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November 12, 2002

Ms. Dorothy Wideman
Michigan Public Service Commission
6545 Mercantile Way
P.O. Box 30221
Lansing, MI 48909

Re: Case No. U-13350

Dear Ms. Wideman:

Enclosed for filing in the above captioned matter please find the original and four copies of the Qualifications and Direct Testmony of Richard A. Polich on behalf of Energy Michigan. Also enclosed is the original Proof of Service indicating service on counsel.

Please date stamp one copy of the above entitled document for my records and return it in the self-addressed stamped envelope provided.

Thank you for your assistance in this matter.

Very truly yours,

VARNUM, RIDDERING, SCHMIDT & HOWLETTLLP

Eric J. Schneidewind

Eric J. Schneidewind

EJS/mrr

cc: ALJ
parties

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of THE DETROIT EDISON COMPANY for determination of net stranded costs and for approval of net stranded cost recovery charges.	))))))	Case No. U-13350

QUALIFICATIONS AND DIRECT TESTIMONY OF RICHARD A. POLICH

ON BEHALF OF ENERGY MICHIGAN

Q. Please state your name and business address.

A. My name is Richard A. Polich. My business address is 2010 Hogback Road, Ann Arbor, MI 48105.

Q. By whom are you employed and what is your present position?

A. I am employed by Nordic Marketing L.L.C. as a Vice President.

Q. Please state your educational background.

A. I graduated from the University of Michigan in Ann Arbor in August of 1979 with a Bachelor of Science Engineering Degree in Nuclear Engineering and a Bachelor of Science Engineering Degree in Mechanical Engineering. In May 1990, I received a Masters of Business Administration from the University of Michigan in Ann Arbor.

Q. Please describe your work experience.

A. In May of 1978 I joined Commonwealth Associates as a Graduate Engineer and worked on several plant modification and new plant construction projects. In May 1979 I joined Consumers Power Company as an Associate Engineer in the Plant Engineering Services

Department. In April of 1980 I transferred to the Midland Nuclear Project and progressed through various job classifications to Senior Engineer. I participated in the initial design evaluation of the Midland Cogeneration Plant. In July 1987 I transferred to the Market Services Department as a Senior Engineer and reached the level of Senior Market Representative. While in this department I analyzed the economic and engineering feasibility of customer cogeneration projects. In July of 1992 I transferred to the Rates and Regulatory Affairs Department of Consumers Energy as a Principal Rate Analyst. In that capacity I performed studies relating to all facets of development and design of the Consumers' gas, retail, electric and electric wholesale rates. During this period, I was heavily involved in the development of Consumers Direct Access program and in the development of Retail Open Access program. I also participated in the development of the Consumers' revenue forecast.

In March 1998, I joined Nordic Electric as Vice President in charge of marketing and sales. My responsibilities included all aspects of obtaining new customers and enabling Nordic to supply electricity to those customers. In May 2000, my responsibilities shifted to Operations and Regulatory Affairs. My responsibilities include management of supply purchases; transmission services, and development of new power projects. Regulatory Affairs responsibilities include over seeing regulatory and legislation issues.

Q. Are you a registered professional engineer in the State of Michigan?

A. Yes I am.

Q. Have you previously testified before this Commission?

A. Yes. I presented testimony on five occasions on behalf of Consumers Energy. In the remand phase of retail wheeling Case U-10143/U-10176 presenting the Consumers' method for design of future retail wheeling rates, the Consumers proposed Special Contract Rate Case U-10625 presenting methods to identify and qualify customers. I presented testimony in the Consumers' Electric Rate Case proceeding U-10335. I presented testimony in the initial phase of retail wheeling Case U-10143/U-10176 on the proposed cost and rate of retail wheeling and in Case U-10685 the Consumers Energy Electric Rate Case in November 1994. I presented testimony for Energy Michigan in Cases U-11915 (Supplier Licensing) and U-11956 (Edison True Up Case), U-12478 and U-12505 (Edison and Consumers Energy Securitization Cases), U-12639 (Stranded Cost Methodology Case) and U-13380 (Consumers Energy Determination of Stranded Costs).

PURPOSE OF TESTIMONY

Q. Mr. Polich, please describe the purpose of your testimony in this proceeding.

A. I will address Detroit Edison Company's (DECo) assertion that they incurred stranded costs during the calendar years 2000 and 2001, and the premise that DECo shall incur additional Stranded Cost of 2002 and 2003. My testimony will show that the MPSC should ignore all projections of Stranded Cost of 2002 and 2003 because the information necessary to accurately project Stranded Costs is inaccurate, speculative and one sided. The potential for the Customer Choice Program to be scuttled by establishing high Stranded Cost Charges based upon projected Stranded Costs dictates that only actual Stranded Cost data should be used in this case. Our analysis will show that DECo actually collected sufficient excess revenues to create over $554 million in Stranded Benefits during calender years 2000 and 2001. It is also our position that the Stranded Benefits from 2000 and 2001 should be carried forward to offset any potential future Stranded Costs.

