

# VARNUM

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September 30, 2025

Ms. Lisa Felice  
Executive Secretary  
Michigan Public Service Commission  
7109 W. Saginaw Highway  
P.O. Box 30221  
Lansing, MI 48909

Re: MPSC Case No. U-21870

Dear Ms. Felice:

Attached for electronic filing in the above-captioned matter, please find the Direct Testimony & Exhibits of Alexander J. Zakem on Behalf of Energy Michigan, as well as a Proof of Service regarding same.

Thank you for your assistance in this matter.

Sincerely yours,

VARNUM



Timothy J. Lundgren

TJL/lml  
Enclosures

c: All parties of record.

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

In the matter of the application of )  
**CONSUMERS ENERGY COMPANY** )  
for authority to increase its rates for )  
the generation and distribution of )  
electricity and for other relief. )  
\_\_\_\_\_ )

Case No. U-21870

**DIRECT TESTIMONY & EXHIBITS**

**OF**

**ALEXANDER J. ZAKEM**

**ON BEHALF OF**

**ENERGY MICHIGAN**

1 **Q. Please state your name and business address.**

2 A. My name is Alexander J. Zakem, and my business address is 46180 Concord, Plymouth,  
3 Michigan 48170.

4  
5 **Q. On whose behalf are you testifying in this proceeding?**

6 A. I am testifying on behalf of Energy Michigan.

7  
8 **Q. Please state your professional experience.**

9 A. Since January of 2004, I have been an independent consultant providing services to various  
10 clients, including Energy Michigan and its members.

11  
12 From March 2002 to December 2003, I was Vice President of Operations for Quest Energy,  
13 an alternative energy supplier in Michigan. My responsibilities included the overall  
14 direction and management of Quest's power supply to its retail customers. This included  
15 power supply planning, development of customized products, negotiation with suppliers,  
16 planning and acquiring transmission rights, and scheduling and delivery of power. It also  
17 included managing risk with respect to market price movements and variation of customer  
18 loads.

19  
20 Prior to joining Quest, I was employed by Detroit Edison from 1977 to 2001, where from  
21 1998 to 2001 I was the Director of Power Sourcing and Reliability, responsible for  
22 purchases and sales of power for mid-term and long-term periods, planning for generation

1 capacity and purchase power needs, strategy for and acquisition of transmission rights, and  
2 related support for regulatory proceedings.

3

4 Additional experience, qualifications, and publications are provided in Exhibit EM-1 (AJZ-  
5 1).

6

7 **Q. Have you testified as an expert witness in prior proceedings?**

8 A. Yes. I have testified as an expert witness in many proceedings before the Michigan Public  
9 Service Commission (“Commission”) on topics such as standby rates, retail rates and  
10 regulations, recovery and allocation of costs and revenues, and the effects of rate  
11 restructuring. I have also testified before the Federal Energy Regulatory Commission  
12 (“FERC”). Case citations are provided in Exhibit EM-1 (AJZ-1). In addition, I have  
13 participated in various Commission-sponsored workshops and stakeholder working  
14 groups.

15

16 **Q. Are you sponsoring any exhibits?**

17 A. Yes. I am sponsoring the following exhibits:

- 18 • Exhibit EM-1 (AJZ-1): Qualifications
- 19 • Exhibit EM-2 (AJZ-2): Example Calculation of SRM Charge --  
20 Projected vs. Actual
- 21 • Exhibit EM-3 (AJZ-3): History of SRM Charge True-Ups
- 22 • Exhibit EM-4 (AJZ-4): Recommended Changes to SRM Charge Calculation

23

1 **Q. What is the purpose of your testimony?**

2 A. On behalf of Energy Michigan, I am addressing Consumers Energy's proposed State  
3 Reliability Mechanism ("SRM") Capacity Charge ("SRM Charge") regarding the method  
4 and results of the "true-up" that is included in setting the SRM Charge.

5

6 **Q. Would you summarize your conclusions and your recommendations to the  
7 Commission?**

8 A. In the calculation of the SRM Charge in this proceeding, Consumers Energy has included  
9 a negative \$461,000 (000) adjustment to the calculation of the SRM Charge as a formulaic  
10 "true-up" between (a) the value of energy market sales net of fuel projected in the  
11 determination of the SRM Charge two cases prior in Case No. U-22389 and (b) the value  
12 of actual energy market sales net of fuel that should be used. A true-up between projected  
13 and actual is authorized by the SRM statute, MCL 460.6w.

14

15 The \$461 million true-up represents a forecast error in the projection of energy market sales  
16 net of projected fuel. Since the projection of energy market sales net of projected fuel is  
17 included in the SRM Charge set in one case and -- under the present process -- is reversed  
18 the next time the SRM Charge is set in another case, with actual values substituted, thus  
19 also affecting the SRM Charge set in the latter case, both the utility and the customer who  
20 pays the SRM Charge are affected by the true-up. Further, because the true-up amount in  
21 the SRM Charge affects the capacity and non-capacity prices in rates of utility customers  
22 who do not pay the SRM Charge, all customers who pay power supply prices are affected  
23 by the method and quantification of the true-up process. This price instability will be

1 explained more in the "Recommendations" section of this testimony. Therefore, it is  
2 important to both the utility and the customer paying the SRM Charge that the true-up be  
3 correct such that neither the utility nor the customer is advantaged or disadvantaged over  
4 multiple determinations of the SRM Charge, regardless of when a customer pays an SRM  
5 Charge.

6  
7 This testimony and exhibits will show that:

- 8 • **Implementation Errors:** The present true-up method ends up with the wrong  
9 total amount of the SRM Charge being paid by the customer and collected by the  
10 utility in each and every situation that it is applied.
- 11  
12 • **Cost of Service:** The present true-up method is inconsistent with cost-of-service  
13 principles and the cost-of-service statute MCL 460.11(1).
- 14  
15 • **Workable True-Up:** There is a simple and precise way to implement an equitable  
16 and accurate true-up for the SRM Charge, which I am recommending, such that  
17 neither the customer nor the utility is advantaged or disadvantaged. This  
18 recommended method is consistent with the SRM statute MCL 460.6w and the  
19 cost-of-service statute MCL 460.11(1).
- 20

21 I am not a lawyer, and in its brief Energy Michigan will address the legal issues involved  
22 in determining an equitable and accurate SRM Charge, including any true-up, while at the  
23 same time adhering to MCL 460.6w and MCL 460.11(1). As an expert in the field of

1 electric regulation, I can advise the Commission on the operational meaning and effects of  
2 the plain words in the statutes and the operational flexibility that those words imply for the  
3 Commission to implement a workable true-up method.

### 4 **Introduction**

5  
6  
7 **Q. How is your testimony addressing the "true-up" of the SRM Charge organized?**

8 A. There are five aspects:

9 A. First, I will explain the function of a "true-up" within the context of the statutory  
10 SRM Charge.

11 B. Next, it will be useful to specify the terminology that I will use, to simplify the  
12 discussion and to reduce confusion, as other parties may address the same true-up  
13 issue with different terminology.

14 C. Then, I will summarize the history of the SRM Charges, as well as the "true-ups"  
15 that the Commission has implemented for DTE Electric, the only company that  
16 has implemented a true up, which can illustrate the issues addressed here.

17 D. I will explain the flaws of the current true-up method.

18 E. Finally, I will propose a straightforward and accurate alternative method for the  
19 Commission to implement an SRM Charge true-up that is workable, timely,  
20 accurate, and equitable for both the utility and all its customer.

21

22

1                   **A. SRM Charge -- Context and Function of True-Up**

2

3   **Q.    How does the SRM statute specify the determination of the SRM Capacity Charge?**

4    A.    Section 6w of Public Act 341 of 2016 describes how the SRM Capacity Charge should be  
5           calculated and lists the factors to include or consider. The statute assigns to the  
6           Commission the responsibility to implement various aspects of the SRM statute.

