

RAYMOND O. STURDY, JR.

Attorney at Law
14827 Thornridge Drive
Plymouth, Michigan 48170
(734) 420-0470

April 1, 2011

Ms. Mary Jo Kunkle
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
Lansing, Michigan 48909

Re: In the matter of the application of THE DETROIT EDISON COMPANY for authority to increase its rates, amend its rate schedules and rules governing the distribution and supply of electric energy, and for miscellaneous accounting authority Case No. U-16472 (Paperless e-file)

In the Matter of the Application of The Detroit Edison Company for Approval to Defer Certain Pension and Post-Employment Benefits Expense for Future Amortization and Recovery MPSC Case No. U-16489 (Paperless e-file)

Dear Ms. Kunkle:

Attached for electronic filing on behalf of DEAR, the Detroit Edison Alliance of Retirees, in the above-captioned matters are the Testimony, Exhibits and Workpapers of Robert L. Tompkins and a Proof of Service.

Very truly yours,

Raymond O. Sturdy, Jr.

ROS/slf
Attachments
cc: Service List

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Application of)
THE DETROIT EDISON COMPANY)
for authority to increase its rates, amend)
its rate schedules and rules governing the)
distribution and supply of electric energy, and)
for miscellaneous accounting authority.)

Case Nos. U-16472/U-16489

QUALIFICATIONS
AND
DIRECT TESTIMONY
OF
ROBERT L. TOMPKINS

1 Q. Please state your name and address.

2 A. My name is Robert L. Tompkins. My address is 600 Valley Dr. Milford, MI 48381.

3

4 Q. On whose behalf are you testifying?

5 A. I am testifying on behalf of DEAR, the Detroit Edison Alliance of Retirees.

6

7 Q. What is DEAR?

8 A. DEAR is a non-profit corporation organized and operating to preserve and protect
9 the pension, health-care and other post-employment retirement benefits of its
10 members, retirees of The Detroit Edison Company, and Michigan Consolidated Gas
11 Company and their affiliates – collectively, DTE Energy. DEAR was formed in 2000
12 with the objective of assuring that retirement benefits earned by the employees of
13 DTE Energy and are properly funded, maintained and paid by DTE Energy.

14

15 Q. Do you have a position with DEAR?

16 A. Yes. I am currently the President of DEAR.

17

18 Q. Are you involved with any other organizations with a similar purpose?

19 A. Yes. I am also the Vice President/Treasurer and a member of the Executive
20 Committee of the National Retiree Legislative Network (NRLN), a nation-wide non-
21 partisan coalition of retiree associations devoted to protecting pension plans and
22 retirement health care benefits of retirees.

23

24 Q. What is your educational background and work experience?

25 A. I graduated from Baker University with a concentration in Accounting. I worked
26 three years in a CPA firm in Flint and then went into Marketing with IBM and Sperry
27 Rand. I left that field and joined Detroit Edison where I worked in various
28 management roles for over 25 years. I have also owned and operated a tax practice
29 for over 35 years.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

Q. What is the purpose of your testimony in these proceedings?

A. The accounting and rate-making treatments of Detroit Edison’s retiree pension, health care, and other post-employment benefits have been significant issues in previous Detroit Edison rate cases. In these cases, Detroit Edison proposes to defer certain incremental pension and OPEB expenses and amortize such deferrals over five year periods. DTE retirees will be directly and significantly affected by such actions. The purpose of my testimony is to present the views of DEAR in regard to these proposals.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit DER – 1 which is a summary of Financial Accounting Standards Board’s (FASB) Statement of Financial Accounting Standards 106 (SFAS 106), “Employer’s Accounting for Postretirement Benefits Other Than Pensions”. My testimony relies directly on SFAS Statement 106 and the Commission’s actions in connection with its directives.

Q. Do you believe the Commission should approve Detroit Edison’s deferral and amortization proposals?

A. Yes, but only if the Commission expressly conditions such arrangements in a way that assures that long-standing Commission policy and fundamental principles underlying SFAS 106 are met.

