

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of)
CONSUMERS ENERGY COMPANY)
for a financing order approving the)
securitization of its regulatory assets and) Case No. U-12505
other qualified costs)
_____)

**REVISED 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, MI
3 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 Bachelor
8 of Science Engineering Degree in Nuclear Engineering and a Bachelor of Science Engineering
9 Degree in Mechanical Engineering. In May 1990, I received a Masters of Business
10 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 on
13 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 progressed
2 through various job classifications to Senior Engineer. I participated in the initial design
3 evaluation of the Midland Cogeneration Plant. In July 1987 I transferred to the Market
4 Services Department as a Senior Engineer and reached the level of Senior Market
5 Representative. While in this department I analyzed the economic and engineering feasibility
6 of customer cogeneration projects. In July of 1992 I transferred to the Rates and Regulatory
7 Affairs Department of Consumers Energy as a Principal Rate Analyst. In that capacity I
8 performed studies relating to all facets of development and design of the Consumers' gas,
9 retail, electric and electric wholesale rates. During this period, I was heavily involved in the
10 development of Consumers Direct Access program and in the development of Retail Open
11 Access program. I also participated in the development of the Consumers' revenue forecast.

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

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

20 A. Yes I am.

21 Q. Have you previously testified before this Commission?

22 A. Yes. I presented testimony on five occasions on behalf of Consumers Energy. In the remand

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

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

10 A. My testimony will address several issues associated with securitization costs and the
11 development of the Securitization charges raised by Consumers Energy's (Consumers)
12 witnesses which were Robert H Hoffman and Francis A. Ernst. The first issue will address
13 the costs to be included in the Securitization charge. The second will address the
14 securitization cost recovery mechanisms proposed by Consumers and associated true-up
15 proposals. As currently proposed by Consumers, the cost recovery mechanism will be very
16 difficult to implement. It may very well result in unexpected additional cost to customers
17 participating during the phase-in portion of the Retail Access Program (RAP) program. Most
18 likely it will create customer confusion on the billing process. The third issue I will address
19 is the difficulties that will be introduced by true-up adjustment for collection of securitization
20 costs proposed by Mr. Hoffman. The focus of my comments is on creating an efficient
21 process for collection of securitization costs which will not create customer confusion and
22 burdensome administrative processes. If it is the Michigan Public Service Commission's

1 (MPSC) intent to achieve proper and speedy implementation of this program then we need
2 to minimize the program's complexity and we need to ensure it is understandable by the
3 customers. In regard to the securitization cost recovery mechanism, this can be accomplished
4 by a few simple adjustments and directly charging customers for both the securitization
5 recovery costs and for all transition charges.

6 Fourth, I will also discuss the allocation of securitization costs among the various
7 bundled retail customer classes and how it should apply to Retail Access Program customers.
8 Current bundled rates contain cost allocation for generation resources based upon the
9 utilization of the generation resource. The MPSC should use the same generation cost
10 allocation methodology for determining the securitization cost allocation and the associated
11 customer Securitization Charges.

12 The last issue I will discuss regards any changes in base customer rates and the impact
13 upon Transition Charge Bids. Customers and Retailers have already submitted bids for the
14 amount of Transition Charges they would be willing to pay in order to participate in the first
15 four rounds of Consumers' RAP Program. These bids were predicated upon the customers'
16 cost of electricity as dictated in Consumers' bundled rates. Some of these bundled rates, such
17 as residential, have, pursuant to 2000 PA 141, changed which alters the economics associated
18 with the bids. The winning bid amounts should be reduced by the Securitization Charge and
19 Taxes plus by the same \$/kWh as were any of Consumers rates to keep the economics
20 consistent with the economics the customers used to base their bids.

21 Q. Are you sponsoring any Exhibits?

22 A. Yes, I am sponsoring the following four Exhibits:

1	Exhibit EM-_____ (RAP-1)	Consumers Energy Discovery
2		Response 12505-Dow/HSC-CE-50
3		
4	Exhibit EM-_____ (RAP-2)	Illustration of Application of
5		Securitization Charges to Retail
6		OpenAccess Customers and Retailers
7		as proposed by Consumers Energy
8		
9	Exhibit EM-_____ (RAP-3)	Billing of Transition and Securitization
10		Charges under Proposal to Include
11		Both on ROA Customer Bill
12		
13	Exhibit EM-_____ (RAP-4)	Consumers 1998 Monthly Sales and
14		Sales Variation

15 **COSTS INCLUDED IN SECURITIZATION CHARGE**

16 Q. On what basis has Consumers determined it is necessary to charge the customer directly for
17 recovery of securitization costs?