Q. What is the basis for your position on using excess Stranded Benefits to offset future

Stranded Costs?

A. We feel Stranded Benefits should be treated in the same manner as Stranded Costs. Utilities have continually claimed the right to include unrecovered Stranded Costs from previous years in the Stranded Cost amount to be recovered in this proceeding. In addition, they claim the right to carry forward any unrecovered Stranded Costs into future recovery periods. The principles associated with the recovery of Stranded Costs should apply equally to the application of Stranded Benefits. DECo through its filed testimony, is requesting recovery of perceived unrecovered Stranded Costs from prior years and proposing to carry forward any unrecovered Stranded Costs for recovery in future years. If DECo can apply this philosophy to Stranded Costs then they should also be required to apply it to Stranded Benefits. Thus, the MPSC needs to first, establish the amount of Stranded Benefits from calender years 2000 and 2001 then allow the use of these Stranded Benefits to offset any potential future real Stranded Costs that DECo may occur over the next several years. In addition, these Stranded Benefits should be used to offset the Securitization Charge amounts applied to those customers participating in Customer Choice for 2003.

Q. What are the other critical issues are being addressed in your testimony?

A. First, DECo should not be allowed to introduce revisions to their last cost of service study which have not been proven to be prudent or for which Edison has not obtained MPSC approval. Second, DECo has chosen to ignore or failed to properly account for several items which significantly alter the stranded cost calculation. Third, it appears DECo is attempting to claim that revenues from third party sales, should be excluded, even though DECo used jurisdictional resources to enable DECo to make the sales. Finally, the Michigan Public Service Commission (MPSC) should continue its policy of offsetting the Securitization

Charge by establishing a negative Transition Charge equal to the Securitization Charge and funding the rate equalization credit with excess securitization savings.

Q. What is the fundamental problem with DECo's filed testimony in this case?

A. The case filed by DECo suffers from the similar problems encountered in Consumers Energy Company's filing in Case U-13380. Both companies have developed their case around cost analyses which were not based upon the last Commission approved cost of service study. Both companies have altered the capital cost structure, adding additional capital costs not approved by the MPSC, changed rates of returns and introduced different accounting. Both companies are using different allocation factors for production plant based upon their own interpretation of the rules. Both companies altered previously approved rates of recovery. The result is complete confusion as to what are the real cost of service and revenue numbers on which to base Stranded Cost Calculations. This leaves the parties participating in this case with the task of scrambling to figure out what are the real costs and revenues on which to calculate stranded costs. The MPSC needs to establish a standard procedure which includes specifications on how data and calculations are to be made to determine stranded cost. The case filed by DECo in this proceeding is appalling in its attempt to create the appearance that DECo has incurred stranded costs as a result of Customer Choice Service.

Q. Are you sponsoring any Exhibits?

A. Yes, I am sponsoring the following exhibits:

Exhibit EM-______(RAP-1) Calculation of 2000 and 2001 Stranded Cost/(Benefit)

Exhibit EM-______(RAP-2) 2001 Fuel Revenue

Exhibit EM-______(RAP-3) 2001 Production Related Revenues

Exhibit EM-______(RAP-4) Special Contract Revenue Discount

Exhibit EM-______(RAP-5) Third Party Sales Revenue Credit

STRANDED COST CALCULATION TIME PERIOD

Q. Over what time period has DECo attempted to calculate stranded costs for purposes of developing the Transition Charge?

A. The Transition Charge developed by DECo is based upon stranded cost calculated over calendar years 2000 through 2003. They have justified this calculation on the basis that the Transition Charge will not be implemented until early 2003. The estimated Stranded Costs contained in Mr. Edward L Falletich's testimony for 2000 and 2001 are based upon supposed "actual" revenues and costs. The calculation of stranded costs for 2002 and 2003 are based upon "projected" revenues and costs developed by DECo.

