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March 6, 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 Direct Testimony and Exhibits 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

QUALIFICATIONS & DIRECT TESTIMONY

OF

RICHARD A. POLICH

ON BEHALF OF

ENERGY MICHIGAN

March 6, 2006

Qualifications of Richard A Polich

On Behalf of Energy Michigan

MPSC Case U-14526

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
17 progressed through various job classifications to Senior Engineer. I participated in the
18 initial design evaluation of the Midland Cogeneration Plant. In July 1987 I transferred to
19 the Market Services Department as a Senior Engineer and reached the level of Senior
20 Market Representative. While in this department I analyzed the economic and
21 engineering feasibility of customer cogeneration projects. In July of 1992 I transferred to

1 the Rates and Regulatory Affairs Department of Consumers Energy as a Principal Rate
2 Analyst. In that capacity, I performed studies relating to all facets of development and
3 design of the Consumers' gas, retail, electric and electric wholesale rates. During this
4 period, I was heavily involved in the development of Consumers Direct Access program
5 and in the development of Retail Open Access program. I also participated in the
6 development of the Consumers' revenue forecast.

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

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

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

18 A. Yes I am.

19 Q. Have you previously testified before this Commission?

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

1 presented testimony in the initial phase of retail wheeling Case U-10143/U-10176 on the
2 proposed cost and rate of retail wheeling and in Case U-10685 the Consumers Energy
3 Electric Rate Case in November 1994. I presented testimony for Energy Michigan:

4	Case U-11915	Supplier Licensing
5	Case U-11955	Consumers Energy Stranded & Implementation Cost Recovery
6	Case U-11956	Detroit Edison Stranded & Implementation Cost Recovery
7	Case U-12478	Detroit Edison Asset Securitization Case
8	Case U-12488	Consumers Energy Retail Open Access Tariff
9	Case U-12489	Detroit Edison Retail Open Access Tariffs
10	Case U-12505	Consumers Energy Asset Securitization Cases
11	Case U-12639	Stranded Cost Methodology Case
12	Case U-13380	Consumers Energy 2000, 2001 & 2002 Stranded Cost Case
13	Case U-13350	Detroit Edison 2000 & 2001 Stranded Cost Case
14	Case U-13715	Consumers Energy Securitization of Qualified Costs
15	Case U-13720	Consumers Energy 2002 Stranded Costs
16	Case U-13808	Detroit Edison General Rate Case
17	Case U-13933	Detroit Edison Low-Income Energy Assistance Credit for
18		Residential Electric Customers
19	Case U-13989	Consumers Energy Request for Special Contract Approval
20	Case U-14098	Consumers Energy 2003 Stranded Costs
21	Case U-14148	Consumers Energy MCL 460.10d(4) Case
22	Case U-14347	Consumers Energy General Rate Case
23	Case U-14399	Detroit Edison Company Application for Unbundling of Rates

PURPOSE OF TESTIMONY

1
2 Q. What is the purpose of your testimony in this proceeding?

3 A. I will be presenting evidence that the 2004 Stranded Cost calculations presented by
4 Consumers Energy Company (“Consumers”) need to be adjusted to actual 2004 PSCR
5 revenues and not 2004 PSCR Costs. The key portion that will be addressed in this
6 testimony presents the problem Energy Michigan has addressed in several other stranded
7 costs cases, the inclusion of Power Supply Costs in the stranded cost calculation. In
8 addition, I will address why stranded costs should not be occurring in today's electric
9 markets and why open access customers should be receiving compensation for the
10 subsidy of full service customers resulting from payment of securitization charges.

11 Q. Are you sponsoring any Exhibits in this Case?

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

13	Exhibit EM-1 (RAP-1)	Calculation of 2004 Stranded Costs
14	Exhibit EM-2 (RAP-2)	Calculation of Fixed Generation Cost %
15	Exhibit EM-3 (RAP-3)	Consumers 3 rd Quarter 2005 Power sales
16	Exhibit EM-4 (RAP-4)	Example of PSCR Double Recovery
17	Exhibit EM-5 (RAP-5)	Exhibit A-22 U-13917-R Revised
18	Exhibit EM-6 (RAP-6)	Discovery Responses EMCE-4 and 5

19 Q. Were these exhibits prepared by you or under your direction?

20 A. Yes, they were.

21 **ERRORS IN CONSUMERS STRANDED COST CALCULATION**

22 Q. What errors have you found in the Consumers stranded cost calculations?

1 A. In reviewing Consumers Exhibit A-2 (CFB-2), and comparing it to the figures in
2 Consumers' 2004 PSCR Reconciliation Case U-13917-R, there is an inconsistency
3 between 2004 PSCR related costs and revenues used in that case and those used in
4 Consumers' Exhibits A-1 (CFB-1) and A-2 (CFB-2) of this case. The differences in
5 2004 PSCR figures between this Case and case U-13917-R effect all of the calculations
6 of 2004 stranded costs in Consumers' case. The first error is the use of 2004 PSCR costs
7 figures in Exhibit A-2 (CFB-2), which are almost \$90 million higher then the amount
8 Consumers is seeking to recover from its PSCR customers in the 2004 PSCR
9 Reconciliation Case. Consumers uses total 2004 PSCR costs in Exhibit A-2 (CFB-2) to
10 calculate the "*Generation Related Revenue Requirement as a % of Revenues from*
11 *Ultimate Customers*" and then applies the resulting percent to the "*Total Revenue from*
12 *Sales to Ultimate Customer*" in Exhibit A-1 (CFB-1). The second error is the use of
13 2004 PSCR costs instead of 2004 PSCR revenues. The "*Total Revenue from Sales to*
14 *Ultimate Customer*" on line 15 of Consumers Exhibit A-1 (CFB-1), only includes actual
15 2004 PSCR revenues collected from its PSCR customers during 2004. The amount of
16 2004 PSCR Revenues included in line 15 of Exhibit A-1 (CFB-1), is only \$938,185,372
17 (see Exhibit EM-5 (RAP-5), line 23, under column titled "Total"). This amount is over
18 \$111 million less then the 2004 PSCR amounts used on lines 20 and 21 of Exhibit A-2
19 (CFB-2). The application and use of 2004 PSCR figures in Consumers' Exhibits in this
20 case are inconsistent with Consumers 2004 PSCR Reconciliation Case U-13917-R, are
21 not consistent with other figures in this case and will result in the wrong calculation of
22 stranded costs. Last, Consumers did not apply the total Contribution to Fixed Costs from
23 third Party Sales to the reduction of 2004 Stranded Costs.

1 Q. What are the errors in the 2004 PSCR figures used by Consumers in Exhibits A-1 (CFB-
2 1) and A-2 (CFB-2) of this case?

3 A. The PSCR Costs used in Exhibit A-2 (CFB-2), lines 20 and 21 are costs Consumers
4 indicates it incurred in 2004 associated with the electricity it sold to full service
5 customers. The problems with the 2004 PSCR figures used in this Exhibit are;

- 6 • The 2004 PSCR Costs are not the same 2004 PSCR costs it is seeking to recover from
7 PSCR customers.
- 8 • The calculation of the jurisdictional portion of these costs is wrong.
- 9 • The 2004 PSCR Costs are not the actual PSCR revenues Consumers collected from
10 full service customers in 2004 that are included in the “*Total Revenue from Sales to*
11 *Ultimate Customer*” on line 15 of Exhibit A-1 (CFB-1).

