STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the Matter of the Application of DETROIT EDISON COMPANY for a financing order approving the securitization of its regulatory assets and other qualified costs	))))))	Case No. U-12478

QUALIFICATIONS AND DIRECT TESTIMONY OF RICHARD A. POLICH ON BEHALF OF ENERGY MICHIGAN

Q. Please state your name and business address.

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

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

A. I am employed by Nordic Electric as a Vice President.

Q. Please state your educational background.

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

Q. Please describe your work experience.

A. In May of 1978 I joined Commonwealth Associates as a Graduate Engineer and worked on several plant modification and new plant construction projects. In May 1979 I joined Consumers Power Company as an Associate Engineer in the Plant Engineering Services Department. In April of 1980 I transferred to the Midland Nuclear Project and progressed through various job classifications to Senior Engineer. I participated in the initial design evaluation of the Midland Cogeneration Plant. In July 1987 I transferred to the Market Services Department as a Senior Engineer and reached the level of Senior Market Representative. While in this department I analyzed the economic and engineering feasibility of customer cogeneration projects. In July of 1992 I transferred to the Rates and Regulatory Affairs Department of Consumers Energy as a Principal Rate Analyst. In that capacity I performed studies relating to all facets of development and design of the Consumers' gas, retail, electric and electric wholesale rates. During this period, I was heavily involved in the development of Consumers Direct Access program and in the development of Retail Open Access program. I also participated in the development of the Consumers' revenue forecast.

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

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

A. Yes I am.

Q. Have you previously testified before this Commission?

A. Yes. I presented testimony on five occasions on behalf of Consumers Energy. In the remand phase of retail wheeling Case U-10143/U-10176 presenting the Consumers' method for design of future retail wheeling rates, the Consumers proposed Special Contract Rate Case U-10625 presenting methods to identify and qualify customers. I presented testimony in the Consumers' Electric Rate Case proceeding U-10335. I presented testimony in the initial phase of retail wheeling Case U-10143/U-10176 on the proposed cost and rate of retail wheeling and in Case U-10685 the Consumers Energy

Electric Rate Case in November 1994. I presented testimony for Energy Michigan in Cases U-11915 (Supplier Licensing), U-11956 (Detroit Edison True Up Case) and U-12505 (Consumers Energy Securitization Case).

Q. Mr. Polich, What is the purpose of your testimony?

A. My testimony will address several issues associated with Securitized Qualified Cost (SQC) and the development of the Securitization Bond (SB Funding) and tax charges raised by Detroit Edison Company's (Edison's) witnesses which were Michael G. VanHaerents, Gerald F. Sasek and Howard Hiller. The first issue to be addressed regards the costs to be included in the Qualified Costs for the SB Funding. Detroit Edison (Edison) has elected to include the 5% Residential Rate Reduction and the Customer Choice Implementation Costs (CCIC) in the Qualified Costs. Based upon language in Public Act 142 of 2000 (PA-142), neither of these cost qualify for inclusion in the SB Funding. The second issue will address the SQC charge recovery mechanisms and reconciliation with transition charges proposed by Edison. As currently proposed by Edison, the securitization cost recovery mechanism will create inequities between bundled sales and Electric Choice (EC) customers. The third issue I will address is the frequency of SB Funding true-up adjustments. Although Mr. Hiller does not specifically recommend a frequency for true-up adjustments, we feel that the MPSC should provide for annual true-ups until the final year of securitization cost recovery, then go to quarterly true-ups. Fourth I will discuss the allocation of SQCs among the various bundled retail customer rates and how it should apply to EC customers. Current bundled rates contain allocation for generation resources based upon the utilization of the generation resource. The MPSC should use the same generation cost allocation methodology for determining the securitization cost allocation and the associated customer SQC charges.

The last issue I will discuss regards any changes in base customer rates and the impact upon Transition Charge bids. Customers and retailers have already submitted bids for the amount of Transition Charges they would be willing to pay in order to participate in the first four rounds of Edison's EC Program. These bids were predicated upon the customers' cost of electricity as dictated in Edison's bundled rates at the time of bidding. Some of these bundled rates, such as residential, have changed, or will change, pursuant to Public Act 141 of 2000 (PA-141) and other rate changes could result from Edison's proposed rate reductions in this case. These rate changes alter the economics associated with the Transition Charge bids. The winning bid amounts should be reduced by the SQC Charge plus by the same $/kWh as were any of Edison's rates to keep the economics consistent with the economics the customers used to base their bids.