Q. Should the Transition Charge include projected stranded costs for 2002 and 2003?

A. No. As proven by DECo in this case, it is difficult enough for them to accurately calculate stranded costs based upon actual 2000 and 2001 historical results. They even failed to introduce a case for 2001 based upon actual revenues and costs, even though it has been nine months since the end of the year and five months since the 2001 earnings were reported. As will be shown later in this testimony, DECo has not properly allocated costs, improperly re-billed revenues, and incorrectly adjusted rates of return in order to calculate stranded costs for calender years 2000 and 2001. With these kind of adjustments to actual results, there is no assurance that DECo can properly project revenues and costs for 2002 and 2003 with any degree of reliability. In addition, today's power markets are in such flux that it creates additional uncertainty, making it difficult for anyone to predict tomorrow's conditions. Stranded costs are highly dependent on the amount of bundled load served by DECo, the amount of load served by power marketers, the market price of power, the amount of real load growth, the economy, and other factors. Using highly subjective projections to calculate and establish a Transition Charge could result in a Transition Charge which is too high and kills the program. DECo should be required to use a process similar to PSCR reconciliation to determine the stranded costs, using actual revenues and costs authorized by the MPSC. This can be filed by DECo annually once the actual figures are known. In addition, the MPSC needs to establish a formula and process that eliminates subjective adjustments not authorized by the MPSC. This should include a requirement to file their cases within 4 months of the end of the calendar year. This will result in Stranded Cost cases which are easier to assess, process, and compile decisions.

Q. What time period should be used to calculate stranded costs and the associated transition Charge in this Case?

A. Only the stranded costs actually incurred by DECo during the calender years 2000 and 2001 should be used to calculate the 2003 Transition Charge.

DETROIT EDISON'S REVENUE DEFICIENCY CALCULATION

Q. Has DECo requested the MPSC to approve change in DECo's capital expenditures, operating costs and rate of return in this case?

A. Yes. Any deviation from the amounts used to calculate Edison's Current Rates and surcharges, that are used to calculate Stranded Cost/Benefit, need MPSC approval. DECo has included in its calculation of Stranded Costs, several changes in Net Production Plant, Construction Work in Progress ("**C**WIP"), Depreciation Expense, Purchase and Interchange ("P&I") Capacity, R & PP Tax, Insurance, and rate of return. DECo's witness Martin L. Heiser admits that a new cost study was performed for this case. The costs contained in DECo's Exhibits supposedly reflect the costs DECo actually incurred versus the costs contained in the last general rate case. Since rates are frozen, current rates do not reflect any of these cost changes. As a result, any change in cost of service versus those authorized in the last MPSC approve rate case, will impact the stranded costs calculation**.** This results in the Electric Choice customers paying 100% of the increased costs.

Q. Does the calculation of Production Fixed Cost ("PFC") by DECo include other alterations in the costs assigned to PFC?

A. Yes. Mr. Heiser has chosen to add to the PFC the following costs, some of which are normally recovered as variable costs or under surcharges:

A. Nuclear Decommissioning

B. MPSC Assessment Fees

C. Washington DC Franchise Fee

D. Plant Materials & Supplies, Rents Receivable, Securitization Implementation Costs and all Retail Access Costs

Q. Does DECo use the correct Pre-Tax Rate of Return in its calculation of Revenue Requirements?

A. No. DECo's revised testimony includes a calculation of a 10.68% Pre-Tax Rate of Return (ROR), which is not based upon any previous MPSC orders. This is another example of DECo attempting to obtain an increase in cost of service without going through full rate case proceedings. It is also another example of DECo attempting to increase frozen rates and applying the incremental revenues to justify stranded costs to be applied to Customer Choice participants. The passage of PA141 froze rate levels and associated rates of return. Based on the ROR of 7.66%, approved by the MPSC in U-10102, the before-tax ROR is 10.01% as calculated by DECo in Case U-11956. Energy Michigan has applied this before-tax ROR in its calculation of Stranded Cost/(Benefits).

Q. Does the revenue calculation in Mr. Heiser's Exhibit No. A-___(MLH-1) properly reflect the revenues that should be allocated to cover the PFC?

A. No. Mr. Heiser failed to include in the Revenue Deficiency Calculation, certain revenues and/or applied allocators which reduced revenues that would offset expenses. These include:

A. Fuel Costs

B. O & M Revenues

C. Adjustments for Special Contracts

D. Direct Assignment Revenue

Q. Are there any further inappropriate changes in the revenue calculation made by DECo?

A. Yes. Mr. Michael G. VanHaerents removes the revenues associated with DECo's sales to the Ford Motor Company/Rouge Steel Co. that occurred in 2000 and 2001. DECo removed these revenues because "...the full service tariff sales to the Ford Rouge complex was a temporary sale." In theory, every sale is a one time occurrence or temporary sale. Customers can change load requirements by installing more efficient equipment, eliminating a product line, moving business to another location, purchasing power from an alternative supplier, etc. This does not change the fact that the sale did occur, DECo did earn a profit from the sale and the sale offsets stranded costs. The removal of these revenues from the stranded cost calculation is nothing more then an attempt by DECo to increase stranded costs, resulting in fewer customers participating in Customer Choice, and increasing DECo profits at the expense of Customer Choice customers.