Q. What are the provisions of SFAS 106 that are relevant to these proceedings?

A. SFAS 106 is an accounting standard that was issued by the FASB in 1990 to address concerns that accounting for postretirement benefits on a cash basis (i.e. recognizing costs only as claims are paid) significantly understated liabilities that are actually incurred during the service lives of employees. The standard mandated the adoption of new accrual requirements in accounting for presently earned future

1 benefits, previously earned future benefits to yet recognized or funded and interest
2 on accumulated postretirement benefit obligations. Publicly-held companies with
3 more than 500 plan participants were required to implement the standard for fiscal
4 years beginning after December 15, 1992.

5

6 Q. What has the Commission required in connection with these accounting standards?

7 A. In December, 1991, the Commission initiated a generic proceeding - U-10040 - to
8 determine, among other things, if SFAS 106 should be adopted for Ratemaking
9 purposes. In an order issued December 8, 1992, the Commission determined that
10 Michigan utilities should employ SFAS 106 to account for postretirement benefits
11 other than pensions and should be allowed to recover costs associated therewith in
12 rates.

13

14 Q. Are Detroit Edison' proposals for deferral and amortization of incremental pension
15 and OPEB expenses in these proceedings consistent with the principles of SFAS 106
16 and the Commission's determinations in U-10040?

17 A. I believe that one of the purposes for the establishment of SFAS 106 was to provide
18 for the full public disclosure of corporate liabilities and obligations with respect to
19 pension and other post-retirement benefits. Inherent in such disclosure is the
20 requirement that such liabilities and obligations be appropriately provided for. I also
21 believe that Commission's determination that such amounts be included in utility
22 rates is recognition that arrangements for the payment of such obligations must be
23 secure. To the extent accrual funding for such liabilities and obligations is deferred,
24 as proposed by the Applicant in these proceedings, security for ultimate payment of
25 the underlying obligations could substantially be diminished.

26

27 Q. Are there any provisions that could be developed to help assure the security of the
28 amounts of incremental pension and OPEB expenses that Detroit Edison proposes to
29 defer and amortize?

1 A. There are at least two situations that could develop that would likely have an
2 adverse impact on Detroit Edison's ability to meet its pension and OPEB obligations.
3 First, it is possible to envision that a major business merger, consolidation, takeover
4 or divestiture could impair the ability of the resulting entity to meet its amortization
5 and payment obligations. Second, a bankruptcy situation would also adversely
6 affect the same liabilities.

7
8 In the case of a merger, consolidation or divestiture, a simple way to assure the
9 security of funding would be to condition the authorization for deferral and
10 amortization on the requirement to immediately restore all deferred amounts, prior
11 to carrying out any changes in business format. In the case of a bankruptcy
12 situation, restoration would likely be problematic at best, but several alternatives,
13 such as a commitment to forego the termination of any defined benefit pension
14 plans and affirmatively support creditor recognition of one or more retiree groups,
15 could help effectuate some protection.

16
17 Q. Do you believe a business combination or bankruptcy situation is likely to occur
18 during the amortization periods proposed?

19 A. I am not aware of any major business merger, consolidation, takeover or divestiture
20 involving Detroit Edison or its affiliated entities at this time, but at least two such
21 events occurred in the last decade – DTE's acquisition of MCN, and its divestiture of
22 its electric transmission properties to ITC. I also believe that given the extraordinary
23 success that DTE's financial leadership has been able to demonstrate in the last
24 several years, bankruptcy would have to be considered a very remote circumstance.

25
26 Q. Do you have any other comments or observations?

27 Yes. With appropriate safeguards in place, I believe the Company's proposals for the
28 deferral and amortization of certain pension and other post-retirement benefit

1 obligations strike a reasonable balance in keeping the electric rate increase
2 proposed in these proceedings as limited as possible.

