



201 N. WASHINGTON SQUARE • SUITE 810
LANSING, MICHIGAN 48933

TELEPHONE 517 / 482-6237 • FAX 517 / 482-6937 • WWW.VARNUMLAW.COM

ERIC J. SCHNEIDEWIND

E-MAIL ejschneidewind@varnumlaw.com

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 a redlined version of pages 16 and 17 of Mr. Polich's Direct Testimony on Behalf of Energy Michigan which has been revised to incorporate the Errata filed on March 10, 2006.

Thank you for your assistance in this matter.

Very truly yours,

VARNUM, RIDDERING, SCHMIDT & HOWLETTLLP

Eric J. Schneidewind

EJS/mrr

cc: ALJ
parties

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
20 ~~56.87~~41.36% of non-PSCR Revenues. Exhibit EM-1 (RAP-1), which is based on
21 Consumers Exhibit A-1 (CFB-1), provides the stranded cost calculation with the impacts
22 of PSCR removed. The adjustments to Consumers Exhibit A-1 (CFB-1) are the change
23 in the Fixed Generation as a % of Total Sales on line 19 and the removal of the 2004
24 PSCR revenues 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
9 ~~\$85.6~~106.75 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~~106.75
15 million, adding accrued interest of 7% over 18 months amounts to ~~\$95,058,931~~ \$118.53
16 million. This would completely wipe out the 2002 and 2003 stranded cost amount a still
17 leave \$~~31,844,567~~ \$55.32 million of stranded benefits. The Commission should use the
18 remaining amount of stranded benefits to offset the securitization surcharges paid by
19 ROA customers.

20 **CURRENT STRANDED COST ENVIRONMENT**

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

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