18 A. Mr. Hoffman claims on page 26 of his testimony that it is necessary to create a “non-by
19 passable element” for the collection of Securitization Charges directly from the retail
20 customers. He testifies that it is important to include this provision in The MPSC order to
21 provide certainty to the Bond holders that the securitization costs will be collected. His basis
22 for this condition is it improves the financial rating of the securitization bonds, which
23 decreases the securitization costs by improving the financial rating of the security. Since we
24 are all interested in keeping the costs as low as possible, Mr. Hoffman’s reasoning appears
25 to be prudent in this matter.

26 Q. How has Consumers proposed to implement the “non-by passable” Securitization Charge in
27 its bundled rate structure?

28 A. Consumers proposes to reduce the Energy Charge portion of each of its bundled rate

1 schedules by the total amount of the Securitization Charge (Mr. Ernst's testimony page 21).
2 The tax charges associated with the securitization revenues will remain rolled into the Energy
3 Charge portion of the bundled rates, based upon Mr. Ernst's statement in Discovery Response
4 DOW/HSC CE-50 (attached as Exhibit EM-____(RAP-1)).

5 Q. Is the recovery mechanism for both securitization costs and securitization revenues tax costs
6 consistent?

7 A. Not completely. Consumers has chosen to include all the costs of securitization, including
8 principal, interest and servicing & expenses into the Securitization Charge itself, but excluded
9 the projected principal taxes associated with securitization revenues. Mr. Hoffman's
10 testimony on securitization cost recovery states it is necessary to create a "non-by passable"
11 charge for all securitization costs. The securitization revenues collected by Consumers or its
12 successors are likely to be taxable, as stated by Consumers witness Mr. DaPra, and these
13 taxes are shown to be one of the securitization expenses in his Exhibit CE-____(DD-2).
14 If the logic used for including all securitization costs in the Securitization Charge is applied
15 to the associated tax, then I propose that the Securitization Charge should include all of the
16 items shown in Entry 5 of Exhibit CE-____(DD-2).

17 Q. What are the accounting and true-up benefits associated with calculating the securitization
18 surcharge in this manner?

19 A. Our proposal that the Securitization Charge include the projected tax costs of securitization
20 revenues, will simplify the accounting, billing and true-up of securitization costs. From an
21 accounting aspect, Consumers can directly account for actual securitization cost recovered
22 from its customers for all the items listed in Mr DaPra's Entry 5 of Exhibit CE-____(DD-2).

1 It will also simplify the true-up process and ensure that the taxes on securitization revenues
2 are included in the true-up process. This method will avoid an allocation of Energy Charge
3 revenue to cover securitization costs and the associated argument as to quantity recovered.
4 As it stands with the current mechanism, Consumers will be unable to show exactly how
5 much of the taxes associated with securitization revenues were recovered because of a lack
6 of specific rate per kWh or line item on the customer bill. If we are to perform accurate true-
7 up of the securitization cost recovery, then all securitization costs should be included in the
8 Securitization Charge.

9 Q. Are there other benefits of your proposed securitization cost recovery method?

10 A. Yes, this proposal would also include the taxes associated with securitization revenues in a
11 “non-by passable” charge applied to all customers.

12 **RATE ADJUSTMENTS FOR SECURITIZATION CHARGES**

13 Q. How should Consumers adjust its bundled electric rate schedules for Securitization Charges?

14 A. Provided the Securitization Charge includes the total securitization costs, including associated
15 taxes, as identified in Mr. DaPra’s Exhibit CE- ____ (DD-2), Entry 5, then the Energy Charge
16 adjustments proposed by Mr. Ernst should be adopted. The Energy Charge should be
17 reduced by the total Securitization Charge on each of Consumers’ bundled rates.

18 Q. How has Consumers proposed to adjust the RAP charges for recovery of securitization costs
19 prior to January 1, 2002?

