

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the rates, terms, and)
conditions for retail customers of)
CONSUMERS ENERGY COMPANY)
to choose an alternate electric supplier)
_____)

Case No. U-12488

QUALIFICATIONS AND DIRECT TESTIMONY OF RICHARD A. POLICH

ON BEHALF OF ENERGY MICHIGAN

1 Q. Please state your name and business address.

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

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

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

6 Q. Please state your educational background.

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

11 Q. Please describe your work experience.

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

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

13 In March 1998, I joined Nordic Electric as Vice President in charge of marketing
14 and sales. My responsibilities included all aspects of obtaining new customers and
15 enabling Nordic to supply electricity to those customers. In May 2000, my
16 responsibilities shifted to Operations and Regulatory Affairs. My responsibilities include
17 management of supply purchases, transmission services, information and technology
18 services and power supply scheduling. Regulatory Affairs responsibilities include over
19 seeing regulatory and legislation issues.

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

21 A. Yes I am.

22 Q. Have you previously testified before this Commission?

1 A. Yes. I presented testimony on five occasions on behalf of Consumers Energy. In the
2 remand phase of retail wheeling Case U-10143/U-10176 presenting the Consumers'
3 method for design of future retail wheeling rates, the Consumers proposed Special
4 Contract Rate Case U-10625 presenting methods to identify and qualify customers. I
5 presented testimony in the Consumers' Electric Rate Case proceeding U-10335. I
6 presented testimony in the initial phase of retail wheeling Case U-10143/U-10176 on the
7 proposed cost and rate of retail wheeling and in Case U-10685 the Consumers Energy
8 Electric Rate Case in November 1994. I presented testimony for Energy Michigan in
9 Cases U-11915 (Supplier Licensing) and U-11956 (Detroit Edison True Up Case) and U-
10 12478 and U-12505 (Detroit Edison and Consumers Energy Securitization Cases).

11 **PURPOSE OF TESTIMONY**

12 Q. What is the purpose of your testimony?

13 A. The purpose of my testimony is to address several key aspects of Consumer's Tariff that
14 we feel should be changed to improve its chance of success and to move toward a
15 common system for Power Marketers to use across all of Michigan. As in our testimony
16 in the Detroit Edison case, we feel it is important for Michigan utilities to adopt aspects
17 of Open Access programs that have been proven to work in other states. We also want to
18 retain the improvements made in the Michigan programs so as to avoid the pitfalls that
19 have occurred elsewhere.

20 Q. Are you sponsoring any exhibits?

21 A. Yes. Exhibit EM____ (RAP-1) Energy Michigan Proposed Changes to Consumers
22 Energy ROA Tariff.

23 Q. What are the key issues you will be addressing in your testimony?

1 A. Through previous Commission Orders, Consumers own internal operations and Federal
2 Energy Regulatory Commission Orders, a functional and responsibility separation has
3 been created between transmission service and distribution service. Our first major issue
4 concerns the recombining of these functions in Consumers proposed Tariff, into one that
5 will force the “Retailers” to perform both functions. As it stands, a Power Marketer
6 cannot include the supply of transmission service in its pricing and service proposal to the
7 Retailer. This is unnecessary, creates duplication of function, reduces flexibility, causes
8 Tariffs to cross jurisdictional boundaries, and increases cost to serve. We are
9 recommending that Consumers be required to create this separation and to allow the
10 transmission function to operate separately from the distribution function.

11 Our second major issue concerns the return to service issue. During the last
12 several summers and into the foreseeable future, it has been and is difficult for suppliers
13 to obtain firm transmission service into Michigan. We are proposing in this testimony
14 that until Suppliers have easy access to firm transmission service into Michigan, in
15 manner, type and quantity similar to the utilities, that customers be allowed to return to
16 bundled rates with a 15 day notice. In addition, customers should be able to choose to
17 return to ROA service with a 15 day notice. The utilities should not be allowed to
18 monopolize the transmission system capacity and then to impose restrictive return to
19 service conditions upon the customers.

20 Our third major issue regards Consumers’ requirement that suppliers operating
21 under OATT Point-to-Point Transmission Service be required to schedule each customer
22 independently. As Consumers is administering the ROA today, a Retailer cannot
23 economically serve a customer load of less than 1,000 kW unless the Retailer has been

1 able to secure Network Transmission Service. This was never the FERC's intent on
2 scheduling of transmission service. The point of delivery under the OATT is Consumers
3 transmission or distribution system and not the customer meter. The MPSC should
4 require Consumers to aggregate loads on the distribution system into a single point of
5 delivery for each aggregator or supplier. We are recommending that Consumers be
6 required to allow Retailers to serve all ROA customers using Point-to-Point Transmission
7 Service.