7

8           The MCL 460.6w(3) statute specifies two categories of subtractions in determining  
9           capacity costs that are to be included in the SRM Capacity Charge calculation. The first  
10          category is simply "non-capacity" costs that are included in electric generation costs, and  
11          the second category represents the market value of the energy and electric services that the  
12          electric generation can produce. The statute states:

13                   The commission shall do both of the following [. . . ]:

14

15                   (a) For the applicable term of the capacity charge, include the capacity-  
16                   related generation costs included in the utility's base rates, surcharges, and  
17                   power supply cost recovery factors, regardless of whether those costs result  
18                   from utility ownership of the capacity resources or the purchase or lease of  
19                   the capacity resource from a third party.

20

21                   (b) For the applicable term of the capacity charge, subtract all non-  
22                   capacity-related electric generation costs, including, but not limited to, costs  
23                   previously set for recovery through net stranded cost recovery and  
24                   securitization ***and*** the projected revenues, net of projected fuel costs, from  
25                   all of the following:

- 26
- 27                   (i)     all energy market sales.  
28                   (ii)    off-system energy sales.  
29                   (iii)  ancillary services sales.  
30                   (iv)   energy sales under unit-specific bilateral contracts.

31

32                   *[MCL 460.6w(3)(a)&(b), emphasis added.]*

1

2 The "projected revenues net of projected fuel costs" listed in the SRM statute in (b) above  
3 are commonly referred to as "offsets" in discussions of SRM determinations.

4

5 **Q. What is the function of the "offsets"?**

6 A. The offsets capture the inherent market value of the type of generation that the utility  
7 operates, which value is separate from the investment costs and non-capacity operating  
8 costs. For example, a nuclear plant may have very high investment costs in order to  
9 produce electric energy very cheaply. Thus the market value of that cheap energy would  
10 be high -- market energy sales price less low fuel cost to produce. If a party is to pay a  
11 high SRM Charge for capacity for the nuclear plant, reflecting high investment costs,  
12 then it is equitable that the party also get the true benefit of the market value of the  
13 energy produced from that plant by way of offset. In contrast, a gas-fired peaker would  
14 have a relatively low investment cost, and high fuel cost. Therefore if a party is to pay a  
15 low SRM Charge for the capacity of the peaker, then it is equitable that the party get the  
16 true benefit of the market value of the energy produced from the peaker, which will be  
17 lower than that for the nuclear plant. The function of the offsets is to quantify the market  
18 value.

19

20 **Q. How does a "true-up" come into play in the SRM Charge?**

21 A. The "capacity-related electric generation costs" and the "non-capacity-related electric  
22 generation costs" are determined by the Commission in a rate case, which is typically for  
23 a future test year, based on embedded costs. The revenues from the market price of the

1 energy and other electric services are not known for that future test year, and therefore they  
2 are estimated -- "projected" in the words of the statute. Similarly, the fuel cost associated  
3 with the projected energy production depends on the volume of future energy produced,  
4 and therefore fuel costs that are expended to capture the market value of energy sales have  
5 to be estimated also.

6  
7 Therefore, if the SRM Charge is to represent the true value of the "offsets," then the actual  
8 market revenues and actual fuel costs have to be used, and these actual revenues and costs  
9 are not known until the future period passes. In short, the true-up is intended to help ensure  
10 that neither the utility collecting the SRM Charge nor a customer paying the SRM Charge  
11 should be at risk to forecast error of the projection, especially since the "offsets" are worth  
12 hundreds of millions of dollars.

13  
14 **Q. What does the statute say about a "true-up" of projections to actuals?**

15 The 6w statute continues:

16 (4) The Commission shall **provide** for a true-up mechanism that results in a utility  
17 charge or credit for the difference between the projected net revenues described in  
18 subsection (3) and the actual net revenues reflected in the capacity charge. The  
19 true-up shall be **reflected in the capacity charge in the subsequent year.** The  
20 methodology used to set the capacity charge shall be the same methodology used  
21 in the true-up for the applicable planning year.

22 *[MCL 460.6w(4), emphasis added.]*  
23

24 So the statutory process says to use projections initially, but later replace the projected  
25 amounts with the actual values for market priced sales and fuel, and "true up" the SRM

1 Charge paid to the utility by the customer. This eliminates the risk of forecast error for  
2 both the utility and the customer.

3  
4 The statute also gives some flexibility to the Commission in administering the true-up. The  
5 statute does not prescribe a specific calculation method, but rather allows the Commission  
6 to "*provide for*" a true-up and to have the true-up be "*reflected*" in the capacity charge.

7

8 **Q. Is the true-up concept workable?**

9 A. The true-up is workable as a concept, but as expressed in the statute it has flaws which lead  
10 to erroneous results; and the mechanics of the implementation of the true up in the few  
11 cases it has been applied has not fixed the errors. I will explain both later in my testimony.

12

13 **Q. What is the overall concept of the true-up process?**

14 A. The overall concept of the true-up process is that a customer paying the SRM Charge  
15 initially is assessed a charge according to the capacity and non-capacity costs determined  
16 in a rate case, less a credit -- the offsets -- determined by a forecast of energy market sales  
17 and other electric services net of fuel.

18

19 After the forecast period has passed, the credit is recalculated using actual energy market  
20 sales net of actual fuel, and then the SRM Charge is recalculated using the difference  
21 between forecast market sales net of fuel and actual market sales net of fuel.

22

1 Practically, the "true-up" should be the difference between what the customer initially paid  
2 according the SRM Charge with forecast sales and fuel versus the SRM Charge  
3 recalculated with actual sales and fuel. That difference could be either an additional  
4 payment by the customer to the utility or a refund by the utility to the customer.

5  
6 Exhibit EM-2 (AJZ-2), line 23, illustrates the initial SRM Charge using projected sales and  
7 fuel and the final SRM Charge using actual sales and fuel. The difference -- \$40 in the  
8 example -- is the true-up amount.

9

10 **Q. Do the values and the capacity calculation determined in the rate case portion of the**  
11 **SRM Charge change in the actual year?**

12 A. No, the capacity calculation from the rate case remains the same for both (i) the initial SRM  
13 Charge that uses projected values for offsets and (ii) the final SRM Charge that uses actual  
14 values for offsets. Lines 3-8 on Exhibit EM-2 (AJZ-2) illustrate that the values from the  
15 rate case stay the same. Only the value of the offsets changes, as shown on lines 11-18 of  
16 the exhibit.

17

18 **Q. What is the function of the values of the offsets for the projected year?**

19 A. The values of the offsets for the projected year are simply a proxy for the actual values that  
20 will come later. The projected year functions as a reasonable forecast such that the SRM  
21 Charge initially paid will be reasonably close to the final SRM Charge after the true up.

22

1 The projected values do not have to be the same as the rate case values. In this proceeding,  
2 U-21870, the rate case values are from the embedded cost-of-service modeling for  
3 Production costs for the test year of 12 months ending April 30, 2027.<sup>1</sup> The projected  
4 values -- the forecast of actuals -- can be based on a difference source. In this proceeding,  
5 the projected values come from various time periods and sources, including the test year,  
6 calendar 2024, and other historical values.<sup>2</sup> .

7

8 **Q. Are the fuel costs netted out in the calculation of the projected offsets the same as the**  
9 **fuel costs used in the Production cost of service?**

10 A. In this case, U-21870, the projected fuel costs for the offsets calculation are the "forecasted  
11 variable fuel costs associated with the volume of Energy Market Sales as extracted from  
12 the Company's forecast of power supply costs for the test year."<sup>3</sup> Although Consumer  
13 Energy uses the fuel costs for the test year in the projected offsets calculation, there is no  
14 need for them to be the same. The projected fuel functions merely as a forecast for the  
15 offset calculation. Projected fuel will be replaced later by actual fuel during the true-up  
16 process. Exhibit EM-2 (AJZ-2), line 16, illustrates this. The fuel from the cost-of-service  
17 in the rate case -- and the component of the SRM Charge determined by that cost-of-service

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<sup>1</sup> See the direct testimony of Ms. Emily A. Davis, page 20, line 5, to page 21, line 1; and Exhibit A-87.