20 A. Prior to January 1, 2002, Consumers proposes to adjust the Transition Charge bid by the
21 Securitization Charge first and then to make a second adjustment to recognize the
22 securitization revenue taxes, in what appears to be a two step process. This proposal appears

1 to be an attempt to recover all securitization costs from the Transition Charge revenues.
2 What is unclear is exactly how the RAP Customer and Retailer billing process will work
3 under this two step process. Should the MPSC adopt my recommendation in this testimony
4 to include all securitization costs in the Securitization charge, then the adjustment to the
5 Transition charge is a one step process.

6 Q. How are the Transition Charges to be assessed in the RAP Program?

7 A. The Transition Charges are assessed in two different manners in the RAP Program. Prior to
8 January 1, 2002, Consumers will bill the Retailer for the Transition Charges. The Retailer is
9 then responsible for passing the Transition Charges on to the RAP Customer. For the period
10 of January 1, 2002 and after, Consumers will bill the RAP Customer for all Transition
11 Charges. Thus, Consumers needs to develop two billing methodologies for Transition
12 Charges, one method for what will be only a sixteen month period between September 2000
13 and December 31, 2001 and the final method for billings on or after January 1, 2002.

14 Q. What are Consumers options for adjusting the Transition Charge to remove the Securitization
15 Charge, prior to January 1, 2002?

16 A. Consumers will have the choice of including a line item on either the customer's bill or the
17 Retailer's bill to remove the Securitization Costs from the Transition Charges during this
18 period.

19 OPTION 1: Transition Charge Adjustment on RAP Customer Bill

20 If Consumers decides to adjust the RAP Customers bill for the Securitization Charge credit,
21 then a separate Transition Charge Adjustment would be needed to be added to the customer
22 bill. The Transition Charge Adjustment bill item would have to be a credit equal to the

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

6 OPTION 2: Transition charge Adjustment on Retailer Bill

7 If Consumers places the Transition Charge Adjustment on the Retailers bill then the RAP
8 Customer would be billed the full Securitization and Tax Charges by Consumers and the
9 Retailer would bill the RAP Customer the adjusted Transition Charge. In this option,
10 illustrated in Option 2 of Exhibit EM-____(RAP-2), Consumers makes the Securitization and
11 Tax Charge Adjustment on the Retailer bill. The Retailer then charges a Transition Charge
12 to the RAP Customer equal to the Transition Charge Bid minus the Securitization and Tax
13 Charge.

14 Q. Why does Consumers method of collection of Transition Charges and Securitization and Tax
15 Charges create difficulties?

16 A. The separate billing of the Transition Charge and the Securitization and Tax Charge to two
17 different entities means the components of the Transition Charge Adjustment are on separate
18 bills. This will create a billing nightmare for the Retailer and many questions by the RAP
19 Customer. In addition, the method of charging the Retailer for the Transition Charge can
20 create bill timing issues. Under this billing method it is possible for the Consumers bill for
21 Transition Charges to become due prior to the Retailer receiving the RAP Customers
22 payment for Transition Charges. This increases the Retailers working capital needs and

1 increases the Retailers costs of operation. I fail to see any advantage in this method when it
2 would be easy to include the Transition Charge directly on the RAP Customer bill and take
3 the Retailer out of the middle. This becomes even more cumbersome when you include the
4 proposed quarterly and monthly true-up adjustments in the Securitization Charge. These
5 true-ups will affect the amount of Transition Charge billed to the RAP Customers. All this
6 is unnecessary if the RAP Customer is charged directly for both Securitization Charges and
7 Transition Charges.

8 Q. How do you propose to bill RAP Customers for the Transition and Securitization Charges?

9 A. As part of the RAP Customer enrollment process, Nordic is required to assign the appropriate
10 Transition Charge bid amount to each customer. Thus, Consumers already is aware of the
11 amount of Transition Charges to be collected from each RAP Customer. If Consumers would
12 change their policy from charging Retailers for Transition Charges to charging the RAP
13 Customer for the Transition Charge then the Securitization Charge credit could be reconciled
14 on one bill. The customer would simply receive a charge or credit, based upon whether the
15 Transition Charge is greater or less than the Securitization Charge. This would also eliminate
16 one exchange of Transition Charge funds, the one between the RAP customer and the
17 Retailer. As can be seen in Exhibit EM-____(RAP-3), the whole process is simpler and
18 removes one whole billing function from the process. It is a lot more efficient.