Q. How does this affect the calculations of Stranded Cost and DECo's proposed Transition Charge?

A. As will be shown below, the Stranded Cost and associated Transition Charge calculation contained in Mr Edward L. Falletich's testimony has no basis in realty.

Q. Have you prepared a revised stranded cost calculation?

A. Yes. In Exhibit EM-___(RAP-1) I have revised DECo's stranded cost calculation to reflect the errors contained in their analysis. The stranded costs were calculated for calender years 2000 and 2001. Because DECo did not include any data based upon the last MPSC approved general rate case, I was forced to use their revised cost of service figures. Use of DECo's figures in the calculation of Revenue Requirements, introduces the likely hood that I have under estimated the amount of Stranded Benefit in my calculation.

Q. Why did you remove the Nuclear Decommissioning Expense?

A. I made adjustments to remove all impacts associated with Nuclear Decommissioning costs and revenues from the Revenue Requirement calculation, because it is separately collected and accounted for. It is collected under a separate surcharge, and paid by all customers, including Customer Choice customers. In addition, any over or under collection are periodically reviewed and adjusted. As such, any under or over collections should not be factored into stranded costs calculations. This could cause confusion in future Nuclear Decommissioning reconciliation proceedings and surcharge adjustments. DECo included the Nuclear Decommissioning Expense in the Depreciation Expense Category.

Q. Why did you remove the MPSC assessment fees from the PFC expense?

A. These fees are part of the fixed cost of customer service and should be recovered through the Customer Service Charge. DECo has not included any revenues from the Customer Service Charge to offset these expenses.

Q. Why did you remove the expenses associated with the Washington DC Franchise Fee?

A. This item was included as a tax item in DECo's expense allocation. Franchise fees are associate with serving end use customers and should not be allocated to production plant in service.

Q. Why were the fuel expenses changed?

A. Revenue of Edison's FERC Form 1 data showed the fossil fuel expense to be $608,196,788,000 for 2000 not the $572,548,152,000 shown in Mr. Heiser's workpaper WP MLH-2, page 19 line 1, column d.

REVENUE ADJUSTMENTS TO STRANDED COST CALCULATION

Q. Why were the revenues increased for special contracts?

A. In the past, DECo chose to enter into several Special Contracts in an effort to avoid losing load to third parties or cogeneration. These discounts are a competitive choice to retain customer load. These Special Contracts were discounts from DECo's bundled tariffs. The revenue requirement derived from DECo's cost of service assumes the load served under the Special Contracts was priced at full service rates. Thus, any revenue shortfall created by the rate discounts is included in the actual revenues received during 2000 and 2001. If no adjustment is made to DECo's actual revenues to remove the impact of the rate discounts, the discounts effectively become stranded costs and are factored into the Transition Charge. It is totally inappropriate to charge customers electing competitive supply alternatives for the costs DECo incurs to compete against competitive suppliers. Based upon Discovery Response EMDE 1.2/2 from DECo, (SMC and LCC Year 2000 Annual Reports to the Commission filed December 2,1 2201), the estimated amount of revenue discount associated with Special Contracts for calender years 2000 is $56.9 million. This discount should be credited in its entirety to PFC, because DECo can not discount transmission, distribution, surcharges and/or customer charges. Thus, the discount must have come from PFC and DECo's 2000 PFC revenues should be increased by $56.897 million. In addition, since DECo does not know the amount of 2001 Special Contracts Discounts, the 2000 amount of $56.897 million should be added to 2001 PFC Revenues.

Q. What other revenues were added to the calculation?

A. As explained earlier, the "one-time only" revenues associated with the 2000 and 2001 sales to Ford Rouge complex has been added to the total revenues. This increases the combined revenues for 2000 and 2001 by $37.4 million.

Q. Why did you reverse the O&M adjustments made in the revenue deficiency/(sufficiency) calculation made by Mr. Heiser in Exhibit No. A-___(MLH-1)?

A. This proposed adjustment by DECo is another example of the game they are playing to increase projected Stranded Costs. A calculation anomaly associated with an allocation percentage results in almost $14 million in PFC revenue in excess of PFC revenue requirement being allocated to excess O&M Revenues. This anomaly can be seen in Column B of Exhibit No. A-______(MLH-1). According to DECo's calculations, they are bringing in more revenue than they are spending for O & M. This occurs because a fixed percentage allocator calculated by comparing O & M expense to total PFC Revenue Requirement, is applied to the actual 2000 PFC Revenue. If DECo's O & M Expense is $577 million, then only $577 million should be applied to the PFC Revenue. Thus, DECo's calculation method reduces the PFC Revenue Sufficiency by $14 million and increases Stranded Cost by $14 million. This can easily be avoided by simply removing the O & M adjustment in Column B of Exhibit No. A-___(MLH-1).