<sup>2</sup> See the direct testimony of Ms. Megan L. Metz, page 13, line 15, to page 14, line 4; and Exhibit A-160.

<sup>3</sup> Ms. Metz, direct testimony, page 14, lines 2-4; and Exhibit A-160, page 1 of 3, line 24, column (o).

1 -- will not change during the true-up process. The fuel values used for the projected offsets  
2 will change, to be replace by actual fuel values.

3  
4 The capacity cost component of the SRM Charge determined by the rate case cost-of-  
5 service is not affected by whatever method is used to forecast energy market sales net of  
6 fuel for the offsets -- which method in this case comes from a variety of sources -- nor is  
7 it affected by the later outcome of actual energy market sales net of actual fuel. However,  
8 a mix up of terminology can occur -- mixing up "fuel" for determination of embedded cost  
9 rate case capacity with "fuel" for forecast offsets. I will address this further, later in my  
10 testimony.

## 11 12 **B. SRM Terminology**

### 13 14 **Q. Why is terminology regarding the State Reliability Mechanism important?**

15 A. Confusion about terminology and processes stems from various causes. The SRM statute  
16 itself has several flaws -- based on outdated assumptions -- that make it at odds with the  
17 current resource adequacy processes of the Midwest ISO ("MISO"). The SRM statute does  
18 not recognize that in 2005 MISO began dispatching all power plants to serve all loads.  
19 Thus, the SRM statute was obsolete when it was enacted in 2016. The statute also does  
20 not recognize the effects of MISO's implementation of the annual Planning Reserve  
21 Auction for capacity in 2013. And it became more obsolete in 2023 when MISO changed  
22 its capacity requirements from annual to quarterly. There are a number of other flaws,  
23 which I have discussed in previous case testimony. In this proceeding U-21860, I will

1 focus on the true-up aspect of the SRM statute as implemented by the Commission and its  
2 conflict with the cost-of-service statute MCL 460.11(1).

3  
4 A second cause that creates confusion is the subtraction of costs, whether from non-  
5 capacity costs or credits or "netting" of costs in the credits. From simple arithmetic,  
6 subtraction of a negative becomes a positive addition, and this can create some ambiguity  
7 in the discussion of "true-ups."

8  
9 **Q What terminology will you use?**

10 A. I will use the terminology as follows:

11 **SRM Charge** -- The State Reliability Mechanism Capacity Charge applied to a  
12 customer if the Load Serving Entity of that customer does not demonstrate  
13 sufficient capacity to the Commission, under the Commission's implementation  
14 rules for MCL 460.6w.

15  
16 The SRM Charge refers to the entire amount to be paid, including both (i) the rate  
17 case capacity determination from the costs of service and (ii) the credit for energy  
18 market sales and other electrical services net of fuel, whether that credit is due to  
19 projected values or actual values.

20  
21  
22 **Energy Market Sales** -- The revenue in aggregate from the four credit components  
23 in MCL 460.6w(3)(b): (i) all energy market sales, (ii) off-system sales, (iii)  
24 ancillary service sales, (iv) energy sales under unit-specific bilateral sales.

25  
26 Although the tradition in the electric industry is that "sales" refers to energy and  
27 "revenues" refers to dollars, it will be much simpler to call the value of all of the  
28 above in aggregate "energy market sales."

29  
30  
31 **Net of Fuel** -- The subtraction of the cost of fuel from Energy Market Sales, where  
32 the cost is attributable to the production of any of the four credit components of  
33 Energy Market Sales above.

1           What ought to be included under "fuel" has been controversial in previous cases.  
2           The SRM statute specifies, unequivocally, "fuel." By "fuel" I will mean only "fuel"  
3           itself -- not "fuel-related" or "imputed fuel" or "variable purchased power costs" or  
4           anything else.

5  
6  
7           **True-Up Process** -- The "mechanism" called for by Section 6w(4) and provided  
8           by the Commission by which a customer that is initially billed an SRM Charge that  
9           includes projected energy market sales net of projected fuel has its billing adjusted  
10          to match the SRM Charge that includes actual energy market sales net of actual  
11          fuel.

12  
13          Customer pays A, should pay B, and the "true-up" process is the method to get from  
14          A to B. If the customer does not end up paying B, then it is not a correct true-up.

15  
16  
17          **True-Up** -- An adjustment of the component in the SRM Charge labeled in Section  
18          6w(4) as "projected revenues net of projected fuel costs" for the difference between  
19          projected values and actual values. As noted in the definition of Energy Market  
20          Sales above, in this testimony the term "energy market sales" will refer to the  
21          revenue from the four credit components. The SRM statute specifies a true-up for  
22          that component only, not the component of the costs-of-service capacity value.

23  
24          Again, the true up applies only to energy sales revenue net of fuel costs, not to the  
25          entire SRM Charge. This is a useful distinction. As explained previously in my  
26          testimony, there is no change in the cost-of-service capacity value in the true-up  
27          process, no matter what the projected values are or the actual values are.

28  
29  
30          **Customer** -- The SRM statute applies the SRM Charge to "load," which  
31          traditionally means the amount of power flow or the impedance in a system or  
32          circuit. For implementation of the statute, the Commission has interpreted "load"  
33          to mean "individual retail customer." Using "customer" will simplify the discussion  
34          here.

35  
36  
37          **Reconciliation** -- I will not use the word "reconciliation" as a substitute for "true-  
38          up." Although "reconciliation" has been used in previous SRM Charge cases as a  
39          synonym for "true-up," the SRM statute says "true-up," and this is a clearer vision  
40          of what is happening -- customer pays A, should pay B, and "true-up" is the method  
41          to get from A to B. "Reconciliation" could mistakenly be taken to mean that the  
42          only thing that is being done is explaining the difference between A and B.

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### C. History of SRM Charges and True-Ups

**Q. How has the Commission established SRM charges since the enactment of the State Reliability Mechanism in 2016?**

A. There are six entities that have established an SRM Charge, including Consumers Energy.<sup>4</sup> The Commission initiated an original case for each entity and then rendered a decision for each in 2017 and 2018. Energy Michigan participated in the Consumers Energy original case U-18239 and the DTE Electric original case U-18248.

Since that time, the Commission has regularly reviewed the various SRM charges, in rate cases, or in settlements, or in separate case reviews. On the Commission's web site case library, I found 39 cases establishing, modifying, or continuing the SRM charges of the six entities, including the six original cases. Exhibit EM-3 (AJZ-3) shows a chronological list of case orders that include SRM charges, showing the date of the order, the case number, the entity involved, and the SRM Charge. Also included in the exhibit in column (e) is whether or not that particular case and order included a true-up of the projected energy market sales revenue net of fuel from a previous SRM Charge. The following table summarizes the results.

---

<sup>4</sup> Consumers Energy, DTE Electric, Upper Michigan Energy Resources (UMERC), Upper Peninsula Power Company (UPPCO), Cloverland Electric Cooperative, and Indiana Michigan Power.

1  
2 **Table 1. Summary of Exhibit EM-3 (AJZ-3)**  
3

	Total SRM Cases <sup>5</sup>	SRM Cases w/true-up
	-----	-----
Consumers Energy	9	0
DTE Electric	8	4 <sup>6</sup>
UMERC	9	0
UPPCO	7	0
Indiana Michigan	3	0
Cloverland	3	0
	-----	-----
Total	39	4

16  
17 **Q. What do you infer from the information on Exhibit EM-3 (AJZ-3)?**

18 A. The information shows that the reviews of the SRM Charges have been consistent and  
19 equitable for all the six entities -- regular reviews and resets in 39 cases. The exhibit  
20 shows nine cases for Consumers Energy, none of which included a true-up (highlighted in  
21 green), one of which was the original case U-18239 which of course would not have  
22 included a true up from a previous case. Cases that include true-ups are scarce. There have  
23 been only four true-ups -- all for DTE Electric, highlighted in yellow on Exhibit EM-3  
24 (AJZ-3). Out of eight cases setting an SRM Capacity Charge for DTE, only four were  
25 trued up.  
26

---

<sup>5</sup> This includes the original case for each of the six companies.