19 Q. What changes would be necessary in the language of Consumers' Retail Open Access Tariff?

20 A. Yes. In Section F, Retail Open Access Service Standards, Part F, the fifth paragraph,
21 beginning "The Retailer shall pay a Transition Surcharge...." needs to be changed. We
22 propose replacement of this paragraph with the following:

1 All customers participating in the Retail Open Access program prior to January 1, 2002
2 shall pay a Transition Surcharge equal to the assigned winning Transition Charge Bid
3 minus the actual billed Securitization Charge. Beginning January 1, 2002, all customers
4 shall be eligible to take Retail Open Access Service and will pay the Transition Charge
5 established by the Michigan Public Service Commission and specified in the then Existing
6 Company's Electric Rate Schedule.

7 This language is appropriate in the event the MPSC adopts my proposal to include the
8 securitization tax costs in the Securitization Charge.

9 Q. How should the recovery of securitization costs effect the future development of the
10 Transition Charge after January 1, 2002?

11 A. Transition Charges for RAP service on and after January 1, 2002 need to reflect the benefits
12 of securitization and the recovery of those securitized asset costs through the separate
13 Securitization Charge. Consumers must be required to file a case to establish the true
14 transition costs as soon as possible so that we can proceed to determine the appropriate
15 Transition Charge for the final program. In establishing net transition costs through
16 comparison of retail market rates to Consumers qualified and depreciated generation assets,
17 the MPSC must include the securitized generation assets in the mix. The net transition costs
18 would then be allocated to customer class in the same manner as current generation assets
19 were allocated in Consumers last general rate case. The allocated transition costs would then
20 be reduced by the amount of revenue recovered through the Securitization Charge for each
21 rate class, resulting in total class allocated stranded costs. The actual Transition Charge
22 applied to RAP Customers on and after January 1, 2002 would be the resulting stranded costs
23 divided by Consumers annual sales in each rate class, regardless if the resulting Transition
24 Charge is positive or negative. This method of calculating Transition Charges ensures the

1 MPSC avoids cross allocation of Transition Charges between rate classes, full netting of
2 securitization costs and cost recovery, and ensures rate increases do not occur to any rate
3 classes.

4 **SECURITIZATION TRUE-UP MECHANISM**

5 Q. How often does Mr. Hoffman propose to perform the Securitization true-up adjustments?

6 A. Mr. Hoffman proposes on page 27, lines 13- 15 of his July 26th revised testimony, to perform
7 securitization true-ups at least annually and at least on a quarterly basis for the last 12 months
8 prior to the last maturity date of the securitization bonds. This proposal does not preclude
9 quarterly or even monthly true-ups and, if so, would be very cumbersome to implement and
10 could result in significant monthly variance in the Securitization Charge.

11 Q. What problems will be created in the in RAP Program prior to January 1, 2002?

12 A. Prior to January 1, 2002, RAP Customers will only be charged for Securitization (including
13 associated taxes) and Transition Charges equal to the successful Transition Charge Bid
14 assigned to that Customer. Any Securitization Charges will be deducted from the Transition
15 Charge Bid for purpose of billing the RAP Customer under our proposal. Thus the actual
16 Securitization Charge imposed by Consumers will have no effect on the amount of RAP
17 Customer Bill. If Consumers starts changing the Securitization Charge quarterly, the
18 Transition Charge will change quarterly creating significant customer confusion and
19 complicating the billing process. Consumers is also proposing to be allowed to alter rates it
20 charges its customers without proper oversight by the Michigan Public Service Commission,
21 in this true-up proposal.

22 Q. Could the resulting true-up changes in Securitization Charges be significant?

1 A. Yes. The initial Securitization Charges appear to be calculated based upon annual electric
2 sales. Consumers' actual monthly energy sales are highly dependent upon weather conditions,
3 which those of us native to Michigan know are extremely variable and hard to predict.
4 Assuming the annual securitization costs needed to be collected in 12 equal monthly amounts,
5 the monthly true-up mechanism could result in Securitization Charge fluctuations of almost
6 40% between the highest and lowest cost month. In Exhibit EM-_____(RAP-4), I show
7 Consumers monthly energy sales from its 1998 Federal Energy Regulatory Commission
8 (FERC) Form 1 report. In column B, I have calculated the percent variance of monthly sales
9 charge. In column C, I have calculated the monthly variance from Consumers 1998 average
10 monthly sales, adjusted for number of days per month. Fluctuations from month to month
11 could be as high as 29.17% (August 1998 to September 1998. This can cause customer
12 economics in the RAP program to swing equally and still create more customer confusion.
13 One other question I have is how is Consumers going to make the adjustments in a timely
14 fashion when sales reports lag actual sales by as much as 45 days due to wholesale and
15 inadvertent power reconciliations.

