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February 21, 2013

Ms. Mary Jo Kunkle
Michigan Public Service Commission
6545 Mercantile Way
P.O. Box 30221
Lansing, MI 48909

Re: Case No. U-17087

Dear Ms. Kunkle:

Attached for paperless electronic filing is Testimony and Exhibits of Alexander J. Zakem on Behalf of Energy Michigan, Inc. Also attached is a Proof of Service indicating service on counsel.

Thank you for your assistance in this matter.

Very truly yours,

VARNUM, LLP

Eric J. Schneidewind

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Date: 2013.02.21 14:04:11 -05'00'

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 CONSUMERS ENERGY COMPANY for authority to increase its rates for the generation and distribution of electricity and for other relief.	))))))	Case No. U-17087

DIRECT TESTIMONY

OF

ALEXANDER J. ZAKEM

ON BEHALF OF

ENERGY MICHIGAN

Q. Please state your name and business address.

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

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

A. I am testifying on behalf of Energy Michigan.

Q. Please state your professional experience.

A. Since January of 2004 I have been an independent consultant providing services to Integrys Energy Services, Inc., Quest Energy (a wholly-owned affiliate of Integrys Energy Services), and other clients. Integrys Energy Services is a member of Energy Michigan.

From March 2002 to December 2003, I was Vice President of Operations for Quest. My responsibilities included the overall direction and management of Quest's power supply to its retail customers. This included power supply planning, development of customized products, negotiation with suppliers, planning and acquiring transmission rights, and scheduling and delivery of power. It also included managing risk with respect to market price movements and variation of customer loads.

Prior to retiring from Detroit Edison in 2001, from 1998 I was the Director of Power Sourcing and Reliability, responsible for purchases and sales of power for mid-term and long-term periods, planning for generation capacity and purchase power needs,

strategy for and acquisition of transmission rights, and related support for regulatory proceedings.

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

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

A. Yes. I have testified as an expert witness in several proceedings before the Michigan Public Service Commission ("Commission"), on topics such as standby rates, retail rates and regulations, recovery and allocation of costs and revenues, and the effects of rate restructuring. I have also testified before the Federal Energy Regulatory Commission. Case citations are in Exhibit EM-1 (AJZ-1).

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring the following exhibits:

Exhibit EM-1 (AJZ-1) Qualifications

Exhibit EM-2 (AJZ-2) Example: Rate Class GSD Discounts

Exhibit EM-3 (AJZ-3) Example: Within Class Allocation of Discounts.

Q. What is the purpose of your Testimony?

A. Consumers Energy functions as both an electric distribution company (EDC) and a load serving entity (LSE). As an EDC, it should treat all LSEs in its distribution service area, and all customers of those LSEs – which include Retail Open Access (ROA)

customers in the Electric Choice program and its own full-service customers – equally and fairly regarding rules, distribution services, and charges affecting LSEs and ROA customers. Certain proposals that Consumers Energy makes in this proceeding favor its own LSE function and/or disadvantage other LSEs and ROA customers.

The purpose of my testimony is to identify and explain the Consumers Energy proposals and rules that disadvantage other LSEs and ROA customers, and recommend changes that make the proposals equitable and fair.

Q. What proposals and rules are you going to address?

A. I will address the following:

1. Proposed incentive compensation, to be paid for by customers.

2. Notification of return to service changed from December 1 to October 1.

3. Method of allocation of Senior Citizen and Income Assistance discounts to all customers.

4. Method of allocation of Economic Development rate discount to all customers.

5. Charge of $45 for meter readings for ROA customers.

6. Deletion of qualifier excluding non-performance of the telecomm provider as a condition of cancelling ROA service.

7. Restriction of load profiling to only secondary customers.

8. Discrimination among distribution customers in contribution in aid of construction.

9. Implementation of proposed Revenue Adjustment Mechanism.

10. Implementation of proposed Uncollectable Expense True-Up mechanism (UETM), Pension Equalization mechanism, Other Post-Retirement Expense mechanism (OEM), and Investment Recovery mechanism.

11. Change of power supply allocation from 50/25/25 to 100/0/0.

1. Incentive Compensation

Q. What is your opinion on the Company's incentive compensation proposal?

A. The Company's incentive compensation proposal is shown in Exhibit A-16 (AMC-1). The inclusion of incentive compensation in rates – and how much should be included – is a policy issue for the Commission that has been argued, re-argued, ordered, and re-ordered for many years.

There is nothing inherently good or bad with inclusion of "incentive compensation" in rates for utility services. My perspective is that if incentive compensation is going to be included in rates and tied to utility performance, then rate recovery should be included only in the specific rates of customers that are affected by specific performance criteria, in an amount that reflects a reasonable sharing of the benefits of superior performance that would not have incurred without the incentive.

Q. Does the proposal in Exhibit A-16 (AMC-1) reasonably reflect the sharing of benefits of superior performance, if it were to be included in the rates of ROA customers for distribution services?

A. No, in several areas it does not. The two main deficiencies are (a) failure to tie performance to benefits to customers – which affects all customers, not just ROA – and (b) failure to separate distribution service benefits from power supply service benefits that ROA customers do not receive – which affects ROA customers.

Regarding failure to tie performance to customer benefits, Exhibit A-16 (AMC-1) shows that 50% of the incentive payout is tied to financial goals – earnings per share and operating cash flow. For any rate-paying customer to pay an additional bonus to a utility for increasing earning per share is illogical. The earnings are earned on the ratepayers backs, so to speak. For ratepayers to pay more, the more shareholders earn, does not make sense as a "shared benefit." Nothing is being shared.

Now if the increased earnings per share were coming from some other business venture and the increased earnings were in fact to *reduce* the rates paid by customers, then some type of shared savings could make sense. That is, if the utility were to save the customer $10 by extraordinary performance that would not have occurred without an incentive compensation plan, then the customer might be willing to return part of that savings to utility shareholders as an incentive payment. But in this proposal, it is simply the shareholders that benefit, and the more they earn, the more the customers pay. It is not an equitable sharing of benefits, and makes no sense.

Consequently, if the Commission were to approve an incentive compensation mechanism, then the "financial" portion shown on Exhibit A-16 (AMC)-1 should be excluded.

Q. The other portion of Exhibit A-16 (AMC-1) relates to safety, reliability, and customer value. How would you assess these parts of the proposal?

A. First, safety is paramount. Utility operations can put employees, and sometimes customers, in situations where conditions can be – or can quickly become – dangerous. Safety procedures have to be followed, and the procedures themselves should be continually reviewed and improved.