<sup>6</sup> Two of the DTE true-up cases, U-20836 and U-21297, were for the same SRM Charge that was set in U-20561.

1 **Q. Do any of the four DTE Electric cases true up the energy market sales net of fuel that**  
2 **was projected in the preceding case that set an SRM Charge?**

3 A. Since Consumers Energy's SRM Capacity Charge included no true-ups in all of its  
4 preceding nine SRM case, we have to look at DTE Electric for some of the implementation  
5 processes. None of the four DTE cases that include true-ups deal with the immediately  
6 preceding case that set an SRM Charge. Three DTE SRM Charges cases were later trued  
7 up, one of which was trued up in two later cases, and none of the true-ups were done in  
8 succeeding SRM cases, or in the subsequent years, as the SRM statute specifies, "The true-  
9 up shall be reflected in the capacity charge *in the subsequent year.*"<sup>7</sup>

10

11 **Q. In your observation, is there a reason why none of the four DTE true-ups reflect the**  
12 **immediate prior SRM Charge case?**

13 A. Yes. The sequence of cases and order dates point to an obvious flaw in the SRM statute  
14 specifying true ups: the cases that set an SRM Charge based on projected energy market  
15 sales net of fuel and the cases that true up the projected values to actual energy market sales  
16 net of actual fuel take time, significant amounts of time. The setting and true-up are not  
17 instantaneous. An SRM Charge is set at the date of the final order in a case, and the next  
18 setting is at the time of a final order in the next case, which may be a year or more away,  
19 not at the time of the filing of the next case.

20

---

<sup>7</sup> MCL 460.6w(4) (emphasis added).

1           Consequently in this case U-21870, filed on May 28, 2025, it would not make sense for a  
2           true up to be proposed for the outcome of the immediately prior setting of the SRM Charge,  
3           which occurred in the final order for U-21585 on March 21, 2025. Nor would it make  
4           sense to true up an SRM Charge that was set two cases prior. It's as if the drafters of PA  
5           341 envisioned a PSCR-type process, where every year there is a new PSCR adjustment  
6           factor, yet not considering that a PSCR Plan is filed months ahead of the planned year and  
7           that a PSCR reconciliation takes months after the end of the plan year. Thus, the statutory  
8           true-up process has an inherent timing flaw.

9  
10           **D. Flaws in the Formulaic True-Up of Energy Market Sales Net of Fuel**

11  
12           **Q. You have described a timing flaw in the SRM statute. How does this flaw affect the**  
13           **validity of a true-up of energy market sales net of fuel for the utility and the customer?**

14           A. The timing flaw in the SRM statute, coupled with the current formulaic method for true-  
15           ups that has been implemented in all four of the SRM Charge cases that have included a  
16           true-up so far, results in each of the true-ups being in error. This will continue into the  
17           future as long as the present true-up method is applied -- that is, all future true-ups using  
18           the present method will be in error. Consequently, neither the utility nor the customer will  
19           be treated fairly under the present true-up method.

1 **Q. What is the basic difficulty?**

2 A. Under the present true-up method, the customer and the utility can be trued up only if the  
3 customer that pays an SRM Charge in one year also pays an SRM charge determined in a  
4 later year. But then the later SRM Charge also has to be trued up.

5

6 **Q. How does the flaw in timing affect the customer and the utility?**

7 A. The flaw in the timing of the present SRM true-up method -- as proposed in this case by  
8 Consumers Energy and as implemented in the four DTE Electric cases out of 39 SRM cases  
9 total -- results in the present true-up method being contrary to cost-of-service principles  
10 and unfair to both the utility and the customer. There is a better way to implement a true-  
11 up that is fair to both the utility and the customers, as I will recommend later in my  
12 testimony.

13

14 **Q. Would you explain?**

15 A. As stated previously, under the present true-up method the customer and the utility can be  
16 trued up (for a difference between initially projected "offsets" and later actual values of the  
17 offsets) only if the customer that pays an SRM Charge in one year also pays an SRM charge  
18 determined in a later year. But if the customer pays the SRM charge also in a later year,  
19 then that later charge would not get trued up until a still later case. The result of the timing  
20 flaw in the SRM statute is that SRM Charges and true-ups end up infinitely pancaked.

21

22

1 **Q. Would you give an example?**

2 A. Yes, an example will make the current complex true-up process easier to envision. Since  
3 Consumers Energy has never previously had a true-up in any of its nine previous SRM  
4 cases, the example will have to be explained in words.

5

6 Looking at three consecutive time periods -- A, B, and C -- and at the SRM Capacity  
7 Charge in each period can show the errors in the present true-up process.

8

9 **A. *Charge in period A:***

- 10
- Suppose in time period A, a customer is assessed SRM Charge A.
  - That charge is incorrect because it includes proxy projected values for  
11 the offsets in place of actual values, which are unknown at the time  
12 (but will later be substituted in the true-up).
  - Consequently, the customer does not pay, nor does the utility collect,  
13 the correct amount. The projected values for the offsets must be trued  
14 up later.  
15  
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18 **B. *True-up plus charge in period B:***

- 19
- In the present implementation method, after time period A, in the  
20 following time period B, SRM Charge B includes the true-up for SRM  
21 Charge A.
  - So in order for the customer to receive the correct charge for time  
22 period A (and the utility to collect the correct payment), the customer  
23

1                    must also be assessed SRM Charge B, which includes the true-up for  
2                    time period A.

3  
4                    • But SRM Charge B includes projected offsets also, which later have to  
5                    be trued up.

6                    • So while the customer is trued up to actuals for time period A, the  
7                    customer is also paying an estimated, projected amount for SRM  
8                    Charge B, which is an incorrect charge unless and until SRM Charge  
9                    B is trued up later.

10                  • Since SRM Charge B is trued up in the determination of SRM Charge  
11                  C, the customer will not be trued up for SRM Charge B unless the  
12                  customer is subject to SRM Charge C in time period C.

13  
14                  • If a different customer is paying SRM Charge B in time period B for  
15                  the first time, then that customer is getting the effect of a true up for  
16                  SRM Charge A, which that customer was not subject to, and therefore  
17                  is getting an erroneous total charge, as is the utility.

18

19                  **C.    *True up plus charge in period C:***

20                  • If the customer that was charged in time periods A and B is not  
21                  assessed SRM Charge C in time period C, then the customer foregoes  
22                  the proper true up for SRM Charge B, and both the customer and the  
23                  utility pay and collect the wrong total amount.

1

2

- If the customer that was charged in time period A and B is assessed SRM Charge C in time period C, then the situation is similar to time period B, where the customer receives the correct true up from past charges but also receives an incorrect charge for time period C unless and until the customer also receives the true up for SRM Charge C, which will not occur until time period D when the true up for SRM Charge C will be included in SRM Charge D.

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And so it goes. The present true-up method has not been correct in the past, is not now correct, and will never be correct.

14

15

16

**Q. In the preceding examples, what if a true-up amount in one time period is reversed, or backed out, of the next time period?**

17

18

A. If "backing out" the previous true-up, then the following situation occurs:

19

- Suppose a customer is subject to SRM Charges B and C, but not A. Thus the customer should not be affected by the true up for SRM Charge A.

20

21

- 1                   • But SRM Charge B includes the true-up for SRM Charge A, and  
2                   therefore if the customer is paying SRM Charge B, the customer is  
3                   affected by the true up to SRM Charge A.

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12           This attempted remedy merely produces more errors:

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- First, a customer subject only to SRM Charge C does not receive the correct charge because SRM charge C is affected by the reversal of the true-up for SRM Charge A,
- Second, a customer subject to SRM Charge A and SRM Charge C receives the reversal of the true-up for time period A, not the correct true-up for time period A, which occurs via SRM Charge B in time period B.

