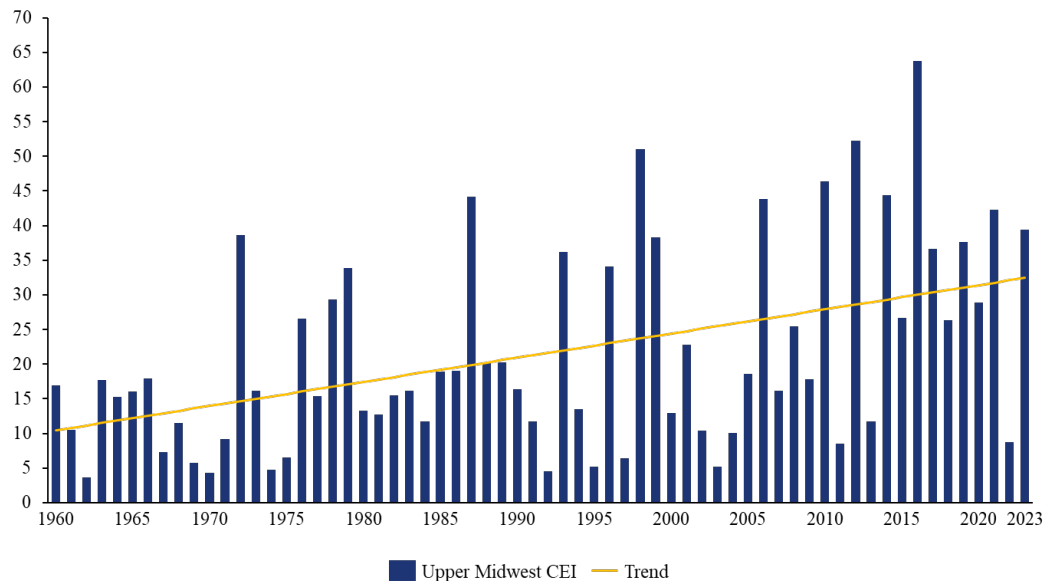
1 A69. Yes. Storm restoration expenses are impacted by the frequency and duration of
2 extreme weather events. Figure 11 below captures data from the National Oceanic
3 and Atmospheric Administration (NOAA) on the Upper Midwest¹⁴ Climate
4 Extremes Index (CEI)¹⁵. The Upper Midwest CEI measures the portion of time that
5 the Upper Midwest was subject to extreme weather during a given year. A CEI
6 value of 0% indicates that no portion of the Upper Midwest was subject to any of
7 the extreme conditions considered in the index during the year. In contrast, a value
8 of 100% would mean that the entire Upper Midwest had extreme conditions
9 throughout the year. The CEI analysis considers:

- 10 • Maximum and minimum temperature
- 11 • Daily precipitation
- 12 • Monthly Palmer Drought Severity Index (PDSI)

13

14

Figure 11 Upper Midwest Climate Extremes Index (CEI)



¹⁴ Upper Midwest includes Michigan, Wisconsin, Minnesota, and Iowa

¹⁵ <https://www.ncei.noaa.gov/access/monitoring/cei/>

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1 As can be seen in the chart, not only is there is a clear trend toward more extreme
2 weather in the Upper Midwest, but there can be significant variation from year to
3 year in the amount of extreme weather experienced in the region. For example, just
4 considering the last five years (i.e., 2019-2023) the Upper Midwest CEI has
5 fluctuated from a high of 42.3% in 2021 to a low just one year later of 8.8% in
6 2022.

7

8 Simply put, the amount of extreme weather experienced by the Company cannot be
9 accurately predicted in advance and therefore there will continue to be uncertainty
10 related to the level of storm restoration O&M expense for any given year.

11

12 **Q70. What is the Company proposing related to storm restoration O&M expense**
13 **recovery in this case?**

14 A70. The Company is proposing that the Commission authorize the Storm Restoration
15 Cost Sharing Mechanism (SRCSM), becoming effective at the start of the projected
16 test year in this case (i.e., January 1, 2025).

17

18 The Company proposes that the SRCSM operate as follows:

- 19
- 20 • The calculation of projected storm restoration O&M expenses continues to
21 follow the five-year trailing average methodology as supported by
22 Company Witness Kryscynski in this case; likewise, these projected
23 amounts continue to be authorized for recovery from customers through
24 base rates.
 - 25 • At the conclusion of each calendar year, actual storm restoration O&M
expenses are compared to the amount authorized to be recovered from

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1 customers in base rates; for years in which the amount authorized for
2 recovery through base rates changes (e.g., a general rate case order is
3 received and becomes effective mid-year), the authorized recovery amount
4 would be calculated on a prorated basis to reflect the timing and amount of
5 the updated authorization.