12 **2004 COSTS AND JURISDICTIONAL ERROR**

13 Q. How did Consumers arrive at the 2004 PSCR figures used on lines 20 and 21 of Exhibit
14 A-2 (CFB-2)?

15 A. The calculation of jurisdictional PSCR costs is contained in Mr. Belknap’s Workpaper
16 CFB-WP-62. In this workpaper, Mr. Belknap uses two different jurisdictional factors,
17 both of which are close to 98% (line 2, line 10 & line 13 of CFB-WP-62) to separate
18 jurisdictional PSCR customer costs from total costs.

19 Q. Why are the calculations of 2004 PSCR figures on lines 20 & 21 of Exhibit A-2 (CFB-2)
20 wrong?

21 A. The 2004 PSCR figures on Exhibit A-2 (CFB-2), lines 20 and 21 are not the amount of
22 PSCR Costs Consumers is seeking to charge its PSCR customers for 2004. I have
23 attached as Exhibit EM-5 (RAP-5), a copy of Consumers’ Exhibit A-22 (JMS-3 Revised)

1 from Consumers 2004 PSCR reconciliation Case U-13917-R. Reviewing the source of
2 the PSCR costs in Exhibit A-22 (JMS-3 REV.), shows the average jurisdictional
3 percentage for 2004 to be 89.6143% (line 22 divided by line 20 of Exhibit A-22). The
4 total jurisdictional 2004 PSCR costs on lines 20 & 21 of Exhibit A-2 (CFB-2) should be
5 the same 2004 PSCR Costs it expects to recover from its PSCR customers. The 2004
6 PSCR costs Consumers expects to recover from its PSCR customers of \$960,289,276, is
7 shown on line 22 of Exhibit A-22 of case U-13917-R. This is almost \$90 million less
8 then the \$1,049,724,849 Mr. Belknap included in his calculations in Exhibit A-2 (CFB-
9 2). Consumers used an amount of 2004 PSCR costs in Exhibit A-2 (CFB-2) that is
10 greater than the jurisdictional amount it proposed in U-13917-R. The amount of PSCR
11 costs used by Consumers in Exhibit A-2 on lines 20 and 21 is an amount that it has
12 admitted in its own 2004 PSCR Reconciliation filings it is not entitled to collect from
13 retail customers. Use of a larger than justified amount of PSCR cost reduces the
14 percentage that generation comprises of total revenue (see Exhibit A-2, line 14). *This, in*
15 *turn, results in underestimating the amount of fixed generation related revenue available*
16 *to offset the generation revenue requirement. Exhibit A-1, line 14. Use of a lower than*
17 *justified percent allocation results in the assignment of costs Consumers would never*
18 *collect without open access to stranded costs Consumers wants to collect from ROA*
19 *customers.*

20 Q. Are there other places Consumers did not use the same jurisdictional factors as it used in
21 Case U-13917-R?

22 A. Yes. In Mr. Belknap's Workpapers CFB WP-1 and CFB WP-4, the jurisdictional factor
23 of 98.3662% was used in calculating the components of the Generation Related Revenue
24 Requirement shown on lines 1-14 of Exhibit A-1 (CFB-1). If Consumers' PSCR sales

1 were only 89.6143% of total sales, then the jurisdictional factor used in calculation of line
2 14 of Exhibit A-1 (CFB-1) should be the same as that derived in the PSCR Case. If
3 Consumers' is using over 10% of its generation assets to produce power for sale in the
4 wholesale market, then it should not be seeking to recover costs associated with those
5 assets from its Jurisdictional Customers. In this case, the stranded cost calculation for
6 Generation Related Revenue Requirement includes revenue requirement for generation
7 assets Consumers is using for non-PSCR related kWh production and sales. The
8 difference between the jurisdictional factor used by Consumers and that contained in
9 Case U-13917-R would lower the Total Revenue Requirement figure on line 14 of A-1
10 (CFB-1) by about \$64.7 million.

11 Q. Is there any basis for use of Consumers' jurisdictional factor in the calculation of Total
12 Revenue Requirement on line 14 of A-1?

13 A. Yes. If the total amount of "*Contribution to Fixed Costs from Third Party Sales*" is
14 included in the stranded cost calculation, then the jurisdictional factor used by Consumers
15 is appropriate in the stranded costs calculation. The calculation of "Total Revenue
16 Requirement" on line 14 now includes the generation assets used to produce the power
17 used to generate the third party sales. Since the stranded costs calculation would include
18 the margin above the power supply costs for third party sales, also called "*Contribution*
19 *to Fixed Costs from Third Party Sales*", as an offset to the revenue requirement of the
20 generation used to produce the kWh associated with those sales, the calculation includes
21 the cost responsibility and associated revenue benefit.

22 Q. Have you performed a calculation of stranded costs using the appropriate jurisdictional
23 2004 PSCR costs?

1 A. Yes. In column (c) of Exhibits EM-1 (RAP-1) and EM-2 (RAP-2), I have included the
2 2004 PSCR Costs Consumers is seeking to recover from its PSCR Customers in Case U-
3 13917-R (see line 18 of Exhibit EM-2 (RAP-2)). I have also included the full amount of
4 “*Contribution to Fixed Costs from Third Party Sales*” on line 20 of Exhibit EM-1 (RAP-
5 1). The result is a stranded cost calculation which shows Stranded Benefits of over \$34
6 million for 2004.

7 **USE OF PSCR REVENUE INSTEAD OF COST**

8 Q. Why should actual 2004 PSCR revenues be used instead of 2004 jurisdictional PSCR
9 costs?

10 A. The stranded cost calculation in Exhibit A-1 (CFB-1) uses actual 2004 “*Total Revenue*
11 *from Sales to Ultimate Customer*”. These revenues are lower than total costs. Applying
12 the “*Generation Related Revenue Requirement as a % of Revenues from Ultimate*
13 *Customers*” calculated using PSCR costs that were not actually included in the revenues
14 will result in an under allocation of “*Total Revenue from Sales to Ultimate Customer*” to
15 “*Contribution to Fixed Costs of Direct Generation*” (line 17 of Exhibit A-1, (CFB-1)).
16 This results in additional stranded costs from an allocation of production costs
17 Consumers never collected.

18 Q. Have you performed the stranded cost calculation using Consumers methods with the
19 appropriate 2004 PSCR amount?

20 A. Yes. In Exhibit EM-2 (RAP-2), line 18, column (d), I have used the amount of PSCR
21 revenue Consumers actually collected in 2004 from Exhibit A-22, line 23, of Case I-
22 13917-R. This amount is \$938,185,372 instead of the \$1,049,724,849 (line 17 plus 18)
23 used by Consumers. This results in “*Generation Related Revenue Requirement as a % of*
24 *Revenues from Ultimate Customers*” of 31.82% instead of the 30.24% proposed by

1 Consumers. Applying this figure in Exhibit EM-1 (RAP-1), results in “*Contribution to*
2 *Fixed Costs of Direct Generation*” of \$739.963 million. This figure is over \$36.8 million
3 higher then the amount calculated by Consumers.

4 Q. What other adjustments did you make to the stranded cost calculation presented by
5 Consumers?

6 A. Consumers only credited \$24.126 million of the Fixed Contribution from Third Party
7 Sales. Line 20 adds the total \$29.688 million of third party sales in calculating the
8 stranded cost/(benefit).

9 Q. What is the result of applying these adjustments to the stranded cost calculation method
10 used in Consumers’ testimony?