Q. Are you sponsoring any Exhibits?

A. Yes, I am sponsoring the following five Exhibits:

Exhibit EM-______(RAP-1)	Detroit Edison Discovery Response EMDE 1.9/37
Exhibit EM-______(RAP-2)	Illustration of Application of SQC Charges to Electric Choice Customers and Retailers as proposed by Detroit Edison
Exhibit EM-______(RAP-3)	Billing of Transition and SQC charges under Proposal to Include Both on Electric Choice Customer Bill
Exhibit EM- _____ (RAP-4)	FERC Monthly Edison Sales Data
Exhibit EM-______(RAP-5)	Detroit Edison Discovery Response EMDE 2.16/44

QUALIFIED SECURITIZED COSTS

Q. Do all of the costs discussed in Mr. VanHaerents' Testimony meet the definition of Qualified Costs (QC) defined in PA-142?

A. No. In Section 10h.(g), the definition of Qualified Costs includes the statement "...any costs the commission determines that the electric utility would be unlikely to collect in a competitive market, including but not limited to, retail open access implementation costs and the costs of a commission approved restructuring, buyout or buy-down of a power purchase contract, ..." The Customer Choice Implementation Costs and 2000 5% Residential Rate Reduction do not comply with this definition.

Q. Why should the CCIC be excluded from Qualified Costs to be securitized?

A. CCIC should be excluded from securitization for several reasons even though the language in PA-142 allows for these costs to be securitized. First, the CICC represents several category, some of which Edison has incurred partial or no costs at this time. The costs outlined on page 17, lines 7-17, in Mr. VanHaerents' testimony are ***Budgetary Estimates***, including certain estimates made back in 1998. These estimates are likely to change considerably over the next several months as Edison adjusts the terms and conditions of the EC program. As an example, if Edison changes its requirements for interval data meters from all customers with loads larger than 20 kW to only those customers with loads larger than 100 kW, the costs for interval metering will significantly decrease. There is no provision in the securitization plan for CCIC amounts not expended by Edison to be refunded to customers or to be used to reduce the balance on the SB Funding. There is also no provision for Edison to payback the interest and tax costs associated with use of SB Funds for normal operations. These are interest and taxes Edison proposes to charge its customers as part of the SQC charge.

The second issue regards the cost recovery mechanism. Michigan rate making process currently allows for the recovery of costs associated with new programs required through regulatory or other requirements through a rate case proceeding. The CCIC amounts are clearly the result of legislative and regulatory orders causing in Edison to incur expenses for implementing Electric Choice. In addition, the CCIC amounts are also clearly ***Distribution Related Expenses*** which can easily be and should be included in and recovered from the distribution rates. Distribution rates are not by-passable and cannot be stranded because all customers will pay distribution costs. Thus, Edison is likely to collect the CCIC amounts even in a competitive market.

The last issue regards the use of standard rate of return used in calculating the CCIC amounts to be securitized. If Edison's proposal to fund the CCIC amounts through SB Funding is approved, then Edison has no risk associated with collection of the CCIC amounts. The revenue requirement for the CCIC amounts should be based upon the cost of capital associated with the bonding not the standard rate of return of other Edison assets. This results in the customers being charged higher costs.

Q. How should Edison recover the CCIC from its customers?

A. Edison should request recovery of the CCIC amounts through a separate surcharge based upon actual expenses incurred. The surcharge would be placed on all distribution customer bills as Edison originally proposed in Case U-11452. The charge could commence when allowed by PA 141 rate cap provisions.

Q. Why should the 5% Residential Rate Reduction be excluded from Qualified Costs to be included in the Securitization Bonds?