8 The final major critical issue concerns the cost of Consumers Profile Management
9 Service Charge. As set, this charge represents anywhere from approximately 10% to
10 13% of the average cost of power. This is a significant cost impact and will make it
11 difficult to economically serve residential and small secondary customers. With the use
12 of statistical metering, load profiles, and aggregation of loads, the cost of this service
13 should be significantly less. We are recommending that the Commission issue an order
14 which results in one of the following three actions:

- 15 * The Profile Management Service Charge is reduced to \$0.001/kWh.
- 16 * Suppliers are allowed to schedule within 10% of the load profile without
17 incurring any energy or imbalance costs.
- 18 * An annual reconciliation of the actual imbalance costs incurred to serve
19 load profile customers is required, similar to a PSCR case.

20 We also feel Consumers' practice of not allowing Retailers to serve both Load
21 Profile loads and other loads with the same energy schedules and applying a minimum of
22 1,000 kW to the Load Profile load should be discontinued.

23 Q. Are there any other issues you have addressed in your testimony?

1 A. Yes. I will also discuss the issues of Combined Billing. This is a competitive service and
2 should be excluded from the Tariff. Along with this issue is the requirement that a
3 customer retain the right to send its bills to a third-party agency for payment as is
4 currently done with full service customers. We are also recommending that Consumers
5 be required to implement the use of all forms of Electronic Data Interchange currently
6 being used in other states. This includes standard 810, 814, 820 and 867 data maps.
7 There are also a few minor Tariff language issues, which will be discussed later in my
8 testimony. The last issue I will address is bid deposit refunding, which we recommend
9 be ordered at the end of this year for all bid deposits.

10 **TRANSMISSION AND DISTRIBUTION ROLE SEPARATION**

11 Q. Why do you want to change Consumers' requirement that a single entity be responsible
12 for all transmission and distribution functions?

13 A. Bundling of both transmission and distribution functions into one entity reduces the
14 flexibility to move and schedule power supplies and increases the costs to the Power
15 Marketer or Retailer. This policy also reduces the amount of interstate transmission
16 capacity available to serve ROA customers by creating contractual constraints. We
17 would like the ROA Tariff to reflect the same responsibility split as exists between
18 transmission and distribution functions. This would allow a Power Marketer to conduct a
19 wholesale transaction up to the point of delivery on Consumers' distribution system. All
20 wholesale transmission transactions would be conducted under the costs and rules of
21 Consumers' OATT. This could allow a Retailer to purchase entire electric supply
22 services up to the distribution system and allow Power Marketers to include in their
23 prices the cost of transmitting the power through Consumers' transmission system. Many

1 electric supply contracts include provisions in which the seller takes responsibility for all
2 costs, scheduling and ownership through multiple transmission systems, with the
3 purchaser taking responsibility at the point of delivery. The point of delivery varies from
4 transaction to transaction, but could be the distribution system. Under the current ROA
5 Tariff, all transmission service costs will only be billed to the Retailer and cannot be
6 billed directly to a Power Marketer.

7 Q. What are the advantages in allowing Power Marketers to conduct transmission
8 transactions and Retailers to perform distribution functions?

9 A. It can reduce costs of energy, reduce the number of requests for the same transmission
10 service and simplify Retailer operations. A Power Marketer should be allowed to fully
11 utilize its purchased transmission capacity without restriction. As an example, let's
12 assume a Power Marketer wants to provide power to serve retail customers but does not
13 want to perform the retail marketing, customer contracting and billing functions. Instead
14 he selects two Retailers to perform this function. Retailer A has customers which use 50
15 MW from 7:00 to 23:00 Monday through Friday (On-Peak Hours) and Retailer B has
16 customers which use 50 MW the remaining hours of the week (Off-Peak Hours). Under
17 the current ROA, Retailer A would pay the full Weekly Point-to-Point Transmission
18 Service Cost and Retailer B would pay the Off-Peak Point-to-Point Transmission Cost. If
19 a Power Marketer were to combine these two Retailers into one transaction, a single 50
20 MW transaction could be scheduled around the clock and the only transmission cost
21 would be the Weekly Point-to-Point cost. This would reduce transmission costs by the
22 Off-Peak Point-to-Point Transmission Cost. In both cases actual power flows are
23 identical and Consumers would not incur any additional costs to move the Power. The

1 only change is the sharing a common resource, thereby creating an efficient and
2 economic use of a purchased resource.

3 Q. How does billing of transmission service directly to Retailers prevent efficient utilization
4 of transmission resources?

5 A. The previous example is one case, a second involves spot or term purchases of power.
6 An example would be a Power Marketer which has purchased Annual Firm Point-to-
7 Point Transmission Service from Consumers. This Power Marketer may not need the
8 total amount of transmission service at all times and may have excess capacity for days,
9 weeks or months at a time. If a Retailer were to choose to purchase a weekly block of 50
10 MW from this Power Marketer, the Retailer would still be charged separately for the
11 transmission service by Consumers under the ROA Tariff and could not use the Power
12 Marketer's unused transmission service.