1 **Q. What conclusion can be made from the example?**

2 A. The example shows that under the present true-up method no matter what time period or  
3 combination of time periods a customer may pay the SRM Capacity Charge, the total SRM  
4 Capacity Charge the customer pays and the utility collects is always in error:

- 5 • If a customer pays the SRM Charge only in one of the three time periods -- A,  
6 B, or C separately -- the total SRM Charge is in error.
- 7 • If a customer pays the SRM Charge in two of the three periods -- A and B, B  
8 and C, or A and C -- the total SRM Charge is in error.
- 9 • If a customer pays the SRM Charge in all three periods -- A and B and C --the  
10 total SRM Charge is in error.

11

12 There is no situation under the present true-up method where the customer pays and the  
13 utility collects the amount as specified in the SRM statute MCL 460.6w.

14

15 **Q. How does this affect compliance with the cost-of-service statute MCL 460.11(1)?**

16 A. Even under the assumption that the SRM Capacity Charge defines the cost of service (and  
17 this assumption has been debated in previous cases, but will not be argued here), the present  
18 true-up method charges customers and compensates the utility an amount different from  
19 the defined amount in every situation. Therefore, the present true-up method cannot be  
20 anything other than in conflict with the cost-of-service statute MCL 460.11(1). I will  
21 address this also later in this testimony.

22

23 There are solutions, as will be explained in the next section.

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**E. True-Up Recommendations**

**Workable, Timely, Accurate, Equitable**

**Q. What is the current situation regarding paying SRM Charges and settling true-ups?**

A. The implementation of SRM Charges began in 2017. To date, eight years later in 2025, no entity has been assessed an SRM Charge. At present, all load serving entities have demonstrated sufficient capacity according to the Commission's rules under PA 341 for the next four years. If an entity is assessed an SRM Charge, the soonest that can reasonably occur is five years from now, and a true up process for such a charge would be at least one year later, or six years from now. There is no urgency to continue the current faulty formulaic true-up method for the next six years.

**Q. What is the advice of stakeholders who would be involved in paying and truing up an SRM Charge?**

A. Both the two largest utilities in the state, Consumers Energy and DTE Electric, have stated that there is no need to calculate a true up until someone pays the SRM Charge.

*[Consumers Energy]*

**Q. Does Consumers Energy Agree that Section 6w(4) of PA 341 requires a true-up mechanism for SRM capacity charges?**

A. Yes. Should the Company ever impose an SRM capacity charge and actually collect revenue from this charge, the Company will include a true-up calculation in its next-filed SRM capacity charge calculation as required by the statute.<sup>8</sup>

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<sup>8</sup> Case No. U-21585, rebuttal testimony of Ms. Megan L. Metz, page 2, lines 3-7. Emphasis added.

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*[DTE Electric]*

**Q23. How does the Company [DTE Electric] intend to handle any reconciliation of previous year variance of wholesale energy sales revenue net of fuel costs?**

A23. The Company currently has no electric choice customers being assessed a capacity charge, thus no reconciliation with any customers has been previously done. The Company files a reconciliation exhibit in the annual PSCR Reconciliation case that would be used for any reconciliation adjustment if a customer were to be charged the SRM.<sup>9</sup>

Energy Michigan -- speaking for Alternative Electric Suppliers and the interests of their customers who would pay the SRM Charge -- agrees with the views of DTE and Consumers Energy that there is no need for implementing an ongoing true-up process until someone actually pays an SRM Charge. Therefore, the Commission has time to deliberate and enact reforms of the methodology before applying it again.

**Q. Does the Commission have the authority to change the true-up process specified in the SRM statute?**

A. That is a legal question that Energy Michigan will address in its brief. Practically, from a common regulatory-practice point of view, the Commission has a degree of flexibility in exactly how it can implement a true-up process, for several reasons.

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<sup>9</sup> Case No. U-21534, direct testimony of Mr. Shaun D. Burgdorf, page 11, line 21, to page 12, line 2. Emphasis added.

1        **Flexible Statute:** First, as noted previously, the statute itself indicates some flexibility for  
2        the Commission:

3                    (4) The Commission shall **provide** for a true-up mechanism that results in a utility  
4                    charge or credit for the difference between the projected net revenues described in  
5                    subsection (3) and the actual net revenues reflected in the capacity charge. The  
6                    true-up shall be **reflected** in the capacity charge in the subsequent year.

7  
8                    The **methodology** used to set the capacity charge shall be the same methodology  
9                    used in the true-up for the applicable planning year.<sup>10</sup>

10  
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12  
13        "Provide" and "reflected" allow a lot of room for workable methods; and the  
14        "methodology" is already the same for how projected and actual offsets are worked into  
15        the calculation of the SRM Charge, as is shown on Exhibit EM-2 (AJZ-2) and discussed  
16        previously in my testimony. So there is no single prescription that must be followed, but  
17        rather room for various methods other than the present formulaic method.

18  
19        **Cost of Service Statute:** The Commission is also guided by the cost-of-service statute,  
20        MCL 460.11(1).

21                    Except as otherwise provided in this subsection, the commission shall ensure the  
22                    establishment of electric rates equal to the cost of providing service to each  
23                    customer class. In establishing cost of service rates, the commission shall ensure  
24                    that each class, or sub-class, is assessed for its fair and equitable use of the electric  
25                    grid.<sup>11</sup>

26  
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<sup>10</sup> MCL 460.6w(4). Emphasis added.

<sup>11</sup> MCL 460.11(1). Emphasis added.

1 Recognizing the cost of service requirements can help establish a true-up process that does  
2 not charge customers or the utility inaccurate amounts just for carrying over retroactive  
3 true-ups for time periods where no service is being provided. "Cost of service" is a  
4 principle of regulating rates, not simply a computerized equation.

5  
6 ***Proven Past Flexibility:*** Regarding setting a workable and fair SRM Charge, the  
7 Commission has already recognized (apart from including a true-up in only 4 of 39 SRM  
8 cases) that it has the ability to exercise practical sense to implement something that works.  
9 In the Indiana Michigan rate case that set I&M's original SRM Charge, the Commission  
10 declared:

11 The Commission agrees with the company that nothing in Act 341 requires that  
12 I&M's capacity rate be set using the mechanism set forth in the statute.

13  
14 Although the Commission notes that the capacity charge methodology set forth [in]  
15 Section 6w(3) may not directly apply to I&M, subsections (a) and (b) of Section  
16 6w(3) provide guidance to the Commission for determining capacity costs and  
17 rates.

18  
19 Based on this guidance and the evidence in this case about an equitable and accurate  
20 rate for capacity, the Commission finds it appropriate to revisit the methodology  
21 approved by the Commission in Case No. U-17032.<sup>12</sup>  
22

23 That should be the goal of a true-up process -- "equitable and accurate."  
24

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<sup>12</sup> Case No. U-18370, order April 12, 2018, page 71. Emphasis added.

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### Recommendations

**Q. What are your recommendations to the Commission?**

A. My testimony and exhibits have shown that the present true-up method is inaccurate, unfair to both utility and customer, and has been applied inconsistently in the 39 SRM cases. There is a straightforward remedy, and it has two aspects:

1. Suspend the current formulaic true-up method, in this proceeding.

This is essential. Continuing the current true-up methodology is not just choosing a different administrative path from what is recommended here; rather, it is continuing and prioritizing a known error over the equitable and accurate implementation of a statute. Prolonging an erroneous rate or rate process, or attempting to shore up and implement a statutory interpretation that has fatal flaws, provides no benefit to either customers or utilities. Nor is it necessary to reopen past SRM cases to take this step of suspension to correct the true-up methodology going forward.

Suspension need not harm anyone, particularly for the next six years, which is the earliest that the Commission reasonably would have to address another true-up method. Utilities and AESs see no benefit of a true-up until some party actually pays an SRM Charge, and the soonest that can happen is five years out from now.