A. Edison has improperly interpreted the language under Section 10d.(4)of PA-141, to allow for the securitization of costs associated with the residential rate reductions. The language allows a utility to issue securitization bonds to fund a 5% residential rate reduction in the event the securitization savings is insufficient to offset the 5% residential rate reduction. Edison has stated that the savings from securitization is not only sufficient to cover the 5% residential rate cut, but can also fund a 5% rate reduction in all bundled rates. Therefore the comments on page 20, lines 7-17 of Mr. VanHaerents' testimony are not applicable or correct because they are taken out of context from Section 10d.(4) of PA-141. Edison should not be allowed to securitize the costs of the 2000 5% Residential Rate Reduction.

SQC CHARGE RECOVERY AND TRANSITION CHARGE ADJUSTMENTS

Q. How has Edison proposed to implement the "non-by passable" SQC charge in its bundled rate structure?

A. Edison proposes to recover an SQC Charge incorporating the separate SB Charges and SB Tax Charges (NOTE: from here on forward in my testimony, SQC Charge includes both the charges for securitization recovery and tax charges unless otherwise stated) from all present and future customers of the Company or its successor who are located within the Company's existing territory as of June 5, 2000. The SQC Charge will be applied to energy delivered by Edison regardless of the source.

Q. How has Edison proposed to recover SQC charges from EC customers?

A. The Transition Charges and SQC charges are assessed in two different manners to EC customers in the Edison EC Program. Prior to January 1, 2002, Edison will bill the EC customer the higher of the SQC Charge or the customer's bid Transition Charge, as stated in Exhibit EM-_____RAP-1. On and after January 1, 2002 Edison will bill SQC Charges to EC customers for each kWh delivered at the same equal rate applicable to retail bundled sales customers. Edison does not discuss the relationship of the SQC Charge to any Transition Charge which may be applicable to the EC customer after January 1, 2002. What is unclear is how Edison will correct the transition Charge bid for the SQC charge.

Q. How does Edison propose to adjust Transition Charges for the SQC Charge?

A. Prior to 2002, Edison proposes to charge the EC customer the <u>higher</u> of their bid Transition Charge or the total SQC charge. This has the effect of increasing the EC costs for those customers which were awarded the right to participate in the EC Program at transition charges lower then the SQC Charge. If an EC customer bid 0.6 ¢ /kWh and the SQC charge is 0.5 ¢ the EC customer would continue to pay 0.6 ¢ /kWh Transition

Charge bid. The total transition charges collected and the total distribution cost on which the EC customer based their economic decision participate in the program, would be unchanged. But if the SQC charge is 0.5 ¢ /kWh and the EC customer bid 0.3 ¢ /kWh, the customer would pay 0.5¢ /kWh. The EC customer would have a rate increase of 0.2 ¢ /kWh. This changes the economics of the EC Program for this customer and reduces their anticipated savings. Coupling this impact with the potential rate reduction will cause some customers to reconsider participation in the program. In the event the EC customer chooses not to participate because of the revised economics, they would be forced to forgo their bid deposits.

Q. How should the Transition Charge bid be adjusted for the SQC charge?

A. Edison should be required to offset the SQC charge by subtracting an identical amount from the Transition Charge bid. Should the resulting Transition Charge be less than zero, then the customer should receive a corresponding credit on their bill. The EC customer should not be penalized with a rate increase due to the inclusion of an SQC charge and resulting from securitization.

Q. What are Edison options for billing and adjusting the Transition Charge to remove the SQC Charge, prior to January 1, 2002?

A. As currently contained in Edison's Retail Access Service Tariff, the Retailer will be charged for Transition Charges. Edison appears to indicate in its testimony in this case that it will charge the EC customer for the SQC charge. Thus, Edison will have the choice of including a line item on either the customer's bill or the Retailer's bill to remove the SQC Costs from the Transition Charges during this period.

<u>OPTION 1</u>: Transition Charge Adjustment on EC Customer Bill

If Edison decides to adjust the EC Customers bill for the SQC Charge credit, then a separate Transition Charge Adjustment would need to be added to the customer bill. The Transition Charge Adjustment bill item would have to be a credit equal to the SQC

Charge. If the Retailer is billed for the full Transition Charge Bid, then the Transition Charge Adjustment will have to be a credit equal to the SQC Charge in order to make the customer whole. This is illustrated in Exhibit EM-___(RAP-2). The retailer will have to charge the EC Customer for the full cost of the Transition Charge bid under this scenario.