16 Q. Is it necessary for Consumers to adjust the Securitization Charge on a quarterly or monthly
17 basis?

18 A. No. Consumers can collect the securitization costs through a set annual Securitization
19 Charge and perform annual true-up to actual cost recovery. This would significantly reduce
20 the Securitization Charge fluctuation and allow the company to be made whole on an annual
21 basis. Consumers can pledge to back the securitization cost collection shortfalls directly with
22 the lenders through several methods, including setting up the equivalent of a working capital

1 account by prefunding the Special Purpose Entity. The short falls in the amount of
2 securitization revenue collected would only occur for a short period of time. This method
3 should still allow Consumers to obtain the highest level of rating for the Securitization Bonds.

4 **SECURITIZATION CHARGE DEVELOPMENT**

5 Q. How has Consumers proposed to develop the Securitization Charge?

6 A. Consumers proposes to develop a uniform Securitization Charge for all bundled rates based
7 upon simply dividing the total securitization costs by total electric sales. This is shown in Mr.
8 Ernst Exhibit CE- ___(FAE-5).

9 Q. Why has Consumers proposed this method of Securitization Charge calculation?

10 A. Mr. Hoffman claims on page 28, lines 12-21 that it is necessary to maintain the same
11 Securitization Charge to each customer rate class to assure the investment community of
12 recovery of all securitization costs. He appears to be concerned that if Securitization Charges
13 vary by rate class and a large number of the customers in the rate class “leave the system”,
14 a shortfall could occur in securitization cost recovery. Coupling the shortfall with rate caps
15 for particular customers could prevent the true-up process from functioning properly,
16 resulting in the inability to recover the full securitization costs. Mr. Hoffman feels the
17 investment community would define this as higher risk for the securitization bonds, thus
18 lowering the bond ratings and increasing securitization costs.

19 Q. What are the problems with this argument?

20 A. First, in order for a customer to “leave the system” in a manner in which collection of
21 Securitization Charges would not be collected, would require the customer to stop using
22 electricity from Consumers. Mr. Hoffman outlines several methods in which this could occur,

1 all of which cannot be affected by his proposal. If a customer chooses to leave Consumers
2 system for bankruptcy, self-generation or leave Michigan period, the true-up method would
3 still have the same difficulty in reassigning the securitization cost recovery from the lost sales
4 to the remaining sales regardless if the Securitization Charges are uniform or not.

5 Second, the size of the decline in Consumers total sales would have to be on the order of 50%
6 to create the inability to true-up the Securitization Charges. With the projected Securitization
7 Charge of \$0.00174/kWh and a Rate F Off-Peak Energy Charge of \$0.0252/kWh, the
8 Securitization Charge could grow 14 times before it would exceed the Off-Peak Energy
9 Charge and cause problems with the true-up securitization adjustment. Rate F, Off-Peak
10 Energy Charge is the lowest Energy Charge in any of Consumers full service bundled rates.

11 Third, the customers most likely to fall into bankruptcy, move to self-generation or to leave
12 Michigan will most likely have the lowest Securitization Charge if the charge is developed
13 according to generation allocation methods contained in existing rates. The customers at risk
14 for any of these three events are predominately business and industrial customers being served
15 on Consumers primary and large secondary rates. These rates will have a lower Securitization
16 Charge in the event the charge is calculated as proposed in this testimony. The diversity of
17 Customers in Consumers smaller secondary and residential rates provides protection from
18 large scale sales loss, due to these type of events. Thus, contrary to Mr. Hoffman's
19 testimony, varying Securitization Charge by rate class is likely to reduce the potential for true-
20 up shortfalls and should increase investor confidence.

