VARNUM
RIDDERING SCHMIDT HOWLETT LLP
ATTORNEYS AT LAW

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

July 9, 2009

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

Re: Case No. U-15768

Dear Ms. Kunkle:

Attached for paperless electronic filing is Direct Testimony of Alexander J. Zakem on Behalf of Energy Michigan, Inc.. Also attached is the original Proof of Service indicating service on counsel.

Thank you for your assistance in this matter.

Very truly yours,

VARNUM
Eric J. Schneidewind
Digitally signed by Eric J. Schneidewind
DN: c=US, o=Varnum Riddering Schmidt Howlett, cn=Eric J. Schneidewind
Date: 2009.07.09 16:19:47 -04'00'

Eric J. Schneidewind

EJS/mrr

cc: ALJ
parties

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

****

In the matter of the application of THE DETROIT EDISON COMPANY for authority to increase its rates, amend its rate schedules and rules governing the distribution and supply of energy.	))))))	Case No. U-15768

DIRECT TESTIMONY

OF

ALEXANDER J.ZAKEM

ON BEHALF OF

ENERGY MICHIGAN

Q. Please state your name and business address.

A. My name is Alexander J. Zakem and my business address is 46180 Concord, Plymouth, Michigan 48170

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of Energy Michigan.

Q. Please state your professional experience.

A. Since January of 2004 I have been an independent consultant providing services to Integrys Energy Services, Inc., Quest Energy (a wholly-owned affiliate of Integrys Energy Services), and other clients. Integrys Energy Services is a member of Energy Michigan.

From March 2002 to December 2003, I was Vice President of Operations for Quest. My responsibilities included the overall direction and management of Quest's power supply to its retail customers. This included power supply planning, development of customized products, negotiation with suppliers, planning and acquiring transmission rights, and scheduling and delivery of power. It also included managing risk with respect to market price movements and variation of customer loads.

Prior to retiring from Detroit Edison in 2001, from 1998 I was the Director of Power Sourcing and Reliability, responsible for purchases and sales of power for mid-term and long-term periods, planning for generation capacity and purchase power needs,

strategy for and acquisition of transmission rights, and related support for regulatory proceedings.

Additional experience, qualifications, and publications are contained in Exhibit AJZ-1 (EM-1).

Q. Have you testified as an expert witness in prior proceedings?

A. Yes. I have testified as an expert witness in several proceedings before the Michigan Public Service Commission ("Commission"), on topics such as standby rates, retail rates and regulations, and the effects of rate restructuring. I have also testified before the Federal Energy Regulatory Commission. Case citations are in Exhibit AJZ-1 (EM-1).

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to recommend three particular factors that should be included in the design of a "revenue decoupling mechanism" (RDM) if the Commission orders such a mechanism in this proceeding.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring the following exhibits:

Exhibit AJZ-1 (EM-1)	Qualifications.
Exhibit AJZ-2 (EM-2)	Examples of adjusting rates with a sales decrease.
Exhibit AJZ-3 (EM-3)	Examples of adjusting rates with a sales increase.

Exhibit AJZ-4 (EM-4) Discovery responses EMDE-1.07/21 and EMDE 1.08/22 from Detroit Edison.

Q. Do you favor or oppose an RDM?

A. I view an RDM as part of policy issues that should be decided by the Commission. I am neither favoring nor opposing an RDM. A utility must be able to collect the reasonable and prudent costs for used and useful investment in facilities, from customers who use those facilities, via rates for service. When costs change or customer use changes, then naturally rates have to change as well.

An RDM affects the *timing* of such rate changes and the *evidence* that must be presented to effect such changes. These are the policy issues that will be before the Commission, to be decided in light of other aspects of the revenue recovery process, such as (1) the timing of rate changes or recovery of costs required or allowed under the recent Public Act 286 of 2008, (2) the speed and complexity of the utility's ability to otherwise change rates via a general case, (3) other true-up mechanisms such as Power Supply Cost Recovery, Choice Incentive Mechanism, Pension Equalization Mechanism, restoration expense reconciliation, and the proposed Uncollectible Expense True-Up Mechanism, and (4) the effect on the risk premium in the utility's rate of return in light of such various rate adjustment mechanisms. An RDM merely mechanizes part of the rate-setting process.

My testimony in this proceeding is focused on the question of *if* there is to be an RDM, then what are the important design factors to make sure that the resulting changes in rates are equitable. Just as any other rate-setting process, an RDM should result in fair and non-discriminatory charges for customers.

Q. What are the factors that the Commission should include in the design of an RDM if it orders such a mechanism in this proceeding?

A. Detroit Edison has proposed an RDM through the testimony and exhibits of Mr. Don M. Stanczak. With that proposal in mind, there are three factors that the Commission should consider in an RDM:

1. *There should be separate adjustments for recovery of revenue related to power supply and related to distribution.* The utility's bundled customers would be subject to both adjustments, and the utility's retail choice distribution customers would be subject only to the distribution adjustment.

2. *The adjustments should be calculated on a total company basis, not on a rate class basis.* Otherwise, the rates to customers revised via the RDM method will diverge from rates revised in a general rate case. This occurs because "fixed costs" are fixed for the company in total, but are not "fixed" for rate classes because costs are allocated to customer classes based on energy use characteristics – and the RDM is supposed to adjust

for changes in energy use. I will explain this in more detail later in my testimony.