11 A. Using actual 2004 PSCR Revenues and the total 2004 Fixed Contribution from Third
12 Party Sales in the stranded cost calculation results in Stranded Benefits of \$42.4 million.
13 This calculation is shown in Exhibit EM-1 (RAP-1), column (d).

14 Q. Why should the Commission allocate all third party sales revenue to reduce stranded
15 costs?

16 A. All 2004 third party sales revenue resulted from sale of MWh of power freed up by the
17 ROA program. The discovery responses provided by Consumers demonstrate that 2004
18 third party sales were approximately 2.24 million MWh and ROA sales were
19 approximately 4 million MWh. See 14526 EM-CE-4 and 5. Exhibit EM-6 (RAP-6). If
20 Consumers had been serving the load on ROA under full service rates, the amount of
21 third party sales would have disappeared. In addition, Consumers would have been
22 placed in the position of increasing its power purchases since the ROA sales exceed third
23 party sales by 1.6 million MWh. I therefore conclude that all third party sales resulted
24 from MWh freed up by the ROA program.

1 Q. How should the Commission use the 2004 stranded benefits?

2 A. The Commission should use the stranded benefits to reduce the 2002 and 2003 stranded
3 cost amounts to be collected from ROA customers. The Commission set the stranded
4 cost amounts to be recovered from ROA customers in Cases U-13720 and U-14098 at a
5 combined amount of \$63,214,364. The 2003-2004 stranded cost amount has been
6 reduced by about \$5 million due to stranded cost payments since November 2004. The
7 2004 stranded benefit of \$42,377,000, adding accrued interest of 7% over 18 months
8 amounts to \$47,054,227. Applying this to the 2002 & 2003 stranded costs would be
9 reduced total stranded costs to \$11,160,137.

10 **STRANDED COST CALCULATION METHODOLOGY**

11 Q. Which portion of the stranded calculation does Energy Michigan feel it is now time to
12 change?

13 A. Since the inception of the calculation of stranded costs, Energy Michigan has advocated
14 the removal of variable PSCR related costs in the stranded cost calculation. The
15 Commission has supported the inclusion of variable PSCR costs in the calculation of
16 “Fixed Generation % of total Revenues” (see Exhibit A-2 (CFB-2), lines 15-25) and
17 “Total Contribution to Fixed Costs of Generation” (see Exhibit A-1 (CFB-1), lines 15-
18 17). Until 2004, the adjustments made to the PSCR related costs were minor and only
19 reflected replacement of 1997 costs by 1998 costs. In 2004, Consumers has replaced the
20 1996 PSCR costs by the 2004 PSCR costs. Their reasoning is that in 2004 the Company
21 is now allowed to recover the increased PSCR costs from its bundled customers. The
22 2004 PSCR costs reflect a 5.5% increase in these costs. This is a substantial increase
23 which impacts the stranded cost allocations.

1 Q. Do the PSCR costs have to be included in the calculation of stranded costs?

2 A. No. As shown by Consumers in Exhibit A-2 (CFB-2), the 1996 Fuel and P&I costs can
3 be subtracted from the Total Revenue Requirement. Line 19 of this Exhibit could then be
4 used to calculate the Fixed Generation as a % of Total Sales on line 15 by dividing line
5 13 by line 19. This would have the effect of removing PSCR costs from the calculation
6 and eliminate the potential of double recovery of PSCR costs through both the PSCR
7 factor and stranded costs.

8 Q. How could PSCR costs be collected as stranded costs?

9 A. The current stranded cost calculation, as shown in Consumers Exhibit A-1 (CFB-1) uses
10 as one of its base figures, "*Total Revenue from Sales to Ultimate Customers*". This figure
11 includes all revenues, including PSCR related revenues. If PSCR revenues increase
12 quicker than overall revenues, then line 17 of Exhibit a-1 (CFB-1) "*Contribution to Fixed*
13 *Costs of direct Generation*" will include a portion of the increased PSCR revenues.
14 Increases in PSCR costs were never intended to be a portion of stranded costs. Earlier
15 stranded cost cases purposely removed PSCR costs from the stranded cost calculation in
16 determining the Generation Related Revenue Requirement. By applying the "*Generation*
17 *Related Revenue Requirement as a % of Revenues from Ultimate Customers*" to the
18 '*Total Revenue from Sales to Ultimate Customers*', you are also applying the Fixed
19 Generation percentage (line 16 of exhibit A-1 (CFB-1) to the PSCR revenues. If PSCR
20 revenues rise faster than both '*Total Revenue from Sales to Ultimate Customers*' and
21 "*Generation Related Costs*", then the "*Contribution to Fixed Costs of Direct Generation*"
22 will include PSCR revenues.

23 Q. How can this be illustrated?

1 A. Yes. In Exhibit EM-4 (RAP-4) I have provided a simplified example of stranded cost
2 calculations using hypothetical figures. The example starts with an assumption that in
3 Consumers last rate case (one year earlier), the rates were set based upon a revenue
4 requirement of \$2.0 billion (last rate case assumptions on lines 1-3). Included in the
5 Total Revenue Requirement were \$500 million of “*Generation Related Revenue*
6 *Requirement*” (equivalent to the figure on line 13 of Exhibit A-2 (CFB-2)) and PSCR
7 Costs of \$1.0 billion. Now let’s assume that in the following year, Consumers files a
8 Stranded Cost case with the increases in “*Total Revenue from Sales to Ultimate*
9 *Customer*” of 6% (line 4), “*Generation Related Revenue Requirement*” of 2% (line 5),
10 and “*PSCR Revenues*” of 10% (line 6). The remainder of Exhibit EM-4 (RAP-4) is a
11 condensed example of the stranded cost calculation process in Consumers’ Exhibits A-1
12 (CFB-1) and A-2 (CFB-2). Exhibit EM-4 (RAP-4) compares the impact of calculating
13 stranded costs based upon the “*Last Rate Case*” (column b), “*Future Stranded Cost*
14 *Case*” (column c), and “*Future Without PSCR Costs*” (column d). Column (c) uses
15 exactly the same process as Consumers used in this case.

16 **LAST RATE CASE EXAMPLE**

17 The Last Rate Case example shows what happens if the “*Generation Related Revenue*
18 *Requirement as a % of Revenues from Ultimate Customers*” is calculated based upon the
19 last rate case figures unadjusted for increases in “*Total Revenues from Sales to Ultimate*
20 *Customers*” caused by increased PSCR revenues. The resulting “*Fixed Generation*
21 *Related Revenues*” on line 19 actually includes PSCR related revenues. The result is the
22 stranded benefit of \$20 million is really all due to increased PSCR revenues (25% of the
23 PSCR revenue increase of \$100 million is \$25 million). This example illustrates why the

1 changes in the PSCR revenues cannot be ignored if you are using “*Total Revenues from*
2 *Sales to Ultimate Customers*” without any adjustments in the stranded cost calculation.