3

4 Q. Does that conclude your direct testimony?

5 A. Yes, thank you, it does.



Summary of Statement No. 106

Employers' Accounting for Postretirement Benefits Other Than Pensions (Issued 12/90)

Summary

This Statement establishes accounting standards for employers' accounting for postretirement benefits other than pensions (hereinafter referred to as postretirement benefits). Although it applies to all forms of postretirement benefits, this Statement focuses principally on postretirement health care benefits. It will significantly change the prevalent current practice of accounting for postretirement benefits on a pay-as-you-go (cash) basis by requiring accrual, during the years that the employee renders the necessary service, of the expected cost of providing those benefits to an employee and the employee's beneficiaries and covered dependents.

The Board's conclusions in this Statement result from the view that a defined postretirement benefit plan sets forth the terms of an exchange between the employer and the employee. In exchange for the current services provided by the employee, the employer promises to provide, in addition to current wages and other benefits, health and other welfare benefits after the employee retires. It follows from that view that postretirement benefits are not gratuities but are part of an employee's compensation for services rendered. Since payment is deferred, the benefits are a type of deferred compensation. The employer's obligation for that compensation is incurred as employees render the services necessary to earn their postretirement benefits.

The ability to measure the obligation for postretirement health care benefits and the recognition of that obligation have been the subject of controversy. The Board believes that measurement of the obligation and accrual of the cost based on best estimates are superior to implying, by a failure to accrue, that no obligation exists prior to the payment of benefits. The Board believes that failure to recognize an obligation prior to its payment impairs the usefulness and integrity of the employer's financial statements.

The Board's objectives in issuing this Statement are to improve employers' financial reporting for postretirement benefits in the following manner:

- a. To enhance the relevance and representational faithfulness of the employer's reported results of operations by recognizing net periodic postretirement benefit cost as employees render the services necessary to earn their postretirement benefits
- b. To enhance the relevance and representational faithfulness of the employer's statement of financial position by including a measure of the obligation to provide postretirement benefits based on a mutual understanding between the employer and its employees of the terms of the underlying plan
- c. To enhance the ability of users of the employer's financial statements to understand the extent and effects of the employer's undertaking to provide postretirement benefits to its employees by disclosing relevant information about the obligation and cost of the postretirement benefit plan and how those amounts are measured
- d. To improve the understandability and comparability of amounts reported by requiring employers with similar plans to use the same method to measure their accumulated postretirement benefit obligations and the related costs of the postretirement benefits.

Similarity to Pension Accounting

The provisions of this Statement are similar, in many respects, to those in FASB Statements No. 87, *Employers' Accounting for Pensions*, and No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*. To the extent the promise to provide pension benefits and the promise to provide postretirement benefits are similar, the provisions of this Statement are similar to those prescribed by Statements 87 and 88; different accounting treatment is prescribed only when the Board has concluded that there is a compelling reason for different treatment. Appendix B identifies the major similarities and differences between this Statement and employers' accounting for pensions.

Basic Tenets

This Statement relies on a basic premise of generally accepted accounting principles that accrual accounting provides more relevant and useful information than does cash basis accounting. The importance of information about cash flows or the funding of the postretirement benefit plan is not ignored. Amounts funded or paid are given accounting recognition as uses of cash, but the Board believes that information about cash flows alone is insufficient. Accrual accounting goes beyond cash transactions and attempts to recognize the financial effects of noncash transactions and events as they occur. Recognition and measurement of the accrued obligation to provide postretirement benefits will provide users of financial statements with the opportunity to assess the financial consequences of employers' compensation decisions.

In applying accrual accounting to postretirement benefits, this Statement adopts three fundamental aspects of pension accounting: delayed recognition of certain events, reporting net cost, and offsetting liabilities and related assets.

Delayed recognition means that certain changes in the obligation for postretirement benefits, including those changes arising as a result of a plan initiation or amendment, and certain changes in the value of plan assets set aside to meet that obligation are not recognized as they occur. Rather, those changes are recognized systematically over future periods. All changes in the obligation and plan assets ultimately are recognized unless they are first reduced by other changes. The changes that have been identified and quantified but not yet recognized in the employer's financial statements as components of net periodic postretirement benefit cost and as a liability or asset are disclosed.