1           2. Implement a customer-specific SRM true-up.

2           Apply a customer-specific true-up to any customer that is assessed the SRM  
3           Charge, which is triggered only when and if a customer is subject to the SRM  
4           Charge. Thus, if at some time in the future a customer does pay the SRM Charge,  
5           then that customer has to be trued up, and this can be done on an *ad hoc* basis for  
6           that customer without revising present or future SRM Charges. This corrects and  
7           simplifies the SRM true-up process and avoids the pancaking of charges and  
8           reversals from previous true-ups.

9  
10          A simple method for truing up a customer is to determine the difference between  
11          what the customer initially paid -- with projected energy market sales net of fuel --  
12          compared to what the customer should pay with actual energy market sales net of  
13          fuel. Actuals, once they are available, would be substituted for projections in  
14          recalculating the SRM Charge, and the customer would be billed for, or refunded,  
15          the difference between the two calculated charges. In this manner, both the  
16          customer and the utility would be treated fairly, and no "gaming" of high forecasts  
17          or low forecasts would be possible. It also eliminates another inherent error of the  
18          present formulaic method, which is that the customer does not necessarily have the  
19          same MW capacity obligation in two different periods. Further, it fulfills the  
20          statutory requirement that the Commission "provide a true-up mechanism," and it  
21          would be a mechanism parallel to the determination of the initial SRM Charge.

22

23

1 **Q. How would this work, practically?**

2 A. Looking at Exhibit EM-2 (AJZ-2) provides an example. It doesn't matter if the SRM  
3 Charge is expressed in total dollars for the utility or in dollars per MW-day billed to the  
4 customer.

5  
6 In Exhibit EM-2 (AJZ-2), line 25 shows the SRM Charge dollars -- \$450 with the  
7 projections of energy market sales net of fuel and \$490 with the actual energy market sales  
8 net of fuel. In the end, the customer should pay the value that goes with the \$490.

9  
10 Suppose the customer is billed for \$100 under the initial, projected SRM Charge. With the  
11 true up, the customer should pay a difference of:

$$\begin{aligned}
 12 \quad & \$100 \times (\$490/\$450 - 1) \\
 13 \quad & = 100 \times (1.0889 - 1) \\
 14 \quad & = \$108.89 - \$100 \\
 15 \quad & = \$8.89 \quad \textit{to be paid by customer to utility.}
 \end{aligned}$$

16  
17 The general calculation would be:

$$\begin{aligned}
 18 \quad & \text{True-up to be paid} = \\
 19 \quad & = \text{Initial amount paid} \times \left[ \frac{(\text{SRM Charge with actuals})}{(\text{SRM Charge with projections})} - 1 \right] \\
 20 \quad & \\
 21 \quad &
 \end{aligned}$$

22 *If the result is positive, the true-up is additional money to be paid by the*  
23 *customer to the utility.*

1                                    *If the result is negative, the true-up is money to be refunded by the utility to*  
2                                    *the customer.*

3

4    **Q.    What are the advantages of this method?**

5    A.    The first advantage is that both the customer and the utility are treated equitably and  
6                                    accurately, the Commission's stated principle.

7

8                                    The second advantage is the customer does not have to pay an SRM Charge in multiple  
9                                    periods just to be trued up for one period.

10

11                                    The third advantage is that the rates for full-service customers are no longer affected by  
12                                    errors in projecting energy market sales net of fuel.

13

14                                    A utility's true-up proposal can cause rate instability. Production costs are divided into  
15                                    "capacity" and "non-capacity," where the "capacity" portion of the rates is determined by  
16                                    the statutory SRM Charge specifications including any effects of a true-up, and all other  
17                                    production costs go into the "non-capacity" portion of the rates. For example, in this  
18                                    proceeding, Consumers Energy's on-peak capacity demand price in its common Primary  
19                                    Demand rate (GPD voltage level 3) increases from \$2.23 per kW to \$4.71 in summer and  
20                                    from \$2.07 per kW to \$4.37 in winter, more than doubling the price.<sup>13</sup> Under the  
21                                    formulaic true-up method, "capacity" and "non-capacity" do not have usable meaning for

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<sup>13</sup> See Consumers Energy Exhibit A-16, Schedule F-3.0, page 13 of 23.

1 rate design if a significant portion of the capacity cost is due to a "true-up" -- that is, due  
2 to forecast errors in the projections for the SRM Charge.

3  
4 The fourth advantage is that there is no need for pancaking or reversals or re-reversals of  
5 previous true ups.

6  
7 The fifth advantage is that the customer's MW capacity obligation, which can be different  
8 in two different periods, and upon which the SRM Charge to be assessed is based,  
9 becomes irrelevant.

10  
11 The sixth advantage is that the recalculation of the SRM Charge using the actual energy  
12 market sales net of fuel is readily visible, and easily comparable "before" and "after."

13  
14 The seventh advantage is that it eliminates any opportunity for "gaming" the SRM  
15 Charge either by the utility or by AESs, via skewing projections of offsets up or down.

16  
17 **Q. Would the Commission have to order this method immediately?**

18 A. No, not at all. The Commission and interested parties have at least six years to come to  
19 agreement, as long as the current formulaic method is suspended. The arithmetic is so  
20 simple that I can't see reopening six contested SRM cases to figure it out. Perhaps a  
21 settlement document could be filed. Since no one is paying the SRM Charge now and  
22 would not pay for the next four years, the Commission does not have to execute a true-up

1 for each utility for each year, but rather "provide for a true-up mechanism" that would be  
2 implemented should the need for a true-up arise.

3  
4 **Q. If the formulaic true-up method is suspended in this proceeding, how would that**  
5 **change the SRM Charge proposed by Consumers Energy?**

6 A. Consumers Energy's calculation of the SRM Charge appears on Exhibit A-87. Exhibit  
7 EM-4 (AJZ-4) summarizes the proposed changes.

8  
9 The embedded capacity cost from the cost of service would stay the same, shown on  
10 Exhibit EM-4 under "Total Capacity Related Cost" on line 7 as \$1,218,747 (000). And  
11 the projected energy market sales net of fuel would stay the same, shown on line 18 as  
12 \$339,952.

13  
14 The true-up adjustment would change to zero. Consumers Energy calls its cumulative  
15 total true up adjustment "SRM Reconciliation," shown on line 19 in column (b) as \$ -  
16 461,000, and this would change to zero on line 19 in column (c).

17  
18 Carrying through the arithmetic on Exhibit EM-4, the "Net Capacity Cost" on line 20  
19 would change from \$417,794 in column (b) to \$878,795 in column (c), and the "Capacity  
20 Charge (\$/MW-Day" on line 22 would change from the proposed \$116.17 in column (b)  
21 to \$244.36 (in column (c)).

22  
23 All these changes are shown on Exhibit EM-4.

1

2 Q. Would you recap your testimony?

3 A. Yes. As stated at the beginning of my testimony, my testimony and exhibits have shown  
4 three aspects of the present SRM true-up method:

5 • **Implementation Errors:** The present true-up method ends up with the wrong  
6 total amount of the SRM Charge being paid by the customer and collected by the  
7 utility in each and every situation that it is applied. No matter in which or in how  
8 many time periods a customer is assessed the SRM Charge, the total charge is  
9 always incorrect.

10

11 • **Cost of Service:** The present true-up method is inconsistent with cost-of-service  
12 principles and the cost-of-service statute MCL 460.11(1). In addition, and  
13 incorrect charge can never be justified as "following the cost of service."

14

15 • **Workable True-Up:** There is a simple and precise way to implement an equitable  
16 and accurate true-up for the SRM Charge, which I recommended and explained,  
17 such that neither the customer nor the utility is advantaged or disadvantaged. This  
18 recommended method is consistent with the SRM statute MCL 460.6w and the  
19 cost-of-service statute MCL 460.11(1).