3 **FUTURE WITHOUT PSCR REVENUES**

4 The Future Without PSCR Revenues removes the impact of changes in PSCR revenues,
5 but includes increases in “*Total Revenues from Sales to Ultimate Customers*” (line 15)
6 and “*Contribution to Fixed Costs of direct Generation*” (line 19). The “*Fixed Generation*
7 *Costs Percent of Non-PSCR Revenues*” (line 14) is calculated based upon the Total
8 Revenues Without PSCR Costs of the last rate case. To ensure that the calculation of
9 stranded costs are performed on an equivalent basis, the PSCR revenues must be removed
10 from the “*Total Revenues from Sales to Ultimate Customers*” so that we are applying the
11 “*Fixed Generation Costs Percent of Non-PSCR Revenues*” to only the non-PSCR
12 revenues for the year in which the stranded costs are calculated. This places the
13 calculation of “*Fixed Generation Costs Percent of Non-PSCR Revenues*” and “*Fixed*
14 *Generation Related Revenues*” (line 19) on the same basis. The resulting stranded costs
15 are zero (line 21) because Consumers actually is recovering all its PSCR revenues and
16 “*Fixed Generation Related Costs*” in its “*Total Revenues from Sales to Ultimate*
17 *Customers*”.

18 **FUTURE WITH PSCR REVENUES**

19 Q. In Exhibit EM-4 (RAP-4), column (c), why does the stranded cost calculation based on
20 the calculation methods used in this case, indicate there are stranded costs?

21 A. The inclusion of PSCR revenues in the calculation of the stranded cost calculation results
22 in a portion of PSCR revenues being allocated to stranded costs. The cause of this result
23 is buried in the stranded cost calculation process. The real cause is the PSCR revenue
24 adjustment to revenue requirement in lines 7-13, column (c) of Exhibit EM-4 (RAP-4)

1 increases “*Last Rate Case Revenue Adjusted for Current PSCR*” by 5%. At this point,
2 PSCR revenues have now become about 52% (PSCR Costs of \$1.1 billion divided by
3 \$2.12 billion of Total Revenue) of total revenues as compared to only 50% (PSCR Costs
4 of \$1.0 Billion divided by \$2.0 billion of Revenue Requirement) of revenue requirement
5 in the last rate case. The change in proportional share of PSCR revenues to total
6 revenues, coupled with PSCR revenues growing faster than total revenues results in
7 lowering the “*Generation Related Revenue Requirement as a % of Revenues from*
8 *Ultimate Customers*” by too much. The 1.2% reduction on line 13, column (c) for the
9 “*Generation Related Revenue Requirement as a % of Revenues from Ultimate*
10 *Customers*” should have only been by about 1%. Even though you are applying the
11 “*Generation Related Revenue Requirement as a % of Revenues from Ultimate*
12 *Customers*” to a larger “*Total Revenues from Sales to Ultimate Customers*” it does not
13 result in a proper allocation of PSCR revenues. The \$5,238,095 of stranded costs are
14 really PSCR revenues allocated to stranded costs. The calculation in Column (d) easily
15 shows that the utility really is recovering all of its costs from its sales to its full service
16 customers and there are no real stranded costs. What it comes down to is the method of
17 stranded cost calculation used in all of the stranded cost case does not follow proper
18 mathematical processes. The reduction in “*Generation Related Revenue Requirement as*
19 *a % of Revenues from Ultimate Customers*” should be proportional to the increase in
20 PSCR revenues times the “*Generation Related Revenue Requirement as a % of Revenues*
21 *from Ultimate Customers*” from the last rate case. If you apply the ratio of current PSCR
22 revenues to current total revenues (52%), to the ratio in the last rate case (50%) to the
23 25% “*Generation Related Revenue Requirement as a % of Revenues from Ultimate*
24 *Customers*” in the last rate case you arrive at a figure (25% times 0.50/0.52) much closer

1 to the real “*Generation Related Revenue Requirement as a % of Revenues from Ultimate*
2 *Customers*” of about 24%. But even this method is a simplification and the real way the
3 stranded cost calculation should be performed is to remove the PSCR revenues from the
4 stranded cost calculation.

5 Q. How does the current stranded cost calculation result in double recovery of PSCR related
6 costs?

7 A. Consumers has requested the recovery of its 2004 PSCR costs in Case U-13917-R. As
8 shown in the above calculation, a portion of these PSCR costs are being allocated to
9 stranded costs. Approval of recovery of Consumers full PSCR Costs in case U-13917-R
10 and approval of stranded costs using the Consumers’ calculation methods in this case will
11 result in Consumers receiving payment of PSCR Costs from Open Access customers in
12 the form of stranded costs and from full service customers in PSCR cost recovery. Our
13 estimates of this double recovery for 2004 would be over \$48.8 million (see Exhibit EM-
14 1 (RAP-1), line 24).

15 Q. Have you performed a stranded cost calculation, removing the PSCR revenues from the
16 calculation, in this case?

17 A. Yes. Exhibit EM-2 (RAP-2), column (e), revises Consumers Exhibit A-2 (CFB-2) to
18 remove the 2004 fixed and P&I costs to arrive at the 1996 non-PSCR Revenue. The
19 calculation in column (e), results in a Fixed Generation as a % of Total Sales of 56.87%
20 of non-PSCR Revenues. Exhibit EM-1 (RAP-1), which is based on Consumers Exhibit
21 A-1 (CFB-1), provides the stranded cost calculation with the impacts of PSCR removed.
22 The adjustments to Consumers Exhibit A-1 (CFB-1) are the change in the Fixed
23 Generation as a % of Total Sales on line 19 and the removal of the 2004 PSCR revenues
24 on lines 16.

1 Q. Were there any other adjustments to Consumers calculation of stranded costs?

2 A. Yes. As discussed earlier in my testimony, Consumers only credited \$24.126 million of
3 the Fixed Contribution from Third Party Sales. Line 29 adds the total \$29.688 million of
4 third party sales in calculating the stranded cost/(benefit).

5 Q. What is the result of removing the impact of PSCR costs from the stranded cost
6 calculation method used in Consumers' testimony?

7 A. Removing the impact of PSCR revenues and the total 2004 Fixed Contribution from
8 Third Party Sales in the stranded cost calculation results in Stranded Benefits of \$85.6
9 million. This calculation is shown in Exhibit EM-2 (RAP-2), column (e).

10 Q. How should the Commission use the 2004 stranded benefits?

11 A. The Commission should use the stranded benefits to reduce the 2002 and 2003 stranded
12 cost amounts to be collected from ROA customers. The Commission set the stranded
13 cost amounts to be recovered from ROA customers in Cases U-13720 and U-14098 at a
14 combined amount of \$63,214,364. The 2004 stranded benefit of \$ \$85,610,000, adding
15 accrued interest of 7% over 18 months amounts to \$95,058,931. This would completely
16 wipe out the 2002 and 2003 stranded cost amount and still leave \$31,844,567 of stranded
17 benefits. The Commission should use the remaining amount of stranded benefits to offset
18 the securitization surcharges paid by ROA customers.