6 • Any difference between actual storm restoration O&M expenses and those
7 authorized for recovery is equally shared between the Company and its
8 customers; specifically:

9 ○ If actual storm restoration O&M expenses are less than projected,
10 the Company returns 50% of the difference to customers by
11 recording that amount as a Regulatory Liability.

12 ○ If actual storm restoration O&M expenses are more than projected,
13 the Company recovers 50% of the difference from customers by
14 recording that amount as a Regulatory Asset.

15 • Regulatory Assets and/or Liabilities accumulate between general rate cases
16 until a subsequent general rate case when any net Regulatory Liability or
17 Regulatory Asset is addressed.

18

19 For example, if the Company's projected costs for 2025 of \$64.5M were to be fully
20 approved, but actual 2025 storm restoration O&M expenses were only \$40.0
21 million, then the Company would record a Regulatory Liability of \$12.3 million to
22 be returned to customers in a subsequent rate case. The \$12.3 million is 50% of the
23 difference between approved costs included in base rates (i.e., \$64.5 million) and
24 actual costs (i.e., \$40.0 million).

25

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1 **Q71. Has the Commission provided any recent guidance on the use of alternative**
2 **storm restoration expense recovery mechanisms?**

3 A71. Yes. In its most recent electric rate case (Case No. U-21389), Consumers Energy
4 proposed the Symmetric Performance Incentive Mechanism (SPIM). As described
5 by Consumers Energy Witness Houtz in her direct testimony, the SPIM "...would
6 return service restoration costs below what is set in rates back to customers and
7 cover costs for the Company in excess of base rates." (page 24) Importantly,
8 Witness Houtz describes the use of a "deadband" in the proposed SPIM. According
9 to Witness Houtz, if expenses are below what is set in rates a portion would be
10 returned to customers "with the Company retaining the first 10%." (page 24) If
11 expenses are above what is set in rates, a portion would be recovered from
12 customers "with the first 10% being offset by the Company." (page 24)

13

14 In its March 1, 2024 Order in that case (March 2024 Order), the Commission
15 declined to adopt Consumers Energy's proposed SPIM. In doing so, the
16 Commission provided in part the following guidance:

17

18 *"...the Commission finds that [Consumers Energy] has not demonstrated*
19 *that the SPIM will sufficiently control service restoration expenses as*
20 *claimed by [Consumers Energy]."* (page 174)

21

22 and

23

24 *"...the SPIM does not incentivize [Consumers Energy] to reduce service*
25 *restoration expenses more than 10% below that approved in rates.*

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1 *Furthermore, there is no evidence demonstrating that the 10% offset would*
2 *adequately deter [Consumers Energy] from passing through large cost*
3 *increases to customers. Finally, the Commission finds that approval of the*
4 *mechanism is premature given the ongoing audit in Case No. U-21305.”*
5 (page 175)

6

7 **Q72. Is the Company’s proposed SRCSM responsive to the Commission’s guidance**
8 **in Case No. U-21389?**

9 A72. Yes. As the Commission pointed out in its March 2024 Order, the use of a deadband
10 could result in the utility only having an incentive to control costs when inside the
11 deadband. If actual costs are outside the deadband then the utility’s financial
12 incentive to control costs could be diminished because costs will either be returned
13 to customers (in the event that actual costs are less than authorized in base rates) or
14 recovered from customers (in the event that actual costs are greater than authorized
15 in base rates).

16

17 Given the Commission’s guidance, the Company is not proposing the use of a
18 deadband. Instead, the Company is proposing the equal sharing of costs that differ
19 from those authorized for recovery in base rates. The sharing of costs ensures that
20 the Company has a strong incentive to control costs regardless of what actual costs
21 are for a given year. Specifically, if actual costs are greater than projected, the
22 Company is incentivized to control costs because it must absorb 50 cents of every
23 incremental dollar that is spent. If actual costs are less than projected, the Company
24 is still incentivized to control costs because it is allowed to retain 50 cents of every
25 incremental dollar that is saved.