3. *The sales increase or decrease upon which an RDM rate adjustment is based should be limited by the actual increase or decrease in sales that the utility has experienced.* Although this factor may appear to be too obvious to even mention, it is important to keep in mind that in an Energy Optimization (EO) program, the effectiveness of the EO program may be judged by computer modeling of energy use or other "but for" estimations of what would have occurred without the EO program, rather than by the difference between rate case forecast sales and actual metered sales. Consequently, it is quite possible that the modeled or estimated effect of the EO program – when used to adjust the design sales level from the previous rate case – results in a sales level different from what the utility actually has metered. In this situation, actual metered sales over a defined time period should be the boundary for sales changes that would be used to revise rates in an RDM.

Q. Regarding the first factor to be considered in an RDM, why should there be separate RDM surcharges or credits for recovery of power supply and distribution costs?

A. The purpose of an RDM is to recover the fixed costs of the utility regardless of the level of actual sales. Detroit Edison has fixed costs related to the supply of power to

its customers – primarily from its generation plants. It also has fixed costs related to the delivery of energy over its distribution facilities to customers. Detroit Edison has a Retail Open Access (ROA) program whereby some customers take – and pay for – distribution service only, while traditional utility customers take – and pay for – both distribution service and power supply service.

Thus, (a) the total amount of energy sales for distribution service is different from the total amount of energy sales for power supply service; and (b) if total sales change, the amount of short or excess revenues to cover fixed distribution costs and fixed power supply costs will be different.

Therefore, it follows obviously that if there is an RDM to true up recovery of fixed costs, then those customers that take distribution should be trued up to only distribution costs based on distribution sales, and those customers that take power supply service should be trued up to power supply costs based on power supply sales.

Since an RDM is used to charge or credit customers the difference between the utility's authorized fixed charges at a specified sales level and the amount of fixed charges collected at a different sales level, the charge or credit needed to fully recover distribution costs will be different from the charge or credit needed to fully recover power supply costs. Therefore, separate charges/credits are required for distribution and for power supply.

Q. What is your recommendation regarding the separation of distribution costs and power supply costs in an RDM?

A. First, in the determination of the authorized amount of revenue that should be collected, distribution costs should be separated from power supply costs. Second, the RDM surcharge or credit for distribution should be calculated using sales to distribution customers, and the RDM surcharge or credit for power supply should be calculated using sales to power supply customers. Third, the same distribution surcharge or credit should apply to all distribution customers, both ROA and utility bundled customers. Fourth, the power supply surcharge or credit should apply only to utility bundled customers.

Q. Does Detroit Edison's proposed RDM address the need for a separate surcharge/credit calculation for distribution and power supply components?

A. As proposed, no. The example that Detroit Edison illustrates in Exhibit A-19, Schedule K1, does not separate "net revenue requirement" into distribution and power supply components. However, from responses to Energy Michigan discovery questions (EMDE-1.07/21 and 1.08/22), it does appear that Detroit Edison is aware of the need for such a separation. In that response, Detroit Edison states that "Electric Choice customers would only be surcharged or credited amounts based on distribution."

I am submitting two discovery questions and answers, EMDE-1.07/21 and EMDE-1.08/22, as my Exhibit AJZ-4 (EM-4).

Q. Regarding the second factor to be considered in an RDM, you have recommended that the adjustments in an RDM should be calculated on a total company basis, not on a rate class basis. Would you explain?

A. Yes. The fundamental, underlying reason is that the "fixed" costs that an RDM is intended to recover (or refund) are *not in fact "fixed" for individual rate classes*. Rather, such costs are fixed for the company in total, and then are *allocated* to rate classes by the *relative, proportional* energy use characteristics of each class, such as proportion of total sales or proportion of total peak demand. The great majority of the fixed costs represent facilities, such as generation plants and distribution lines and equipment, that are used jointly by all rate classes at different times, and so are joint economic costs that must be allocated by some reasonable, but not unique, method. The methods of allocation have been established by Michigan law and Commission past orders, and are based primarily on energy use characteristics.

Therefore, if the energy use characteristics of a rate class change, then the *proportion* of total costs for which the rate class will be *deemed responsible* will also change. To assume that the class will be responsible for the same dollar share of total company fixed costs regardless of the amount of class sales is contrary to the concept of allocation of fixed costs, which is fairly straightforward arithmetic.

Q. Are the rate adjustments in the RDM proposed by Detroit Edison based on customer rate classes or on total company?

A. The rate adjustments in the RDM proposed by Detroit Edison are based on customer rate classes, as explained in the testimony of Mr. Stanczak (on page 13, lines 17-19) and in Exhibit A-19, Schedule K1.

Q. Would you provide an example of the difference in effect on rates if an RDM bases adjustments on rate classes versus total company sales?

A. Yes. I have prepared two exhibits to illustrate the different effects. Exhibit AJZ-2 (EM-2) shows the effects if there is a decrease in sales compared to the original rate case forecast sales. Exhibit AJZ- 3 (EM-3) shows the effects if there is an increase in sales. For simplicity, the examples show two rate classes, Class A and Class B, that begin with the same forecast sales.

On page 1 of Exhibit AJZ- 2 (EM-2), Lines 6 through 10 show the method that Detroit Edison has proposed (in Exhibit A-19, Schedule K1), which begins with a total revenue requirement for each class and determines a "net average approved price" to be used for RDM true up.

Q. Does beginning with the total revenue requirement reveal the problem?

No. What must be understood first are the elements that lead up to the total revenue requirement. These are shown on Lines 1-5 of page 1 Exhibit AJZ- 2 (EM-2). Total company fixed costs (line3) are in fact *allocated* to rate classes via the relative, proportional energy use characteristics of each class. For simplicity, the exhibit uses forecast sales on line 1 as the allocation parameter.