19 **CURRENT STRANDED COST ENVIRONMENT**

20 Q. What is fundamentally wrong with the concept of "Stranded Costs" for Consumers Power
21 in 2006?

22 A. The combination of Consumers power supply situation with current market prices for
23 wholesale power really precludes the occurrence of stranded costs. The concept of

1 stranded costs arises from the premise that as sales migrate from full service to
2 competitive suppliers, the utility will no longer recover its authorized costs in the rates it
3 is charging to the remaining full service customers. In a market in which all economic
4 and sales conditions are static (i.e., no sales changes or cost changes), this situation would
5 occur. Each MWh of sales migration to Retail Open Access (“ROA”) under static market
6 conditions, would result in an average loss of Generation Revenue Requirement, also
7 know as stranded costs, of about \$22.01/MWh (Generation Related Revenue
8 Requirement divided by Consumers’ Total retail Sales – Exhibit A-1 (CFB-1) line 14
9 divided by Workpaper CFB WP-2 line 15). Fortunately market conditions are not static
10 and in realty have changed significantly from those used to establish the rates and cost
11 recovery figures approved in the Order U-10685. The following market condition
12 changes have a significant impact on stranded costs:

- 13 • Changes in total electric deliveries to retail customers
- 14 • Internal Power Supply Capabilities
- 15 • Amount of Wholesale Power Sales
- 16 • The Wholesale Price of Power
- 17 • Fuel Costs

18 Consumers’ sales to full service customers in 2004 were within 0.34% of the sales level
19 set in case U-11065, the last rate case in which revenue requirement and sales was set for
20 the development of rates. Purchase power costs have risen significantly in recent years,
21 and as shown in Exhibit EM-3 (RAP-3), the wholesale power costs for the third quarter
22 of 2005 is averaging \$68.54/MWh. As shown in the MPSC Staff’s capacity needs report,
23 Consumers is in need of additional capacity. Consumers has stated it needs to purchase

1 850 MW of summer capacity to meet the needs of its customers in 2006 (David F Ronk
2 testimony in Case U-14701, page 9). It is likely that as ROA load returns to Consumers,
3 Consumers will have to rely on the wholesale markets to serve that load. Last, fuel costs
4 have risen sharply, including coal costs.

5 Q. Why should the current level of retail sales preclude any consideration of stranded costs?

6 A. The rates set in Consumers' full service tariffs were based upon a series of orders issued
7 in cases U-10685, U-10754, and U-10787. These orders set the sales level at 33,151,660
8 MWh for the purpose of rate design (Case U-10685 February 5, 1996, page 30).

9 Consumers' average full service sales for 2003-2004 were 33,639,144. Stranded costs
10 should not exist if total full service sales are greater then those used to set rates in the last
11 general rate case.

12 Q. Why should Consumer's current power supply situation preclude the existence of
13 stranded costs?

14 A. If Consumers' fleet of generation facilities and its long term supply contracts are
15 insufficient to supply its full retail load, the company will be forced to purchase power
16 from other sources. Retail Open Access also allows customers to purchase power from
17 sources other then Consumers but eliminates the middle man, Consumers. Since
18 Consumers needs to purchase power from external resources and as indicated in the
19 Commission Staff's Capacity Needs Report, needs additional generation capacity, to
20 meet its full service loads, its current fleet of generation resources is being utilized. Due
21 to the decision of the Commission's Order in Case U-14347, as of January 1, 2006, the
22 revenues from its full service customers should be sufficient to recover the authorized
23 costs associated with Consumers' generation fleet.

1 Q. Why should the level of wholesale sales and associated price be an indication that
2 stranded costs do not exist?

3 A. If the market is pricing power such that it is above Consumers variable costs to produce
4 or procure the power, then Consumers' is in a position to sell power above costs. This is
5 clearly the situation in 2004 as shown in Consumers' Exhibit A-7 (JMK-3). The run up
6 in wholesale power costs is being driven by the type of generation resources available to
7 provide interchange power. Today, the majority of power available for purchase is being
8 provided by generation projects fueled by natural gas. As we started to see in 2004 and
9 escalated in 2005, the cost of purchased power has risen dramatically due to the rise in
10 natural gas costs. The average price of power delivered to the Michigan Hub in the
11 fourth quarter of 2005 was \$68.54/MWh. Consumers own interchange power costs for
12 2006 (excluding long term Power Purchase Agreements from captive projects) averaged
13 \$29.63/MWh. Thus, wholesale prices have more then doubled since 2004. With
14 Consumers' variable costs of power running about \$15.99/MWh in 2004, Consumers
15 could earn \$13.64/MWh for each MWh of power sold in the wholesale market. Thus, the
16 Company's generation assets have a significant value in the wholesale market and are not
17 stranded.

18 Q. Is there evidence that Consumers full service customers could benefit from ROA sales?

19 A. Yes. Looking at Consumers 2006 PSCR cost filings in case U-14701, shows purchase
20 power prices to be higher then Consumers' embedded costs. Consumers' witness RJ
21 Polena shows 2006 purchase power costs of \$956.2 million for 12,872.7 GWh (Exhibit
22 A-11 (RJP-1), pages 1 line 36 and page 2, line53 of Case U-14701). This power averages
23 \$74.28/MWh, which is much higher then Consumers' embedded cost of power. Also
24 see Detroit Edison filing in Case U-14702 Application, Attachment A.

1 **SECURITIZATION & NUCLEAR DECOMMISSIONING PAYMENTS**

2 Q. How should the Commission compensate ROA customers for the continued payment of
3 securitization and nuclear decommissioning payments?

4 A. The Commission needs to recognize that ROA customers are subsidizing full service
5 customers by paying the securitization and nuclear decommissioning costs associated
6 with the Palisades Plant. Since the Commission appears to reject the concept of a credit
7 mechanism to eliminate this charge, Energy Michigan feels it is the Commissions
8 obligation to provide ROA customers service in return for the payment of these costs.
9 Energy Michigan proposes that Consumers be required to provide ROA customers with
10 electric power at a cost equivalent to the cost currently being paid by retail customers.
11 We are asking that the Commission order Consumers to provide ROA customers with an
12 amount of power based upon the amount of securitization bond and tax and nuclear
13 decommissioning charges paid by an ROA customer. The amount of power that would
14 be delivered to the ROA customer or, at the customer's option, to the ROA customer's
15 AES, would be the total securitization and nuclear decommissioning charges paid by the
16 customer divided by the total Palisades cost per kWh. Thus if a ROA customer paid
17 \$1,000 of securitization and nuclear decommissioning costs and the cost of Palisades
18 power was 4 ¢ /kWh, the ROA customer or its AES would be entitled to receive 25,000
19 kWh of Palisades power.

20 Q. Does this conclude your testimony?

21 A. Yes.

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

EXHIBITS OF

RICHARD A. POLICH

ON BEHALF OF

ENERGY MICHIGAN

March 6, 2006

ENERGY MICHIGAN
Consumers Energy Company's 2004 Stranded Cost Case
STRANDED COST CALCULATIONS

Case No: U-14526
Exhibit No. EM-1 (RAP-1)
Page No: 1 of 1
Witness: R.A. Polich
Date: 6-Mar-06

