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November 10, 2003

Mr. Robert Kehres  
Michigan Public Service Commission  
6545 Mercantile Way  
P.O. Box 30221  
Lansing, MI 48909

**Re: Case No. U-13933**

Dear Mr. Kehres:

Enclosed for filing in the above captioned matter please find the original and four copies of Testimony of Richard Polich on behalf of Energy Michigan, Inc.. Also enclosed is the original Proof of Service indicating service on counsel.

Please date stamp one copy of the above entitled document for my records and return it in the self-addressed stamped envelope provided.

Thank you for your assistance in this matter.

Very truly yours,

Varnum, Riddering, Schmidt & Howlett, LLP

Eric J. Schneidewind

EJS/cls  
Enclosures

cc: ALJ  
parties

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of )  
THE DETROIT EDISON COMPANY )  
for determination of net stranded costs )  
and for approval of net stranded cost ) Case No. U-13933  
recovery charges. )  
\_\_\_\_\_ )

**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 PO Box 3522, Ann Arbor,  
3 Michigan

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

5 A. I am currently working as an independent consultant in a firm called Energy Options &  
6 Solutions.

7 Q. Please state your educational background.

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

12 Q. Please describe your work experience.

13 A. In May of 1978 I joined Commonwealth Associates as a Graduate Engineer and worked  
14 on several plant modification and new plant construction projects. In May 1979 I joined  
15 Consumers Power Company as an Associate Engineer in the Plant Engineering Services  
16 Department. In April of 1980 I transferred to the Midland Nuclear Project and

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

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

19 In March of 2003, I started my own energy consulting business, Energy Options  
20 & Solutions. The primary focus of the business will be to help energy users develop  
21 solutions to energy problems.

22 Q. Are you a registered Professional Engineer in the State of Michigan?

23 A. Yes I am.

24 Q. Have you previously testified before this Commission?

25 A. Yes. I presented testimony on five occasions on behalf of Consumers Energy. In the  
26 remand phase of retail wheeling Case U-10143/U-10176 presenting the Consumers'  
27 method for design of future retail wheeling rates, the Consumers proposed Special  
28 Contract Rate Case U-10625 presenting methods to identify and qualify customers. I

1 presented testimony in the Consumers' Electric Rate Case proceeding U-10335. I  
2 presented testimony in the initial phase of retail wheeling Case U-10143/U-10176 on the  
3 proposed cost and rate of retail wheeling and in Case U-10685 the Consumers Energy  
4 Electric Rate Case in November 1994. I presented testimony for Energy Michigan in  
5 Cases U-11915 (Supplier Licensing) and U-11956 (Edison True Up Case), U-12478 and  
6 U-12505 (Edison and Consumers Energy Securitization Cases), U-12639 (Stranded Cost  
7 Methodology Case), U-13380 (Consumers Energy Determination of Stranded Costs), U-  
8 13350 (Detroit Edison Stranded Cost Case).

### 9 **PURPOSE OF TESTIMONY**

10 Q. What is the purpose of your testimony in this proceeding?

11 A. The purpose of my testimony in this proceeding is to point out the critical flaws in  
12 program Detroit Edison Company (DECo) has proposed for providing low income  
13 energy assistance for residential customers. This testimony will provide the Michigan  
14 Public Service Commission (MPSC) with an alternative proposal for a Low-Income  
15 Energy Assistance Program which will provide benefit to those Michigan citizens that are  
16 truly at risk of loss of service. In addition, I present a case for the MPSC to withhold the  
17 decision on method of program funding at this time and justification to place the funding  
18 decision in the DECo's current general rate case U-13808.

19 Q. Does Energy Michigan support a low-income energy efficiency program for electric  
20 customers?

21 A. Yes. As stated in part 3 of DECo's Application, economic conditions have deteriorated,  
22 placing more Michigan Citizens into the low-income category. In addition, certain  
23 energy costs, especially natural gas costs, have risen over the last twelve months. Our  
24 concern is that DECo's proposal does not truly address the problem, attempts to fund the  
25 program exclusively from those customers using alternative suppliers and will  
26 significantly impact DECo's current general rate case filing in Case U-13808. Energy  
27 Michigan believes the MPSC should adopt a Low-Income Energy Program which  
28 follows the course the state has taken in the past for such programs. A program in which

1 all customers contribute to a Low-Income Energy Assistance Fund from which a third  
2 party administrator uses the funds for ensuring the continuation of energy service for  
3 those customers subject to shutoff notices. All the necessary administrative procedures,  
4 agency agreements and mechanisms are in place for such a program and will speed the  
5 implementation.