Q. Should the total revenues be adjusted to include revenues for third party sales?

A. The response to this question is dependent upon the source of the power for the third party sales and the inclusion of any costs associated with those sales in rates and PSCR adjustments. The magnitude of the third party sales in 2000 and 2001 is enormous with DECo generating over $177 million in third party sales. If these revenues are used to offset stranded costs, it will result in elimination of stranded cost for the next several years. In simple terms, third party sales revenue should be included in the revenue stream used to offset stranded costs;

1. If DECo has procured the rights to power supply sources using funds from the PSCR surcharge, or
2. If the power sold is generated by DECo generation resources included in rate base, or
3. If DECo procured the rights to the power for the purposes of serving retail customers, or
4. If the power DECO sold to third parties was the result of reduced load created by customers participation in retail access.

If any of these factors are present, then DECO should include the revenues from third party sales in its calculation of stranded costs.

Q. Should the revenues associated with third party sales in 2000 and 2001 be included in the stranded costs calculation?

A. It is clear that the 2000 third party sales should be included in the stranded cost calculation because the power purchases were made prior to the start of retail access and were included in DECo's last PSCR case. DECO was able to take advantage of high market prices to sell power and these revenues should be used to offset stranded costs. With regard to the 2001 third party sales, changes in market conditions and lower loads also provided DECo an opportunity to take advantage of selling excess power into the market. Our review of DECo's cost appears to include the costs of the options and hedges used as the basis for the third party sales made in 2001. As such, the third party revenues should be included in the stranded cost calculation.

Q. In Exhibit A_____ (MGV-5), lines 6-7, Edison Witness VanHaerents appears to propose that excess securitization savings be used to fund the pre-securitization residential rate reduction. What is your position on this adjustment?

A. I believe the Michigan Public Service Commission has previously rejected this position on the grounds that the pre-securitization 5% reduction for residential customers was not a stranded cost. My position is that all excess securitization savings should be used to reduce transition charges and/or provide rate equalization payments as previously ordered by the Commission.

Q. What is your position on the class specific transition charges proposed by DECo Witness Mr. Falletich?

A. Class specific transition charges as proposed by Detroit Edison are anti-competitive because they increase charges to the customers most likely to participate in competition. Also, class specific charges appear to reallocate existing revenue requirements in violation of Public Act 141. Increases due to the reallocation also may violate the rate freeze in Public Act 141.

Q. What is your recommendation for setting the stranded cost charge or credit for 2003?

A. The $554 million in Stranded Benefits should be first allocated to cover the 2003 securitization charge for Customer Choice and Experimental Program customers. A negative transition charge equal to the prevailing Detroit Edison securitization bond and tax charge would produce this result. The remaining $505 million balance of 2000 and 2001 Stranded Benefits, should be used to offset any potential Stranded Costs in future years. Excess Stranded benefits should be used, if necessary, to cover securitization charges to Customer Choice and Experimental customers. If not needed for this purpose, excess Stranded Benefits, should be used to continue the rate equalization credit established by the Commission in previous cases.

Q. What is your position on the proposal of Edison Witness Padgett that customers returning to the Edison bundled service from the Electric Choice service be billed retroactively for all stranded costs existing during the years they were receiving Electric Choice service?

A. I oppose this proposal. It appears to be a form of retroactive rate making to the benefit of Detroit Edison. Also, it clearly would have the impact of chilling the market for Electric Choice and for that reason would have an anti-competitive impact. Finally, the Edison proposal is unfair because it fails to include provisions which would credit returning Electric Choice customers for the benefits produced to Detroit Edison by reducing expensive power purchases.

