



201 N. Washington Square • Suite 910
Lansing, Michigan 48933
Telephone 517 / 482-6237 • www.varnumlaw.com

Timothy J. Lundgren

Direct: 616/336-6750
tjlundgren@varnumlaw.com

March 13, 2015

Ms. Mary Jo Kunkle
Executive Secretary
Michigan Public Service Commission
7109 W. Saginaw Highway
P.O. Box 30221
Lansing, Michigan 48909

Re: MPSC Case No. U-17689

Dear Ms. Kunkle:

Attached for paperless electronic filing in the above referenced matter, please find a Reply Brief and Proof of Service on behalf of Energy Michigan, Inc.

Thank you for your assistance in this matter.

Sincerely yours,

Timothy J. Lundgren

c: ALJ
Parties

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cost-causation model, whereby those who place costs on the system are made to bear those costs. Uncollectibles is an obvious logical exception to this principle, as by definition these costs cannot be collected from those who imposed them on the system. Thus, the correct question is, given that unique state of affairs, what is the most equitable way to allocate those costs? As Mr. Zakem testified,

A residential customer is no more responsible for – or the “cause” of – a residential customer down the block who did not pay the DTE bill than is the grocery store on the corner or the hospital a mile away. And vice versa.

3 Tr 398. Because of this basic and indisputable fact, the most equitable way to allocate such costs is exactly as DTE has been doing it up to now – that is, as company-wide overhead. As Mr. Zakem points out, “the uncollectibles should be allocated in a general and equitable way to all rate classes to be paid by all customers. The current method of allocating uncollectibles to rate classes does this.” 3 Tr 399. DTE has failed to demonstrate any reasonable basis for changing its current allocation method for uncollectibles.

B. Separation of Uncollectible Expenses into Distribution and Power Supply Results in a More Fair Allocation

Energy Michigan’s witness, Mr. Zakem, proposed that since uncollectible bills included both non-payment for distribution service and non-payment for power supply services, the uncollectibles expenses within rate classes should be separated into a distribution component and a power supply component. The entire point of doing a “cost of service” study is to make sure that the separate services provided to various rate classes are covered by separate utility charges for such services. Otherwise, all the costs would be lumped together and there would be the same, single charge for all, based on some metric.

In rebuttal, DTE relies on misdirection. Regarding Mr. Zakem’s extended and careful explanation of why distribution costs and power supply costs should be kept separate, DTE

asserts that Mr. Zakem “attempted to support this proposal with a flawed analogy to Consumers Energy’s last general rate case, Case No. U-17087 . . . (3 T 391-92).” DTE Initial Brief, p. 18. DTE asserts that Mr. Zakem’s analogy of the collection of uncollectibles to the collection of the rate subsidy in U-17087 is inapt because these costs arise for different reasons (public policy vs. customer inability to pay). However, DTE is missing the point. Why the costs arise is not of significance. What is significant is the indisputable fact that in both cases they are a cost that *cannot* be passed back to the cost causer. Mr. Zakem’s point is simply that in such cases, where the costs are being treated essentially as a system overhead, then the separation of distribution and power supply charges has been done before. Such an approach for these kinds of costs is nothing new for the Commission, which of course approved all of the rates and allocations in Case No. U-17087, whether those were achieved through settlement or otherwise.

Further, DTE applies its own labels to Mr. Zakem’s proposal, then opines on its self-defined distinctions among “cost allocation,” “rate design,” and “functionalization.” DTE Initial Brief, p. 19. After some massaging of the above terminology, DTE ends by calling Mr. Zakem’s proposal, “Mr. Zakem’s proposed functionalization change” – failing to note that the terms “function” or “functionalization” do not appear in Mr. Zakem’s testimony but are DTE’s own interpretation. Then, by relying on its *own* interpretations and labels as if they were facts, DTE asserts the conclusion that Energy Michigan’s proposal to charge uncollectible expenses separately for the separate services of distribution and power supply is “beyond the scope of this case and should not be considered.” Setting aside DTE’s terminological sleight-of-hand, how uncollectible (and other) expenses are to be allocated among DTE’s customers is plainly within the scope of this case.