If the Commission were to include a safety component to incentive compensation, I would recommend that the electric measures be in electric rates, and the gas measure be in gas rates. Exhibit A-16 (AMC-1) includes "Gas Leak Response." This would certainly be appropriate for a corporate-wide safety measure – but the *recovery* of compensation should be included in gas rates, not electric rates.

Second, regarding "reliability," there are three measures of reliability in that category on Exhibit A-16 (AMC-1). Two of the measures pertain to distribution performance ("Repetitive Electric Outages" and "Distribution Reliability"), and one pertains to the forced outage rate of generation performance ("Generation Reliability (EFOR)"). Full service customers take both power supply service and distribution service, while ROA customers take only distribution service. Therefore, if there is a

reliability component in the incentive compensation mechanism, ROA customers should pay only for the performance in distribution reliability.

Third, regarding "customer value," the same separation between full service and distribution service should apply. ROA customers should pay only for improvements in distribution service, not power supply service, that are deemed to be the result of the incentive compensation plan, again only if the Commission were to approve an incentive compensation plan. The measure of "Competitive Price – Gas & Electric" on Exhibit A-16 (AMC-1) mixes both gas and electric benefits as well as power supply electric and distribution electric benefits. These should be separated.

2. Change in Notification of Return to Service

Q. Consumers Energy has proposed to revise the return to service notice deadline for ROA customers from December 1 to October 1. The Company has cited MISO requirements. In your opinion, is there a valid reason to make this change?

A. MISO requirements may not have been fully determined at the time the Company prepared its filing. But they are known now, and there is no longer any reason to change the return to service deadline from December 1 to October 1.

Consumers Energy witness Mr. David R. Ronk, Jr., explained the reason for the proposed change:

> For service beginning on June 1, 2013, MISO will implement a new resource adequacy process that will require the Company to forecast, on approximately November 1 of the prior year, the amount of demand it expects to serve during the 12-month period beginning June 1 each year. As a result, notice on or before December 1st will be too late for the Company to include the returning customer's demand into its capacity forecast. *[Ronk Direct Testimony, page 9, lines 11-16.]*

Consumers Energy witness Mr. Stephen P. Stubleski gives a similar explanation on page 30, lines 16-23 of his direct testimony.

The forecast that is due to MISO on November 1 for states that permit retail load switching *(i.e.,* ROA) is the electric distribution company (EDC) forecast for the *total* load in the EDCs area, regardless of who provides the power supply for which part of the total load. Consumers Energy functions as the *EDC*. This forecast does not depend on which customer is served by which load serving entity (LSE), but rather is the forecast for the distribution area.

Consumers Energy also functions as an *LSE*. MISO requires each LSE in a state that permits retail load switching to provide a forecast of the load it expects to serve on June 1, but this forecast is due on January 15, well after the current December 1 deadline. This forecast is the portion of the total area load (the EDC distribution area forecast) that the LSE expects to serve, and so is the forecast for which Consumers Energy – as an LSE – needs information on customers intending to return to utility service.

Therefore, there is no reason to make the return to service notice deadline any earlier than it is now – the current deadline of December 1 suffices to give Consumers Energy sufficient notice to fulfill its requirements to MISO by January 15.

MISO rules are contained in its filings to the Federal Energy Regulatory Commission, Docket No. ER12-2706. Following are excerpts from the tariff language in the filing:

> The Demand forecasts required in Section 69A.1 shall include: (1) the annual Coincident Peak Demand within each LBA area in the Transmission Provider Region for the upcoming Planning Year; . . . . All of these forecasts shall be submitted by November 1st prior to each Planning Year . . . . *[ER12-2706, MISO filing September 28,2012, Section 69A.1.1.a.]*
>
> On or before January 15th, an LSE that is located in a state that permits retail load switching must notify the Transmission Provider through the MECT of PRMR for the LSE's proportion of the EDC's forecast Demand that it expects to serve on June 1 of the next Planning Year. Regardless of the allocation method selected by the EDC and LSEs within its area, the LSE must provide such data to the Transmission Provider in MWs. *[ER12-2706, MISO filing September 28,2012, Section 69A.1.1.1.a. Emphasis added.]*

3. Method of allocation of Senior Citizen and Income Assistance discounts.
4. Method of allocation of Economic Development rate discount.

Q. Why is the method of allocation of discounts – Senior Citizen, Income Assistance, and Economic Developments discounts – a significant issue?

A. The method of allocation of discounts that Consumers Energy proposes transfers $41 million of costs to delivery rates that instead should be in power supply rates.

Between a Commission order in this proceeding, if issued in September 2013, and the expiration of the E-1 contract in November 2015, $85 million will have been mistakenly included in delivery rates under Consumers Energy's proposal, unless the Commission directs Consumers to correct the allocation error.

I will explain the allocation error and quantify the effect on rates. In short, the company allocates over 72% of nearly $57 million of discounts to other rate classes based on power supply costs, but erroneously puts the allocation into delivery charges rather than power supply charges.

Q. How does Consumers Energy allocate the Senior Citizen, Income Assistance, and Economic rate discounts to customers for rate design purposes?

A. Allocation of the Senior Citizen, Income Assistance, and Economic Development rate discounts are displayed on Exhibit A-11 (SPS-2), Schedule F-2.1, and are explained in the testimony of company witness Mr. Stephan P. Stubleski:

> The discounts for Senior Citizens and Income Assistance customers are allocated to each rate class based on the total costs to serve. The Company believes that the costs for any discounts should be allocated to customers consistent with the manner in which total costs are allocated to customers. By using this approach, no single customer group is unfairly burdened with the responsibility of these discounts. *[Stubleski Direct Testimony, page 12, lines 5-9. Emphasis added.]*

> Rate E-1 discounts are allocated to all other customers based on the Company's total test-year costs-to-serve. This approach is consistent with the manner in which the discounts for Senior Citizens and Income Assistance are allocated to each rate class. The Company believes that the costs for any discounts should be allocated to customers consistent with the manner in which total costs are allocated to customers. By using this approach, no single customer group is

unfairly burdened with the responsibility of these discounts. *[Stubleski Direct Testimony, page 12, line 20 to page 13, line 2. Emphasis added.]*

Q. Is this a proper way to allocate such discounts?

A. The discounts end up being paid by customers in other rate classes. Therefore, there are two aspects to consider: (1) allocation of the discount to the classes, and (2) how the discount is designed into the rates that other customers pay.

Allocation is often a judgement call, and the method of allocating these discounts by total costs in the cost-of-service, according to the cost of service, that Mr. Stubleski describes and that is shown on Exhibit A-11, Schedule F-2.1, is reasonable assuming that power supply and delivery costs of service are treated separately.

The problem with Consumer's Energy method is not the allocation, but how the costs are paid in the rates designed for the other rate classes.