### 6 **DECO'S PROPOSAL FLAWS**

7 Q. What is your general opinion regarding DECo's proposed Low-Income Energy  
8 Assistance Credit (LIEAC) program?

9 A. The program conceived and proposed by DECo, if approved by the Michigan Public  
10 Service Commission (MPSC) will not accomplish those goals normally attributed to low  
11 income energy assistance programs. As pointed out in the testimony of DECo's witness  
12 DM Stanczak, the increased energy cost for Michigan residents has been in heating costs  
13 not electricity. A discount in an electric bill of the magnitude proposed by DECo is not  
14 likely to provide sufficient funds for a residential customer subject to shutoff notice, to  
15 pay for their heating bill. Assuming the customer is only a 500 kWh customer, DECO's  
16 proposal only saves the customer \$13.00 per month, which will not pay a \$100 monthly  
17 heating bill. It is unlikely that the level of discount proposed by DECo will prevent a  
18 customer from receiving a shut-off notice for delinquent electric bills nor will it provide a  
19 residential customer sufficient funds to avoid being shutoff for delinquent heating bills.  
20 Thus, DECo's proposal fails to resolve key problems for low-income residential  
21 customers struggling to pay their energy bills.

22 Q. Will customers receiving the discount under DECo's Low-Income Credit Program still be  
23 subject to shutoff notices?

24 A. Yes. DECo's proposal only provides a discount on the electric costs. While it is true that  
25 this makes the bill more affordable, it does not resolve the problem associated with those  
26 low-income customers unable to pay the bill. In addition, there already exist provisions  
27 which allow customers to continue service by paying a portion of their bill. The discount  
28 included in the Low-Income Credit provides little benefit to those who truly cannot

1 afford the energy costs. Customers who cannot pay will still be subject to shutoff notices  
2 and there are no provisions in DECo's proposal to provide funds for those customers.  
3 DECo's proposal makes the situation even worse if the position of witness MR. DM  
4 Stanczak is true that customers subject to shutoff's cannot even receive the discount. Mr  
5 Stanczak contends that Excess Securitization Savings cannot be used to "arrange  
6 forgiveness" of nonpayment of electric bills based upon the requirements of Act 141. If  
7 the MPSC upholds this position, then DECo proposal will exclude the participation of  
8 those customers which most need the benefits of a low-income assistance program.

9 Q. Does DECo include requirements for customers to participate in Energy Efficiency  
10 Programs?

11 A. No. DECo has not included any requirements for those participating customers to be  
12 enrolled in energy efficiency programs. Thus, customers could continue to use more  
13 energy than necessary and receive a discount for doing it. Traditionally, customers  
14 participating in low-income energy assistance programs are required to also participate in  
15 energy efficiency programs. In fact, Section 10d.(6) of 2000 PA 141 states that excess  
16 securitization funds used for low-income and energy efficiency should "... promote  
17 energy efficiency ...". The proposal put forth by DECo fails to include any  
18 accountability for energy efficiency for those customers participating in DECo's  
19 program.

20 Q. Who would administer DECo's proposed program?

21 A. Under the proposal by DECo, all decisions regarding the program operations would be  
22 made by DECo. They would decide which customers are allowed to participate, when it  
23 would be implemented and how the funds are distributed. This is unlike most low-  
24 income energy cost assistance programs which are administered by third parties.

25 Third, the program proposed by DECo reallocates cost responsibility for the program to  
26 the Retail Open Access customers. In addition, DECo's proposed funding for its low-  
27 income Energy Assistance Credit, eliminates the 5% rate reduction for Retail Open  
28 Access customers required in PA 141.

1 Q. Is the program a long term solution?

2 A. Regardless of its ability to implement the program, DECo is proposing to only fund this  
3 program for a period six months. After that, it is DECo's hope that legislation will be put  
4 into place that will result in long term funding of the program. It is for this reason the  
5 MPSC must look at the funding of a low-income energy program in the context of a full  
6 rate case so as to ensure a long term solution to a real problem.