13 Q. What are your recommendations regarding the changes in Consumers ROA Tariff?

14 A. Consumer's FERC Open Access Transmission Tariff already specifies terms and
15 conditions of service that Power Marketers are required to meet to use Consumer's
16 transmission system. Including terms and conditions in the ROA Tariff related to these
17 functions only serves to duplicate, add to or change the FERC approved requirements.
18 This creates confusion and conflict between the two Tariffs. It is cleaner to allow the
19 movement of power on the transmission system under the OATT and to govern the rules
20 of operation for distribution services under the ROA Tariff. We as "Retailers" already
21 operate in this fashion since we schedule power deliveries under three different systems,
22 OASIS, Electronic Tagging and direct communication with the Michigan Electric
23 Coordination Center (MECS).

RETURN TO SERVICE

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Q. Why is Energy Michigan recommending revised return to service conditions?

A. The return to service provisions proposed by Consumers Energy are fair in a market in which competition truly exists but does not work if the utility is monopolizing transmission service. Marketers cannot obtain long term firm transmission service into Michigan at this time. Detroit Edison and Consumers Energy have secured all of the service available across the American Electric Power (AEP) system into the State. Without access to such transmission, Power suppliers cannot ensure reliable supplies to ROA Customers. We need to provide the utilities an incentive to either share their transmission capacity with Power Marketers serving their retail customers or to resell the transmission capacity to the Power Marketers. Both of these can be accomplished with no harm to the utility and no impact on the utilities ability serve.

Q. What is Energy Michigan’s proposal for return to service?

A. We propose that Consumers Energy’s Return to Service provision only apply once there is an increase of 2,000 MW in the annual firm transmission capacity into the Detroit Edison/Consumers Energy transmission grid which can be procured by non-utility Power Marketers participating in ROA. Until this is accomplished, ROA Customers should be allowed to return to full service under any rate for which they are eligible, provided Consumers Energy is notified 15 days prior to the end of the current billing cycle. Returning customers must remain on the full service rate for a minimum of three months, but can switch back to ROA with 15 days notice. Once the annual firm transmission capacity is increased by 2,000 MW, the customer must provide 15 days notice of return to service.

1 Q. What is the basis for tying the return to service to increased transmission capacity?

2 A. Increased transmission capacity is a provision required in PA 141. The utilities have
3 proposed to increase the capability to import Power from American Electric Power by
4 2,000 MW. This increased transmission capacity will significantly improve the ability of
5 suppliers to purchase the needed annual firm transmission service to ensure delivery of
6 Power all year long and allow suppliers to qualify for network service.

7 Q. Why would the utility be indifferent to this proposal?

8 A. As Consumers Energy has continued to maintain in several different forums, they are the
9 supplier in the event customer's supply sources fail or economic power sources are
10 unavailable. Without transmission service or Power supplies within Michigan,
11 Customers will not participate and Consumers Energy will end up with all of the retail
12 load this summer. Thus Consumers Energy must have sufficient Power to meet its total
13 system load. Consumers Energy could elect to allow Power Marketers to wheel Power
14 from out of state sources into Michigan under their already reserved annual firm
15 transmission capacity with no effect upon their ability to supply native load. If
16 Consumers elects to sell or allow usage of its transmission rights by a Power Marketer,
17 then the actual power flows will not significantly change and Consumers Energy is not
18 harmed.

19 **LOAD AGGREGATION FOR POINT-TO-POINT SERVICE**

20 Q. Does Consumers allow Retailers to schedule multiple customer loads under the same
21 Point-to-Point Transmission schedule?

22 A. No. Consumers only allows Retailers to aggregated multiple customer loads into a single
23 combined transaction for transmission scheduling if the Retailer is able to qualify for

1 Network Transmission Service. Consumers has taken the position that the point of
2 delivery for scheduling power supplies is the customer meter. This was not the intent of
3 the FERC in establishing the rules in Order 888 nor in the OATT. The point of delivery
4 in the OATT was intended to be on the transmission system and could easily be defined
5 as the interface between Consumers' transmission and distribution systems. Currently,
6 Detroit Edison has chosen to allow Suppliers to operate and schedule power supplies in
7 this fashion.

8 Q. Why is it necessary for Retailers to aggregate customer loads under Point-to-Point service
9 if they can already do so under Network Service?

10 A. The qualifications for obtaining Network Service are significantly higher than that for
11 Point-to-Point service. To qualify for Network Service, a Retailer must demonstrate they
12 have procured **firm annual electric supplies and the necessary firm annual transmission**
13 **service** from the point of generation to Consumers' transmission system. Today it is
14 virtually impossible to get the annual firm transmission service into Michigan, leaving
15 the only choice being to procure electric supplies on Consumers' or Detroit Edison's
16 transmission system. This makes it nearly impossible to qualify for Network Service,
17 which means Retailers cannot aggregate small customer loads into a 1,000 kW block for
18 power supply and transmission scheduling.