Thus, the "total approved revenue requirement" on line 5 depends on the relative, proportional energy use characteristics of each class – in this example, sales. Because the sales for each class are the same, each class initially is allocated the same proportion of fixed charges, as is shown on Line 3.

Q. What would happen to class rates in your example under the RDM method proposed by Detroit Edison if there is a decrease in sales?

A. Lines 11-18 of page 1 of Exhibit AJZ- 2 (EM-2) show the effect on class rates if the RDM adjustment is based on rate classes, as proposed by Detroit Edison.

Suppose actual sales for Class A decrease by 20%, as is shown on Line 12. The Detroit Edison method results in a 2.5 cent – 25% – increase in rates for Class A, as is shown on Line 17. However, Class B receives no rate increase, while total company rates increase by 1.1 cents.

Q. Does the RDM method proposed by Detroit Edison reasonably reflect what rate changes would occur in a rate case if Class A sales decreased by 20%?

A. No. The rate case result would be significantly different. In a rate case, the proportion of total costs allocated to Class A would also decrease if Class A sales were 20% lower. I have illustrated this on Page 2 of Exhibit AJZ- 2 (EM-2).

The effect on rates in a rate case is shown on Page 2 of Exhibit AJZ- 2 (EM-2), Lines 11-21. Note that the total company fixed costs on Line 12 remain the same ($200). However, the allocation of the total dollars to rate classes A and B changes, as is shown on Line 13. Class A now has a lower proportion of sales than Class B, and so is allocated a lower share ($89) of the total fixed costs. Class B now has a higher proportion of sales than Class A, and so is allocated a higher share ($111) of total fixed costs.

As a result, the "net average approved price" for Class A shown as 11.1 cents on Line 20, while higher than the 10.0 cents in the previous rate case, is *lower than the RDM* result of 12.5 cents. Conversely, the "net average approved price" for Class B shown as 11.1 cents on Line 20, while higher than the 10.0 cents in the previous rate case, is *higher than the RDM* result of 10.0 cents.

Therefore, the RDM method proposed by Detroit Edison does not reasonably reflect what rate changes would occur in a rate case if Class A sales decreased.

Q. How would an RDM based on change in total company sales work?

A. Page 3 of Exhibit AJZ- 2 (EM-2), Lines 11-18, shows how an adjustment in rates would be calculated using total company sales, under a scenario of a 20% decrease in sales to Class A.

First, the actual recovered net revenue from each class would be calculated from the class sales and "net average approved price," the same as Detroit Edison has proposed. Then

the sum of class decreases or increases would determine the actual total company recovered amount. This is shown on Line 14 as $180.

Then, the actual total company amount ($180) would be compared to the intended amount for the total company ($200), and the under-recovery (or over-recovery) would be determined *for the total company* (shown as -$20 on Line 16).

Finally, a single surcharge or credit would be calculated by dividing the under-recovery (or over-recovery) dollars by the actual total company sales. The single surcharge/credit would be applied to all rate classes. This is shown on Line 17 as a surcharge of 1.1 cents.

The result of the total company method in an RDM is that the effect on class rates would be much closer to, if not exactly the same as, what would occur in a rate case.

Q. Would you summarize the results of the comparison of the effects of RDM by rate class versus by total company?

A. Yes. Exhibit AJZ-2 (EM-2), Page 4, shows the effects on rates of: the RDM method by rate class as proposed by Detroit Edison (Line 3), the result of a rate change in a rate case (Line 5), and the RDM method based on total company (Line 6).

Q. Would using the total company method in an RDM also work if sales for a rate class were to increase?

A. Yes. I have prepared Exhibit AJZ- 3 (EM-3) to show the comparative effects of Detroit Edison's rate class method, the outcome of a rate case, and the total company method. The illustrations and explanation are the same as Exhibit AJZ- 2 (EM-2), except the change scenario assumes a 20% increase, rather than a 20% decrease.

Q. What method are you recommending?

A. If the Commission orders an RDM in this proceeding, then I recommend that the total company method be used, with an equal surcharge to all affected rate classes. The result will be much closer to what would happen in a general rate case and will reduce the volatility of rate changes for customers – up and down, or down and up – between rate cases, due to the RDM. The total company method will collect or refund the exact same amount of dollars, in total, as the rate class method proposed by Detroit Edison, but it will do so more equitably among the various customer classes.

Q. Regarding the third factor to be considered in an RDM, you have stated that the sales increase or decrease upon which an RDM rate adjustment is based should be limited by the actual increase or decrease in sales that the utility has experienced. Would you explain?

A. The intent of the RDM as proposed by Detroit Edison, as stated by Mr. Stanczak on page 11, lines 2-3, is to "eliminate any disincentive associated with its EO program." "EO" refers to Energy Optimization, a program initiated by PA 295 of 2008 to reduce the use of electricity. If energy sales are reduced as a result of the program, the utility will not collect the amount of revenue to cover fixed costs as authorized in its preceding rate

case, all else being equal. Thus Detroit Edison proposes that the difference between the sales used in the design of rates in the previous rate case and actual sales over a specified calendar year be used in the RDM for true up of revenues.

Q. If Detroit Edison is proposing to use actual sales for true up of revenues, then what is the relevance of considering a "limit" on actual increase or decrease in sales in the RDM?