Q. Would you explain?

A. The cost of service model, both in the computer model and as reflected on Exhibit A-11, Schedule F-2.1, does not break out bundled customers and ROA customers within a rate category – the columns shown on the exhibit. So, "total cost of service" for a class (line 13 of the exhibit) includes *both* total power supply costs (line 9) *and* total delivery costs (line 12). Thus, a rate class gets an allocation of discount dollars based on *both* power supply and delivery costs.

But there are two types of customers in a rate class – bundled and ROA. Bundled customers are responsible for *all* of the power supply costs, and both bundled customers and ROA customers jointly are responsible for all of the delivery costs. ROA customers are not responsible for any of the power supply costs.

In the actual design of the rates, however, *all of the discount* is put into the delivery rates, and none into the power supply rates. This means that ROA customers are paying, in their delivery rates, a portion of the allocated discount that is based on power supply costs, which is not commensurate with their cost responsibility.

Q. Would you illustrate with an example?

A. Yes. Exhibit EM-2 (AJZ-2) outlines what is going on, using rate category GSD as an example. Part I shows the total discounts allocated to the class, $8,780 ($000) on line 4, column B. Part II shows the actual rate design result of the delivery component, $145,775 on line 23 – this is what is proposed to be paid by customers. Part III shows the delivery cost of service, $136,995 on line 32.

The difference between the delivery rate design and the cost of service, shown in Part IV, is exactly $8,780 on line 40, showing that all of the discount has been put into the delivery component of the proposed rate design.

Q. How should the discounts be allocated?

A. The fix is straightforward: allocation to rate classes for purposes of rate design should be separated into total cost of power supply and total cost of delivery. Practically, the fix is even simpler and can be accomplished without changing the company's initial allocation to the rate classes. A second step should be added, which takes the dollars initially allocated to a rate class by total cost-of-service and divides them up within the rate class pro-rata by power supply cost-of-service and delivery cost-of-service. Then, the power supply portion of the discount should be included in the power supply rate design for the rate class and the delivery portion of the discount should be included in the delivery rate design.

This second step is arithmetically equivalent to a separate initial allocation, and offers the benefit of no change in the allocations to the rate classes – just a simple separation within a class prior to rate design.

Q. Can you illustrate with an example?

A. Yes. Exhibit EM-3 (AJZ-3) shows what should be done, again using rate category GSD as an example. The initial allocation according to the company's method is shown on line 1, $8,780. Power supply and delivery costs, from the cost of service, are shown on lines 7 and 8. The relative portions of power supply and delivery, in percentage, 73.7% for power supply and 26.3% for delivery, are shown on lines 14 and 15.

Lines 18 and 19 simply take the total discount of $8,780 and divide it up pro-rata according to the power supply and delivery percentages. Then, the power supply portion is added to the rate design target for power supply (line 24), and the delivery portion is added to the rate design target for delivery (line 25). The rate design target for power supply ends up at $389,430 (line 24), and the rate design target for delivery ends up at $139,303 (line 25). The total rate design target of $528,733 is preserved, as line 27 equals line 11.

Q. What is the result of separating the discounts that have been allocated to rate category GSD, in your example?

A. The discounts allocated to rate GSD were initially based on total cost of service, both power supply and delivery combined. The result of reallocation within the GSD class is that the rate design for power supply will reflect a responsibility for the discounts that is commensurate with the power supply cost of service for the rate, and the rate design for delivery will reflect a responsibility for the discounts that is commensurate with the delivery cost of service.

Consequently, both bundled customers and ROA customers will end up paying a fair share of the discounts, commensurate with their costs. Rate GSD is an example, and the other classes shown on Exhibit A-11, Schedule F-2.1 that receive an allocation of discounts should follow the same method of separation.

Q. What is the magnitude of the issue of separating the allocation of discounts into power supply and delivery components?

A. Annually, $41 million of discounts is being mistakenly included in delivery rates, instead of in power supply rates.

Between a Commission order likely by September 2013 and the expiration of the E-1 contract in November 2015, $85 million will have been mistakenly included in delivery rates under Consumers Energy's proposal, unless the Commission directs Consumers to correct the allocation error.

Exhibit EM-4 (AJZ-4) shows the magnitude of the issue of separating the allocation of discounts into a power supply component and a delivery component. This exhibit draws on information in Consumer Energy's Exhibit A-11, Schedule F-2-1, which displays results of the cost-of-service study, displays the discounts, and displays the allocation of discounts to rate classes.

Exhibit EM-4 (AJZ-4) calculates the magnitude of the issue for two categories of discounts separately: section I addresses the E-1 discount, and section II addresses the Senior Citizens and Income Assistance discounts combined. This is necessary because these two categories of discounts are allocated by slightly *different* methods, even thought they are labeled as being allocated by the same method, noted as "A2" on the bottom of Exhibit A-11, Schedule F-2.1. On Exhibit A-11, Schedule F-2.1, the E-1 discount is allocated according to "Total Cost of Service" on line 13 for rate classes in

columns *(b) through (h)*. This is consistent with the label of "A2" and the allocation factors shown for A-2. However, the Senior Citizens and Income Assistance discounts are allocated by "Total Cost of Service" on line 13 for rate classes in columns *(c) through (h) – eliminating rate class RS in column (b)*. This makes sense because the discount for rate class RS should not be allocated to itself, but consequently determining the value of the issue requires a separate calculation.

On Exhibit EM-4 (AJZ-4), lines 2-4 show the total cost of service for the E-1 allocation and the Power Supply and Delivery components. Lines 7-8 show the percentage of the components – 71.6% for Power Supply and 28.4% for Delivery. Applying these percentages to the E-1 discount of $49,204 (000) on line 12 results in the proper charges to Power Supply and to Delivery, $35,224 and $13,980 respectively, shown on lines 15-16.

A similar calculation using the cost-of-service allocation dollars for the Senior Citizen and Income Assistance discounts is shown on line 19-38. The result is that the proper charges to Power Supply and to Delivery are $6,013 and $1,665 respectively, shown on lines 36-37.

Section III of Exhibit EM-4 (AJZ-4) combines the results for the two categories of discounts. Line 41 shows the total of the discounts being allocated, $56,882. Line 42 shows that, of the total, $41,236 should properly be charged to and included in Power

Supply rates; and line 43 shows that $15,646 should be properly charged to and included in Delivery rates.

In other words, $41 M annually of discounts are being allocated by power supply costs but are erroneously included in delivery rates, according to the company's proposal. Mr. Stubleski states that the E-1 discount will continue to November, 2015. *[Stubleski Direct Testimony, page 12, line 14.]* Assuming the Senior Citizen and Income Assistance discounts continue at least that long, and assuming the Commission issues a decision in this proceeding in September, 2013, the value of this issue over a 25-month period is $85 M (= $41M x 25/12).