Q. Does this conclude your testimony?

A. Yes.

ENERGY MICHIGAN EXHIBIT
STRANDED COST/(BENEFIT) CALCULATION

Line No.	Description	2000	2001	Source of Data
	(a)	(b)	(c)	(d)
		All $ Figures in ,000s		
	AVERAGE RATE BASE			
1	Net Production Plant	$5,634,557	$3,169,271	MLH Exhibits
2	Clean Air Act Investments	($30,426)	($134,774)	Discovery Response EMDES3.38/47
3	Adjusted Net Production Plant	$5,604,131	$3,034,497	Line 1 minus Line 2
4	Pre-Tax Rate of Return	10.01%	10.01%	WP(GFS-1) U-12478
5	Rate of Return Revenue Requirement	$560,974	$303,753	Line 1 times Line 2
	REVENUE REQUIREMENT	$560,974	$303,753	Line 5
6	O&M Costs	$514,259	$641,779	Line 35
7	Revenue Requirement Effects of AFUDC	($4,317)	($6,628)	Workpapers WP-MLH-2, Pg 1, Ln 17, Col b
8	Depreciation Expense	$214,123	$211,371	Exhibit A-___(MLH-1) Ln 9, col A & A-___(MLH-)3, Ln12
9	Clean Air Act Depreciation	($317)	($1,489)	Discovery Response EMDES3.38/47
10	Nuclear Decommissioning Expense	($38,274)		Exhibit A-___(MLH-2) , Page 0, Ln7, Col A
11	Regulatory Asset Amortization	$265,507	$129,743	Exhibit A-___(MLH-1) Ln 10, col A & A-___(MLH-)3, Ln13
12	Property Taxes	$106,852	$104,144	Exhibit A-___(MLH-1) Ln 11, col A & A-___(MLH-)3, Ln14
13	Other	$4,511	($8,829)	Exhibit A-___(MLH-1) Ln 12, col A & A-___(MLH-)3, Ln15
14	TOTAL PRODUCTION REVENUE REQUIREMENT	$1,623,317	$1,373,844	
15	Pro-Forma Securitization Adjustment	($519,560)	($129,595)	Exhibit A-___(MGV-1) Ln 16, Col d & A-___(MGV-4), Ln14, Col d
16	PRODUCTION FIXED REVENUE REQUIREMENT (PFC)	$1,103,757	$1,244,249	Line 14 plus Line 16
17	Actual Production Related Revenues	$1,765,657	$1,577,869	Exhibit A-___ (MLH-1), Ln17, Col A & Exhibit EM-___(RAP-3), Line 12
18	Nuclear Decommissioning Revenue	($38,274)	($38,090)	
19	Fuel Working Capital		($11,858)	
20	Special Contract Production Revenue Increase	$56,897	$56,897	Exhibit EM-___(RAP-4), Line 7
21	Third Party Wholesale Sales Revenue	$35,041	$147,559	Exhibit EM-___(RAP-5), Line 4 & 13
22	Securitization Revenue Adjustment	($519,560)	($129,595)	Exhibit A-___(MGV-1) Ln 16, Col d & A-___(MGV-4), Ln14, Col d
23	**TOTAL PRODUCTION REVENUE, Adj for Securitization**	**$1,299,761**	**$1,602,782**	Sum of Lines 17-22
24	**REVENUE DEFICIENCY/(SUFFICIENCY)**	**($196,003)**	**($358,533)**	Line 16 minus Line 23
25	**COMBINED STRANDED COST/(BENEFITS) FOR 2000 & 2001**		**($554,537)**	Line 24, Col b plus Line 24, Col c
26	Estimated 2002 & 2003 Customer Choice Sales (GWh)		10,000	Exhibit A-___(ELF-5), Line 3, Col e plus Col f
27	Securitization Charge Offset		$4.890	Detroit Edison Rate Book, Section B4.9, Pg M/64b
28	Stranded Benefit Used in 2002 & 2003		$48.900	Line 26 times Line 27
29	***Remaining Stranded Benefit to Apply to 10d(5) Offset &Carry Forward***		**($505,637)**	Line 25 plus Line 28
	CALCULATION OF PRODUCTION RELATED O&M COST MINUS FUEL & POWER PURCHASES			
29	TOTAL Power Production Expenses	$1,545,854,892	$1,545,077,276	2001 FERC Form 1, Pg 321, Line 80
30	FUEL: Steam Power Generation	($608,196,788)	($567,002,195)	2001 FERC Form 1, Pg 320, Line 5
31	FUEL: Nuclear Power Generation	($46,206,695)	($40,576,756)	2001 FERC Form 1, Pg 320, Line 25
32	FUEL: Other Power Generation	($11,711,747)	($13,796,368)	2001 FERC Form 1, Pg 321, Line 63
33	Purchase Power Expenses	($555,455,038)	($585,880,557)	2001 FERC Form 1, Pg 321, Line 76
34	A&G Allocated to Production & 56.9% *	$189,974,268	$303,957,255	FERC Form 1, Pg 323 A& G Cost times Allocation Factor
35	TOTAL O&M Costs	$514,258,892	$641,778,655	

NOTE: * A&G allocation of 56.9% is based upon Heiser Workpapers MLH-2, Pg 19. It is calculated by dividing the Production A&G by Total A&G

Case No. U-13350
Witness: Richard A Polich
Exhibit EM-___ (RAP-2)
Date: November 12, 2002