Net cost means that the recognized consequences of events and transactions affecting a postretirement benefit plan are reported as a single amount in the employer's financial statements. That single amount includes at least three types of events or transactions that might otherwise be reported separately. Those events or transactions—exchanging a promise of deferred compensation in the form of postretirement benefits for employee service, the interest cost arising from the passage of time until those benefits are paid, and the returns from the investment of plan assets—are disclosed separately as components of net periodic postretirement benefit cost.

Offsetting means that plan assets restricted for the payment of postretirement benefits offset the accumulated postretirement benefit obligation in determining amounts recognized in the employer's statement of financial position and that the return on those plan assets offsets postretirement benefit cost in the employer's statement of income. That offsetting is reflected even though the obligation has not been settled, the investment of the plan assets may be largely controlled by the employer, and substantial risks and rewards associated with both the obligation and the plan assets are borne by the employer.

Recognition and Measurement

The Board is sensitive to concerns about the reliability of measurements of the postretirement health care benefit obligation. The Board recognizes that limited historical data about per capita claims costs are available and that actuarial practice in

this area is still developing. The Board has taken those factors into consideration in its decisions to delay the effective date for this Statement, to emphasize disclosure, and to permit employers to phase in recognition of the transition obligation in their statements of financial position. However, the Board believes that those factors are insufficient reason not to use accrual accounting for postretirement benefits in financial reporting. With increased experience, the reliability of measures of the obligation and cost should improve.

An objective of this Statement is that the accounting reflect the terms of the exchange transaction that takes place between an employer that provides postretirement benefits and the employees who render services in exchange for those benefits. Generally the extant written plan provides the best evidence of that exchange transaction. However, in some situations, an employer's cost-sharing policy, as evidenced by past practice or by communication of intended changes to a plan's cost-sharing provisions, or a past practice of regular increases in certain monetary benefits may indicate that the substantive plan—the plan as understood by the parties to the exchange transaction—differs from the extant written plan. The substantive plan is the basis for the accounting.

This Statement requires that an employer's obligation for postretirement benefits expected to be provided to or for an employee be fully accrued by the date that employee attains full eligibility for all of the benefits expected to be received by that employee, any beneficiaries, and covered dependents (the full eligibility date), even if the employee is expected to render additional service beyond that date. That accounting reflects the fact that at the full eligibility date the employee has provided all of the service necessary to earn the right to receive all of the benefits that employee is expected to receive under the plan.

The beginning of the attribution (accrual) period is the employee's date of hire unless the plan only grants credit for service from a later date, in which case benefits are generally attributed from the beginning of that credited service period. An equal amount of the expected postretirement benefit obligation is attributed to each year of service in the attribution period unless the plan attributes a disproportionate share of the expected benefits to employees' early years of service. The Board concluded that, like accounting for other deferred compensation agreements, accounting for postretirement benefits should reflect the explicit or implicit contract between the employer and its employees.

Single Method

The Board believes that understandability, comparability, and usefulness of financial information are improved by narrowing the use of alternative accounting methods that do not reflect different facts and circumstances. The Board has been unable to identify circumstances that would make it appropriate for different employers to use fundamentally different accounting methods or measurement techniques for similar postretirement benefit plans or for a single employer to use fundamentally different methods or measurement techniques for different plans. As a result, a single method is prescribed for measuring and recognizing an employer's accumulated postretirement benefit obligation.

Amendment to Opinion 12

An employer's practice of providing postretirement benefits to selected employees under individual contracts, with specific terms determined on an individual-by-individual basis, does not constitute a postretirement benefit *plan* under this Statement. This Statement amends APB Opinion No. 12, *Omnibus Opinion-1967*, to explicitly require that an employer's obligation under deferred compensation contracts be accrued following the terms of the individual contract over the required service periods to the date the employee is fully eligible for the benefits.

Transition

Unlike the effects of most other accounting changes, a transition obligation for

postretirement benefits generally reflects, to a considerable extent, the failure to accrue the accumulated postretirement benefit obligation in earlier periods as it arose rather than the effects of a change from one acceptable accrual method of accounting to another. The Board believes that accounting for transition from one method of accounting to another is a practical matter and that a major objective of that accounting is to minimize the cost and mitigate the disruption to the extent possible without unduly compromising the ability of financial statements to provide useful information.

