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March 20, 2006

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

Re: Case No. U-14526

Dear Ms. Kunkle:

Attached for paperless electronic filing is Rebuttal Testimony of Richard A. Polich on behalf of Energy Michigan, Inc.

Thank you for your assistance in this matter.

Very truly yours,

VARNUM, RIDDERING, SCHMIDT & HOWLETTLLP

Eric J. Schneidewind

EJS/mrr

cc: ALJ
parties

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
CONSUMERS ENERGY COMPANY)
for the determination of net stranded costs)
the year 2004)
_____)

Case No. U-14526

REBUTTAL TESTIMONY

OF

RICHARD A. POLICH

ON BEHALF OF

ENERGY MICHIGAN

March 20, 2006

REBUTTAL TESTIMONY

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Q. Please state your name and business address.

A. My name is Richard A. Polich. My business address is PO Box 3522, Ann Arbor, Michigan.

Q. Are you the same Richard A. Polich who previously testified in this proceeding?

A. Yes I am.

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

A. I will be addressing the Supplemental testimony filed by Consumers Energy Company's ("Consumers") witness Charles F. Belknap on March 7, 2006.

Q. What was contained in the Supplemental testimony of Mr. Belknap?

A. Mr. Belknap provided a calculation of 2004 stranded cost using a method that was supposed to be consistent with the Michigan Public Service Commission Staff ("Commission") proposal in Case U-14274. Mr. Belknap states that this calculation was performed by Consumers at the request of the Commission Staff.

Q. Does Mr. Belknap provide any rationale, justification, explanation or support for the purpose of this calculation?

A. No. Mr. Belknap's testimony lacks any explanation for the purpose of the calculation. It is not clear if Mr. Belknap is abandoning the calculation of 2004 stranded cost provide in his original testimony and proposing that this method be adopted in its stead. Mr. Belknap does not state that Consumers supports this calculation method of 2004 stranded costs, only that it is being performed at the Commission Staff's request.

Q. Did the Commission Staff or any other party provide any testimony in this Case which supports this method of calculation of stranded costs?

A. No

1 Q. What errors are contained in the 2004 stranded costs calculations of Exhibit A-8 (CFB-
2 5)?

3 A. First, Consumers has subtracted the PSCR Revenues for special contract customers twice
4 in its calculation of Total Revenue from Sales to Ultimate Customers show on line 15 of
5 Exhibit A-8 (CFB-5), page 1. This error originates in Mr. Belknap's Workpaper CFB-
6 WP-72. Workpaper CFB-WP-72 is a calculation of the amount of PSCR costs due to
7 special contract sales. This amount of Special Contract PSCR revenues is then
8 transferred to Workpaper CFB-WP-71 (line 8), where it is subtracted from Total
9 Company Revenue (line 1). The only problem is that the PSCR revenues for special
10 contract customers is already included in the "Large C&I" figure on line 5. This can be
11 seen by going back to the source documents in Case U-13917-R. The PSCR Revenue for
12 "Large Commercial and Industrial, Streetlighting and Interdepartmental", contained on
13 line 27 of page 3 of Mr. Shore's Exhibit A-20 (JMS-1), includes all C&I customers,
14 including special contract customers. Thus the \$540.9 million on line 5 of Workpaper
15 CFB-WP-71 already includes the \$99.989 million shown on line 8. Thus Consumers has
16 subtracted the 2004 PSCR revenues for special contract customers twice in calculating
17 the Total Revenue from Sales to Ultimate Customers shown on line 9 of this Workpaper.

18 Q. What is the net effect of elimination of the double recovery of 2004 special contract
19 customer PSCR costs?

20 A. The effect of elimination of the double recovery of 2004 special contract customer PSCR
21 costs adds \$99.989 million to the Total Revenue from Sales to Ultimate Customers
22 amount shown on line 15 of Exhibit A-8 (CFB-5), page 1. Applying the "Generation
23 Related Rev. Req. as a % Revenues from Ult. Customers" of line 16 to the revised Total

1 Revenue from Sales to Ultimate Customers of \$1,387,005,000 (\$1,287,016,000 plus
2 \$99,989,000) results in a corrected figure for line 17 of \$205,872,000.

3 Q. Is the figure on line 18 of Exhibit A-8(CFB-5), page 1, correct?

4 A. No. Mr. Belknap's supplemental testimony states that the figure on line 18 of Exhibit A-
5 8 (CFB-5), page 2 should be \$2,776,000 (page 2, line 9 of Supplemental Testimony).

6 Correcting line 18 of Exhibit A-8 (CFB-5), page 1, to the correct amount and adding it to
7 the corrected amount for line 17 of \$205,872,000 results in "Total Contribution to Fixed
8 Costs of Generation" on line 19 of \$208,648,000.

9 Q. What would be the resulting 2004 Stranded Costs using the method contained in Exhibit
10 A-8 (CFB-5) with these corrections?

11 A. Using the corrected figures for Total Contribution to Fixed Costs of Generation of
12 \$208,647,000 would result in a Total Stranded cost Excluding Clean Air Act of a little
13 more than \$6.157 million.

14 Q. Do you agree with the methodology used to calculate stranded costs in Exhibit A-8
15 (CFB-5) with the corrections?

16 A. No. As addressed in my original testimony, exclusion of all PSCR revenues and costs in
17 the calculation of stranded costs is inappropriate due to the inclusion of PSCR related
18 costs in base rate design. The long term Purchase and Interchange Capacity costs should
19 be included in the stranded costs calculation because of the method of incorporation in
20 rate design and the fact that they are not avoidable. Variable PSCR Costs should be
21 excluded from the stranded costs calculation because they are avoidable.

22 Q. Does this conclude your testimony?

23 A. Yes.

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
CONSUMERS ENERGY COMPANY)
for determination of net stranded costs)
for the year 2004 and approval of net)
stranded cost recovery charges.)
_____)

Case No. U-14526

PROOF OF SERVICE

Monica Robinson, duly sworn, deposes and says that on this 20th day of March 2006 she served a copy of Rebuttal Testimony Richard A. Polich on Behalf of Energy Michigan, Inc. upon the individuals listed on the attached service list by e-mail at their last known addresses.

Monica Robinson

Subscribed and sworn to before me
This 20th day of March 2006.

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

U-14526 SERVICE LIST

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