Thus, misallocation of discounts is a large issue financially and results in an undercharge for power supply service and an overcharge for delivery service, compared to true cost of service. Having the ability to recognize and quantify the inequity, the Commission should fix the problem.

Q. What is your recommendation to the Commission?

A. I recommend that the Commission direct Consumers Energy to pro-rate the allocated discounts for Senior Citizens, Income Assistance, and Economic Development into a power supply portion and a delivery portion within each rate class, using the method described in Exhibit EM-3 (AJZ-3), and include the separate portions in the respective power supply and delivery rate design targets.

The result of such allocation is that each class of customers, regardless of rate class, whether bundled or ROA, will pay a *fair share of the discounts* commensurate with its costs in the cost of service study, which is the stated goal of Consumers Energy.

5. Charge of $45 for meter reading for ROA customers

Q. Is the company proposing a new meter reading charge for ROA customers?

A. Yes. Mr. Stubleski describes the change:

> First, the Company is proposing that if it is unable to access meter data electronically for two or more consecutive months through the customer-provided telephone line or other communication links that allow access to the meter data by the Company, the Company will retrieve the metered consumption data manually and assess a charge of $45 each month it is necessary for the Company to obtain meter data manually. *[Stubleski Direct Testimony, page 30, lines 7-12. Emphasis added.]*

The sentence that the company proposes to insert into Rule E2.2 is:

> If the Company is unable to access meter data electronically for two or more months within a12 month period, Consumers Energy will retrieve the data and charge the customer $45 per manual meter read. *[Exhibit A-11 (SPS-8), page 83.]*

Q. Is this charge reasonable?

A. The $45 is reasonable. The utility should be able to collect the reasonable costs of doing business. The qualifying conditions need to be both supplemented and clarified.

Q. What should be supplemented?

A. First, the issue of *who is responsible* for the no-read is not addressed at all. Obviously, if the meter cannot be read electronically, then something went wrong within

the entire meter reading process. The problem could be with the company's meter equipment, communications protocol, or software. It could be as simple as the company making a typographical error in entering the meter phone number into its software. Or the problem could be on the customer's end – telephone equipment or connections.

If the *company is responsible* for the no-reads, then naturally there should be *no charge*, nor should the no-read count as one of "two or more consecutive months." If the *customer is responsible* for the no-reads, then the *charge should apply*. Thus, both company and customer have an incentive to perform, and both are treated fairly.

Second, since a finding of fact regarding responsibility is needed, the customer should be given notice that a no-read has occurred. Third, the customer should have a reasonable time to investigate the problem to assess its responsibility for the no-read.

Q. What conditions should be clarified?

A. First, Mr. Stubleski says "consecutive months," but the qualifier of "consecutive" does not appear in the proposed modified tariff, Exhibit A-11 (SPS-8), page 83.

Second, the "Summary of Tariff Changes," Exhibit A-57 (SPS-7), page 2 of 2, item 33, states "charge the customer $45 per manual meter read after the first occurrence," which is also at odds with Mr. Stubleski's testimony of "two or more consecutive months." The summary exhibit is not necessarily controlling, but there is a potential conflict.

Third, the issue of how long the $45 charge will continue for no-reads is not clear. Without any qualifier, it continues forever, on all subsequent no-reads, no matter how infrequent. My interpretation of the company's proposal is that the 12-month qualifier is there for a reason – it is looking retrospectively at performance in the *preceding* 12 months, not any 12-month period no matter how far back. Otherwise, there would be no reason to have a 12-month qualifier – because each instance of two consecutive months of no-reads would fall into *some* 12-month period, and thus the 12-month period qualifier would be logically moot.

Q. What is your recommendation?

A. I believe the intent of the change is clear: If the meter cannot be read electronically for two *consecutive* months in a *rolling* 12-month period, and the company is not responsible for the two no-reads, then every manual reading during that 12-month period due to a no-read that is not the responsibility of the company after the first of the two consecutive no-reads is charged $45.

To be clear, I'm not commenting on the merits of instituting a charge or the merits of how many or how often no-reads will trigger the charge, only that the tariff language implementing the charge be clear, make sense, *be fair to both customer and company*, and be consistent with supporting testimony.

The remedy here is to revise the proposed tariff language for Rule E2.2, on page 83 of Exhibit A-11 (SPS-8), such that the insertion reads:

> *If the Company is unable to access meter data electronically for two or more consecutive months within the preceding 12-month period, then the Company will provide notice to the customer and allow a reasonable time for the customer to respond. Consumers Energy will charge the customer $45 per manual meter read unless the inability to access meter data electronically is due to non-performance of the Company.*

6. Deletion of qualifier excluding non-performance of the telecomm provider as a condition of cancelling ROA service.

Q. Is there another proposed change in Rule E2.2 regarding ROA service?

A. Yes. It is shown in Exhibit A-11 (SPS-8), page 83.

The current tariff reads:

> In the event that the Company is unable to access meter data electronically for three consecutive months, the ROA Customer's ROA Service shall be terminated and the ROA Customer shall be transferred to Company Full Service and be subject to the "return to Company Full Service" provision unless telephone access failure is due to non-performance of the telecommunications service provider. *[Exhibit A-11 (SPS-8), page 83. Emphasis added.]*

The proposed change shown on page 83 deletes the qualifier "unless telephone service failure is due to non-performance of the telecommunications service provider."

Q. Is this change explained in Consumers Energy's direct testimony?

A. I cannot find any mention of it in Mr. Stubleski's testimony or that of any other witness.

Q. Is there any mention of this change in any other exhibit?

A. The "Summary of Tariff Changes," Exhibit A-57 (SPS-7), page 2 of 2, item 33, includes the words "and deleted the reference to telecommunications service provider non-performance."

Q. How is this proposed change justified by Consumers Energy?

A. Consumers Energy does not justify or support the proposed change. Rather, it simply appears as a revision in the tariff.

Q. Is such a change justified?

A. No, not at all, for a couple of reasons.

First, the company already has proposed to start charging for manual meter reading if there are two consecutive no reads. Therefore, if there are *three* consecutive no-reads – as in current tariff language – then charges for manual readings will already have been implemented. Thus, there is no justification on the basis of failure to collect reasonable costs.

Second, ROA customers cannot control the performance of the telecommunications provider. That is precisely *why* there is an exclusion in the current tariff language in the first place. ROA customers will be responsible for costs incurred by the company if the telecommunications provider does not perform, and that is why the

company has proposed a *$45 charge to the customer* – not to the telecomm provider – for a manual read.