A. If Detroit Edison's method of using actual sales is approved by the Commission, the concept of a "limit" is irrelevant. Detroit Edison's method of using actual sales will provide the correct adjustment to total revenues in the RDM.

However, it is possible that there might be other proposals in this proceeding that constrain the use of an RDM only to decreases caused by the utility's EO program. The difficulty then becomes to determine what difference in actual sales was "caused" by the EO program, because such a difference cannot be directly metered. Rather, such a difference is a comparison of what would have happened "but for" the EO program, and what did happen with the EO program. Therefore, under an EO-specific RDM, it is likely that computer modeling or other estimating techniques will be used to determine the separate effect of the EO program. For example, in the Consumers Energy rate case U-15645, the Commission Staff recommended an "EO Lost Revenue Tracker," which would estimate and compute annual lost sales using data bases, program participation rates, and imputed energy savings based on annual spending.

It is quite possible – if not extremely likely – that the estimated effect of the EO program will be different from the change in sales between rate case forecast and actual utility metering. In this circumstance, it makes sense to "true up" to no more than the change the utility actually experiences. The intent of "revenue decoupling" is to collect the fixed costs as authorized in the previous rate case given the actual sales level that has subsequently occurred – to collect for any actual under-recovery and to refund any actual over-recovery. The intent is not to collect fixed costs commensurate with an estimated or imputed sales level that would have occurred in the absence of an EO program.

Q. Would you give an example of how the limit would work under an EO-specific RDM?

A. Yes. Suppose the utility's previous rate case designed rates to recover the utility's fixed costs at a sales level of 50,000 units. Suppose for a subsequent year the utility's sales were 48,000 units – a decrease of 2,000 units – but the modeling/estimating of the effect of the EO program indicated that the EO program should have decreased sales by 5,000 units. The utility's *actual under-recovery* of costs is from the *actual* decrease of 2,000 units, *not* from the estimated 5,000 units. And, therefore, the RDM method should limit the sales decrease used to calculate the surcharge to 2,000 units, or equivalently to the actual sales level of 48,000 units. Otherwise, the utility will collect via the RDM *more* revenue than was authorized in the previous rate case.

Q. What is your recommendation?

A. If the Commission implements an RDM in this proceeding that is based upon sales decreases attributed to an EO program, then the sales decrease upon which an RDM rate adjustment is based should be limited by the actual decrease in sales that the utility has experienced**.**

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

ALEXANDER J. ZAKEM

46180 Concord
Plymouth, Michigan 48170
734-751-2166
ajzakem@umich.edu

CONSULTANT – MERCHANT ENERGY AND UTILITY REGULATION

Provide strategies and technical expertise on competitive market issues, transmission issues, state and federal regulatory issues involving the electricity business, and associated legal filings. Scope includes the Midwest ISO Energy Market and Resource Adequacy, FERC proceedings on transmission and market tariffs, state rules for competitive supply, and negotiation of settlements.

PRIOR POSITIONS: Quest Energy, LLC – a subsidiary of Integrys Energy Services

Vice President, Operations **March 2002 to December 2003**

Responsible for the planning, acquisition, scheduling, and delivery of annual power supply and transmission, to serve competitive retail electric customers.

- ***Power Planning*** -- Designed and negotiated customized long-term power contracts, to reduce power costs and exposure to spot energy prices.

- ***Transmission*** -- Revamped transmission strategy to reduce transmission costs.

- ***Load Forecasting*** -- Instituted formal short-term forecasting process, including weather normalization.

- ***Risk Management*** -- Developed summer supply strategy including call options to minimize physical supply risk at least cost. Instituted probabilistic assessment of forecast uncertainty to minimize transmission imbalance costs.

- ***Contract Management*** – Negotiated and recovered liquidated damages for power supply contracts. Included cost of transmission losses into customer contracts.

- ***Operations Capability*** -- Expanded the Operations staff. Oversaw daily activity in spot market purchases. Instituted back-up capability, including equipment and processes, enabling the company to schedule and deliver virtually all power during the August 2003 blackout in the Midwest.

PRIOR POSITONS : DTE Energy / Detroit Edison — 1977 to 2001

Director, Power Sourcing and Reliability **May 1998 to April 2001**

Director of group responsible for monthly, annual, and long-term purchases and sales of power for Detroit Edison, including procuring power for the summer peak season.

- ***Planning*** -- Planned summer power requirements for Detroit Edison, including mix of generation, option contracts, hub purchases, load management, and transmission, which balanced and optimized physical risk and financial risk.

- ***Contract Management*** – Established decision, review, and approval process for evaluation and execution of power transactions, including mark-to-market valuation.

- ***Execution*** -- Executed summer plans, contracting annually for purchased power and transmission services. Directed negotiations for customized structured contracts to provide the company with increased operating flexibility, dispatch price choices, and delivery reliability.

- ***Risk Management*** – Developed an optimizing algorithm using load shapes to minimize corporate exposure to volatile power prices. Developed a hedging strategy to fit power purchases to the corporation's risk tolerance level.

- ***Acquisitions*** -- Team leader for acquisition of new peakers.

- ***Settlements*** -- Negotiated and settled liquidated damages claims.

Relevant prior positions within Detroit Edison

Position	***Organization***	***Time Period***
Director, Special Projects	**Customer Energy Solutions**	**Apr 97 to May 98**

Leader of several special projects involving the transformation of the corporation's merchant energy functions into competitive business units, including merger explorations and the start up of DTE Energy Trading (DTE's power marketing affiliate).