7 Q. Will this proposal require modification to DECo's recent general rate case filing in Case  
8 U-13808?

9 A. Yes. On page 14 and 15 of Mr. DM Stanczak's testimony in this Case, he raises the issue  
10 of impacts upon DECo's. Case U-13808. Mr. Stanczak contends that DECo's proposed  
11 program will reduce the amount of excess securitization savings contained in the rate  
12 case to offset other DECo costs included in the Case. In fact, upon review of Exhibit A-  
13 24, Schedule A1, Page 1 of 2, Line 24, it can be seen that DECo has used Excess  
14 Securitization Savings offset \$59.827 million of the Total Rate Request (Column b).  
15 Using these funds for the Low-Income Credit would deplete these funds, deleting them  
16 as an offset to the Total Revenue Requirement in the general rate case. DECo would  
17 need to adjust the rate case to reflect the use of these funds for the Low-Income Credit  
18 program. The net impact would be an increase in Net Rate Request (exhibit A-24,  
19 Schedule A1, Page 1 of 2, Line 30) and a rate increase for all customers.

20 What DECo did not address is the impact upon bad debt expense their proposal  
21 would have on the rate case. A reduction in electric rates for low-income customers will  
22 also reduce bad debt expense due to non-payment of customer bills. This expense item  
23 will also have to be adjusted in the general rate case.

24 **ENERGY MICHIGAN'S PROPOSED SOLUTION**

25 Q. How would Energy Michigan structure its Low-Income Energy Assistance Program?

26 A. The Low-Income Energy Assistance Program we are proposing would be structured  
27 similar to and operated as part of other programs and The Heat and Warmth (THAW)  
28 Fund. Under our proposal, DECO would make available \$23 million each year to pay

1 electric bills of those customers subject to shutoff notices due to delinquent payments.  
2 These funds would be made available for use by agencies such as THAW, the Family  
3 Independence Agency, Community Action Agency, etc., to pay the electric bills of those  
4 low-income customers subject to shutoff notice. This would theoretically free up  
5 customer funds to be used toward payment of heating bills. As part of this program, the  
6 customer would be required to participate in the Low-Income Weatherization program or  
7 other energy efficiency programs.

8 Q. What are the advantages of this program versus DECo's program?

9 A. First and most important it effectively directs the funds toward those which need them the  
10 most, unlike the simple discount program proposed by DECo. A simple discount will  
11 result in some receiving benefits which may not be needed. Providing funds to a  
12 Michigan Citizen who is unable to keep up on their energy costs to pay delinquent  
13 electric bills is a direct application of the funds to those in need of assistance. Second,  
14 Energy Michigan's proposal will avoid the problem discussed earlier regarding straight  
15 discounts, namely providing funds for those low-income customers who truly cannot  
16 afford even the discounted bill. Third, the program utilizes existing agencies and  
17 administrative functions already in place. This reduces program costs and speeds  
18 implementation. Fourth, this proposal requires those participating in the program to  
19 enroll in energy efficiency programs to reduce future energy costs. Last, as will be seen  
20 under our recommendation for funding this program, the MPSC could make this program  
21 permanent and not require legislation or future MPSC action to keep the program funded.

22 Q. Should the MPSC establish funding of this program in this case?

23 A. No. The issue of funding should be addressed in the general rate case, Case U-13808.  
24 DECO could easily make an amended filing to provide the real details of the program  
25 costs and the necessary information for the MPSC to make an informed decision. The  
26 speed at which this case is proceeding prevents all parties from doing any due diligence  
27 and assessment of DECo's proposal. Delay of funding decisions will not cause any  
28 measurable harm to DECo, especially since DECo has already admitted they have the



1 excess securitization savings that could be used as a loan to the Low-Income Assistance  
2 Program in the interim. In the general rate case, the MPSC could establish funding for  
3 this program through a surcharge on all electric users and/or through changes in other  
4 cost re-allocations, thus spreading the cost across all rate classes. If the MPSC is in  
5 agreement with Mr. Stanczak's position that excess securitization funds cannot be used to  
6 "arrange forgiveness" of past bills for shutoff customers, then the MPSC can make the  
7 necessary costs allocation adjustments in the rate case to ensure proper cost recovery not  
8 using excess securitization funds.

9 Q. Are there any advantageous to DECo with Energy Michigan's proposed Low-Income  
10 Energy Assistance Program?

11 A. Yes. The rate reduction proposed by DECo will not eliminate customer's not paying  
12 their electric bills. DECo will still incur a bad debt expense associated with customers'  
13 inability to pay their electric bill. Under Energy Michigan's proposal, \$23 million would  
14 be made available to pay unpaid electric bills which would reduce this expense item for  
15 DECo.