Third, since the inability to read a meter electronically may well be the fault of the utility, there should be an additional exclusion for instances where the company is at fault. My proposed language for the $45 charge addresses non-performance of the company and the process for applying the charge. Likewise, in addition to retaining the exclusion for non-performance of the telecomm provider, an exclusion for non-performance of the company should also be inserted into the sentence that Consumers Energy proposes to revise.

Fourth, the result of the deletion of the telecomm exclusion clause is that Consumers Energy will not be treating all delivery customers equally regarding charges and conditions for delivery service. If the meter of a full-service customer is not read for three consecutive months – for example, because of lack of access to a locked meter room or dog in the yard of a customer – Consumers Energy is not proposing to transfer the customer to ROA service – that would be absurd, but logically parallel to the company's proposal.

Meter reading and meter communications is an issue of *delivery* service, and it should be addressed by conditions of and charges for *delivery* service. A delivery issue should not be addressed by changing the supplier of power.

Q. What is your recommendation to the Commission?

A. The proposed deletion of the telecommunications exclusion has not been explained or justified in any way by the company, and it discriminates unnecessarily between full-service and ROA customers regarding delivery service. The proposed change should be denied, and instead an exclusion should be inserted to address the non-performance of the company. The sentence in Rule E2.2 should be revised to read:

> In the event that the Company is unable to access meter data electronically for three consecutive months, the ROA Customer's ROA Service shall be terminated and the ROA Customer shall be transferred to Company Full Service and be subject to the "Return to Company Full Service" provision unless the telephonic access failure is due to non-performance of the telecommunications service provider *or to non-performance of the Company*.

7. Restriction of load profiling to only secondary customers.

Q. Is Consumers Energy proposing to change its rules on load profiling for ROA customers?

A. Yes. Currently, load profiling is available to any ROA customer, whether secondary or primary, under certain provisions in Rule E3.7. Mr. Stubleski identifies the proposed change:

> Finally, the Company is proposing that Load Profiling be made available only to customers served at the Company's Secondary Service who do not have a meter capable of recording or providing interval readings for billing. The proposed tariff language is shown on Tariff Sheet E-20.00, in Exhibit A-11 (SPS-8) page 85 of 85. *[Stubleski Direct Testimony, page 30, line 23, to page 31, line 3. Emphasis added.]*

Q. What is the reason for the proposed change?

A. No reason is given. There is just a declaration of the change, without further explanation.

Q. Does such a change seem warranted?

A. The company offers a primary rate that does not have to be demand metered – General Service Primary Rate GP. ROA customers may take delivery service on this rate. This situation is similar to a secondary customer – likewise under a rate that is not demand metered – also able to take ROA service.

If the company offers load profiling to secondary ROA customers that are not demand metered, I cannot see any reason that the same load profiling services should not be offered to primary ROA customers on rates that likewise are not demand metered. Again, no rationale has been offered in support of the company's proposal.

I recommend that the Commission deny the proposed change to restrict load profiling to only secondary customers.

8. Discrimination among distribution customers in contribution in aid of construction.

Q. Has Consumers Energy proposed any changes to Rule C1.4 regarding the Contribution In Aid of Construction Allowance Schedule?

A. No, the company has not proposed a change in this proceeding. However, it did apply for a change in Case No. U-17147 on October 12, 2012 – *after* this proceeding was filed – and the Commission issued an order changing the Contribution In Aid of Construction Allowance ("CIAC Allowance") on November 7, 2012.

Q. Does the CIAC Allowance schedule in Rule C1.4 treat both full-service customers and ROA customers the same regarding distribution services and charges?

A. It certainly does not. Customers who sign a full-service contract with the Company can get a greater CIAC Allowance; and the longer the full-service contract, the larger the allowance. Obviously, ROA customers cannot sign a full-service agreement and still be ROA customers.

Q. What was the justification that the company offered for different treatment of full-service versus ROA customers regarding such distribution costs?

A. There was no justification of differential treatment in the application, only a statement of the benefits to a customer looking to Michigan as a potential site for new economic development, such as "a process for determining the extent and costs of non-standard electric facilities that is more predictable." *[U-17147, CE Application, October 12, 2012, page 2, par. 4.]*

The word "full-service" appears only once in the application; the word "ROA" does not appear at all. There was no reason given why the new CIAC Allowance schedule would differentiate between full-service and ROA customers.

Q. Should the CIAC Allowance distinguish between full-service and ROA customers?

A. No. There is no reason to distinguish between full-service and ROA customers. "Non-standard facilities" or "extraordinary facilities" in Rule C1.4 do not depend on *who* is the supplier of power – they depend on the equipment and facilities that are needed to serve the customer *regardless* of whom the customer pays for its supply of power – whether Consumers Energy or an Alternative Electric Supplier. No matter who is the supplier, Consumers Energy will provide the same extraordinary facilities and the delivery service that uses those facilities.

The current requirement, in the CIAC Allowance schedule, of a full-service contract to receive a larger allowance essentially gives the contracting customer a larger credit for its distribution costs in return for locking the customer out of ROA service for the duration of the contract.

Q. Is a larger allowance for a longer contract appropriate?

A. It can be, if the purpose of the increasing allowances for longer duration of the contract is to incentivize the customer to retain and use its new site for a longer period. But a delivery service contract would serve just as well – a customer cannot take full

service without also taking delivery service. So there is no need for a full-service contract.

Again, the company gave no reason for distinguishing between a full-service customer and an ROA customer in the implementation of the new CIAC Allowance schedule.

Q. What is your recommendation to the Commission?

A. The current CIAC Allowance schedule is discriminatory without any justification. It should be changed, and can be changed simply.

The table entitled "Contribution In Aid of Construction Allowance Schedule" in Rule C1.4, Sheet No. C-3.10, should be revised to change the words "Full Service" to "Delivery" in the two column captions, such that they read: "With a Delivery Contract, by Contract Duration" and "Without Delivery Contract."

9. Implementation of proposed Revenue Adjustment Mechanism.

Q. Consumers Energy is proposing a Revenue Adjustment Mechanism. Do you favor or oppose such a mechanism?

A. I view the existence or non-existence of adjustment mechanisms such as the Revenue Adjustment Mechanism as a policy issue that should be decided by the Commission. I am neither favoring nor opposing existence of a Revenue Adjustment

Mechanism. A utility must be able to collect the reasonable and prudent costs for used and useful investment in facilities, from customers who use those facilities, via rates for service. When costs change or customer use changes, then naturally rates have to change as well. An adjustment mechanism merely establishes a procedure for a change in rates due to specified factors.

In addition to being a policy issue, the proposed Revenue Adjustment Mechanism may also be a legal issue, in light of the past decision by the Michigan Court of Appeals that the Commission did not have the authority to implement a "Revenue Decoupling Mechanism."