Directed filings to the Federal Energy Regulatory Commission to establish DTE Energy Trading as a power marketer and to gain authority for sales, brokering, and code of conduct. The FERC used DTE's flexible utility/affiliate code of conduct as precedent for rulings for other power marketers.

Director, Risk Management **Huron Energy (temp affiliate)** **Jan 97 to Apr 97**

Leader of team responsible for competitive pricing of wholesale structured contracts and for acquiring risk management hardware and software to support risk management policy. Prepared Board resolutions to implement risk management policy.

Director, Contract Development **Customer Energy Solutions** **Jan 96 to Dec 96**

Leader of team that formulated a business strategy for the corporation in competitive power marketing. Team leader on project evaluating an existing steam and electricity contract, recommending and gaining Board approval for revamping the corporation's Thermal Energy business and strategy.

Project Director **Executive Council Staff & Corporate Strategy Group** **Jan 91 to Dec 95**

Project leader for competitive studies, including business risk, generation pooling, and project financing in the merchant generation industry. Team member and/or team leader for analyses of merger and acquisition opportunities

Special Assignment **Executive Council Staff** **Mar 90 to Dec 90**

Special assignment related to long-term industry strategies and mergers and acquisitions.

Pricing Analyst **Marketing / Rate** **Aug 82 to Mar 90**

Developed, negotiated, and implemented an innovative standby service tariff. Testified as an expert witness in regulatory proceedings and in state legislative hearings.

Engineer **Resource Planning** **Aug 79 to Dec 81**

Member of the company's electric load forecasting team, responsible for SE Michigan energy and peak demand forecasting, and for risk analysis. Developed the company's first residential end-use forecast model.

PRIOR POSITIONS: <u>Prior to DTE Energy</u>

Lear Siegler Corporation, ACTS Computing division, systems analyst and programmer from January 1973 to July 1977.

EDUCATION: M. A. in mathematics, University of Michigan, 1972
B. S. in mathematics, University of Michigan, 1968

MILITARY: U. S. Army, September 1968 to June 1970.
Viet Nam service from June 1969 to June 1970.
Honorably discharged.

PROFESSIONAL: Member, Engineering Society of Detroit (1979-present)

PUBLICATIONS & PAPERS:

- "Competition and Survival in the Electric Generation Market," published in *Public Utilities Fortnightly*, December 1, 1991.
- "Measuring and Pricing Standby Service," presented at the Electric Power Research Institute's "Innovations in Pricing and Planning" conference, May 3, 1990.
- "Assessing the Benefits of Interruptible Electric Service," presented at the 1989 Michigan Energy Conference, October 3, 1989.
- "Principles of Standby Service," published in *Public Utilities Fortnightly*, November 24, 1988.
- "Progress in Conservation," a satirical commentary published in *Public Utilities Fortnightly*, October 27, 1988.
- "Comparing Utility Rates," published in *Public Utilities Fortnightly*, November 13, 1986.
- "Uncertainty in Load Forecasting," with co-author John Sangregorio, published in *Approaches to Load Forecasting*, Electric Power Research Institute, July 1982.

PREVIOUS TESTIMONY:

- Michigan Public Service Commission, U-15744.
- Federal Energy Regulatory Commission, Docket No. EL04-135 & related dockets.
- Michigan Public Service Commission, U-12489.
- Michigan Public Service Commission, U-8871.
- Michigan Public Service Commission, U-8110 part 2.
- Michigan Public Service Commission, U-8110, part 1.
- Michigan Public Service Commission, U-7930 rehearing.
- Michigan Public Service Commission, U-7930.

Revenue Decoupling Mechanism
Effect of DE Proposed Reconciliation
(Sales Decrease)

Case No. U-15768
Exhibit AJZ-2 (EM-2)

Line No.	(a) Reference	(b) Description	(c) Total Company	(d) Rate Class A	(e) Rate Class B
		I. Example -- Assume from previous rate case order			
		Shows allocation of fixed costs			
1	example	Forecast sales (kWh)	2,000	1,000	1,000
2	example	Total fixed costs	$200		
3	example	Allocated fixed costs	$200	$100	$100
4	example	Fuel & variable costs	$40	$20	$20
5	L3 +L4	Total approved revenue requirement	$240	$120	$120
		DE method starts with revenue requirement			
6	L5	Total approved revenue requirement	$240	$120	$120
7	L4	Less fuel & variable costs	-$40	-$20	-$20
8	L6-L7	"Net revenue requirement" = *same as L3 = allocated fixed costs*	$200	$100	$100
9	L1	Approved sales forecast (kWh)	2,000	1,000	1,000
10	L8 / L9	"Net average approved price" (¢/kWh)	10.0c	10.0c	10.0c
		II. What if sales for Class A decrease by 20% ? ***DE Proposed RDM Reconciliation by Class ****			
11	L8	"Recoverable net revenue requirement"	$200	$100	$100
12	example	Actual sales	1,800	800	1000
13	L10	"Net average approved price" (¢/kWh)	10.0c	10.0c	10.0c
14	L12 x L 13	Actual recovered net revenue requirement	$180	$80	$100
15	L8	"Recoverable net revenue requirement"	$200	$100	$100
16	L14 - L15	Net over / -under recovery	-$20	-$20	$0
17	L16 / L12	Proposed surcharge / -credit	1.1c	2.5c	0.0c
		III. New "net average approved price"			
18	L10 + L17	"Net average price" after RDM reconciliation	11.1c	12.5c	10.0c