19 Q. What is the implication of not allowing aggregation of customer loads under Point-to-
20 Point Transmission Service?

21 A. If Retailers cannot qualify for Network Service and cannot aggregate under Point-to-
22 Point Service then none of Consumers customers with loads of less then 1,000 kW will
23 be selected to participate in the ROA Program. This will occur because Retailers will be

1 forced to schedule the power deliveries for each customer separately and the minimum
2 quantity that can be scheduled is 1,000 kW. As a Retailer, if I have a 20 kW, a 200 kW
3 or even 800 kW customer load, the cost of energy imbalances from having to schedule
4 1,000 kW of supply on a 24X7 basis, will prohibit me from economically serving that
5 load. Consumers will shut out of the ROA Program the majority of their customers if this
6 requirement is allowed to be retained.

7 Q. Is there anything in the OATT that would prevent Consumers from allowing the
8 aggregation of customer loads under Point-to-Point transmission service?

9 A. No. The aggregation function can be treated as a distribution related function by
10 establishing the point of delivery for transmission services as the receipt point on the
11 distribution system. This is already effectively what happens when Consumers purchases
12 power for its own uses and has the power delivered to its system using point-to-point
13 transmission service. Although it could be claimed the case is different because
14 Consumers is its own Network Service customer, in reality from a power flow
15 perspective it is no different. In fact, whether a Retailer schedules power to be delivered
16 by American Electric Power (AEP) to the Consumers' transmission grid using AEP
17 Point-to-Point Transmission Service or whether Consumers does so results in the same
18 end use effect on amount of power available for delivery to customers loads connected to
19 Consumers. Requiring Retailers to contract for Network Service is discriminatory
20 because Consumers does not have to play by the same rules. This in spite of the fact that
21 a Network Service Customer is likely to pay less for Transmission Service on an annual
22 basis than the corresponding Point-to-Point Service Customer because the charges are
23 fixed for Point-to-Point customers and the charges decrease over time for Network

1 Service due to the load ratio share calculation. The Commission should require
2 Consumers to allow aggregation of loads over its entire distribution system for purposes
3 of transmission scheduling and require Consumers to provide a single transmission
4 “Sink” for those loads a Retailer desires to aggregate.

5 Q. Is the annual cost of Point-to-Point Transmission service less than Network Transmission
6 Service?

7 A. No. Network Service is priced using a format that reduces the cost as load grows on
8 Consumers Transmission system. The “load rate share” calculation almost guarantees
9 that the annual cost of Network Transmission Service on a \$/MW basis goes down
10 because the division is Consumers maximum load. In contrast, Point-to-Point
11 Transmission Service is priced at fixed rates which were set over three years ago.

12 Q. What is your proposal regarding load aggregation?

13 A. We are proposing that Consumers be required to allow a Retailer to aggregate and
14 schedule power deliveries for their total load, whether the Retailer is using Point-to-Point
15 or Network transmission service. In addition, the Retailer should be allowed to combine
16 the power delivery schedules for both Load Profile Customer loads and Demand and
17 Energy Metered loads into one combined schedule.

18 **LOAD PROFILE SERVICE**

19 Q. What are your concerns regarding the Profile Management Service Charge contained in
20 Rates ROA-R and ROA-S?

21 A. This charge increases the cost of power to residential and small secondary customers by
22 over 10%. This will make ROA service uneconomical for much of Consumers customer
23 base. We feel that while there is a cost associated with Consumers providing

1 standardized load profiles and potential energy imbalance costs, these costs will not
2 amount to the 10% of total power costs. Consumers has proposed the use of statistical
3 load monitoring for various customer classes for the development of the Load Profiles
4 that Retailers will be provided. The statistical sample is to be designed to attain a given
5 level of variance between actual customer loads and the load profile power schedule on
6 an hourly basis. Thus, Retailers will be over supplying during some hours and under
7 supplying during other hours. The resulting energy imbalances at the end of the billing
8 cycle should be small once the total over and under supply is accumulated. Unless
9 Consumers is really off on their sampling methods or the associated Load Profiles, the
10 cost of the energy imbalances should be nowhere near 10% of the cost of power.

11 Q. What is the purpose of the Profile Management Service Charge?

12 A. The intent of the Profile Management Service Charge is to find energy imbalances
13 resulting from Load Profile POA Customers. These customers will be metered using
14 energy only meters and the Retailers will schedule power deliveries based upon
15 Consumers provided load profiles. Consumers felt it necessary to be able to charge ROA
16 Load Profile Customers for energy imbalances resulting from the difference between a
17 forecasted Load Profile and actual energy use. The Profile Management Service Charge
18 provides the ability to collect for the energy imbalance cost.