<u>Line No.</u>	<u>Description</u>	<u>CONSUMERS' METHOD</u>	<u>CONSUMERS' METHOD USING 2004 PSCR JURISDICTIONAL COSTS</u>	<u>CONSUMERS' METHOD USING 2004 PSCR REVENUES</u>	<u>ENERGY MICHIGAN'S METHOD WITHOUT PSCR COSTS</u>	<u>Source</u>
	(a)	(b)	(c)	(d)	(e)	
<u>Direct Costs</u>						
1	Net Production Plant	\$1,602,201	\$1,602,201	\$1,602,201	\$1,602,201	Exhibit A-1 (CFB-1)
2	Pre-Tax Rate of Return	10.63%	10.63%	10.63%	10.63%	Exhibit A-1 (CFB-1)
3	Return Required	\$170,314	\$170,314	\$170,314	\$170,314	Exhibit A-1 (CFB-1)
4	AFUDC Offset @10.63%	(\$19,404)	(\$19,404)	(\$19,404)	(\$19,404)	Exhibit A-1 (CFB-1)
5	Depreciation	\$66,327	\$66,327	\$66,327	\$66,327	Exhibit A-1 (CFB-1)
6	Property Taxes	\$43,263	\$43,263	\$43,263	\$43,263	Exhibit A-1 (CFB-1)
7	Insurance	\$3,516	\$3,516	\$3,516	\$3,516	Exhibit A-1 (CFB-1)
8	PPA Capacity Charges	\$498,361	\$498,361	\$498,361	\$498,361	Exhibit A-1 (CFB-1)
9	Revenue Required of Fixed Gen.	\$762,377	\$762,377	\$762,377	\$762,377	Sum of lines 3-8
10	Net Cost of Summer Capacity (Options)	\$14,108	\$14,108	\$14,108	\$14,108	Consumers Workpaper CFB WP-2
11	Total Generation Related Reg Assets	\$776,485	\$776,485	\$776,485	\$776,485	Sum of lines 9-10
12	Remove Clean Air Act Rev Req	(\$37,420)	(\$37,420)	(\$37,420)	(\$37,420)	Exhibit A-3 (CFB-3)
13	Remove 10d(4) Revenue Recovery	(\$11,791)	(\$11,791)	(\$11,791)	(\$11,791)	Consumers Workpaper CFB WP-2c
14	Total Revenue Requirement	\$727,274	\$727,274	\$727,274	\$727,274	Sum of lines 12-13
<u>Fixed Generation Related Revenue</u>						
15	Total Revenue from Sales to Ultimate Customers	\$2,325,190	\$2,325,190	\$2,325,190	\$2,325,190	Consumers Workpaper CFB WP-2
16	Remove 2004 PSCR Revenues	\$0	\$0	\$0	(\$938,185)	Exhibit A-2(CFB-2)
17	Adjusted revenue from Sales to ultimate customer	\$2,325,190	\$2,325,190	\$2,325,190	\$1,387,005	Sum of lines 15-16
18	Generation Related Rev Req as a % of Revenues from Ult Customers	30.2405%	31.4970%	31.8238%	56.8677%	EM-2 (RAP-2)
19	Contribution to Fixed Costs of Direct Generation	\$703,148	\$732,364	\$739,963	\$788,758	Line 17 mult by Line 18
20	ADD: Contribution to Fixed Cost from Third Party Sales	\$24,126	\$29,688	\$29,688	\$24,126	Exhibit A-7 (JMK-3), line 11
21	Total Contribution to Fixed Generation Costs	\$727,274	\$762,052	\$769,651	\$812,884	Sum of lines 18-20
22	Total Stranded Costs/(Benefits)	(\$0)	(\$34,778)	(\$42,377)	(\$85,610)	Line 21 minus Line 14
23	Difference from Exhibit A-1 (CFB-1)		(\$34,778)	(\$42,377)	(\$85,610)	
24	Portion of Stranded Cost related to PSCR Costs				\$48,795	

ENERGY MICHIGAN

Consumers Energy Company's 2004 Stranded Cost Case

CALCULATION OF FIXED GENERATION % OF TOTAL SALES

Case No: U-14526
Exhibit No. EM-2 (RAP-2)
Page No: 1 of 1
Witness: R.A. Polich
Date: 6-Mar-06

<u>Line No.</u>	<u>Description</u>	<u>CONSUMERS' METHOD</u>	<u>CONSUMERS' JURISDICTIONAL COSTS</u>	<u>CONSUMERS' METHOD USING 2004 PSCR REVENUES</u>	<u>CONSUMERS' METHOD USING 2004 PSCR COSTS</u>	<u>ENERGY MICHIGAN'S METHOD WITHOUT PSCR COSTS</u>	<u>Source</u>
	(a)	(b)	(c)	(c)	(c)	(d)	
1	Net Plant	\$1,366,572,000					Exhibit A-2 (CFB-2)
2	Return	<u>10.63%</u>					Exhibit A-2 (CFB-2)
3	Return Requirement	\$145,266,604					Exhibit A-2 (CFB-2)
4	P&I Capacity	\$501,006,796					Exhibit A-2 (CFB-2)
5	Depreciation Expense	\$73,719,000					Exhibit A-2 (CFB-2)
6	R&PP Tax	\$44,467,000					Exhibit A-2 (CFB-2)
7	Property Insurance	<u>\$1,905,257</u>					Exhibit A-2 (CFB-2)
8	Total Revenue Requirement	\$766,364,657					Sum of lines 3-7
9	Remove Palisades Return Of and On	(\$88,405,903)					Exhibit A-2 (CFB-2)
10	Total Revenue Requirement	\$677,958,754	\$677,958,754	\$677,958,754	\$677,958,754	\$677,958,754	Sum of lines 8-9
11	Total Revenue	\$2,325,666,000	\$2,325,666,000	\$2,325,666,000	\$2,325,666,000	\$2,325,666,000	Exhibit A-2 (CFB-2)
12	Remove Palisades Return Of and On	(\$88,405,903)	(\$88,405,903)	(\$88,405,903)	(\$88,405,903)	(\$88,405,903)	Exhibit A-2 (CFB-2)
13	Remove Nuclear Decommissioning Revenue	(\$49,955,000)	(\$49,955,000)	(\$49,955,000)	(\$49,955,000)	(\$49,955,000)	Exhibit A-2 (CFB-2)
14	Less: 96 Fuel	(\$267,873,000)	(\$267,873,000)	(\$267,873,000)	(\$267,873,000)	(\$267,873,000)	Exhibit A-2 (CFB-2)
15	Less: 96 P&I	(\$727,264,000)	(\$727,264,000)	(\$727,264,000)	(\$727,264,000)	(\$727,264,000)	Exhibit A-2 (CFB-2)
16	Sub Total	\$1,192,168,097	\$1,192,168,097	\$1,192,168,097	\$1,192,168,097	\$1,192,168,097	Sum of lines 11-15
17	Plus: 2004 Fuel	\$309,258,160					Exhibit A-2 (CFB-2)
18	Plus: 2004 P&I (col b)/2004 PSCR Revenues (col c)	<u>\$740,466,689</u>	<u>\$960,289,276</u>	<u>\$938,185,372</u>			Exhibit A-2 (CFB-2)
19	1996 Revenue Adjusted for 2004 PSCR Costs/Revenues	\$2,241,892,946	\$2,152,457,373	\$2,130,353,469	\$1,192,168,097	\$1,192,168,097	Sum of lines 17-18
20	Fixed Generation as a % of Total Sales	30.2405%	31.4970%	31.8238%	56.8677%	Line 10 divided by Line 19	

ENERGY MICHIGAN

Consumers Energy Company's 2004 Stranded Cost Case

Case No: U-14526
Exhibit No. EM-3 (RAP-3)
Page No: 1 of 1
Witness: R.A. Polich
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PLATTS POWER SALES ANALYSIS