This Statement measures the transition obligation as the unfunded and unrecognized accumulated postretirement benefit obligation for all plan participants. Two options are provided for recognizing that transition obligation. An employer can choose to immediately recognize the transition obligation as the effect of an accounting change, subject to certain limitations. Alternatively, an employer can choose to recognize the transition obligation in the statement of financial position and statement of income on a delayed basis over the plan participants' future service periods, with disclosure of the unrecognized amount. However, that delayed recognition cannot result in less rapid recognition than accounting for the transition obligation on a pay-as-you-go basis.

Effective Dates

This Statement generally is effective for fiscal years beginning after December 15, 1992, except that the application of this Statement to plans outside the United States and certain small, nonpublic employers is delayed to fiscal years beginning after December 15, 1994. The amendment of Opinion 12 is effective for fiscal years beginning after March 15, 1991.

* * *

The Board appreciates the contributions of the many people and organizations that assisted the Board in its research on this project.

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
THE DETROIT EDISON COMPANY)
for authority to increase its rates, amend) Case No. U-16472
its rate schedules and rules governing the) (Paperless e-file)
the distribution and supply of electric)
energy, and for miscellaneous accounting authority.)
_____)

In the Matter of the Application of)
THE DETROIT EDISON COMPANY for) Case No. U-16489
Approval to defer certain pension and) (Paperless e-file)
post-employment benefits expense for future)
Amortization and Recovery.)
_____)

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss.
COUNTY OF WAYNE)

Raymond O. Sturdy, Jr., being duly sworn, deposes and says that on the 1st day of April, 2011, a copy of the Direct Testimony, Exhibits and Workpapers of Robert L. Tompkins, on behalf of DEAR, the Detroit Edison Alliance of Retirees, as filed in the above captioned matters was served upon the persons on the attached service list via electronic mail.

Raymond O. Sturdy, Jr.

MPSC Case No. U-16472 & U-16489
SERVICE LIST
April 1, 2011

ADMINISTRATIVE LAW JUDGE

Mark E. Cummins
Michigan Public Service Commission
6545 Mercantile Way
Lansing, MI 48911
cumminsml@michigan.gov

ABATE

Robert A.W. Strong
Leland R. Rosier
Clark Hill PLC
151 S. Old Woodward Avenue, Suite 200
Birmingham, MI 48009
rstrong@clarkhill.com
lrosier@clarkhill.com

James T. Selecky
Brubaker & Associates, Inc.
16690 Swingley Ridge Road, Suite 140
Chesterfield, MO 63017
jtselectky@consultbai.com

DETROIT EDISON ALLIANCE OF RETIREES

Raymond O. Sturdy, Jr.
14827 Thornridge Dr.
Plymouth, MI 48170
rsturdy@comcast.net

**DETROIT MEDICAL CENTER;
HENRY FORD HEALTH SYSTEM**

Michael J. Watza
Robert T. Kent
Kitch Drutchas Wagner Valitutti & Sherbrook
One Woodward Avenue, 24th floor
Detroit, MI 48226
mike.watza@kitch.com
rob.kent@kitch.com

**THE DETROIT WATER AND
SEWERAGE DEPARTMENT**

Robert Walter
Senior Assistant Corporation Counsel
City of Detroit Law Department
660 Woodward
Suite 1650
Detroit MI 48226-3535
waltr@detroitmi.gov

MPSC Case No. U-16472 & U-16489
SERVICE LIST
April 1, 2011

ENERGY MICHIGAN

Eric J. Schneidewind, Esq.
Varnum, Riddering & Schmidt
The Victor Center, Suite 810
201 N. Washington Square
Lansing, MI 48933
ejschneidewind@varnumlaw.com
mrrobinson@varnumlaw.com

THE KROGER CO.