Line
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1 **Q73. Would the establishment of the SRCSM impact the Company's ability or**
2 **incentive to act on any future recommendations resulting from the**
3 **Distribution Audit?**

4 A73. No. The approval of the SRCSM would not prevent the Company from acting on
5 any future recommendations resulting from the Distribution Audit. As discussed
6 previously, the proposed SRCSM incentivizes the Company to control storm
7 restoration O&M costs regardless of what total costs are for a given year. As such,
8 the proposed SRCSM encourages the Company to implement any appropriate
9 actions faster such that it can better control costs.

10

11 **Q74. Does this complete your direct testimony?**

12 A74. Yes, it does.

LINE NO.	(a) ORGANIZATION	(b) DESCRIPTION	(c) BENEFITS	(d) BUSINESS UNIT(S)	(e) MEMBERSHIP COSTS
<i>NONDISCRETIONARY</i>					
1	Institute of Nuclear Power Operators (INPO)	INPO's mission is to promote the highest levels of safety and reliability in the operation of nuclear electric generating plants. All U.S. organizations that operate commercial nuclear power plants are INPO members. For U.S. Commercial Nuclear Assets, which includes Fermi 2, being a member of INPO is not a discretionary option. INPO is nondiscretionary for Nuclear operations.	Nondiscretionary for Nuclear Operations	Nuclear	\$1,513,128
2	US Nuclear Regulatory Commission (NRC)	The United States Nuclear Regulatory Commission (NRC) is the independent federal agency responsible for ensuring the safe use of radioactive materials for beneficial civilian purposes while protecting people and the environment. The NRC regulates commercial nuclear plants, including the Fermi 2 Power Plant, through licensing, inspection, and enforcement of its requirements. NRC licensing and assessment fees are regulated at 10 CFR 170 and 10 CFR 171 and payment of these fees is not a discretionary option.	Nondiscretionary for Nuclear Operations	Nuclear	\$7,958,545

LINE NO.	(a) ORGANIZATION	(b) DESCRIPTION	(c) BENEFITS	(d) BUSINESS UNIT(S)	(e) MEMBERSHIP COSTS
<i>NONDISCRETIONARY continued</i>					
3	North American Electric Reliability (NERC)	<ul style="list-style-type: none"> • Proposes, supports the development of, monitors compliance with, and enforces mandatory Reliability Standards for the North American Bulk Electric System (BES), subject to regulatory oversight and approvals from FERC in the U.S. and applicable authorities in Canada. • Conducts near-term and long-term reliability assessments of the North American Bulk Power System (BPS). • Certifies BPS operators as having and maintaining the necessary knowledge and skills to perform their reliability responsibilities. • Maintains situational awareness of events and conditions that may threaten BPS reliability. • Coordinates efforts to improve physical and cyber security for the BPS of North America. • Conducts detailed analyses and investigations of system disturbances and unusual events as well as measuring ongoing system trends to determine root causes, uncovering lessons learned, and issuing relevant findings as advisories, recommendations, guidelines, and essential actions to the industry to mitigate and control risks to reliability. • Identifies and prioritizes risks to reliability and uses a broad toolkit to mitigate and control risks to reliability, including the potential need for new or modified Reliability Standards, improved compliance monitoring and enforcement methods, or other initiatives. 	Nondiscretionary for Generator and Distribution Owners	Distribution Operations	\$2,978,713

(a)	(b)	(c)	(d)	(e)	(f)	
LINE NO.	ORGANIZATION	DESCRIPTION	BENEFITS	CUSTOMER BENEFITS	BUSINESS UNIT(S)	MEMBERSHIP COSTS
		<i>DISCRETIONARY</i>				
1	American Society of Employers (ASE)	The American Society of Employers (ASE) is a not-for-profit employer association serving Michigan's business community. Member organizations rely on ASE as a source for information and support on all matters affecting the employment relationship. ASE provides compensation and benefits data.	<ul style="list-style-type: none"> • Benchmarking • Research 	DTE's membership with ASE is a cost-effective way to gain information and support regarding benefit and compensation practices.	Human Resources	\$19,011
2	Center for Energy Workforce (CEWD)	The Center for Energy Workforce or (CEWD) is a non-profit consortium of more than 120 energy companies, associations, unions, educational institutions, and government entities working in partnership to ensure a skilled, diverse workforce pipeline for the energy industry.	<ul style="list-style-type: none"> • Benchmarking • Research • Best practices • Networking 	See link for more information: https://cewd.org/membership/membership-benefits/	Human Resources	\$14,840
3	Conference Board Inc.	The Conference Board is a non-advocacy, not-for-profit entity holding 501 (c)(3) tax-exempt status in the United States. The Conference Board conducts economic and business research and convenes business leaders in various forums. Membership with The Conference Board gives us research and insights on key topics and upcoming challenges in the areas of employee compensation, economics, and finance.	<ul style="list-style-type: none"> • Networking • Research 	See link for more information: https://www.conference-board.org/membership##	Corporate	\$37,464
4	Edison Electric Institute (EEI)	EEI provides strategic business intelligence, and essential conferences and forums. The EEI facilitates collaboration regarding emerging issues facing the industry. The EEI also provides a forum to ask industry related questions to other utilities and provides invaluable resource information about the utility industry and other issues that are important to DTE Electric.	<ul style="list-style-type: none"> • Benchmarking • Best Practices • Networking • Research 	Please refer to the testimony of Witness Crozier.	Various	\$1,435,103