Third Quarter 2005

CONSUMERS ENERGY CO

Line	DELIVERY POINT	VOLUME		POWER COST
		MWh	VALUE	\$/MWh
1	MECS	10,005,448	\$681,862,477	\$68.15
2	Michigan Hub	27,600	\$2,738,599	\$99.22
3	PJMC	6,731	\$674,900	\$100.27
4	First	5,288	\$504,446	\$95.39
5	PJM	217	\$21,700	\$100.00
6	N IPSCO	135	\$13,500	\$100.00
7	CORAL POWER LLC SP-15	18,759,857	\$1,348,067,784	\$71.86
8	ERCOT	12,787,033	\$799,503,167	\$62.52
9	ERCOT NORTH	8,289,070	\$547,207,235	\$66.02
10	Np.15	6,576,327	\$429,461,623	\$65.30
11	MID COLUMB1A	6,149,975	\$379,387,453	\$61.69
12	ERCOT HOUSTON	4,416,333	\$281,307,509	\$63.70
13	PALO VERDE	3,203,664	\$194,092,076	\$60.58
14	ENTERGY	2,776,367	\$202,068,080	\$72.78
15	ERCOT South	2,567,090	\$151,126,772	\$58.87
16	ERCOT Northeast	2,281,323	\$149,443,396	\$65.51
17	CINERGY	1,376,449	\$78,819,347	\$57.26
18	ERCOT WEST	1,329,863	\$85,107,866	\$64.00
19	SOUTHERN	1,076,677	\$71,110,908	\$66.05
20	CALISCO	1,000,732	\$68,002,999	\$67.95
21	PJM WEST HUB	888,291	\$53,642,193	\$60.39
22	PJM	810,341	\$78,732,145	\$97.16
23	PJM BGE ZONE	571,734	\$36,545,675	\$63.92
24	MEAD	527,748	\$32,633,729	\$61.84
25	PJM PEPSCO ZONE	184,076	\$11,968,212	\$65.02
26	MECS	162,102	\$8,373,866	\$51.66
27	COB	146,869	\$8,408,593	\$57.25
28	NEPOOL	121,912	\$12,405,760	\$101.76
29	PJM EAST HUB	110,400	\$9,995,633	\$90.54
30	NEPOOL MASS HUB	102,400	\$7,111,680	\$69.45
31	Michigan Hub	96,592	\$6,308,228	\$65.31
32	FOUR CORNERS	47,293	\$2,749,748	\$58.14
33	NY ISO	46,994	\$4,322,909	\$91.99
34	SWPP	29,731	\$3,488,845	\$117.35
35	NOB	18,859	\$1,260,446	\$66.84
36	WESTWING	14,520	\$1,004,432	\$69.18
37	NY ISO OH	14,254	\$998,986	\$70.08
38	PJMC	8,274	\$564,523	\$68.23
39	MISO	7,179	\$577,978	\$80.51
40	ZP-26	2,674	\$178,712	\$66.83
41	ONTARIO	1,558	\$120,362	\$77.25
42	NYISO ZONE J	2	\$209	\$104.50
43	TOTALS	86,549,982	\$5,751,914,701	\$66.46

ENERGY MICHIGAN

**Consumers Energy Company's 2004 Stranded Cost Case
EXAMPLE IMPACT OF PSCR REVENUES DOUBLE RECOVERY**

Case No: U-14526
Exhibit No. EM-4 (RAP-4)
Page No: 1 of 1
Witness: R.A. Polich
Date: 6-Mar-06

Line ASSUMPTIONS USED IN EXAMPLE

No.

Costs from Last General Rate Case:

1	Total Revenue Requirement	\$2,000,000,000
2	Generation Related Revenue Requirement	\$500,000,000
3	PSCR Related Costs	\$1,000,000,000

Changes in Cost for Stranded Cost Case:

	<u>Percent Change</u>	<u>Total Cost</u>
4	Total Revenue Requirement	6% \$2,120,000,000
5	Generation Related Revenue Requirement	2% \$510,000,000
6	PSCR Related Costs	10% \$1,100,000,000

STRANDED COST CALCULATION

STEP 1- Calculation of Fixed Generation Costs Percent of Total Sales (Similar to Exhibit A-2, (CFB-2))

<u>Line No.</u>	<u>Description</u>	<u>LAST RATE CASE</u>	<u>FUTURE STRANDED COST CASE "CONSUMER S' METHOD"</u>	<u>FUTURE WITHOUT PSCR REVENUES "ENERGY MICHIGAN'S METHOD"</u>	<u>NOTES:</u>
(a)	(b)	(c)	(d)		
7	Total Revenue Requirement	\$2,000,000,000	\$2,000,000,000	\$2,000,000,000	Equivalent to In 16, Exhibit A-2 (CFB-2)
8	Less Last Case PSCR Revenues	<u>(\$1,000,000,000)</u>	<u>(\$1,000,000,000)</u>	<u>(\$1,000,000,000)</u>	Equivalent to Ins 17 & 18, Exhibit A-2 (CFB-2)
9	Sub Total	\$1,000,000,000	\$1,000,000,000	\$1,000,000,000	Equivalent to In 19, Exhibit A-2 (CFB-2)
10	Plus Current PSCR Revenues	<u>\$1,000,000,000</u>	<u>\$1,100,000,000</u>	<u>\$0</u>	Equivalent to Ins 20 & 21, Exhibit A-2 (CFB-2)
11	Last Rate Case Revenue Adjusted for Current PSCR	\$2,000,000,000	\$2,100,000,000	\$1,000,000,000	Equivalent to In 22, Exhibit A-2 (CFB-2)
12	Generation Related Revenue Requirement	\$500,000,000	\$500,000,000	\$500,000,000	Equivalent to In 13, Exhibit A-2 (CFB-2)
13	Generation Related Rev. Req. as a % Revenues from Ult. Customers	25.0000%	23.8095%		Equivalent to In 15, Exhibit A-2 (CFB-2)
14	Fixed Generation Costs Percent of Non-PSCR Revenues	50.0000%	50.0000%	50.0000%	Line 12 / Line 11

STEP 2 - Calculation of Stranded Costs (Similar to Exhibit A-1 (CFB-1))

15	Total Revenue from Sales to Ultimate Customers	\$2,120,000,000	\$2,120,000,000	\$2,120,000,000	Equivalent to In 15, Exhibit A-1 (CFB-1)
16	Remove Current PSCR Revenues	<u>\$0</u>	<u>\$0</u>	<u>(\$1,100,000,000)</u>	Current PSCR Revenues
17	Adjusted Revenue from Sales to ultimate customer	\$2,120,000,000	\$2,120,000,000	\$1,020,000,000	Equivalent to In 15, Exhibit A-1 (CFB-1)
18	Generation Related Rev. Req. as a % Revenues from Ult. Customers	<u>25.0000%</u>	<u>23.8095%</u>	<u>50.0000%</u>	From lines 13 & 14
19	Fixed Generation Related Revenues	\$530,000,000	\$504,761,905	\$510,000,000	Equivalent to In 19, Exhibit A-1 (CFB-1)
20	Total Contribution to Fixed Generation Costs	\$510,000,000	\$510,000,000	\$510,000,000	Equivalent to In 14, Exhibit A-1 (CFB-1)
21	Total Stranded Costs/(Benefits)	<u>(\$20,000,000)</u>	\$5,238,095	\$0	Equivalent to In 20, Exhibit A-1 (CFB-1)
22	Portion of Stranded Cost related to PSCR Costs			\$5,238,095	