16 Q. If the MPSC wants to immediately fund the Low-Income Energy Assistance Program,  
17 how would Energy Michigan propose this program be funded?

18 A. The Low-Income Energy Assistance Fund could be funded immediately from three  
19 sources, existing excess securitization savings (as a temporary loan), a surcharge on all  
20 electric customers except low-income and Detroit Edison. We would propose that these  
21 be funded in equal parts for the first year or until the MPSC reaches a decision in Case U-  
22 13808 on funding this program. Our initial proposal was to use \$8 million of excess  
23 securitization funds as an immediate cash infusion for 2004 only. This will provide  
24 immediate funding for the program and speed up the ability to provide low-income  
25 customers protection from shutoff notices.

26 If the MPSC is in agreement with Mr. Stanczak's position that excess  
27 securitization funds cannot be used to "arrange forgiveness" of past bills for shutoff  
28 customers, then there are two options for this funding. The first would be to use the

1 carrying charges DECo should be applying to the excess securitization savings. In  
2 response to ABATE discovery question ABDE1.3/19 of this case, DECO states that it is  
3 not applying a carrying charge to the excess securitization savings. This is contrary to  
4 how DECo treats instances in which DECo expends funds for plant improvements such  
5 as clean air act investments. We estimate there are about \$7.5 to \$12.5 million of  
6 carrying charges, depending upon what interest rate should be applied. DECo has been  
7 able to use these funds for its own purposes and the MPSC should impute a carrying  
8 charge for the period in which DECO has been allowed to retain these funds. The second  
9 option would use the amount from the excess securitization temporarily, and recover the  
10 expenditures from the surcharge discussed later in my testimony. This should also  
11 provide approximately two or three months of direct funding of the program.

12 The second source would be from Detroit Edison funds currently used for  
13 marketing and executive bonuses. From the DTE Energy Theater, logo's on ice at Joe  
14 Louis Arena and other promotions, it appears DTE is spending several million on  
15 marketing which could be put to use in this program. In addition, DECo's 2002 O & M  
16 Expense for REP/AIP was \$26.5 million and the projected 2004 O&M Expense is \$36.0  
17 million (Discovery response AGDE1.31/121 in Case U-13808).

18 The final source would be surcharge on electric bills for all customers. Assuming  
19 the program needs to be funded at the \$23 million level recommended by DECo, the full  
20 program surcharge would be \$0.000444/kWh, assuming this surcharge is applied to  
21 DECo's projected sales level of 51,835,100 MWh (Exhibit A-13, Schedule E4, Column  
22 b, Line 58 of Case U-13808). Energy Michigan proposes that this surcharge would apply  
23 to all customers, including special contract and Retail Access. After 2004, funding for  
24 the program would be accomplished through the surcharge.

25 Q. Does Energy Michigan's proposal eliminate the need for DECo to adjust its general rate  
26 case U-13808?

1 A. No. DECO will still need to adjust its filings and revenue request in Case U-13808 to  
2 reflect any changes in revenue requirement caused by reduction in bad debt, use of excess  
3 securitization savings or changes in other expenses.

4 Q. Does this conclude your testimony?

5 A. Yes, it does.

STATE OF MICHIGAN  
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of )  
THE DETROIT EDISON COMPANY )  
for Approval to Implement a Low-Income )  
Energy Assistance Credit for Residential )  
Electric Customers )  
\_\_\_\_\_ )

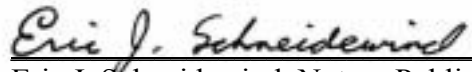
Case No. U-13933

PROOF OF SERVICE

Monica Robinson, duly sworn, deposes and says that on this 10th day of November, 2003, she served a copy of Testimony of Richard Polich on behalf of Energy Michigan, Inc. upon those individuals named on the attached service list by regular mail and e-mail at their last known addresses.

  
\_\_\_\_\_  
Monica Robinson

Subscribed and sworn to before me  
this 10th day of November, 2003.

  
\_\_\_\_\_  
Eric J. Schneidewind, Notary Public  
Eaton County, Michigan  
Acting in Ingham County, Michigan  
My Commission Expires: April 24, 2006

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