ENERGY MICHIGAN EXHIBIT
2001 FUEL REVENUE

Line No.	Description	Amount	Source of Data
	(a)	(b)	(c)
	CALCULATION OF FIRM SYSTEM SALES (all figures in MWh)	All $ Figures in ,000s	
1	Retail Sales	48,089,315	2001 FERC Form 1, Pg304, ln43 col b
2	Wholesale for Resale	2,159,075	2001 FERC Form 1, Pg311, ln1-14,col g
3	TOTAL SYSTEM SALES	50,248,390	Line 1 plus Line 2
	INTERRUPTIBLE SALES		
4	R-10 & D8	1,865,528	2001 FERC Form 1, pg 311, Column b
5	SMC Interruptible	271,759	Workpaper WP MLH-2, Sht 16, line 6
6	LCC Interruptible	435,644	2001 FERC Form 1, pg 311, Column b
7	FERC Interruptible	117,742	Note 1
8	TOTAL Interruptible Sales	2,690,673	Sum of Lines 4-7
9	Firm System Sales	47,557,717	Line 3 minus Line 8
	CALCULATION OF REVENUE BASED UPON PSCR		
10	Fuel Cost: PSCR Base plus Factor	$18.74	WP MLH-1, Page 17, Line 29 Column g
11	Revenue from Firm Sales	$891,231,625	Line 9 times Line 10
	CALCULATION OF NON-FIRM REVENUE ADJUSTMENT		
12	R-10 & D8	52,444,214	2001 FERC Form 1, pg 311, Column k
13	SMC Interruptible	9,573,536	Workpaper WP MLH-2, Sht 16, line 15
14	LCC Interruptible	10,928,274	2001 FERC Form 1, pg 311, Column k
15	FERC Interruptible	3,932,197	Note 1
16	Rev from Third Party Sales	192,265,129	Line 19 minus W/R Revenues to Muni's & Coops
17	TOTAL: Non-firm Revenues	269,143,349	Sum of Lines 12-16
18	TOTAL Fuel Revenue	1,160,374,974	Line 11 plus Line 17
19	Wholesale for Resale	(254,211,221)	2001 FERC Form 1, pg 311 Col k
20	**Net Fuel Revenue**	**906,163,753**	Line 18 plus Line 19

NOTE: The format for this calculations based upon the format used by Mr. Heiser in Workpaper WP MLH-2, Sheet 16 of 59

1 This quantity is based upon the ratio of total 2000 Sales for Resale to the 2001 Sales for Resale times the FERC Interruptible Figure on Line 8 & 17 WP MLH-2.

Case No. U-13350
Witness: Richard A Polich
Exhibit EM-___ (RAP-3)
Date: November 12, 2002

ENERGY MICHIGAN EXHIBIT
2001 PRODUCTION RELATED REVENUES

Line No.	Description	Amount	Source of Data
	(a)	(b)	(c)
		All $ Figures in ,000s	
	2000 REVENUE FROM PRODUCTION EXCLUDING FUEL		
1	Total Revenue	$1,765,657	Exhibit No. A-___(MLH-2), Line 25, Col D
2	Fuel Working Capital	$20,101	Exhibit No. A-___(MLH-2), Line 6, Col B
3	Securitization Adjustment	($519,560)	Exhibit No. A-___(MGV-2), Line 15, Col d
4	2000 REVENUE FROM PRODUCTION EXCLUDING FUEL	$1,266,198	Sum of Lines 1-3
	2001 REVENUE FROM PRODUCTION EXCLUDING FUEL		
5	Revenue from Sales to Ultimate Customer	$3,510,985	Detroit Edison 2001 FERC Form 1, Pg 300, Line 10, Col c
6	Nuclear Decommissioning Revenues	($38,090)	Discovery Response ENDE 2.30/30
7	Net Fuel Revenue	($906,164)	Exhibit EM-___(RAP-2) Line 20
8	Allocable Revenue	$2,566,732	Sum Line 5-7
9	Revenue Allocation Factor	59.8%	Exhibit A-___(MLH-2), Line 18, Col D
10	Production Revenue Excluding Fuel	$1,534,905	Line 8 times Line 9
11	Miscellaneous Revenues	$21,479	2001 FERC Form 1, Pg 300, Col b
12	Wholesale for Resale Production Revenue	$21,485	Line 16
13	TOTAL Revenue	$1,577,869	Sum Line 10-12
	WHOLESALE FOR RESALE PRODUCTION REVENUE		
14	Total Wholesale for Resale Revenues	$61,946	Exhibit EM-___(RAP-2) Line 19 minus Line 16
15	Wholesale for Resale Fuel Costs	$40,461	Exhibit EM-___(RAP-2) Line 2 times Line 10
16	Wholesale for Resale Production Revenue	$21,485	Line 14 minus Line 15