19 Q. Can you illustrate how the energy imbalance cost is based upon the Profile Management
20 Service Charge?

21 A. Yes. First, let's assume that since Consumers is performing the statistical sampling and
22 developing the Load Profiles and the Retailer's schedule according to these profiles.
23 Second, the Load Profiles are within a reasonable accuracy of $\pm 5\%$ on an hourly basis

1 and within the OATT accuracy of $\pm 2\%$ on a monthly basis. Under Consumers OATT, a
2 transmission customer would pay Consumers top incremental cost of power for the
3 energy imbalances within 2% of actuals. Let's assume this is a 100 MW transmission
4 customer with a 55% load factor and there are 720 hours in the month. This customer
5 would transmit 39,600 MWh of power across Consumers Transmission Grid. The Profile
6 Management Service Charge for this would be \$182,160. Assuming the transmission
7 customer did a poor job of scheduling and under scheduled each hour of the month by 2%
8 or 2 MW, the total underscheduled energy would be 1,440 MWh. Applying the Profile
9 Management Service Charge costs to this energy imbalance would result in an energy
10 imbalance rate for the transmission customer of \$0.1265/kWh. This is higher than the
11 outside the deviation band energy imbalance charge of \$0.10 /kWh during on-peak hours
12 that is contained in Consumers' OATT. If the transmission customer proficiently
13 manages the power schedules, the rate for energy imbalances becomes very high, very
14 quickly.

15 Q. What can be done to correct the problem with the Profile Management Service Charge?

16 A. The easiest solution would be for the Commission to reduce the charge to \$0.001/kWh or
17 about 2% of power costs. This would lower the energy imbalance cost to the \$0.03/kWh
18 range, using the above calculation method, which is a reasonable figure considering both
19 on-peak and off-peak power costs.

20 Q. What if the Commission is prohibited from reducing the rate due to PA 141?

21 A. If the Commission cannot reduce the Profile Management Service Charge Rate then we
22 recommend one of the following:

1 * Allowing Retailers an energy imbalance band in which an effective
2 scheduler would not incur any energy charges, penalties or costs.

3 * Treating the Profile Management Service Charge similar to PSCR cost and
4 establishing a mechanism in which actual energy imbalance costs are
5 reconciled with the revenue obtained from the Profile Management
6 Service Charge and refunds are provided to the customers.

7 Q. How would you propose to implement the increased energy band option?

8 A. Retailers would be allowed to schedule to within 10% of actual energy consumption
9 profiles by rate class and not incur any energy imbalance costs. The first step would be
10 to create a Retailer load profile by taking the actual monthly statistical sample meter data,
11 applying it by rate class and scaling by the Retailers total monthly kWh sales. The
12 Retailer Load Profile would be compared to the Retailer's actual power deliveries to
13 calculate the total monthly energy imbalance. If the total hourly and monthly energy
14 deliveries are within 10% of the load profile, the Retailer will not be assessed any
15 charges. If the scheduled deliveries are outside the 10% band then the Retailer pays for
16 the energy imbalances at Consumers Top Incremental Cost of Power. By applying the
17 10% and Top Incremental Cost provisions on an hourly basis, it will discourage Retailers
18 from gaming the system and trying to dump on Consumers during high priced power
19 periods.

20 Q. How would you propose to use the reconciliation method?

21 A. Consumers would be required to demonstrate it incurred energy imbalance cost as a
22 result of Load Profile Customers, that is equivalent to the revenue it collected under the
23 Profile Management Service Charge. The first step is to eliminate all sales from

1 Consumers hourly system load and sales due to full service customers, ROA customers
2 with hourly demand and energy meters, wholesale transactions, line losses, inadvertent
3 energy supply, internal consumption and billing/metering errors. This should leave only
4 the system load attributable to Load Profile customers. Next, the aggregated Load Profile
5 supply schedules provided by Consumers for all the Retailers should be subtracted from
6 the load attributable to Load Profile customers, leaving the energy imbalances. The
7 actual supply schedules for load profile customers are not used to prevent Retailers from
8 gaming the system through underscheduling and then obtaining customer refunds in
9 addition. The cost of the energy imbalances is calculated using Consumers average cost
10 of power. If the Load Profile customer energy imbalance cost is less than the total
11 amount of Load Profile Management Service revenue collected, Consumers will issue
12 refunds to the Load Profile Customers plus interest, based upon the total energy
13 delivered.

14 Q. What happens if the hourly Power supply schedules do not match the load profile?

15 A. In this case, the difference between the hourly Power supply schedule and the load profile
16 would be calculated and energy imbalance charges or credits would be calculated
17 according to the OATT, Schedule 4 provisions.

18 Q. How would your proposal work if the Retailer also has Interval Demand Metered
19 Customer loads in addition to Energy Metered Customer loads?