<u>OPTION 2</u>: Transition charge Adjustment on Retailer Bill

If Edison places the Transition Charge Adjustment on the Retailers bill then the EC Customer would be billed the full SQC Charges by Edison and the Retailer would bill the EC Customer the adjusted Transition Charge. In this option, illustrated in Option 2 of Exhibit EM-___(RAP-2), Edison makes the SQC Charge Adjustment on the Retailer bill. The Retailer then charges a Transition Charge to the EC Customer equal to the Transition Charge Bid minus the SQC Charge.

Q. Why does Edison's method of collection of Transition Charges and SQC Charges create difficulties?

A. The separate billing of the Transition Charge and the SQC Charge to two different entities means the components of the Transition Charge Adjustment are on separate bills. This will create a billing nightmare for the Retailer and many questions by the EC Customer. In addition, the method of charging the Retailer for the Transition Charge can create bill timing issues. Under this billing method it is possible for the Edison bill for Transition Charges to become due prior to the Retailer receiving the EC Customers payment for Transition Charges. This increases the Retailers working capital needs and increases the Retailers costs of operation. I fail to see any advantage in this method when it would be easy to include the Transition Charge directly on the EC Customer bill and take the Retailer out of the middle. This becomes even more cumbersome when you include the potential quarterly and monthly true-up adjustments in the SQC Charge. These true-ups will affect the amount of Transition Charge billed to the EC Customers.

All this is unnecessary if the EC Customer is charged directly for both SQC Charges and Transition Charges

The other reason for not establishing this method of charging for transition Charges is that it is only temporary. After January 1, 2002, Edison will be billing the EC customer for Transition Charges. Why should Edison be allowed to develop a different billing system to bill Retailers for Transition Charges before January 1, 2002? Why should Edison be allowed to include the costs of developing two billing systems in the CCIC? Edison should be required to develop only one billing method and that should charge the EC customer for Transition Charges.

Q. How do you propose to bill EC customers for the transition and SQC charges before 2002?

A. The Same way as Edison will Charge SQC Charges and Transition Charges after January 1, 2002, on the EC customer bill. As part of the EC customer enrollment process, Nordic is required to assign the appropriate Transition Charge bid amount to each customer. If Edison would change their policy from charging Retailers for Transition Charges to charging the EC Customer for the Transition Charge, then the SQC Charge credit could be reconciled on one bill. The customer would simply receive a charge or credit, based upon whether the Transition Charge is greater or less than the SQC Charge. This would also eliminate one exchange of Transition Charge funds, the one between the EC customer and the Retailer. As can be seen in Exhibit EM-___(RAP-3), the whole process is simpler and removes one whole billing function from the process. This is much more efficient.

Q. What changes would be necessary in the language of Edison' Retail Access Service Tariff?

A. First, a provision must be added to Section 6, "Rates and Charges", subsections 6.8 and 6.9 that states that Transition Charges will be charged directly to the EC customer. In addition, in Section 8, "Retailers and Marketers", paragraph 8.1(i) should be removed.

Q. How should the recovery of SQC charges affect the future development of the Transition Charge after January 1, 2002?

A. Transition Charges for EC service on and after January 1, 2002 need to reflect the benefits of securitization and the recovery of those securitized asset costs through the separate SQC charges. Edison must be required to file a case to establish the true transition costs as soon as possible so that we can proceed to determine the appropriate Transition Charge for the final program. In establishing net transition costs through comparison of retail market rates to Edison qualified and depreciated generation assets, the MPSC must include the securitization generation assets in the mix. The net transition costs would then be allocated to customer class in the same manner as current generation assets were allocated in Edison’s last general rate case. The allocated transition costs would then be reduced by the amount of revenue recovered through the SQC Bond and Tax charges for each rate class, resulting in total class allocated stranded costs. The actual Transition Charge applied to EC customers on and after January 1, 2002 would be the resulting stranded costs divided by Edison’s annual sales in each rate class, regardless if the resulting Transition Charge is positive or negative. This method of calculating Transition Charges ensures the MPSC avoids cross allocation of Transition Charges between rate classes, achieves full netting of SQCs and cost recovery, and ensures rate increases do not occur to any rate classes.