Q. Apart from policy and legal issues, do you have any concerns or recommendations regarding the company's proposal in this proceeding?

A. Yes, there are two concerns. The first is that any such adjustment mechanism should separate the adjustments for power supply and delivery revenues. The adjustment for power supply revenues would be charged or credited to full-service customers, and the adjustment for delivery revenues would be charged or credited to all delivery service customers, both full-service and ROA.

Q. Is the company proposing to separate power supply from delivery revenues?

A. Yes, it is. Mr. Stubleski states clearly in his testimony:

> The Company proposes to compare actual total delivery revenues (less customer charges) to the approved rate case delivery revenues (less customer charges), which would apply to all customers, and to compare actual nonfuel power supply

revenues to the approved power supply revenues, which would apply only to Full Service customers. *[Stubleski Direct Testimony, page 37, lines 1-5]*

If there is to be a Revenue Adjustment Mechanism, I agree with Mr. Stubleski's separation.

Q. What is your concern with this part of the proposal?

A. My concern is that Consumers Energy not only *propose* such a separation, but also when the time comes to apply the mechanism, actually *implement* the separation of revenues.

Mr. Stubleski's testimony is consistent with his testimony in Case No U-15645, which created a pilot Revenue Decoupling Mechanism, describing separate surcharges for ROA classes that reflect only delivery charges:

> "Q. If the Commission ordered the implementation of the RDM would it apply to ROA sales?
> A. Yes, the RDM would apply to ROA sales as these customers are included in the Company's Energy Optimization Programs. ROA sales would be included in their respective rate class, but would have a <u>separate charge that reflected only their delivery charges</u>." [*U-15645, Rebuttal Testimony of Stephen P. Stubleski, page 17, lines 12-16. Emphasis added.*]

However, in the later implementation of the RDM in Case No. U-16566, a different Consumers Energy witness, Mr. Philip E. Crutchfield, stated that " . . . the Company has <u>combined</u> the decoupled revenue for Secondary Full Service and Secondary ROA customers, and has <u>combined</u> the decoupled revenue for Primary Full Service and Primary ROA customers together for purposes of determining the amount of

refund or collection required from those respective groups." [U-16566, *Crutchfield Direct Testimony, page 10, lines 1-4. Emphasis added.*]

Q. What is your recommendation to the Commission?

A. Proposal and implementation should be consistent. If the Commission approves the proposed Revenue Adjustment Mechanism, the order should specifically include the separation of power supply from delivery adjustments.

Q. What is your second concern with the proposed Revenue Adjustment Mechanism?

A. My second concern is that the company proposes to make the revenue adjustments by rate class revenues, rather than by total company revenues. Mr. Stubleski states: "This comparison will be performed by rate class." *[Stubleski Direct Testimony, page 37, line 1.]*

Q. What is the disadvantage with adjusting by rate class?

A. The disadvantage is that the less energy a rate class uses, the higher its effective adjusted rate will be, because it has to cover the approved revenues. It is essentially a "zero sum game" regarding approved power supply or delivery revenues for the rate class.

In a general rate case – which in part the Revenue Adjustment Mechanism replaces – if a rate class uses less or more energy and/or demand, then the *cost of service*

for that class goes down or up, *in the same direction,* and thus the dollar responsibility of that class under cost of service rates also goes down or up, in the same direction. The price per kWh may not move in the same direction, but at least there will be a *reduction or increase in the total dollars to be paid by the class,* in the same direction as the class's responsibility for costs.

Under the company's proposal to adjust by class, there is no commensurate adjustment for cost responsibility. This is completely the opposite of what would happen in a general rate case. As a result, under the company's proposal, the adjustment in prices for rate classes would be more volatile than in a general rate case; and in the next general rate case, prices would have to move in the *opposite* direction of the adjustment to match the cost of service.

I have addressed this phenomenon in more detail in previous testimony in Case No. U-16566 and Case No. U-15768.

Q. What is your recommendation to the Commission?

A. If the Commission approves a Revenue Adjustment Mechanism, then the adjustments should be done in two steps: first, *determination of the amounts* over-collected or under-collected should be done by rate class, separated into power supply and delivery revenues; second, *implementation of a surcharge or credit* should be done on a total company basis – one surcharge/credit for all power supply customers and a separate surcharge/credit for all delivery customers.

A total company surcharge/credit for each of power supply and delivery will mimic more closely what would occur in a general rate case, and reduce the volatility of rate changes.

10. Implementation of proposed Uncollectable Expense True-Up mechanism (UETM), Pension Equalization mechanism, Other Post-Retirement Expense mechanism (OEM), and Investment Recovery mechanism.

Q. Consumers Energy has proposed several other adjustment mechanisms. What is your perspective on these mechanisms?

A. Again, such mechanisms are policy issues for the Commission of whether or not to approve any particular mechanism. But the principles of assessing the fairness are the same: (1) separate power supply and delivery obligations; (2) calculate total company adjustments for each of power supply and delivery separately; (3) apply separate surcharges/credits – one to power supply services, one to delivery services.

a. *Pension Equalization Mechanism*: The proposed Pension Equalization Mechanism (PEM) is shown on Exhibit A-58 (SPS-9). The note at the bottom of the exhibit states: "Refunds/collections based on an equal per kWh rate." <u>The PEM is deficient because it does not separate power supply from delivery.</u> Pensions affect both power supply and delivery employees. Power supply and delivery labor expenses are separated in the cost of service. An adjustment to pension expenses can be reasonably

and easily allocated by power supply and delivery labor expenses. The Commission should order the company to do so.

b. *Other Post-Retirement Expense Benefits*: The proposed Other Post-Retirement Expense Benefits (OPEB) Equalization Mechanism (OEM) is shown on Exhibit A-59 (SPS-10). The note at the bottom of the exhibit states: "Refunds/collections based on an equal per kWh rate." The OEM is deficient because it does not separate power supply from delivery. Pensions affect both power supply and delivery employees. Power supply and delivery labor expenses are separated in the cost of service. An adjustment to OPEB expenses can be reasonably and easily allocated by power supply and delivery labor expenses. The Commission should order the company to do so.

c. *Uncollectible Expense True-Up Mechanism*: The proposed Uncollectible Expense True-Up Mechanism (UETM) is shown on Exhibit A-60 (SPS-11). The caption on line 9 of the exhibit states: "Total 2013 Uncollectible Expense Recoverable through the UETM Surcharge." No separation into power supply and delivery components is described. The UETM is deficient because it does not separate power supply from delivery. An uncollectible bill from a full-service customer includes *both* power supply and delivery amounts separately. An uncollectible bill from an ROA customer includes only a delivery amount. An adjustment to uncollectible expenses can easily be allocated by power supply and delivery class revenues. The Commission should order the company to do so.

d. *Investment Recovery Mechanism*: The proposed Investment Recovery Mechanism is shown on Exhibit A-62 (SPS-12), pages 1-2. This mechanism does separate distribution (delivery) investment from production (power supply) investment. It separates incremental investment into production rate base and delivery rate base and allocates incremental investment to rate classes according to the relative proportion of production or delivery rate base, as shown on Exhibit A-25 (EJK-4). Incremental investment is separated into production and distribution by functional definition first, then allocated to the respective rate bases of each class. Delivery charges are adjusted by rate class to recover the additional distribution investment, and power supply charges are adjusted by rate class to recover the additional production investment. This is a reasonable way to separate and charge for incremental investment. I have no additional recommendation to the Commission.