20 A. If the Retailer has both Energy Metered and Interval Demand Metered Customers, then it
21 becomes a two-part process. First, it must be understood that an Retailer with both types
22 of customers, is allowed to and is responsible for, aggregating both types of load for the
23 purpose of developing its Power supply profile. With this in mind, our simplification in

1 the energy imbalance calculation is to assume the Retailer's Power supply schedule
2 included the prospective load profile for Energy Metered customers as provided by
3 Consumers, thus assigning all hourly energy imbalances are due to the Interval Demand
4 Meter load. As such, the first part of the energy imbalance process uses the monthly
5 energy imbalance calculation for Energy Metered customers discussed above. The
6 second part compares the "calculated" scheduled Power supply for Interval Demand
7 Meter load to Consumers' aggregated meter data for those Customers assigned to the
8 Retailer. Any hourly energy imbalances will then be credited or charged in accordance
9 with the OATT, Schedule 4 provisions.

10 Q. Why should Consumers be required to perform these reconciliations within 60 days?

11 A. This provides Consumers with sufficient time to get two billing cycles in for the purposes
12 of allocating the Customers consumption into calendar months. Any more time than this
13 is unnecessary and the party responsible for energy imbalance should not have to wait
14 any longer than this.

15 Q. Are there any concerns with gaming of the prospective load profile provided by
16 Consumers for Energy Metered Customer loads?

17 A. Gaming or creating load profiles which cause over delivery of Power by an Retailer
18 during high cost periods and under deliveries during low cost periods could cause
19 financial harm to the Retailer. It is for this reason that it is recommended that Consumers
20 keep its hourly imbalances within three sigma deviation of actual sample metered data.
21 This proposal has to be consistent and supported by the use of rate class specific sample
22 metering capable of providing statistical accuracy of actual hourly consumption by the
23 rate classes. We feel a three sigma accuracy level will ensure both Consumers and the

1 suppliers are not financially harmed by gaming the program. Of course, all data is
2 subject to audit.

3 **CURTAILMENT OF SERVICE**

4 Q. Do you have proposals regarding Rule F5.3 Curtailment of Service?

5 A. Yes. As written, Consumers has complete discretion on when and how a customer could
6 be curtailed due to insufficient supply of Power. This type of discretion places too much
7 power in the hands of the utility and has not been adopted by any other states with
8 customer choice programs. We are concerned that this provision ignores other criteria
9 and mechanisms already existing which address supply imbalance problems, such as, the
10 large energy imbalance penalties to suppliers failing to deliver sufficient energy to meet
11 their load obligations contained in Consumers' OATT. Curtailment of ROA Customers
12 should be consistent with when and why firm service customers are curtailed, otherwise
13 ROA will be seen as a less reliable form of service which the utility can use to scare
14 customers. The application of curtailment should be consistent with when Consumers
15 invokes its Emergency Electrical Procedures so that the application of curtailment does
16 not become discriminatory. Suppliers should be given adequate time to correct the
17 situation or verify that a insufficient supply problem actual exists before Consumers can
18 initiate curtailment of customer loads. Retailers who fail to provide sufficient Power
19 during system emergencies, should be at risk of losing their License. The curtailment
20 provisions contained in Consumers' proposed ROA do not address any of these issues.

21 Q. Can Consumers curtail consumption of ROA Customers of a specific Retailer under the
22 current method of providing distribution service?

1 A. No. To our knowledge, only those Customers with dedicated substations or current
2 installed remote isolation switches could be curtailed on an instantaneous basis. These
3 are mostly large customers in the above 3,000 kW range. For low voltage and the
4 majority of primary customers, this option is not practical. This is one of the reasons we
5 feel this provision would not be implemented even if included in the Tariff. If a Retailer
6 fails to ensure sufficient Power deliveries to Consumers, and Consumers cannot curtail
7 the consumption then Consumers ends up supplying the load. The solution must provide
8 a mechanism, which invokes economic and other penalties on the Retailer and provides
9 the Retailer a method for defending itself from charges by the utility. If it is not practical
10 to curtail individual customers then an alternative solution is needed to address energy
11 imbalances.

12 Q. Why is it important to link implementation of Emergency Electrical Procedures to
13 provisions which go beyond economic penalties of the OATT for energy imbalances?

14 A. The issue of energy imbalances does not become critical unless the utility is in a situation
15 of insufficient Power to serve the total load connected to its transmission system. This
16 can occur in many ways, including an Retailer failing to provide sufficient supply,
17 outages of Consumers' generators, interconnected utilities drawing on Consumers'
18 supplies, high Power consumptions, etc. When Consumers has sufficient Power supplies
19 to meet its total system load obligations and all energy imbalances, there is no need for
20 curtailment because there is no risk to system integrity. Consumers can purchase
21 additional capacity to meet its total system obligations. If the additional purchased Power
22 was due to insufficient supply by a Retailer, Consumers has mechanisms in its OATT,
23 Schedule 4, to charge and penalize the Retailer or its supplier for the insufficient

1 deliveries of Power. It is only when Power supplies are constrained Consumers should
2 become concerned about actual hourly deliveries of Power to serve the ROA Customer
3 loads assigned to a Retailer. Our proposal provides Consumers the tools to cause a
4 Retailer to respond to energy imbalances caused by its insufficient Power deliveries to
5 the Consumers distribution system.