Q. What about the period after 2007 when there may be no Transition Charges?

A. A negative Transition Charge equal to the SQC charge should continue until the end of securitization.

SECURITIZATION TRUE-UP MECHANISM

Q. How often do Mr. Sasek and Mr. Hiller propose to perform the securitization true-up adjustment?

A. Mr. Sasek proposes on page 14, lines 11 of his revised testimony, to perform securitization true-ups "at least annually" and at least quarterly in the last year of securitization, but at page 15, lines 2-6 he states that true-ups could be more frequent than annually. Mr. Hiller makes the same statement at page 33, lines 8-14 of his revised testimony. A proposal to true-up more frequently than on an annual basis could be very cumbersome to implement and could result in significant variance in the SQC charge.

Q. What problems will be created in the EC Program prior to January 1, 2002 by quarterly or monthly true-ups?

A. Prior to January 1, 2002, EC customers will only be charged for securitization (including associated taxes) and Transition Charges equal to the higher of the SQC charge or the successful Transition Charge bid assigned to that customer. EM-_____(RAP-1). Any SQC charges will be deducted from the Transition Charge bid for purposes of billing the EC customer under the ***Energy Michigan Proposal***. Thus, changes in the actual SQC charge imposed by Edison will have no effect on the total monthly EC Customer bill. If Edison starts changing the SQC Charge quarterly, the transition Charge will also have to change quarterly, creating significant EC customer confusion and complicating the billing process.

Q. Could the resulting quarterly or monthly true-up changes in SQC charges be significant?

A. Yes. The initial SQC charges appear to be calculated based upon annual electric sales. Edison's actual monthly energy sales are highly dependent upon weather conditions, which those of us native to Michigan know are extremely variable and hard to predict. Assuming the annual SQCs need to be collected in 12 equal monthly amounts, a monthly true-up mechanism could result in SQC charge fluctuations of over 30% between the highest and lowest cost month. In Exhibit EM-_____(RAP-4), I show Edison's monthly energy sales from its 1998 Federal Energy Regulatory Commission (FERC) Form 1 report. In column B, I have calculated the percent variance of monthly sales charge. In column C, I have calculated the monthly variance from Edison 1998 average monthly sales, adjusted for number of days per month. Fluctuations in sales from month to month could be as high as 29.2%. This can cause customer economics in the EC Program to swing equally and create still more customer confusion.

Q. Is it necessary for Edison to adjust the SQC charge on a quarterly or monthly basis?

A. No. Edison can collect the SQCs through set annual SQC charge and perform annual true-up to actual cost recovery. This would significantly reduce the SQC charge fluctuation and allow the company to be made whole on an annual basis. Edison can pledge to back the securitization cost collection shortfalls directly with the lenders through several methods, including setting up the equivalent of a working capital account by refunding the Special Purpose Entity. The shortfalls in the amount of securitization revenue collected would only occur for a short period of time. This method should still allow Edison to obtain the highest level of rating for the securitization bonds.

SECURITIZATION CHARGE DEVELOPMENT

Q. How has Edison proposed to develop the SQC charge?

A. Edison proposes to develop an equal SQC charge for all customer tariffs based upon simply dividing the total SQCs by ***total non-bypassable electric sales***. This is the first problem in this proposal. Edison's proposal allows it to transfer the securitization costs fully to retail customers and to not be responsible for recovery of SQCs in its wholesales transactions. This increases the SQC charge by about 15%-22%, depending upon how line losses are assigned. Wholesale transactions use the same generation resources as retail customers. Edison's current rates include adjustments to account for recovery of generation costs from wholesale customers. Thus, the wholesale portion of Edison's sales should also be assigned its appropriate amount of SQC charges. Otherwise, Edison will be allowed to generate excess profits on wholesale transactions at the expense of retail customers.