11. Change of power supply allocation from 50/25/25 to 100/0/0.

Q. Consumers Energy is proposing to change the allocation of production capacity expense in its costs of service study from a "50/25/25" method to a "100/0/0" method. What is the effect such a change would have?

A. The three numbers in the label indicate how production expenses are allocated to rate classes, respectively: (1) the percentage of the expense that is allocated by peak demand – in the company's approved method this is by the rate class's contribution to the four coincident summer peaks; (2) the percentage of the expense that is allocated by the rate class's share of total on-peak energy for the year; and (3) the percentage of the

expense that is allocate by the rate class's share of total energy for the year. Company witness Mr. Eric J. Keaton explains this on page 8, lines 2-6, of his testimony.

The effect of changing from a 50/25/25 method to a 100/0/0 method is that (assuming rate classes peak in the summer) rate classes with lower annual load factors would be allocated a relatively higher share of production expenses under the 100/0/0 method compared to the 50/25/25 method, and rate classes with higher annual load factors would be allocated a lower share.

Q. Which method is correct?

A. Neither method is "correct" in an engineering or economic sense. Production facilities serve all customers jointly, and there is no single right way to allocate joint expenses. The issue of assigning responsibility for joint expenses has been argued for decades, and the outcome typically has been an allocation method, not a solution, that reflects a number of cost characteristics in a reasonable and balanced way that the rate classes and contesting parties can live with. Essentially, allocation of joint costs is a policy decision for the Commission.

Q. What justification does Consumers Energy offer for changing the cost allocation method, and what is your assessment of the reasons for change?

A. Mr. Keaton explains the justification in his testimony:

> Q. Why is the Company proposing to change the allocation of production capacity expense?

> A. The Company aspires to place more emphasis on the four monthly summer system peaks when allocating production capacity expense by increasing the demand weighting of the production allocator from 50% to 100%. The Company's production capacity planning is designed to serve system peak loads, and it is appropriate to allocate that capacity based upon each rate's contribution to the system peaks. The Company is proposing this change in an ongoing pursuit to align cost allocation with cost causation. *[Keaton Direct Testimony, page 13, lines 7-13. Emphasis added.]*

The reason given leaves out an important factor that the Commission should consider.

Q. What is that factor, and would you explain why it is important?

A. The factor is cost of the system design. Mr. Keaton is correct if he means that the *amount* of production capacity is designed to serve peak loads, and he is correct if he means that allocation of rate class capacity is for the purpose of determining that class's *megaWatt contribution* to the system peaks.

But he has omitted the cost factor. What the cost of service is allocating is not megaWatts, but rather *dollars*. To assess a rate class's "contribution" or "cost responsibility" for joint production expense *dollars*, the cost of the energy produced by the designed system should also be taken into account. The generation system is not designed solely to meet the peak demand. It is also designed to minimize total costs over some period of time, considering both the investment costs and the variable costs of producing energy. Therefore, the benefit or burden that a rate class receives from or imposes on the energy-producing capabilities of the designed system affects the total cost

of the system and so reasonably might also be considered in an allocation method. That is the reason for the "25/25" in the "50/25/25" method.

Q. Does the method of allocation affect competition?

A. To the extent that some commercial and industrial rate classes have higher load factors and thus would receive relatively lower power supply rates for full service under the 100/0/0 method, the method of allocation does affect competition. The current statutes require rates based on cost of service. To give a rate class a lower or higher rate solely by changing the cost of service without reasonable justification is in effect creating a subsidy but covering it by a change in the "cost of service."

Q. What is your recommendation to the Commission?

A. There likely will be little new in the arguments over 50/25/25 versus 100/0/0. Since a decision on allocation method is a policy decision, I recommend that the Commission consider a balanced allocation between the burden of responsibility for peak demand and the benefit of receiving low-cost energy – not ignore completely the relative benefit that a rate class receives as low-cost energy.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

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CONSULTANT – MERCHANT ENERGY AND UTILITY REGULATION

Provide 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 and Resource Adequacy, 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 POSITONS : 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***	***Time Period***
Director, Special Projects	**Customer Energy Solutions**	**Apr 97 to May 98**

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 (temp affiliate)** **Jan 97 to Apr 97**

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** **Jan 96 to Dec 96**

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** **Jan 91 to Dec 95**

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** **Mar 90 to Dec 90**

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

Pricing Analyst **Marketing / Rate** **Aug 82 to Mar 90**

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** **Aug 79 to Dec 81**

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.

PRIOR POSITIONS: <u>Prior to DTE Energy</u>

Lear Siegler Corporation, ACTS Computing division, systems analyst and programmer from January 1973 to July 1977.

EDUCATION: M. A. in mathematics, University of Michigan, 1972
B. S. in mathematics, University of Michigan, 1968

MILITARY: U. S. Army, September 1968 to June 1970.
Viet Nam service from June 1969 to June 1970.
Honorably discharged.

PROFESSIONAL: Member, Engineering Society of Detroit (1979-present)

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 TESTIMONY:

- Michigan Public Service Commission, U-17032
- Michigan Public Service Commission, U-16794
- Michigan Public Service Commission, U-16566
- Michigan Public Service Commission, U-16472
- Michigan Public Service Commission, U-16191
- Michigan Public Service Commission, U-15768.
- Michigan Public Service Commission, U-15744.
- Federal Energy Regulatory Commission, Docket No. EL04-135 & related dockets.
- Michigan Public Service Commission, U-12489.
- Michigan Public Service Commission, U-8871.
- Michigan Public Service Commission, U-8110 part 2.
- Michigan Public Service Commission, U-8110, part 1.

- Michigan Public Service Commission, U-7930 rehearing.
- Michigan Public Service Commission, U-7930.