21 Q. Would levelized Securitization Charges create disincentives for customers to participate in
22 the RAP Program?

1 A. Yes. By calculating a levelized Securitization Charge, customers with high load factors
2 would pay more for securitized generation assets than they currently pay under bundled
3 tariffs. This has the effect of making Consumers bundled rates artificially more competitive
4 by increasing the cost to those customers wishing to participate in the RAP Program. It also
5 has the effect of a rate increase for certain Open Access customers. The largest impact of this
6 will be on large users of electricity such as Consumers primary and large secondary
7 customers. There are significant differences in the allocation of generation costs between
8 Consumers Rate F customers and its Residential Rate A customers. These differences also
9 include line losses associated with the delivery of the power and could result in Securitization
10 Charge differences of over 12%. When in a competitive environment, this size of a difference
11 becomes critical and could easily discourage a customer from participating in the program.

12 Q. Should all of Consumers sales be included in the calculation of Securitization Charge?

13 A. Yes. Since the securitization is primarily focused upon generation assets, Consumers should
14 include all electric sales, including wholesale, retail and inadvertent energy flows, into the
15 calculation. In addition, sales associated with ancillary services in Consumers' Open Access
16 Transmission Tariffs (OATT) should also be credited with contribution to securitization costs.
17 Several of the ancillary service charges are based upon costs associated with generation
18 assets. To the extent that Consumers included generation assets which will be securitized in
19 the development of the ancillary services charges, then a credit for recovery of securitization
20 costs from those services should be used to lower the Securitization Charges to other
21 customers. This is especially true for RAP Customers who will be paying for ancillary
22 services under Consumers OATT and also will be billed for Securitization Charges. Without

1 the appropriate adjustment, the RAP Customers would be paying double for portions of
2 securitized generation costs.

3 Q. How should Consumers determine Securitization Charges for each rate class?

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

12 **TRANSITION CHARGE BID ADJUSTMENT**

13 Q. Have customers and Retailers submitted and been awarded the rights to participate in the
14 RAP Program with Consumers?

15 A. Yes. Consumers has conducted four rounds of bidding in the RAP Program. I believe about
16 597.5 Mws of capacity has been awarded to 24 successful bidders. Successful bid prices for
17 Transition Charges have ranged from \$0.00851/kWh to \$0.000002/kWh. Bids were awarded
18 in all three classes of service, Residential Only, Residential/Small Secondary and Primary &
19 Large Secondary. Nordic Electric L.L.C. (Nordic) was one of the successful bidders.

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

22 A. In preparing transition Charge Bids, the critical determinate was amount of customer savings

1 as compared to the bundled rates. Customers were presented a comparison of electric costs
2 under RAP and electric costs under Consumers' bundled rates. From this electric cost
3 comparison they determine the desired savings level and established their Transition Charge
4 Bid price.

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

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

9 Q. Is it possible for customers to pay more for RAP service then for bundled service after a
10 lowering of bundled rates?

11 A. Yes. For example, lets assume bundled residential rates decrease by \$0.005/kWh or 5% and
12 the RAP-R Rates decrease by 5% or \$0.00064/kWh due to the same percentage reduction.
13 In reality under this condition, the RAP Customer has just lost \$0.00436 of savings. If the
14 customer was only saving \$0.004/kWh in the RAP Program before the rate change, they
15 would be paying more on the RAP Program after the rate change.

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

17 A. Yes. The successful bidders would forgo their bid deposits if they choose not to participate
18 in the program because it is no longer economical to do so due tot he change in Consumers'
19 bundled rates. The bid deposits range from \$1,000 to \$2,000 per MW of bid.

20 Q. What can be done to correct this situation?

21 A. The MPSC should require all Transition Charge Bids to be reduced, in addition to the
22 previously described reductions for Securitization Charge and Taxes by the same \$/kWh as

1 the average \$/kWh decrease of the rates in that same customer class. In other words, if the
2 average rate decrease for all primary loads is 5% which equates to \$0.0025/kWh then the
3 Transition Charge Bids for Primary & Large Secondary customers should decrease by
4 \$0.0025/kWh plus reductions for the Securitization Charge and Taxes as previously
5 described. This change only needs to be made in the first four rounds of the RAP Program
6 unless future base rate changes occur. After December 31, 2001 this is no longer an issue
7 since the MPSC will specify the Transition Charge for all customers. In addition the MPSC
8 should seriously consider requiring Consumers to refund the bid deposits if it is no longer
9 economical for the customer to participate due to the bundled rate reduction.