Case No. U-13350
Witness: Richard A Polich
Exhibit EM-___ (RAP-4)
Date: November 12, 2002

ENERGY MICHIGAN EXHIBIT
SPECIAL CONTRACT REVENUE DISCOUNTS

Line No.	Description	Amount	Source of Data
	(a)	(b)	(c)
		All $ Figures in ,000s	
	Calendar Year 2000 Revenue Discount		
1	SMC Estimated Standard Tariff Revenue	$360,451	Discovery Response EMDE 1.2/2, Pg 3, Line 14, Col N
2	LCC Estimated Standard Tariff Revenue	$140,818	Discovery Response EMDE 1.2/2, Pg 7, Line 14, Col N
3	SMC Special Contract Revenues	($309,479)	Discovery Response EMDE 1.2/2, Pg 3, Line 14, Col K
4	LCC Special Contract Revenues	($134,893)	Discovery Response EMDE 1.2/2, Pg 7, Line 14, Col K
5	TOTAL REVENUE DISCOUNT	$56,897	Sum of Lines 1-4
6	Percent Allocated to Production Related Revenue	100%	WP MLH-2, Page 0, Line 25, Col D divided by Column A
7	**2000 Special Contract Production Revenue Increase**	**$56,897**	Line 5 times Line 6

Calendar Year 2001 Revenue Discount

This information is not available. Thus the data for 2000 will be used for 2001 Production Revenue Increase for Special Contracts

ENERGY MICHIGAN EXHIBIT
THIRD PARTY SALES REVENUE CREDIT

Line No.	Description	Amount	Source of Data
	(a)	(b)	(c)
	Calendar Year 2000 Revenue Credit		
1	Non-Requirement Wholesale Revenues	$139,857,715	FERC Form 1, Pg 311, Line 16, Col k
2	Cost of Non-Requirements Wholesale Sales	$ (92,952,949)	Line 9
3	PSCR Third Party Sales Margin	$ (11,864,000)	Exhibit A-___(JHB-1), Line 7 Col c
4	**Net Third Party Sales Margin**	**$ 35,040,766**	Sum of Lines 1-3
5	Total Fuel & Purchase Power Costs	$1,196,189,000	Workpapers WP-1 J.H. Byron, Line 10, Col C
6	Total Sales (MWh)	58,795,000	Workpapers WP-1 J.H. Byron, Line 10, Col B
7	Average Fuel cost per MWh Sold	$20.35	Line 5 divided by Line 6
8	Total Non-Requirements Wholesale Sales (MWh)	4,568,817	FERC Form 1, Pg 311, Line 16, Col g
9	Cost of Non-Requirements Wholesale Sales	$ 92,952,949	Line 7 times Line 8
	Calendar Year 2001 Revenue Credit		
10	Non-Requirement Wholesale Revenues	$196,932,012	FERC Form 1, Pg 311, Line 16, Col k
11	Cost of Non-Requirements Wholesale Sales	$ (37,508,848)	Line 18
12	PSCR Third Party Sales Margin	$ (11,864,000)	Exhibit A-___(JHB-1), Line 7 Col c
13	**Net Third Party Sales Margin**	**$ 147,559,164**	Sum of Lines 10-13
14	Total Fuel & Purchase Power Costs	$1,060,167,000	Workpapers WP-1 J.H. Byron, Line 10, Col C
15	Total Sales (MWh)	54,510,000	Workpapers WP-1 J.H. Byron, Line 10, Col B
16	Average Fuel cost per MWh Sold	$19.45	Line 14 divided by Line 15
17	Total Non-Requirements Wholesale Sales (MWh)	1,928,571	FERC Form 1, Pg 311, Line 16, Col g
18	**Cost of Non-Requirements Wholesale Sales**	**$ 37,508,848**	Line 16 times Line 17

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

****

In the matter of the application of THE DETROIT EDISON COMPANY to implement the Commission's stranded cost recovery procedures and for approval of net stranded cost recovery charges.	))))))	Case U-13350

PROOF OF SERVICE

Monica Robinson, duly sworn, deposes and says that on this 12th day of November 2002 she served a copy of the Qualifications and Direct Testiomny of Richard A. Polich on behalf of Energy Michigan, Inc. upon the individuals named on the attached service list by regular mail and e-mail at their last known addresses.

Monica Robinson, Deponent

Subscribed and sworn to before me
this 12th day of November 2002.

Eric J. Schneidewind, Notary Public
Eaton County, Michigan
Acting in Ingham County, Michigan
My Commission Expires: April 24, 2006

Service List

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Administrative Law Judge
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