Michael J. Boehm, Esq.
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202
kboehm@BKLawfirm.com
mkurtz@BKLawfirm.com

Anthony J. Szilagyi, Esq.
Law Offices of Anthony J. Szilagyi, Esq.
110 South Clemens Avenue
Lansing, MI 48912
szilagylaw@sbcglobal.net

Kevin Higgins
Energy Strategies, LLC
Parkside Towers
215 South State Street, Suite 200
Salt Lake City, Utah 84111
khiggins@energystrat.com

MICHIGAN ATTORNEY GENERAL

Donald E. Erickson, Assistant Attorney General
Michigan Department of Attorney General
Environment, Natural Resources & Agricultural Division
Six Floor Williams Building
525 W. Ottawa Street
P.O. Box 30212
Lansing, Michigan 48909
ericksond@michigan.gov

Michael J. McGarry
Dan Salter
Blue Ridge Consulting Services, Inc.
2131 Woodruff Rd.
Suite 2100 PMB309
Greenville, SC 29607
mmcgarry@blueridgecs.com
dsalter@blueridgecs.com

MPSC Case No. U-16472 & U-16489
SERVICE LIST
April 1, 2011

Sebastin Coppola
Corporate Analytics
1359 Springwood Lane
Rochester Hills, MI 48309
sebcoppola@corpalytics.com

John W. Hutts
GDS Associates, Inc.
1850 Parkway Place, Suite 800
Marietta, GA 30067
John.Hutts@gdsassociates.com

MICHIGAN CABLE TELECOMMUNICATIONS

David E. S. Marvin
Jennifer Utter Heston
Fraser Trebilcock Davis & Dunlap
124 West Allegan Street, Suite 1000
Lansing, MI 48933
dm Marvin@fraserlawfirm.com
jheston@fraserlawfirm.com

MICHIGAN COMMUNITY ACTION AGENCY ASSOCIATION

Don L. Keskey
Public Law Resource Center PLLC
505 N. Capitol Avenue
Lansing, MI 48933-1209
donkeskey@publiclawresourcecenter.com
cindydelong@publiclawresourcecenter.com

**MICHIGAN ENVIRONMENTAL COUNCIL; NATURAL RESOURCES DEFENSE
COUNCIL; ENVIRONMENTAL LAW & POLICY CENTER**

Christopher M. Bzdok
Olson, Bzdok & Howard, P.C.
420 E. Front Street
Traverse City, MI 48686
chris@envlaw.com
ruthann@enlaw.com

MPSC STAFF

Robert W. Beach
Brian W. Farkas
Anne Uitvlugt
Spencer A. Sattler
6545 Mercantile Way, #15
Lansing, MI 48909
beachr1@michigan.gov
farkasb@michigan.gov
uitvlugta@michigan.gov
sattlers@michigan.gov
mpscdratecase@michigan.gov

MPSC Case No. U-16472 & U-16489
SERVICE LIST
April 1, 2011

UTILITY WORKERS LOCAL 223

John R. Canzano
Meagan B. Dolleris
Klimist, McKnight, Sale, McClow & Canzano
400 Galleria Officentre, Suite 117
Southfield, MI 48034
jcanzano@kmsmc.com
mdolleris@kmsmc.com

WAL-MART STORES EAST, LP; SAM'S EAST, ONC.

Rick D. Chamberlain
Behrens, Wheeler & Chamberlain
6 N.E. 63rd Street, Ste 400
Oklahoma City, OK 73105
rdc_law@swbell.com

Edward C. Dawda
Tyler D. Tennent
Dawda, Mann, Mulcahy & Sadler, PLC
39533 Woodward Avenue, Suite 200
Bloomfield Hills, MI 48304
edawda@dmms.com
ttennent@dmms.com

THE DETROIT EDISON COMPANY

Bruce R. Maters
Jon P. Christinidis
Richard P. Middleton
Michael J. Solo, Jr.
David S. Maquera
One Energy Plaza, 688 WCB
Detroit, MI 48226
matersb@dteenergy.com
christinidisj@dteenergy.com
middletonr@dteenergy.com
solom@dteenergy.com
maquerad@dteenergy.com
mpscfilings@dteenergy.com
dennisp@dteenergy.com