19 ** Note -- DE reconciliation changes the sales level by class from the original energy forecast,*
20 *but retains the fixed costs allocated to classes by the original energy and demand forecasts.*

Decrease in Sales
Effect of New Rate Case
(Sales Decrease)

Line No.	(a) Reference	(b) Description	(c) Total Company	(d) Rate Class A	(e) Rate Class B
		I. Example -- Assume from previous rate case order			
		Shows allocation of fixed costs			
1	example	Forecast sales (kWh)	2,000	1,000	1,000
2	example	Total fixed costs	$200		
3	example	Allocated fixed costs	$200	$100	$100
4	example	Fuel & variable costs	$40	$20	$20
5	L3 +L4	Total approved revenue requirement	$240	$120	$120
		Starts with revenue requirement			
6	L5	Total approved revenue requirement	$240	$120	$120
7	L4	Less fuel & variable costs	-$40	-$20	-$20
8	L6-L7	"Net revenue requirement" = *same as L3 = allocated fixed costs*	$200	$100	$100
9	L1	Approved sales forecast (kWh)	2,000	1,000	1,000
10	L8 / L9	"Net average approved price" (¢/kWh)	10.0c	10.0c	10.0c
		II. What if sales for Class A decrease by 20% in a rate case?			
		Shows allocation of fixed costs			
11	example	Forecast sales (kWh)	1,800	800	1,000
12	example	Total fixed costs	$200		
13	example	Allocated fixed costs *	$200	$89	$111
14	example	Fuel & variable costs	$36	$16	$20
15	L13 +L14	Total approved revenue requirement	$236	$105	$131
		Starts with revenue requirement			
16	L15	Total approved revenue requirement	$236	$105	$131
17	L14	Less fuel & variable costs	-$36	-$16	-$20
18	L16-L17	"Net revenue requirement" = *same as L13 = allocated fixed costs*	$200	$89	$111
19	L11	Approved sales forecast (kWh)	1,800	800	1,000
20	L18 / L19	"Net average approved price" (¢/kWh)	11.1c	11.1c	11.1c
		III. New "net average approved price"			
21	L20	"Net average price" after new rate case	11.1c	11.1c	11.1c

22 ** Note -- Assumes reduction in on-peak sales and demands are proportional*
23 *to total sales.*

Revenue Decoupling Mechanism
Effect of Adjustment by Total Company
(Sales Decrease)

Case No. U-15768
Exhibit AJZ-2 (EM-2)
Page 3 of 4

Line No.	(a) Reference	(b) Description	(c) Total Company	(d) Rate Class A	(e) Rate Class B
		I. Example -- Assume from previous rate case order			
		Shows allocation of fixed costs			
1	example	Forecast sales (kWh)	2,000	1,000	1,000
2	example	Total fixed costs	$200		
3	example	Allocated fixed costs	$200	$100	$100
4	example	Fuel & variable costs	$40	$20	$20
5	L3 +L4	Total approved revenue requirement	$240	$120	$120
		Starts with revenue requirement			
6	L5	Total approved revenue requirement	$240	$120	$120
7	L4	Less fuel & variable costs	-$40	-$20	-$20
8	L6-L7	"Net revenue requirement" = *same as L3 = allocated fixed costs*	$200	$100	$100
9	L1	Approved sales forecast (kWh)	2,000	1,000	1,000
10	L8 / L9	"Net average approved price" (¢/kWh)	10.0c	10.0c	10.0c
		II. What if sales for Class A decrease by 20% ? ***Adjust all rates by equal surcharge based on total company ****			
11	L8	"Recoverable net revenue requirement"	$200		
12	example	Actual sales	1,800	800	1,000
13	L10	"Net average approved price" (¢/kWh)	10.0c	10.0c	10.0c
14	L12 x L 13	Actual recovered net revenue requirement	$180	$80	$100
15	L8	"Recoverable net revenue requirement"	$200		
16	L14 - L15	Net over / -under recovery	-$20		
17	L16 / L12	Proposed surcharge / -credit	1.1c	1.1c	1.1c
		III. New "net average approved price"			
18	L10 + L17	"Net average price" after RDM reconciliation	11.1c	11.1c	11.1c

19 ** Note -- Surcharge is calculated on a total company basis,*
20 *such that total fixed costs are recovered from total sales.*

Summary of Results

(Sales Decrease)

Line No.	Reference	Description	-- Net Average Price (¢/kWh) -- Total Company	Rate Class A	Rate Class B
	(a)	(b)	(c)	(d)	(e)
1	P1, L10	Assume from previous rate case order	10.0c	10.0c	10.0c
2		What if Class A sales decrease by 20%?			
3	P1, L18	DE proposed RDM reconciliation	11.1c	12.5c	10.0c
4		adjusting rates by class. *			
5	P2, L21	After a rate case.	11.1c	11.1c	11.1c
6	P3, L18	Adjust all rates by equal surcharge based on total company. **	11.1c	11.1c	11.1c

7 *Notes:*
8 * *DE reconciliation changes the sales level by class from the original energy forecast,*
9 *but retains the fixed costs allocated to classes by the original energy and demand forecasts.*

10 ** *Surcharge is calculated on a total company basis,*
11 *such that total fixed costs are recovered from total sales.*

Revenue Decoupling Mechanism
Effect of DE Proposed Reconciliation
(Sales Increase)

Case No. U-15768
Exhibit AJZ-3 (EM-3)