10 Q. Does this conclude your testimony?

11 A. Yes, this concludes my testimony.

12505-DOW/HSC-CE-50

Question:

2. Exhibit CE-_____ (FAE-8), shows that, for all **tariffs**, the energy charge after **securitization** will be reduced by the amount of the **securitization** charge, but not reduced by the amount of the tax **charge** shown on Exhibit CE-_____ (FAE-5). Does this mean that all **Consumers** Energy customers will be paying more for energy **after** securitization than before, i.e., the applicable **firm** energy charge **plus** the tax charge? If not, please explain in **detail**.

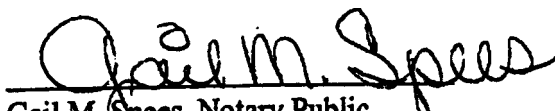
Response:

2. Customers will not be paying more for energy after **securitization**. In Exhibit CE-_____ (FAE-8), the tax component is rolled into the "Energy Charge" column.

Francis A. **Ernst**, Jr., being **first** duly sworn, **states** that the above **response** is true and **correct** to the best of his knowledge, information or belief.



Sworn to before me and subscribed in my presence this 24th day of July 2000.


Gail M. Spees, Notary Public
Jackson County, Michigan
My Commission Expires: March 13, 2001

**Illustration of Application of Securitization Charges to Retail Open Access
Customers and Retailers as Proposed by Consumers Energy Company**

Exhibit: EM-____(RAP-2)

Witness: RAPolich

Date: August 2000

Assumptions:

Primary Service Customer on Rate ROA-P

Separate Billing Option

No Reactive Power Costs

OPTION 1: TRANSITION CHARGE ADJUSTMENT ON CUSTOMER BILL

Calculation of Transition Charge Adjustment

1	Transition Charge Bid:	\$0.00315 /kWh
2	Securitization Charge (includes associated taxes):	\$0.00174 /kWh

OPTION 2: TRANSITION CHARGE ADJUSTMENT ON RETAILER BILL

Calculation of Transition Charge Adjustment

Transition Charge Bid:	\$0.00315 /kWh
Securitization Charge (includes associated taxes):	\$0.00174 /kWh

RETAIL OPEN ACCESS CUSTOMER BILLS			
	Billing Determinates	Rate	Total Charge
	(a)	(b)	(c)
Consumers Energy 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 Adjustment	1,062,785 kWh	(\$0.00174) (\$1,849.25) Note 1
9	Securitization Charge	1,062,785 kWh	\$0.00174 <u>\$1,849.25</u> Note 2
10	TOTAL CONSUMERS ENERGY CHARGES		\$6,438.18
Nordic Electric Charges			
11	Transition Charge	1,062,785 kWh	\$0.00315 \$3,347.77 Note 3
12	TOTAL CUSTOMER CHARGES		\$9,785.95
NORDIC ELECTRIC BILL FROM CONSUMER ENERGY			
13	Transition Charge	1,062,785 kWh	\$0.00315 \$3,347.77
14	Securitization Charge Adjustment	1,062,785 kWh	(\$0.00174) (\$1,849.25)
15	TOTAL CHARGES		\$3,347.77 Note 4

RETAIL OPEN ACCESS CUSTOMER BILLS			
	Billing Determinates	Rate	Total Charge
	(d)	(e)	(f)
Consumers Energy Charges			
	Customer Charge	1	\$115.00 \$115.00
	Distribution Charge	2,343 kW	\$2.10 \$4,920.30
	Substation Charge		\$0.00 \$0.00
	Nuclear Decommission Charge	1,062,785 kWh	\$0.00132 \$1,402.88
	Transition Charge Adjustment	1,062,785 kWh	\$0.00141 \$1,498.53 Note 1
	Securitization Charge	1,062,785 kWh	\$0.00174 <u>\$1,849.25</u> Note 2
	TOTAL CONSUMERS ENERGY CHARGES		\$9,785.95
Nordic Electric Charges			
	Transition Charge	1,062,785 kWh	\$0.00000 \$0.00 Note 3
	TOTAL CUSTOMER CHARGES		\$9,785.95
NORDIC ELECTRIC BILL FROM CONSUMER ENERGY			
	Transition Charge	1,062,785 kWh	\$0.00315 \$3,347.77
	Securitization Charge Adjustment	1,062,785 kWh	(\$0.00174) (\$1,849.25)
	TOTAL CHARGES		\$0.00 Note 4