20

21 Q. Does this conclude your direct testimony?

22 A. Yes, it does.

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

In the matter of the application of )  
**CONSUMERS ENERGY COMPANY** )  
for authority to increase its rates for )  
the generation and distribution of )  
electricity and for other relief. )  
\_\_\_\_\_ )

Case No. U-21870

**EXHIBITS OF**  
**ALEXANDER J. ZAKEM**  
**ON BEHALF OF**  
**ENERGY MICHIGAN, INC.**

**ALEXANDER J. ZAKEM**

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**CONSULTANT – MERCHANT ENERGY AND UTILITY REGULATION**

Provides strategies and technical expertise on competitive market issues, transmission issues, state and federal regulatory issues involving the electricity business, and associated legal filings. Scope includes the Midwest ISO Energy Market including involvement in Resource Adequacy rules and procedures, FERC proceedings on transmission and market tariffs, state rules for competitive supply, and negotiation of settlements.

**PRIOR POSITIONS: Quest Energy, LLC – a subsidiary of Integrys Energy Services**

**Vice President, Operations**

**March 2002 to December 2003**

Responsible for the planning, acquisition, scheduling, and delivery of annual power supply and transmission, to serve competitive retail electric customers.

- **Power Planning** -- Designed and negotiated customized long-term power contracts, to reduce power costs and exposure to spot energy prices.
- **Transmission** -- Revamped transmission strategy to reduce transmission costs.
- **Load Forecasting** -- Instituted formal short-term forecasting process, including weather normalization.
- **Risk Management** -- Developed summer supply strategy including call options to minimize physical supply risk at least cost. Instituted probabilistic assessment of forecast uncertainty to minimize transmission imbalance costs.
- **Contract Management** – Negotiated and recovered liquidated damages for power supply contracts. Included cost of transmission losses into customer contracts.
- **Operations Capability** -- Expanded the Operations staff. Oversaw daily activity in spot market purchases. Instituted back-up capability, including equipment and processes, enabling the company to schedule and deliver virtually all power during the August 2003 blackout in the Midwest.

**PRIOR POSITIONS : DTE Energy / Detroit Edison — 1977 to 2001**

**Director, Power Sourcing and Reliability**

**May 1998 to April 2001**

Director of group responsible for monthly, annual, and long-term purchases and sales of power for Detroit Edison, including procuring power for the summer peak season.

- **Planning** -- Planned summer power requirements for Detroit Edison, including mix of generation, option contracts, hub purchases, load management, and transmission, which balanced and optimized physical risk and financial risk.
- **Contract Management** – Established decision, review, and approval process for evaluation and execution of power transactions, including mark-to-market valuation.
- **Execution** -- Executed summer plans, contracting annually for purchased power and transmission services. Directed negotiations for customized structured contracts to provide the company with increased operating flexibility, dispatch price choices, and delivery reliability.
- **Risk Management** – Developed an optimizing algorithm using load shapes to minimize corporate exposure to volatile power prices. Developed a hedging strategy to fit power purchases to the corporation's risk tolerance level.
- **Acquisitions** -- Team leader for acquisition of new peakers.
- **Settlements** -- Negotiated and settled liquidated damages claims.

**Relevant prior positions within Detroit Edison**

**Position**

**Organization**

**Director, Special Projects**

**Customer Energy Solutions**

Leader of several special projects involving the transformation of the corporation's merchant energy functions into competitive business units, including merger explorations and the start up of DTE Energy Trading (DTE's power marketing affiliate).

Directed filings to the Federal Energy Regulatory Commission to establish DTE Energy Trading as a power marketer and to gain authority for sales, brokering, and code of conduct. The FERC used DTE's flexible utility/affiliate code of conduct as precedent for rulings for other power marketers.

**Director, Risk Management**

**Huron Energy (affiliate)**

Leader of team responsible for competitive pricing of wholesale structured contracts and for acquiring risk management hardware and software to support risk management policy. Prepared Board resolutions to implement risk management policy.

**Director, Contract Development**

**Customer Energy Solutions**

Leader of team that formulated a business strategy for the corporation in competitive power marketing. Team leader on project evaluating an existing steam and electricity contract, recommending and gaining Board approval for revamping the corporation's Thermal Energy business and strategy.

**Project Director**

**Executive Council Staff  
& Corporate Strategy Group**

Project leader for competitive studies, including business risk, generation pooling, and project financing in the merchant generation industry. Team member and/or team leader for analyses of merger and acquisition opportunities

**Special Assignment**

**Executive Council Staff**

Special assignment related to long-term industry strategies and mergers and acquisitions.

**Pricing Analyst**

**Marketing / Rate**

Developed, negotiated, and implemented an innovative standby service tariff. Testified as an expert witness in regulatory proceedings and in state legislative hearings.

**Engineer**

**Resource Planning**

Member of the company's electric load forecasting team, responsible for SE Michigan energy and peak demand forecasting, and for risk analysis. Developed the company's first residential end-use forecast model.

**EDUCATION:** M. A. in mathematics, University of Michigan  
B. S. in mathematics, University of Michigan

**MILITARY:** U. S. Army, Viet Nam service. Honorably discharged.

**PROFESSIONAL:** Member, Engineering Society of Detroit

**PUBLICATIONS & PAPERS:**

- "Competition and Survival in the Electric Generation Market," published in *Public Utilities Fortnightly*, December 1, 1991.
- "Measuring and Pricing Standby Service," presented at the Electric Power Research Institute's "Innovations in Pricing and Planning" conference, May 3, 1990.
- "Assessing the Benefits of Interruptible Electric Service," presented at the 1989 Michigan Energy Conference, October 3, 1989.
- "Principles of Standby Service," published in *Public Utilities Fortnightly*, November 24, 1988.
- "Progress in Conservation," a satirical commentary published in *Public Utilities Fortnightly*, October 27, 1988.
- "Comparing Utility Rates," published in *Public Utilities Fortnightly*, November 13, 1986.
- "Uncertainty in Load Forecasting," with co-author John Sangregorio, published in *Approaches to Load Forecasting*, Electric Power Research Institute, July 1982.

**PREVIOUS RECENT TESTIMONY :**

- Michigan Public Service Commission, U-21860
- Michigan Public Service Commission, U-21585
- Michigan Public Service Commission, U-21534
- Michigan Public Service Commission, U-21389.
- Michigan Public Service Commission, U-21297.
- Michigan Public Service Commission, U-21224.
- Michigan Public Service Commission, U-21193.
- U.S. District Court, Eastern District of Michigan, Southern Division, Case No. 2:20-cv-12521.
- Michigan Public Service Commission, U-21090.
- Michigan Public Service Commission, U-20963.
- Michigan Public Service Commission, U-20836.
- Michigan Public Service Commission, U-20697.
- Michigan Public Service Commission, U-20561.
- Michigan Public Service Commission, U-20359.
- Michigan Public Service Commission, U-20471.
- Michigan Public Service Commission, U-20162.
- Michigan Public Service Commission, U-20134.
- Michigan Public Service Commission, U-18248.
- Michigan Public Service Commission, U-18239.