LINE NO.	(a) ORGANIZATION	(b) DESCRIPTION	(c) BENEFITS	(d) CUSTOMER BENEFITS	(e) BUSINESS UNIT(S)	(f) MEMBERSHIP COSTS
<i>DISCRETIONARY continued</i>						
5	Electric Power Research Institute (EPRI)	The Electric Power Research Institute, Inc. conducts research, development and demonstration relating to the generation, delivery and use of electricity for the benefit of the public. An independent, nonprofit organization, they bring together scientists and engineers as well as experts from academia and the industry to help address challenges in electricity. Their work spans nearly every area of electricity generation, delivery and use, management, and environmental responsibility. They provide both short- and long-term solutions in these research areas for the electricity industry, its customers and society.	<ul style="list-style-type: none"> • Benchmarking • Best practices • Networking • Research 	<p>Please refer to the testimony of Witness Davis.</p> <p>Please refer to the testimony of Witness Guillaumin.</p>	Nuclear Energy Supply	\$1,976,555
6	Gartner	Works with companies to share, analyze, and apply proven practices. Every year they equip over 20,000 senior leaders from more than 10,000 organizations across 110 countries with the intelligence they need to respond quickly to evolving business conditions. Gartner helps businesses effectively manage their talent, customers, and operations to exceed business objectives.	<ul style="list-style-type: none"> • Benchmarking • Best practices • Networking 	Gartner provides research at a lower cost than DTE could do on its own. Gartner also provides industry wide expertise that DTE may not otherwise have access to.	Internal Audit	\$43,939

LINE NO.	(a) ORGANIZATION	(b) DESCRIPTION	(c) BENEFITS	(d) CUSTOMER BENEFITS	(e) BUSINESS UNIT(S)	(f) MEMBERSHIP COSTS
<i>DISCRETIONARY continued</i>						
7	HR Policy Association	The association represents the largest employers doing business in the United States and globally. The Association brings these executives together not simply to discuss how human resource practices and policies should be improved, but also to create a vision for successful HR strategies and pursue initiatives that promote job growth, employment security and competitiveness.	<ul style="list-style-type: none"> • Benchmarking • Best practices 	DTE uses the information to help improve HR operations and policies, manage costs, and sustain a skilled workforce.	Human Resources	\$10,194
8	Human Capital Institute (HCI)	HCI's extensive library spans the full spectrum of talent management from candidate experience to acquisition, engagement, and more to foster growing HR skills, build business acumen, and acting more strategically.	<ul style="list-style-type: none"> • Best Practices • Research 	HCI provides DTE with access to strategic talent management content including research reports and articles, webcasts, etc.	Human Resources	\$19,680
9	Institute for Corporate Productivity	Purpose is to discover and advance next practices in human capital. Produces research on human capital and HR best practices and emerging workforce trends.	<ul style="list-style-type: none"> • Practices • Research 	The Institute for Corporate Productivity is a human capital focus research organization that provides the Company insights on topics related to organizational culture change, employee collaboration, the attraction and retention of talent and diversity, equity and inclusion issues. The importance of these topics was amplified during the COVID-19 pandemic and its after affects.	Human Resources	\$57,856