Example: Rate Class GSD Discounts

Allocated by Power Supply Plus Delivery
But Designed into Delivery Only

Line No.	(A)	(B)	(C)
1	***I. Discounts included in the rate design targets are allocated by***		
2	***total cost of service dollars -- both power supply plus delivery.***		
3			
4	**"Total Skewing and**	**$8,780**	Exh A-11 Sched F-2.1, line 20, col (e)
5	**Discounts" -- GSD**		
6	*(Allocated based on bundled*		Exh A-11 Sched F-2.1, Note (2) A2
7	*and ROA total cost-of-service*		
8	*on Exh A-11 Sched F-2.1,*		
9	*line 13, col's (b)-(h)*		
10			
11			
12	***II. However, the actual designed rates puts all of the discount into***		
13	**only the delivery component . . .**		
14			
15	**"Delivery" from**		
16	**actual Rate Design**		
17			
18	GSD - Bundled	$136,064	Exh A-11 Sched F-3, p.13, line 18, col (f)
19	GSD - ROA	6,720	Exh A-11 Sched F-3, p.13, line 23, col (f)
20	GSDA - Bundled	2,991	Exh A-11 Sched F-3, p.14, line 15, col (f)
21	GSDA - ROA	0	Exh A-11 Sched F-3, p.14, no ROA in design
22		---	
23	Total GSD	**$145,775**	
24			
25			
26	***III. . . . as can be seen by comparing the actual rate design***		
27	***to the cost of service model results.***		
28			
29	**"Distribution" component**		
30	**from Cost of Service**		
31			
32	GSD - Bundled - C.O.S.	**$136,995**	File: "Copy of UCOS-CM2013-EJK2.xlsx"
33			Tab: "Dist"
34			Row: 218 "Proposed Rate Design Revenue"
35			Col: Z "Rated GSD"
36			
37	*See also "Total Delivery"*	*$136,994*	*Exh A-11 Sched F-2.1, line 12, col (e))*
38			
39			
40	***IV. Actual rate design le***	**$8,780**	= line 23 - line 32. Matches line 4.
41	***cost of service results***		
42	***= II - III.***		

Example: Within-Class Allocation of Discounts

Rate Class GSD
Separate Power Supply from Delivery

Line No.	(A)	(B)	(C)
1	***I. Discounts allocated to GSD***	**$8,780**	Exh A-11 Sched F-2.1, line 20, col (e)
2	***by Total Cost method***		
3			
4			
5	***II. Power Supply / Delivery Split***		
6			
7	Total Power Supply	**$382,959**	Exh A-11 Sched F-2.1, line 9, col (e)
8	Total Delivery	**136,994**	Exh A-11 Sched F-2.1, line 12, col (e)
9	Total Cost-of-Service	519,953	Exh A-11 Sched F-2.1, line 13, col (e)
10	Discounts	8,780	Exh A-11 Sched F-2.1, line 20, col (e)
11	Total Rate Design Target	$528,733	Exh A-11 Sched F-2.1, line 21, col (e)
12			
13			
14	% Power Supply	73.7%	= line 7 / line 11
15	% Delivery	26.3%	= line 8 / line 11
16		100.0%	
17			
18	Discount to include in Power Supply	**$6,471**	= line 1 * line 14
19	Discount to include in Delivery	**2,309**	= line 1 * line 15
20		$8,780	
21			
22	***III. Proper rate design targets***		
23			
24	Rate design target for Power Supply	**$389,430**	= line 7 + line 18
25	Rate design target for Delivery	**139,303**	= line 8 + line 19
26			
27	Total Rate Design Target	$528,733	= line 24 + line 25

Value of Mismatch of Allocation vs. Charge

CE: Allocation by Total Cost of Service -- Charge is All Delivery
Proper: Separate C.O.S. from Delivery C.O.S.

Line No.	(A)	(B)	(C)
1	***I. Allocation of E-1 Discount***		
2	Total cost of cervice for allocation	$3,781,101	Exh A-11 Sched F-2.1, line 9, sum of col's (b)-(h)
3	Power Supply cost of service	2,706,771	Exh A-11 Sched F-2.1, line 12, sum of col's (b)-(h)
4	Delivery cost of service	1,074,329	Exh A-11 Sched F-2.1, line 13, sum of col's (b)-(h)
5			
6	***Power Supply / Delivery Split***		
7	% Power Supply	71.6%	= line 3 / line 2
8	% Delivery	28.4%	= line 4 / line 2
9		100.0%	
10	***CE vs proper allocation***		
11	E-1 discount charged in rates		
12	CE method: all in Delivery	**$49,204**	**Exh A-11 Sched F-2.1, line 17, col (i)**
13			**(CE puts this into Delivery charges)**
14			
15	***Proper charge to Power Supply***	***$35,224***	= line 12 * line 7
16	Proper charge to Delivery	13,980	= line 12 * line 8
17		$49,204	
18			
19	***II. Allocation of Sen Cit & Income Assist Discounts***		
20	Total cost of cervice for allocation	$1,983,999	Exh A-11 Sched F-2.1, line 9, sum of col's (c)-(h)
21	Power Supply cost of service	1,553,681	Exh A-11 Sched F-2.1, line 12, sum of col's (c)-(h)
22	Delivery cost of service	430,318	Exh A-11 Sched F-2.1, line 13, sum of col's (c)-(h)
23			
24	***Power Supply / Delivery Split***		
25	% Power Supply	78.3%	= line 21 / line 20
26	% Delivery	21.7%	= line 22 / line 20
27		100.0%	
28			
29	***CE vs proper allocation***		
30	Sen Cit & Inc Assist discounts charged in rates		
31	CE method: all in Delivery	$4,374	**Exh A-11 Sched F-2.1, line 18, col (b)**
32	CE method: all in Delivery	3,304	**Exh A-11 Sched F-2.1, line 19, col (b)**
33	CE method: all in Delivery	**$7,678**	**= line 30 + line 31**
34			**(CE puts this into Delivery charges)**
35			
36	***Proper charge to Power Supply***	***$6,013***	= line 33 * line 25
37	Proper charge to Delivery	1,665	= line 33 * line 26
38		$7,678	
39			
40	***III. Value of mismatch***		
41	CE charge to Delivery rates	$56,882	= line 12 + line 33
42	Proper charge to Power Supply rat	***41,236***	= line 15 + line 36
43	Proper charge to Delivery rates	15,646	= line 16 + line 37
44			
45	***Annual value of mismatch***	***$41,236***	= line 42

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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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-17087

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss.
COUNTY OF INGHAM)

Monica Robinson, the undersigned, being first duly sworn, deposes and says that she is a Legal Secretary at Varnum LLP and that on the 21st day of February, 2011, she served a copy of the Testimony and Exhibits of Alexander Zakem on Behalf of Energy Michigan, Inc. upon those individuals listed on the attached Service List by email at their last known addresses.

Monica Robinson

Digitally signed by Monica Robinson
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