Consumers Energy Company
 Power Supply Cost Recover Reconciliation
 Summary

Sales in kWh	January	February	March	April	May	June	July	August	September	October	November	December	Total
1. Billed PSQR Sales	2,765,489,601	2,630,793,739	2,436,792,986	2,350,908,119	2,282,250,453	2,439,635,896	2,583,772,414	2,586,074,111	2,611,647,592	2,412,777,734	2,365,102,276	2,653,521,143	30,118,486,064
2. Current Month Unbilled PSQR Sales	1,584,551,445	1,468,396,204	1,516,192,706	1,364,712,167	1,450,276,190	1,396,291,423	1,492,436,024	1,622,802,352	1,525,886,947	1,464,225,340	1,413,791,698	1,396,951,932	17,696,514,428
3. Prior Month Unbilled PSQR Sales	(1,618,342,771)	(1,584,551,445)	(1,468,396,204)	(1,516,192,706)	(1,364,712,167)	(1,450,276,190)	(1,396,291,423)	(1,492,436,024)	(1,525,886,947)	(1,464,225,340)	(1,413,791,698)	(1,396,951,932)	(17,917,905,267)
4. Total Calendar PSQR Sales (Line 1 + Line 2 - Line 3)	2,751,698,275	2,514,638,498	2,484,589,488	2,199,427,580	2,367,814,476	2,385,655,129	2,679,917,015	2,716,440,439	2,514,732,187	2,350,816,127	2,314,668,634	2,656,681,377	29,897,075,225
5. Total System Sales	3,024,723,697	2,737,812,155	2,800,444,824	2,526,091,967	2,651,138,783	2,678,596,040	3,009,481,342	2,997,741,084	2,859,093,079	2,669,104,829	2,536,612,631	2,909,302,803	33,500,143,234
6. Less Incremental Sales	12,495,000	12,616,000	10,447,000	10,917,000	10,297,500	12,637,000	13,658,000	13,961,000	15,870,000	13,699,000	14,016,000	5,431,000	146,504,500
7. Total System Less Incremental	3,012,228,697	2,725,196,155	2,789,997,824	2,515,114,967	2,640,841,283	2,665,959,040	2,995,823,342	2,983,780,084	2,843,223,079	2,655,505,829	2,622,596,631	2,903,871,803	33,353,638,734
8. System Less Incremental Sales	91.35%	92.27%	89.05%	87.45%	88.90%	89.49%	89.46%	91.04%	88.45%	88.54%	88.26%	89.80%	

Revenue in \$

9. Billed PSQR (Line 1 * Line 9 - Line 10)	87,051,386	82,391,038	76,458,138	73,815,194	71,111,013	76,611,820	79,882,575	80,607,461	81,896,637	75,777,501	74,220,106	83,088,950	942,881,938
10. Current Month Unbilled PSQR (Line 2 * Line 9 - Line 11)	49,508,957	45,972,180	47,558,411	42,830,418	45,585,189	43,215,115	46,500,669	50,854,354	47,829,415	45,972,282	44,347,542	46,004,541	556,159,074
11. Prior Month Unbilled PSQR (Line 3 * Line 9 - Line 12)	(50,701,007)	(49,508,957)	(45,972,180)	(47,558,411)	(42,830,419)	(45,585,169)	(43,215,115)	(46,500,689)	(50,854,354)	(47,829,415)	(45,972,282)	(44,347,542)	(560,855,540)
12. Total PSQR Revenue	85,859,335	78,854,261	78,044,369	69,087,200	73,845,765	74,261,766	83,168,148	84,961,146	78,871,698	73,920,368	72,595,365	84,715,949	938,185,372

Power Supply Cost in \$

13. Fuel for Generation	26,141,846	22,560,793	26,410,341	23,186,172	24,602,840	26,126,201	29,288,703	27,756,794	28,624,380	26,672,633	26,023,933	27,916,625	315,491,261
14. Purchased and Interchange Power	66,210,605	67,504,117	56,863,841	51,878,911	53,951,443	65,820,473	78,505,295	79,580,431	74,710,110	74,571,584	63,430,292	63,874,885	796,901,887
15. Less Transmission Revenue in Tariff Rates (Line 5 - 0.000007)	6,178,603	5,592,529	5,720,469	5,160,048	5,415,481	5,471,568	6,147,468	6,123,486	5,840,269	5,542,180	5,385,809	5,942,833	68,430,743
16. Nox Costs	-	-	-	-	389,885	1,524,949	2,075,763	1,598,347	1,783,650	(125,860)	(175,234)	(59,640)	7,011,960
17. Stranded Cost Adder	-	-	-	4,316,000	10,029,000	4,028,000	3,112,000	1,911,000	730,000	-	-	-	24,126,000
18. Total Costs (Line 17 - Line 18 - Line 19)	86,173,848	84,472,381	77,553,513	74,221,035	83,557,687	92,028,055	106,814,293	104,723,086	100,007,871	95,866,177	83,893,182	85,789,137	1,075,100,265
19. Less Incremental Sales Costs	282,497	288,021	262,979	246,663	196,343	183,954	329,159	374,444	368,048	423,952	414,012	159,523	3,519,595
20. Total Costs Less Incremental Costs	85,911,351	84,184,360	77,290,534	73,974,372	83,371,344	91,844,101	106,485,134	104,348,642	99,619,823	95,442,225	83,479,170	85,629,614	1,071,580,670
21. Jurisdictional Percentage	91.35%	92.27%	89.05%	87.45%	88.90%	89.49%	89.46%	91.04%	88.45%	88.54%	88.26%	89.80%	
22. Cost Allocated to PSQR (Line 24 - Line 25)	78,460,799	77,679,898	68,829,892	64,689,398	74,120,489	82,187,303	95,262,752	94,999,250	88,110,278	84,500,840	73,677,597	77,750,680	960,289,276
23. Total PSQR Revenue	85,859,335	78,854,261	78,044,369	69,087,200	73,845,765	74,261,766	83,168,148	84,961,146	78,871,698	73,920,368	72,595,365	84,715,949	938,185,372
24. Over/(Under) Recovery (Line 27 - Line 26)	7,378,536	1,174,263	9,214,477	4,397,802	(274,724)	(7,925,537)	(92,160,752)	(93,029,250)	(87,439,278)	(10,860,472)	(1,092,232)	6,965,269	(22,103,904)
25. Cumulative Over/(Under) Recovery	7,378,536	8,552,799	17,767,277	22,165,079	21,890,355	13,964,818	(78,165,934)	(171,215,184)	(288,654,462)	(269,334,934)	(270,317,165)	(263,351,896)	

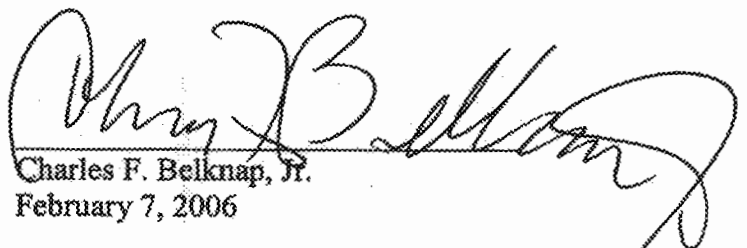
14526-EM-CE-4

QUESTION

4. Please provide the total megawatt hours of ROA service for the calendar year 2004.

RESPONSE

4. The Company recorded 4,151,617 MWh of ROA service in calendar year 2004.


Charles F. Belknap, Jr.
February 7, 2006

Rates and Business Support Department

52600003

14526-EM-CE-5

Question:

5. Please provide the total megawatt hours of jurisdictional third party sales during 2004.

Response:

The total megawatt hours of jurisdictional third party sales during 2004 was 2,243,600 MWh. This amount can be found on line 9 of Exhibit A-7 (JMK-3).


Jeanne M. Kurzynowski
2/6/2006

Transaction Strategies Department

52600004

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 6th day of March 2006 she served a copy of Testimony and Exhibits of 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 6th 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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