Q. Why has Edison proposed an equal SQC charge for all customer classes and rates?

A. Mr. Sasek did not provide a reason for using equal SQC charges.

Q. Would levelized SQC charges create disincentives for customers to participate in the EC Program?

A. Yes. By calculating a levelized SQC charge, customers with high load factors would pay more for securitized generation assets than they currently pay under bundled tariffs. This has the effect of making Edison bundled rates artificially more competitive by increasing the cost to those customers wishing to participate in the EC Program. It also has the effect of a rate increase for certain EC customers. The largest impact of this will be on large users of electricity such as Edison primary and large secondary customers. There are significant differences in the allocation of generation costs between Edison Large General Service Rate customers and its Residential Service Rate customers. These differences also include line losses associated with the delivery of the power and could result in SQC charge differences of over 60%. When in a competitive environment, this size of a difference becomes critical and could easily discourage a customer from participating in the program.

Q. Should all of Edison sales be included in the calculation of SQC charge?

A. Yes. Since the securitization is primarily focused upon generation assets, Edison should include all electric sales, including wholesale, interchange, retail and inadvertent energy flows, into the calculation. In addition, sales associated with ancillary services in Edison's Open Access Transmission Tariffs (OATT) should also be credited with contribution to SQCs. Several of the ancillary service charges are based upon costs associated with generation assets. To the extent that Edison included generation assets which will be securitized in the development of the ancillary services charges, then a credit for recovery of SQCs from those services should be used to lower the SQC charges to other customers. This is especially true for EC customers who will be paying for ancillary services under Edison OATT and also will be billed for SQC charges. Without the appropriate adjustment, the EC customers would be paying double for portions of securitized generation costs.

Finally, Mr. Sasek has given no reason for excluding new customers served after June 5, 2000 from payment of SQC charges. These new customers derive the benefits from securitization and thus should pay their share of the costs.

Q. How should Edison determine SQC charges for each rate class?

A. SQC charges need to be calculated in the same manner as Edison currently allocates generation costs in its bundled rates. These allocation methods were applied in several recent cases, including Edison's unbundling case used to develop the EC Rates and Edison's last general rate case. The method of securitization cost allocation should include all the same factors such as line losses, amount of generation resources used during peak periods and even the 75-25 rule for distribution of the costs recovery between energy and demand charges. By applying these methods, Edison would create a fair competitive environment for all customers and provide the right incentives for customer participation.

<u>TRANSITION CHARGE BID ADJUSTMENT</u>

Q. Have customers and Retailers submitted and been awarded the rights to participate in the EC Program with Edison?

A. Yes. Edison has conducted four rounds of bidding in the EC Program. I believe about 900 MWs of capacity has been awarded to 39 successful bidders. Successful bid prices for Transition Charges have ranged from 0.0001 ¢ /kWh to 1.002¢ /kWh. Bids were awarded in all three classes of service, Residential Only, Residential/Small Secondary and Primary & Large Secondary. Nordic Electric L.L.C. (Nordic) was one of the successful bidders.

Q. What is your experience with the method in which the Transition Charge Bids were developed?

A. In preparing Transition Charge Bids, the critical determinate was amount of customer savings as compared to the bundled rates. Customers were presented a comparison of electric costs under EC and electric costs under Edison bundled rates. From this electric cost comparison they determine the desired savings level and established their Transition Charge Bid price.

Q. Would a change in bundled rates affect customer Transition Charge Bids?

A. Yes. If you lower bundled rates, the electric cost savings analysis will show lower potential savings. If the customer is looking for a same savings level, than the Transition Charge Bid price will have to go down.

Q. Is it possible for customers to pay more for EC service than for bundled service after a lowering of bundled rates?

A. Yes. For example, lets assume bundled residential rates decrease by $0.005/kWh or 5% and the EC Rates decrease by 5% or $0.00025/kWh due to the same percentage reduction. In reality under this condition, the EC customer has just lost $0.00475 of savings. If the customer was only saving $0.004/kWh in the EC Program before the rate change, they would be paying more on the EC Program after the rate change.

Q. Are there economic penalties if customers cannot participate even though they won bids?

A. Yes. The successful bidders would forgo their bid deposits if they choose not to participate in the program because it is no longer economical to do so due to the change in Edison’s bundled rates. The bid deposits range from $1,000 to $2,000 per MW of bid.