Line No.	(a) Reference	(b) Description	(c) Total Company	(d) Rate Class A	(e) Rate Class B
		I. Example -- Assume from previous rate case orde			
		Shows allocation of fixed costs			
1	example	Forecast sales (kWh)	2,000	1,000	1,000
2	example	Total fixed costs	$200		
3	example	Allocated fixed costs	$200	$100	$100
4	example	Fuel & variable costs	$40	$20	$20
5	L3 +L4	Total approved revenue requirement	$240	$120	$120
		DE method starts with revenue requirement			
6	L5	Total approved revenue requirement	$240	$120	$120
7	L4	Less fuel & variable costs	-$40	-$20	-$20
8	L6-L7	"Net revenue requirement"= *same as L3 = allocated fixed costs*	$200	$100	$100
9	L1	Approved sales forecast (kWh)	2,000	1,000	1,000
10	L8 / L9	"Net average approved price" (¢/kWh)	10.0c	10.0c	10.0c
		II. What if sales for Class B increase by 20% ?			
		DE Proposed RDM Reconciliation by Class			
11	L8	"Recoverable net revenue requirement"	$200	$100	$100
12	example	Actual sales	2,200	1,000	1,200
13	L10	"Net average approved price" (¢/kWh)	10.0c	10.0c	10.0c
14	L12 x L 13	Actual recovered net revenue requirement	$220	$100	$120
15	L8	"Recoverable net revenue requirement"	$200	$100	$100
16	L14 - L15	Net over / -under recovery	$20	$0	$20
17	L16 / L12	Proposed surcharge / -credit	-0.9c	0.0c	-1.7c
		III. New "net average approved price'			
18	L10 + L17	"Net average price" after RDM reconciliation	9.1c	10.0c	8.3c

19 ** Note -- DE reconciliation changes the sales level by class from the original energy forecast,*
20 *but retains the fixed costs allocated to classes by the original energy and demand forecasts.*

Decrease in Sales
Effect of New Rate Case
(Sales Increase)

Line No.	(a) Reference	(b) Description	(c) Total Company	(d) Rate Class A	(e) Rate Class B
		I. Example -- Assume from previous rate case orde			
		Shows allocation of fixed costs			
1	example	Forecast sales (kWh)	2,000	1,000	1,000
2	example	Total fixed costs	$200		
3	example	Allocated fixed costs	$200	$100	$100
4	example	Fuel & variable costs	$40	$20	$20
5	L3 +L4	Total approved revenue requirement	$240	$120	$120
		Starts with revenue requirement			
6	L5	Total approved revenue requirement	$240	$120	$120
7	L4	Less fuel & variable costs	-$40	-$20	-$20
8	L6-L7	"Net revenue requirement"= *same as L3 = allocated fixed costs*	$200	$100	$100
9	L1	Approved sales forecast (kWh)	2,000	1,000	1,000
10	L8 / L9	"Net average approved price" (¢/kWh)	10.0c	10.0c	10.0c
		II. What if sales for Class B increase by 20% in a rate case?			
		Shows allocation of fixed costs			
11	example	Forecast sales (kWh)	1,800	1,000	1,200
12	example	Total fixed costs	$200		
13	example	Allocated fixed costs *	$200	$91	$109
14	example	Fuel & variable costs	$44	$20	$24
15	L13 +L14	Total approved revenue requirement	$244	$111	$133
		Starts with revenue requirement			
16	L15	Total approved revenue requirement	$244	$111	$133
17	L14	Less fuel & variable costs	-$44	-$20	-$24
18	L16-L17	"Net revenue requirement"= *same as L13 = allocated fixed costs*	$200	$91	$109
19	L11	Approved sales forecast (kWh)	2,200	1,000	1,200
20	L18 / L19	"Net average approved price" (¢/kWh)	9.1c	9.1c	9.1c
		III. New "net average approved price"			
21	L20	"Net average price" after new rate case	9.1c	9.1c	9.1c

22 ** Note -- Assumes reduction in on-peak sales and demands are proportional*
23 *to total sales.*

Revenue Decoupling Mechanism
Effect of Adjustment by Total Company
(Sales Increase)

Case No. U-15768
Exhibit AJZ-3 (EM-3)
Page 3 of 4

Line No.	(a) Reference	(b) Description	(c) Total Company	(d) Rate Class A	(e) Rate Class B
		I. Example -- Assume from previous rate case orde			
		Shows allocation of fixed costs			
1	example	Forecast sales (kWh)	2,000	1,000	1,000
2	example	Total fixed costs	$200		
3	example	Allocated fixed costs	$200	$100	$100
4	example	Fuel & variable costs	$40	$20	$20
5	L3 +L4	Total approved revenue requirement	$240	$120	$120
		Starts with revenue requirement			
6	L5	Total approved revenue requirement	$240	$120	$120
7	L4	Less fuel & variable costs	-$40	-$20	-$20
8	L6-L7	"Net revenue requirement"= *same as L3 = allocated fixed costs*	$200	$100	$100
9	L1	Approved sales forecast (kWh)	2,000	1,000	1,000
10	L8 / L9	"Net average approved price" (¢/kWh)	10.0c	10.0c	10.0c
		II. What if sales for Class B increase by 20% ?			
		Adjust all rates by equal surcharge based on total company			
11	L8	"Recoverable net revenue requirement"	$200		
12	example	Actual sales	2,200	1,000	1,200
13	L10	"Net average approved price" (¢/kWh)	10.0c	10.0c	10.0c
14	L12 x L 13	Actual recovered net revenue requirement	$220	$100	$120
15	L8	"Recoverable net revenue requirement"	$200		
16	L14 - L15	Net over / -under recovery	$20		
17	L16 / L12	Proposed surcharge / -credit	-0.9c	-0.9c	-0.9c
		III. New "net average approved price'			
18	L10 + L17	"Net average price" after RDM reconciliatio	9.1c	9.1c	9.1c