LINE NO.	(a) ORGANIZATION	(b) DESCRIPTION	(c) BENEFITS	(d) CUSTOMER BENEFITS	(e) BUSINESS UNIT(S)	(f) MEMBERSHIP COSTS
<i>DISCRETIONARY continued</i>						
10	National Safety Council (NSC)	The NSC is a nonprofit organization whose mission is to save lives by preventing injuries and deaths at work, in homes and communities and on the road through leadership, research, education and advocacy. This membership provides access to online learning, practical tips, training tools, publications, libraries, original research, networking, and educational events to further support workforce safety, especially the high-risk jobs DTE Electric employees perform.	<ul style="list-style-type: none"> • Best Practices • Benchmarking • Research 	See link for more information: https://www.nsc.org/company	Corporate Safety	\$43,709
11	Neuroleadership Institute (NLI)	NLI provides research-based consultancy that uses science to make a company's culture more societal and transforms the way their organizations think, grow and perform.	<ul style="list-style-type: none"> • Research 	NLI provides research-based consultancy that uses science to make a company's culture more societal and transforms the way their organizations think, grow and perform.	Human Resources	\$7,478
12	Nuclear Energy Institute (NEI)	Membership with NEI includes access to NEI's Personnel Access Data System (PADS) which allows NEI members to share security background check information with each other resulting in significant security efficiencies. NEI also provides members, including DTE Electric, with support required to demonstrate compliance with NRC security regulations. NEI is also responsible for industry initiatives to improve safety and operational efficiencies.	<ul style="list-style-type: none"> • Benchmarking • Best Practices 	Please refer to the testimony of Witness Davis.	Nuclear	\$759,515

LINE NO.	(a) ORGANIZATION	(b) DESCRIPTION	(c) BENEFITS	(d) CUSTOMER BENEFITS	(e) BUSINESS UNIT(S)	(f) MEMBERSHIP COSTS
<i>DISCRETIONARY continued</i>						
13	Nuclear Procurement Issues Corporation (NUPIC)	Nuclear Procurement Issues Corporation (NUPIC) NUPIC was formed in 1989 by a partnership involving all domestic and several international nuclear utilities. The NUPIC program evaluates suppliers furnishing safety-related components and services and commercial-grade items to nuclear utilities.	<ul style="list-style-type: none"> • Research 	<p>Suppliers furnishing safety-related components and services and certain commercial-grade items must be evaluated by qualified nuclear evaluators. NUPIC participation allows DTE Electric to accept the valuations of other members to maintain the Fermi 2 Approved Suppliers List; Otherwise, DTE Electric would have to separately and independently inspect and evaluate each supplier which would not be reasonable nor prudent.</p> <p>Please refer to the testimony of Witness Davis.</p>	Nuclear	\$12,894

Michigan Public Service Commission
DTE Electric Company
Projected Capital Expenditures
Distribution - Infrastructure Recovery Mechanism (IRM)
Proposed Investment and In-Service Levels
(\$000)

Case No.: U-21534
Exhibit: A-33
Schedule: X1
Witness: N. Foley
Page: 1 of 1

Line No.	(a) Description	(b) U-21297 Approved 2024 13 mos. ending 12/31/2024	(c) U-21297 Approved 2025 12 mos. ending 12/31/2025	(d) U-21534 Proposed 2026 12 mos. ending 12/31/2026	(e) U-21534 Proposed 2027 12 mos. ending 12/31/2027
1	<u>CAPITAL INVESTMENTS</u>				
2	Conversions	1,608	185,812	190,000	240,000
3	Subtransmission Redesign & Rebuild	5,546	53,819	55,000	65,000
4	Breaker Replacement Program	13,680	12,628	15,000	15,000
5	URD Replacement Program	14,625	13,500	15,000	20,000
6	Distribution Automation	26,406	24,375	105,000	180,000
7	Pole and Pole Top Maintenance & Modernization	-	-	150,000	200,000
8	Total IRM Investments	61,865	290,134	530,000	720,000
9	<u>Additions to PLANT IN SERVICE</u>				
10	Conversions	1,206	139,761	188,953	227,500
11	Subtransmission Redesign & Rebuild	4,159	41,750	54,705	62,500
12	Breaker Replacement Program	13,680	12,628	15,000	15,000
13	URD Replacement Program	14,625	13,500	15,000	20,000
14	Distribution Automation	26,406	24,375	105,000	180,000
15	Pole and Pole Top Maintenance & Modernization	-	-	150,000	200,000
16	Total IRM Investments	60,077	232,015	528,658	705,000

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-21534

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss.
COUNTY OF WAYNE)

CAITLIN D. MYERS states that on June 21, 2024, she served a copy of DTE Electric Company's Testimony of Matthew A. Fix, Jerome Hooper, and Revised Testimony of Neal T. Foley, Revised Exhibit A-13 C5.11.1 WTW, Revised Exhibit A-13 C5.11.2 Pwc, and Exhibit A-27 in the above captioned matter, via electronic mail upon the persons listed on the attached service list.

CAITLIN D. MYERS

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MPSC Case No. U-21534

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