Q. What can be done to correct this situation?

A. The MPSC should require all Transition Charge Bids to be reduced, in addition to the previously described reductions for SQC charge and Taxes, by the same $/kWh as the average $/kWh decrease of the rates in that same customer class. In other words, if the average rate decrease for all primary loads is 5% which equates to $0.0031/kWh then the Transition Charge Bids for Primary & Large Secondary customers should decrease by $0.0031/kWh plus reductions for the SQC charge and Taxes as previously described. This change only needs to be made in the first four rounds of the EC Program unless future base rate changes occur. After December 31, 2001 this is no longer an issue since the MPSC will specify the Transition Charge for all customers. In addition the MPSC should seriously consider requiring Edison to refund the bid deposits if it is no longer economical for the customer to participate due to the bundled rate reduction.

Q. Does this conclude your testimony?

A. Yes, this concludes my testimony.

Case No: **U-I 2478**
Exhibit: EM (RAP-I)
Witness: RAPolich
Date: September 19, 2000

MPSC Case No.: U-12478
Respondent: G.F. Sasek
Requestor: Energy Michigan
Question No.: EMDE1.9/37
Page: 1 of 1

Question: At page 20 of your testimony you state that the SQC charge will be collected from all customer classes on a usage basis. Has Detroit Edison, like Consumers Energy, developed a proposal to exempt open access customers prior to 2002 from the SQC charge with the difference between the SQC charge and the bid price, if any, being deferred for collection after 2001 as stranded cost? If not, are you proposing that the SQC charge prior to 2002 would be in addition to an already bid fee for open access service?

Answer: Open access customers would pay the higher of the SQC Charge or the minimum bid charge.

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Case No: U-I 2478
Exhibit: EM (RAP-2)
Witness: RAPolich
Date: September 19, 2000

Assumptions:
Primary Service Customer on General Service Rate
Seperate Billing Option
No Reactive Power Costs

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Calculation of Transition Charge Adjustment

1	Transition Charge Bid:	$0.006000 /kWh	$0.006000 /kWh
2	SQC Charge (includes associated taxes):	$0.005005 /kWh	$0.005005 /kWh

ELECTRIC CHOICE CUSTOMER BILLS

		Billing Determinates (a)	Rate (b)	Total Charge (c)		Billing Determinates (d)	Rate (e)	Total Charge (f)	
	Detroit Edison Charges								
4	Customer Charge	1	$115.00	$115.00		1	$115.00	$115.00	
5	Distribution Charge	2,343 kW	$2.10	$4,920.30		2,343 kW	$2.10	$4,920.30	
6	Substation Charge		$0.00	$0.00			$0.00	$0.00	
7	Nuclear Decommission Charge	1,062,785 kWh	$0.00132	$1,402.88		1,062,785 kWh	$0.00132	$1,402.88	
8	Transition Charge Adjustment	1,062,785 kWh	($0.005005)	($5,319.24)	Note 1	1,062,785 kWh	$0.000000	$0.00	Note 1
9	SQC Charge	1,062,785 kWh	$0.005005	$5,319.24	Note 2	1,062,785 kWh	$0.005005	$5,319.24	Note 2
10	TOTAL DETROIT EDISON CHARGES			$6,438.18				$11.757.41	
	Nordic Electric Charges								
11	Transiton Charge	1,062,785 kWh	$0.006000	$6,376.71	Note 3	1.062.785 kWh	$0.000000	$1,057.47	Note 3
12	TOTAL CUSTOMER CHARGES			$12,814.88				$12,814.88	

NORDIC ELECTRIC BILL FROM DETROIT EDISON

		Billing Determinates	Rate	Total Charge		Billing Determinates	Rate	Total Charge	
13	Transiton Charge	1,062,785 kWh	$0.006000	$6,376.71		1,062,785 kWh	$0.006000	$6.376.71	
14	SQC Charge Adjustment					1,062,785 kWh	($0.005005)	($5,319.24)	
15	TOTAL CHARGES			$6,376.71	Note 4			$1,057.47	Note 4

NOTES
1 Transition Charge Adjustment is zero unless the transition Charge Bid is higher then SQC Charge, otherwise it will be negative.
2 SOC Charge Remitted to Trust includes Securiiiation Revenue Taxes.
3 Transition Charge on Nordic's bill to ROA Customer will be either Transition Charge Bid Amount or zero if SQC Charge is greater then Transition Charge Bid
4 remit any transition costs to Detroit Edison