## Example Calculation of SRM Charge Projected vs. Actual

Case No. U-21870  
Exhibit EM-2 (AJZ-2)  
Page 1 of 1

Line No.	(a)	(b)	(c)	(d)
	<b><u>SRM Charge with Projected Offsets</u></b>		<b><u>SRM Charge with Actual Offsets</u></b>	
3	<b><u>Rate Case Test Year</u></b>		<b><u>Rate Case Test Year</u></b>	
4	Total Power Supply	\$1,000	Total Power Supply	\$1,000
5	- Less Fuel for Test Year	-300	- Less Fuel for Test Year	-300
6	- Less Other Non-Capacity for Test Year	-100	- Less Other Non-Capacity for Test Year	-100
7		-----		-----
8	= Capacity Dollars	<b>\$600</b>	= Capacity Dollars	<b>\$600</b>
11	<b><u>Projected Year</u></b>		<b><u>Actual Year</u></b>	
12	All Energy Market Sales Forecast	\$350	All Energy Market Sales	\$325
13	+ Off-System Energy Sales Forecast	20	+ Off-System Energy Sales	10
14	+ Ancillary Services Sales Forecast	50	+ Ancillary Services Sales	65
15	+ Energy Sales Bilateral Contracts Forecast	0	+ Energy Sales Bilateral Contracts	0
16	- Less Fuel Forecast for Projected Year	-270	- Less Actual Fuel for Actual Year	-290
17		-----		-----
18	<b>= Projected "Offsets"</b>	<b>\$150</b>	<b>= Actual "Offsets"</b>	<b>\$110</b>
21	<b><u>SRM Charge -- initial</u></b>		<b><u>SRM Charge -- final</u></b>	
22	Test Year Capacity	\$600	Test Year Capacity	\$600
23	<b>- Less Projected Offsets</b>	<b>-\$150</b>	<b>- Less Actual Offsets</b>	<b>-\$110</b>
24		-----		-----
25	= SRM Charge Dollars -- <i>initial charge</i>	<b>\$450</b>	= SRM Charge Dollars -- <i>final charge</i>	<b>\$490</b>
26		=====		=====

**Conclusions:**

- A customer who pays the SRM Charge determined in the rate case should end up paying \$490.
- The process by which the customer's initial payment is adjusted by an additional \$40 is the "true-up" process.

### History of SRM Charge True-Ups

**Of 39 SRM cases found on the MPSC site, a "true-up" was implemented in only 4 cases, none for CE. \***

Line No.	(a) Date of Order	(b) Case No.	(c) Utility	(d) Sets SRM Charge per MW-mo	(e) Includes True-Up of Previous SRM Charge	(f) Notes
1	2017 Nov 21	U-18239	CE	\$300.59	No	Original case
2	2017 Nov 21	U-18248	DTE	267.20	No	Original case
3	2017 Nov 30	U-18253	UMERC	629.00	No	Original case
4	2017 Nov 30	U-18254	UPPCO	249.00	No	Original case
5	2017 Nov 30	U-18258	Cloverland	627.00	No	Original case
6	2018 Mar 29	U-18322	CE	305.84	No	<b>No PPA in projected fuel</b>
7	2018 Apr 12	U-18370	I&M	288.95	No	Original case
8	2018 Apr 27	U-18255	DTE	265.82	No	
9	2018 Jul 24	U-20131	UPPCO	249.00	No	
10	2018 Aug 28	U-20130	UMERC	629.00	No	
11	2018 Oct 24	U-20144	Cloverland	627.00	No	
12	2019 Jan 19	U-20134	CE	335.99	No	Settlement
13	2019 May 2	U-20162	DTE	280.51	No	
14	2019 May 23	U-20276	UPPCO	249.00	No	
15	2019 Jul 2	U-20508	Cloverland	468.02	No	SRM in case record
16	2019 Jul 2	U-20511	UMERC	629.00	No	
17	2020 Jan 23	U-20359	I&M	280.52	No	PJM net CONE
18	2020 May 8	U-20561	DTE	330.21	Yes	True-up for U-18248
19	2020 Oct 29	U-20751	UMERC	629.00	No	
20	2020 Oct 29	U-20754	UPPCO	249.00	No	
21	2020 Dec 17	U-20697	CE	374.95	No	<b>No PPA in projected fuel</b>
22	2021 Sep 24	U-21028	DTE	330.21	No	No change - settlement
23	2021 Nov 4	U-21104	UPPCO	249.00	No	
24	2021 Nov 18	U-21103	UMERC	629.00	No	
25	2021 Dec 22	U-20963	CE	326.88	No	<b>PPA in projected denied</b>
26	2022 Mar 17	U-20963	CE	328.26	No	Revised order
27	2022 Sep 8	U-21222	UMERC	629.00	No	
28	2022 Nov 18	U-20836	DTE	322.60	Yes	True-up for U-20561
29	2023 Jan 23	U-21224	CE	244.80	No	Settlement
30	2023 Mar 24	U-21286	UPPCO	157.00	No	<i>No PPA in projected fuel</i>
31	2023 Aug 30	U-21370	UMERC	629.00	No	
32	2023 Dec 1	U-21297	DTE	82.16	Yes	True-up for U-20561
33	2024 Mar 1	U-21389	CE	46.25	No	<b>No PPA in projected fuel</b>
34	2024 Jul 2	U-21461	I&M	249.24	No	PJM net CONE
35	2024 Sep 26	U-21555	UPPCO	138.87	No	
36	2024 Oct 10	U-21541	UMERC	614.14	No	
37	2025 Jan 23	U-21534	DTE	230.51	Yes	True-up for U-20836
38	2025 Mar 21	U-21585	CE	63.13	No	<b>No PPA in projected fuel</b>
39	2025 Apr 24	U-21852	UMERC	614.14	No	

\* Notes:

1. None of the SRM cases for Consumers Energy have included a true-up of a previous SRM charge..
2. The 4 cases that include a true-up of a previous SRM charge are all for DTE.
3. The same SRM Charge set in DTE U-20561 was trued up in two different cases, U-20836 and U-21297.

### Recommended Changes to SRM Charge Calculation without Formulaic True-Up

Line No.	(a)	(b)	(c)	(d)
<u>No.</u>	<u>Consumers Energy Proposed Exhibit A-87</u>	<u>CE</u>	<u>Recommended w/o True-Up</u>	
1	Total Production Related Cost	\$ 2,634,481	\$ 2,634,481	no change
2	<u>Non-Capacity Related Cost:</u>			
3	Fuel Expense	\$ 548,348	\$ 548,348	no change
4	Purchased & Interchanged	766,888	766,888	no change
5	Energy Related Other O&M Expense	13,438	13,438	no change
6	PSCR Revenue Credits	(324,326)	(324,326)	no change
7	Non-PSCR Revenue Credits	(220,477)	(220,477)	no change
8	Transmission Expense	<u>631,863</u>	<u>631,863</u>	no change
9	Total Non-Capacity Related Cost	\$ 1,415,735	\$ 1,415,735	no change
10	Total Capacity Related Cost	\$ 1,218,747	\$ 1,218,747	
11	<u>Offsets:</u>			
12	Energy Market Sales	871,945	871,945	no change
13	Off-System Energy Sales	9,000	9,000	no change
14	Ancillary Service Sales	5,000	5,000	no change
15	Bilateral Energy Sales	<u>0</u>	<u>0</u>	no change
16	Total Revenue	\$ 885,945	\$ 885,945	no change
17	Related Fuel Cost	<u>545,993</u>	<u>545,993</u>	no change
18	Total Revenue Less Fuel Cost	\$ 339,952	\$ 339,952	no change
19	SRM Reconciliation	(461,000)	<b>0</b>	<b>remove proposed true-up</b>
20	Net Capacity Cost	<u>\$ 417,794</u>	<u>\$ 878,795</u>	recalculate
21	Capacity Charge Demand (MW)	<u>9,853</u>	<u>9,853</u>	no change
22	Capacity Charge (\$/MW-Day)	\$ 116.17	<b>\$ 244.36</b>	recalculate

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

\*\*\*\*\*

In the matter of the application of Consumers Energy Company for authority to increase its rates for the generation and distribution of electricity and for other relief. ) Case No. U-21870

PROOF OF SERVICE

STATE OF MICHIGAN ) ) ss. COUNTY OF KENT )

Lydia M. Lubbers, the undersigned, being first duly sworn, deposes and says that she is a Legal Secretary at Varnum LLP and that on the Tuesday, September 30, 2025, she served a copy of the Direct Testimony & Exhibits of Alexander J. Zakem on Behalf of Energy Michigan and this Proof of Service upon those individuals listed on the attached Service List via email at their last known addresses.

Lydia M. Lubbers

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Lydia M. Lubbers

**Administrative Law Judge**

Honorable Jonathan F. Thoits  
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