NOTES

- 1 Transition Charge Adjustment is zero unless the transition Charge Bid is higher than Securitization Charge, otherwise it will be negative.
- 2 Securitization Charge Remitted to Trust includes Securitization Revenue Taxes.
- 3 Transition Charge on Nordic's bill to ROA Customer will be either Transition Charge Bid Amount or zero if Securitization Charge is greater than Transition Charge Bid.
- 4 Amount Consumers will charge Nordic for transition charges. In the event the Transition Charge Bid is less than the Securitization Cost, Nordic will not remit any transition costs to Consumers.

**BILLING OF TRANSITION AND SECURITIZATION CHARGES UNDER
PROPOSAL TO INCLUDE BOTH ON ROA CUSTOMER BILL**

Case No: U-I 2505

Exhibit: EM-____(RAP-3)

Witness: RAPolich

Date: August 2000

Assumptions:

- Primary Service Customer on Rate ROA-P
- Seperate Billing Option
- No Reactive Power Costs

Calculation of Transition Charge Adjustment

1	Transition Charge Bid:	\$0.00315 /kWh
2	Securitization Charge:	\$0.00174
3	Transition Charge Adjustment:	\$0.00141 /kWh

RETAIL OPEN ACCESS CUSTOMER BILLS			
	Billing Determinates	Rate	Total Charge
	(a)	(b)	(c)
Consumers Energy Charges			
4	Customer Charge	1	\$115.00
5	Distribution Charge	2,343 kW	\$2.10
6	Substation Charge		\$0.00
7	Nuclear Decommission Charge	1,062,785 kWh	\$0.00132
8	Transition Charge	1,062,785 kWh	\$0.00141
9	Securitization Charge	1,062,785 kWh	\$0.00174
10	TOTAL CONSUMERS ENERGY CHARGES		\$9,785.95
Nordic Electric Charges			
<i>NONE NEEDED</i>			
11	TOTAL CUSTOMER CHARGES		\$9,785.95
NORDIC ELECTRIC BILL FROM CONSUMER ENERGY			
<i>NONE NEEDED</i>			

NOTES

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

Consumers 1998 Monthly Sales and Sales Variation

Case No: U-I 2505

Exhibit: EM-____ (RAP-4)

Witness: RAPolich

Date: August 2000

	MONTHLY SALES (KWH)	MONTHLY VARIANCE		SECURITIZATION CHARGE \$ per kWh	SECURITIZATION CHARGE CHANGES		
		Month to Month	Monthly to Annual Average		Month to Month	Monthly to Annual Average	
Jan-98	4,998,319	-1.04%	2.69%	\$0.001237	1.05%	-2.57%	Note 1
Feb-98	4,255,401	-14.86%	-11.61%	\$0.001453	17.46%	14.44%	
Mar-98	4,738,546	11.35%	-2.75%	\$0.001305	-10.20%	2.77%	
Apr-98	4,097,608	-13.53%	-15.64%	\$0.001509	15.64%	18.84%	
May-98	5,021,106	22.54%	3.17%	\$0.001232	-18.39%	-3.01%	
Jun-98	5,356,685	6.68%	9.86%	\$0.001155	-6.26%	-9.09%	
Jul-98	5,579,547	4.16%	14.85%	\$0.001108	-3.99%	-12.72%	
Aug-98	5,735,898	2.80%	18.13%	\$0.001078	-2.73%	-15.10%	
Sep-98	4,440,652	-22.58%	-8.69%	\$0.001393	29.17%	9.66%	
Ott-98	4,568,322	2.88%	-6.31%	\$0.001354	-2.79%	6.60%	
Nov-98	4,594,408	0.57%	-5.58%	\$0.001346	-0.57%	5.99%	
Dec-98	5,050,929	9.94%	3.79%	\$0.001225	-9.04%	-3.59%	

TOTAL 58,437,421

Monthly Average Sales

4,869,785

Total Securitization Cost (includes associated taxes):

\$74,218,729

Average Annual Securitization Charge

\$0.001270

NOTES:

1 Calculated by using December 1998 as comparisons.