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Case No:	U-12478
Exhibit:	EM (RAP-3)
Witness:	RAPolich
Date:	September 19, 2000

Assumptions:

Primary Service Customer on General Service Rate
Seperate Billing Option
No Reactive Power Costs

Calculation of Transition Charge Adjustment

1	Transition Charge Bid:	$0.006000 /kWh
2	SQC Charge:	$0.005005 /kWh
3	Transition Charge Adjustment:	$0.000995 /kWh

ICE CUSTOMER BILLS

		Billing Determinates	Rate	Total Charge	
			(b)		
	Detroit Edison Charges				
4	Customer Charge	1	$115.00	$115.00	
5	Distribution Charge	2,343 kW	$2.10	$4,920.30	
6	Substation Charge		$0.00	$0.00	
7	Nuclear Decommission Charge	1,062,785 kWh	$0.00132	$1,402.88	
8	Transition Charge	1,062,785 kWh	$0.000995	$1,057.47	Note 1
9	SQC Charge	1,062,785 kWh	$0.005005	$5,319.24	Note 2
10	TOTAL Detroit Edison CHARGES			$12,814.88	
	Nordic Electric Charges				
	NONE NEEDED				
11	**TOTAL CUSTOMER CHARGES**			**$12,814.88**	

ILL FROM DETROIT EDISON

NONE NEEDED

NOTES

1 Transition Charge equals the difference between the Transition Charge Bid and the SQC Charge.
2 SQC Charge Remitted to Trust includes Securitization Revenue Taxes.

Detroit Edison 1998 Monthly Sales and Sales Variation

Case No: U-I 2478
Exhibit: EM- (R A P - 4)
Witness: RAPolich
Date: September 2000

	MONTHLY SALES	MONTHLY VARIANCE		SECURITIZATION CHARGE	SECURITIZATION CHARGE CHANGES		
	(KWH)	Month to Month	Monthly to Annual Average	$ Per kWh	Month to Month	Monthly to Annual Average	
	(a)	(b)	(c)	(d)	(e)	(f)	
Jan-98	4,998,319	-1.04%	2.69%	$0.004193	1.05%	-2.57%	Note 1
Feb-98	4,255,401	-14.86%	-11.61%	$0.004925	17.46%	14.44%	
Mar-98	4,738,546	11.35%	-2.75%	$0.004423	-10.20%	2.77%	
Apr-98	4,097,608	-13.53%	-15.64%	$0.005115	15.64%	18.84%	
May-98	5,021,106	22.54%	3.17%	$0.004174	-18.39%	-3.01%	
Jun-98	5,356,685	6.68%	9.86%	$0.003913	-6.26%	-9.09%	
Jul-98	5,579,547	4.16%	14.85%	$0.003756	-3.99%	-12.72%	
Aug-98	5,735,898	2.80%	18.13%	$0.003654	-2.73%	-15.10%	
Sep-98	4,440,652	-22.58%	-8.69%	$0.004720	29.17%	9.66%	
Ott-98	4,568,322	2.88%	-6.31%	$0.004588	-2.79%	6.60%	
Nov-98	4,594,408	0.57%	-5.58%	$0.004562	0.57%	5.99%	
Dee-98	5,050,929	9.94%	3.79%	$0.004149	-9.04%	-3.59%	

TOTAL 58,437,421

Monthly Average Sales 4,869,785
Total Securitization Cost (includes associated taxes): $251,500,000
Average Annual Securitization Charge $0.004304

NOTES: 1 Calculated by using December 1998 as comparisons

MPSC Case No.: U-I 2478
Respondent: G.F. Sasek
Requestor: Energy Michigan
Question No.: EMDE2.16/44
Page: 1 of 1

Question: How will the 5% reductions referenced on page 18, lines 15-19, be implemented for open access customers? Will open access reductions be made in the same mills per kWh as for corresponding sales customers? If the open access reductions will not be as much in mills per kWh as for corresponding customers, will the SQC charge and associated taxes be correspondingly reduced?

Answer: The company is not proposing any reduction for open access customers. There is no reduction for open access customers. The SQC charge will be the same for all customers.