19 ** Note -- Surcharge is calculated on a total company basis,*
20 *such that total fixed costs are recovered from total sales.*

Summary of Results

(Sales Increase)

Line No.	Reference	Description	-- Net Average Price (¢/kWh) -- Total Company	Rate Class A	Rate Class B
	(a)	(b)	(c)	(d)	(e)
1	P1, L10	Assume from previous rate case order	10.0c	10.0c	10.0c
2		What if Class B sales Increase by 20%?			
3	P1, L18	DE proposed RDM reconciliation	9.1c	10.0c	8.3c
4		adjusting rates by class. *			
5	P2, L21	After a rate case.	9.1c	9.1c	9.1c
6	P3, L18	Adjust all rates by equal surcharge based on total company. **	9.1c	9.1c	9.1c

7 *Notes:*
8 * *DE reconciliation changes the sales level by class from the original energy forecast,*
9 *but retains the fixed costs allocated to classes by the original energy and demand forecasts.*

10 ** *Surcharge is calculated on a total company basis,*
11 *such that total fixed costs are recovered from total sales.*

MPSC Case No.: U-15768
Respondent: D. M. Stanczak
Requestor: Energy Michigan
Question No.: EMDE-1.07/21
Page: 1 of 1

Question: Is it correct that the resulting class specific RDM credits or surcharges would apply equally to full service and Electric Choice customers?

Answer: The credits or surcharges would apply to both full service and Electric Choice customers, but not equally. Credit or surcharges would be applied to class specific customers based on the actual recovered revenue requirement compared to the net revenue requirement approved in Detroit Edison's last approved rates.

MPSC Case No.: U-15768
Respondent: D. M. Stanczak
Requestor: Energy Michigan
Question No.: EMDE-1.08/22
Page: 1 of 1

Question: If the answer to the preceding question is yes, would the resulting class specific credit or surcharge result in Electric Choice customers paying the costs of or receiving benefits from the electric generation assets of Detroit Edison?

Answer: No. Electric Choice customers would only be surcharged or credited amounts based on distribution.

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of The Detroit Edison Company for authority to increase its rates, amend its rate schedules and rules governing the distribution and supply of electric energy.	))))))	Case No. U-15768

PROOF OF SERVICE

Monica Robinson, duly sworn, deposes and says that on this 9th day of July, 2009 she served a copy of the Direct Testimony of Alexander J. Zakem on Behalf of Energy Michigan, Inc. upon those individuals listed on the attached service list by e-mail and regular mail at their last known addresses.

Monica Robinson

Digitally signed by Monica Robinson
DN: c=US, o=Varnum Riddering Schmidt Howlett, cn=Monica Robinson
Date: 2009.07.09 16:20:09 -04'00'

Monica Robinson

Subscribed and sworn to before me
this 9th day of July, 2009

Eric J. Schneidewind

Digitally signed by Eric J. Schneidewind
DN: c=US, o=Varnum Riddering Schmidt Howlett, cn=Eric J. Schneidewind
Date: 2009.07.09 16:20:24 -04'00'

Eric J. Schneidewind, Notary Public
Eaton County, Michigan
Acting in Ingham County, Michigan
My Commission Expires: April 24, 2012.

SERVICE LIST U-15768

Administrative Law Judge
Hon. Barbara Stump
(Discovery - Proof of Service Only)
stumpb1@michigan.gov

MPSC Staff
Kristin Smith
Spencer A. Sattler
Anne Uitvlugt
uitvlugta@michigan.gov
sattlers@michigan.gov
smithkm@michigan.gov

Detroit Edison Company
Bruce Maters
Michael J. Solo
Richard Middleton
Jon Christinidis
Detroit Edison Company
matersb@dteenergy.com
solom@dteenergy.com
middletonr@dteenergy.com
christinidisj@dteenergy.com
mpscfilings@dteenergy.com

MI Dept of Attorney General
Donald Erickson
ericksond@michigan.gov

Constellation NewEnergy, Inc.
John M. Dempsey
Dickinson Wright, PLLC
jdempsey@dickinsonwright.com

National Energy Marketers Association
John Dempsey
Dickinson Wright, PLLC
jdempsey@dickinsonwright.com

Michigan Cable Telecommunications Association
David E.S. Marvin
Jennifer Utter Heston
Fraser, Trebilcock Davis & Dunlap, PC
DMarvin@fraserlawfirm.com
JHest@fraserlawfirm.com]

ABATE
Bob Strong
Clark Hill
rstrong@clarkhill.com

MEC - PIRGIM
Don Keskey
Clark Hill
dkeskey@clarkhill.com

Kroger
Michael Kurtz
Boehm, Kurtz & Lowry
mkurtz@bkllawfirm.com

Detroit Water & Sewerage Dept.
Jennifer M. Rohleder
Thompson Hine, LLP
Jennifer.Rohleder@ThompsonHine.com

Utility Workers Local 223
Kimberly Saks
John R. Cazano
Klimist McKnight Sale
McClow & Canzano PC
ksaks@kmsmc.com
jcanzano@kmsmc.com