Through the testimony of Mr. Zakem, Energy Michigan has proposed a carefully explained, logical, and reasonable way to keep distribution services and power supply services separate. There should be no subsidy of one by the other, whether due to allocation of costs or recovery of revenue. *Clear separation of services, costs, and revenues is the entire basis of a cost-of-service study.*

Energy Michigan has provided a template in its exhibits of how to do the actual separation of charges, which is straightforward. In contrast, DTE has not come up with any substantive reason for arguing that distribution charges should subsidize power supply charges when it comes to uncollectible expenses. Accordingly, the Commission should disregard DTE's objections to Mr. Zakem's proposal to separate uncollectibles into their constituent distribution and power supply portions.

III. Conclusion and Prayer for Relief

WHEREFORE, for the reasons set forth above, as well as in the Testimony and Exhibits filed by Energy Michigan, and in its Initial Brief, Energy Michigan respectfully requests that the Commission:

- A. Reject DTE's proposal to change the present method of allocating uncollectibles to rate classes;
- B. Require DTE to separate the allocation of uncollectibles into a distribution and power supply portion;
- C. Reject DTE's proposal to change the production allocation methodology to a 100% demand allocation; and

- D. Adopt Staff's proposal to change the production allocation methodology to 75-0-25.

Respectfully submitted,

Varnum LLP
Attorneys for Energy Michigan, Inc.

March 13, 2015

By: _____

Laura A. Chappelle (P42052)
Timothy J. Lundgren (P62807)
Sherry X. Lin (P79045)
The Victor Center
201 N. Washington Square, Ste. 910
Lansing, MI 48933
517/482-6237

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STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter on the Commission's own motion)
to commence a proceeding to implement the)
provisions of Public Act 169 of 2014, MCL 460.11(3))
et. seq., with regard to **DTE ELECTRIC COMPANY.**)
_____)

Case No. U-17689

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss.
COUNTY OF INGHAM)

Kimberly Champagne, the undersigned, being first duly sworn, deposes and says that she is a Legal Secretary at Varnum LLP and that on the 13th day of March, 2015, she served an electronic copy of a Reply Brief on behalf of Energy Michigan, Inc., upon those individuals listed on the attached Service List via email at their last known addresses.

Kimberly Champagne

SERVICE LIST
MPSC CASE NO. U-17689

Administrative Law Judge

Sharon L. Feldman
611 W. Ottawa
4th Floor
Lansing, MI 48909
feldmans@michigan.gov

DTE Electric Company

Michael J. Solo
DTE Energy Company
One Energy Plaza, 688 WCB
Detroit, MI 48226
Solom@dteenergy.com
mpscfilings@dteenergy.com

Counsel for Attorney General

John A. Janiszewski
Briana Iddings
Wendy Cadwell
525 W. Ottawa Street, 6th Floor
P.O. Box 30755
Lansing, MI 48909
janiszewskij2@michigan.gov
iddingsb1@michigan.gov
cadwellw@michigan.gov

Michael J. McGarry, Sr.
Blue Ridge Consulting Services, Inc. 2131
Woodruff Rd., Ste. 2100 PMB 309
Greenville, SC 29607
mmcgarry@blueridgecs.com

Howard Solganick
Energy Tactics
810 Persimmon Lane
Langhorne, PA 19047
howard@energytactics.com

Counsel for Citizens Against Rate Excess

John R. Liskey
John R. Liskey Attorney At Law
921 N. Washington Ave
Lansing, MI 48906
john@liskeypllc.com

ABATE

Robert A.W. Strong
Clark Hill PLC
151 S. Old Woodward
Suite 200
Birmingham, MI 48009
rstrong@clarkhill.com

James T. Selecky
Brubaker & Associates, Inc.
P.O. Box 412000
St. Louis, MO 63141-2000
jtselectky@consultbai.com

**Counsel for Michigan Environmental Council
(MEC); Counsel for Natural Resources
Defense Council (NRDC)**

Christopher M. Bzdok
Emerson J. Hilton
Ruth Ann Liebzeit
Kimberly Flynn
Olson, Bzdok & Howard, P.C.
420 E. Front St.
Traverse City, MI 49686
chris@envlaw.com
emerson@envlaw.com
ruthann@envlaw.com
kimberly@envlaw.com

Counsel for MPSC Staff

Lauren D. Donofrio
Bryan A. Brandenburg
Michigan Public Service Commission
6520 Mercantile Way, Suite 1
Lansing, MI 48911
donofriol@michigan.gov
brandenburg@michigan.gov