6 Q. Do utilities experience imbalance problems between themselves that cannot always be
7 remedied immediately?

8 A. Yes. It is for this reason that a method of charging for imbalances has been implemented.
9 One of the things a utility cannot do is to curtail its neighboring utility in the event that
10 utilities imbalances become too large. There are various North American Electric
11 Reliability Council (NERC) rules and regulations that utilities need to follow and that can
12 impose enforcement action for violation of the NERC policies. When large imbalances
13 occur utilities call on each other to notify them of the problem and to work out methods
14 of alleviating the problem. The NERC policies allow interconnected utilities to get
15 energy imbalances back to within tolerance over a period of time. But it is not always
16 easy to find out who is causing the energy imbalance and in some cases, all the utilities
17 have to take steps to resolve the problems. In our proposal, we are asking for the same
18 considerations for the Retailers as utilities provide themselves. Granted, the Retailer does
19 not have operating reserves to draw upon but at the same time the Retailer or their
20 supplier are required to contract for Operating and Spinning Reserves under the OATT.

21 Q. What is your proposal for addressing insufficient Power supplies to serve an Retailer's
22 assigned load?

1 A. The focus of our proposal is on the use of economic penalties, linking to the Emergency
2 Electrical Procedures and the ability to curtail retail customers. Let's start off with the
3 fact that a Retailer should be responsible for ensuring adequate Power supplies are
4 delivered to the Consumers distribution system. In a non-system emergency situation,
5 Consumers already has methods, through the OATT, to impose significant economic
6 penalties, so no additional action is necessary. If a Retailer gets too far out of bounds or
7 continually leans on Consumers, Consumers can petition the MPSC to revoke their
8 license. In a system emergency situation, Consumers must first determine that the
9 Retailer's Power supplies are out of balance with their total load by more than the OATT
10 deviation band. Once this has been determined, Consumers can request the Retailers to
11 correct the problem. Once the Retailer has been notified of the problem, the Retailer
12 should be allowed two hours to correct the situation. If the Retailer fails to correct the
13 situation, then Consumers can invoke economic penalties under the OATT and petition
14 the MPSC to revoke the Retailer's license.

15 Q. Why should a Retailer be given two hours to correct insufficient Power delivery
16 problems?

17 A. The Retailer needs this amount of time to arrange for the power delivery to Consumers'
18 distributions system. Many transmission systems require 45 minutes notice of change in
19 power flows. Additional power supplies may have to be procured. OASIS reservations
20 needed to be made and OATI tags developed to schedule the power deliveries. The
21 various notification and approval processes associated with completing a Power supply
22 transaction will require two hours or more. The Retailer has to work through the systems
23 set up by the utilities to track, account and move the Power.

SPECIFIC TARIFF LANGUAGE CHANGES

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- Q. What are your concerns regarding provisions F1.1(w) and F3D(2)?
- A. Both rules reference local government requirements to be met by an AES entity. These references should be deleted since PA 141 limits the requirements for an AES to obtain a license approved by the Commission. Neither the Commission nor Consumers are authorized to enforce local government requirements.
- Q. What are your comments regarding Rule F2 Open Bid Process?
- A. The bid process required deposits in amounts ranging from \$1,000-2,000/MW of capacity. Winning bidders were required to maintain these deposits. Given the implementation problems experienced by Consumers as well as lack of summer transmission capacity in 2000, very few customers have commenced ROA service. Since the reasons for failure to commence this service were out of the control of marketers or AES entities, deposits should be returned to the appropriate parties if ROA service is not commenced or will not commence in the near future.
- Q. What are your further concerns regarding Rule F2?
- A. The rules and Tariff provisions regarding Retail Open Access should be made effective January 1, 2002. This effective date would ensure that the rules and Tariff provisions apply to the permanent ROA program and do not incorporate provisions or measures which are only temporary in nature. For example, the open bid process referenced in F2 expires November 20, 2000 and the phase in program will expire at the end of 2001. The permanent set of rules should not incorporate these temporary programs or provisions. This fact is recognized by a note at the bottom of Tariff Sheet F-4.00 stating that Rule F2

1 terminates December 31, 2001. I propose the alternative of simply deleting Rule F2 from
2 the permanent rules.

3 Q. Do you recommend changes in Rule F3?

4 A. Yes. F3 deals with slamming at (3). The added language should be revised to clarify that
5 it is the role of the Commission not Consumers to enforce slamming prohibitions other
6 than in the verification of customer enrollment data.

7 Q. What do you suggest for disconnection for non-payment?

8 A. Customers will be subject to disconnection for non-payment of Consumers Energy
9 distribution charges.

10 Q. Has Consumers proposed new ROA language which could create documentation
11 problems?

12 A. Yes. Proposed ROA Sec. F3D3 could be read to require that AES – customer agreements
13 include written authorization. This requirement could prevent use of alternate electronic
14 forms of contracting. We propose that the concept used in the Consumers Energy Gas
15 Choice Rule H3 Program be incorporation. That rule allows customer agreements to be
16 confirmed by signature, third party verification, voice recording or other form approved
17 by the Commission.

18 Q. Do you propose changes for Rule F5.2?

19 A. Yes. F5.2 A incorporates a statement that scheduled supplies of power shall be made in 1
20 MW increments as required by the OATT. Since the OATT may change its requirement
21 from time to time the phrase "of 1 MW" should be deleted so that the amount of power
22 increments used would simply be as required by FERC Tariffs.

1 Q. Why should the language in Section F7 regarding combining the Retailer's charges with
2 Consumer's charges be deleted?

3 A. The complete billing option is a competitive service which Consumers can contract with
4 the Retailer, a customer group, Johnson Controls or any other entity desiring to receive
5 such service. Several companies offer this service today to their clients at a negotiated
6 fee. We feel that services which can be supplied by competitive sources do not belong in
7 a tariff. By including the Consumers' complete billing option in the Tariff, the MPSC is
8 providing Consumers a competitive edge. We feel this is discriminatory, goes against the
9 competitive intent of ROA and should be deleted from the Tariff. We recommend that all
10 references to complete billing be deleted from Section F7.

11 Q. Should the Commission agree to support complete billing, we recommend replacing
12 Section F7.C. with the following language:

13 "Partial Customer payments remitted to the Company shall be prorated between the
14 Company and the Retailer(s) based upon amount owed to the Company and any
15 Retailer(s). The amount past due and current charges to the Company shall be reduced
16 by any amounts that are disputed by the customer prior to application of payments."

17 Q. What additional language is needed in Section F7?

18 A. ROA Customers should retain the right to request Consumers to send their bills to a third
19 party for payment. Consumers currently provides this option to full service customers
20 and should be required to provide the service to ROA Customers. We suggest the
21 following language be added after the last sentence in Section F7:

22 "Customers shall retain the right to direct the Company to send the monthly bill to any
23 third party, including the Retailer."

- 1 Q. What Electronic Data Interchange requirements should be included in the Tariff?
- 2 A. The industry has developed a series of standard Electronic Data Interchange (EDI)
3 transactions for conducting business in the Open Access environment. These EDI
4 “Maps” are being used in many other states and by Detroit Edison to conduct business
5 electronically in this industry. Consumers should be required to provide for Retailers to
6 conduct business using the industry standard 810, 814, 820 and 867 EDI Maps. These
7 maps govern drop and enrollment transactions, customer billing data and electronic funds
8 transfer. Consumers should also provide Retailers the ability to conduct electronic funds
9 transfers. Also AES should be specifically allowed to conduct all business with
10 customers on an electronic basis including notices, contracts and credit checks, if
11 approved by the customer.
- 12 Q. What are your suggestions regarding the language for ROA-R, ROA-S and ROA-P
13 Tariffs?
- 14 A. The Consumers Tariffs should be revised to allow a broader choice of technology. The
15 phrase “telephone line” should be revised to the phrase “analog remote communication
16 links”.
- 17 Q. What Tariff revisions are needed regarding transition charges?
- 18 A. Consumers included in its Transition Surcharge provision language regarding bidding
19 and transition chares that are addressed in other sections. In addition Consumers includes
20 a set of Transition Charges of 1.20 ¢ /kWh which has never been authorized by the
21 MPSC. These items should be deleted.
- 22 Q. How do you propose the enrollment process should be improved?

1 A. I propose that Consumers be required to switch a customer to Open Access service within
2 15 days of enrollment. This should give Consumers ample time to notify the customer of
3 the enrollment, time for the verification of customer data, and time for the customer to
4 rescind the enrollment.

5 Q. Why do you feel that Consumers should be required to complete the enrollment process
6 within a minimum time frame?

7 A. This mandatory time frame is required to shorten and to add predictability to the
8 enrollment process.

9 Q. Are other states requiring electric utilities to enroll customers on similar time frames?

10 A. Yes. As you can see from the table below, several states are requiring the utilities to
11 switch their customers to Open Access service under mandatory time frames.

12

<u>Company</u>	<u>State</u>	<u>Switch Time from Enrollment to meter Read date</u>
Duguesne Light and Power	Pennsylvania	16
Ohio Consumers	Ohio	12
Public Service Electric and Gas	New Jersey	20
PEPCO	Virginia	17
Dominion	Virginia	15

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24 Q. Does this conclude your testimony?

25 A. Yes.