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May 5, 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, please find the **Exceptions of Energy Michigan, Inc.**, as well as **Proof of Service** in the above-referenced matter.

Thank you for your assistance in this matter.

Sincerely yours,

Timothy J. Lundgren

c: ALJ
Parties

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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) Case No. U-17689
provisions of Public Act 169 of 2014, MCL 460.11(3))
et. seq., with regard to **DTE ELECTRIC COMPANY.**)

EXCEPTIONS OF ENERGY MICHIGAN, INC.

Pursuant to Rule 435 of the Commission’s Rules of Practice and Procedure before the Commission, R 792.10435, and in accordance with the schedule set by the Administrative Law Judge (“ALJ”) in this proceeding, Energy Michigan, Inc. (“Energy Michigan”) submits these Exceptions to the Proposal for Decision (“PFD”) issued in this case on April 13, 2015.

I. THE PFD ERRS WHEN IT CONCLUDES THAT THERE IS INCONSISTENCY BETWEEN RECOGNIZING UNCOLLECTIBLES AS COMPANY OVERHEAD AND SEPARATION OF THAT EXPENSE INTO DISTRIBUTION AND POWER SUPPLY CHARGES.

Energy Michigan supports the ALJ’s conclusion that DTE should be required to continue its treatment of uncollectible expenses as a company-wide overhead. However, Energy Michigan disputes the ALJ’s conclusion that such treatment is inconsistent with the further separation of those uncollectible expenses into power supply and distribution costs. Thus, whether or not the Commission approves DTE’s proposed change in the allocation of its

uncollectible costs, Energy Michigan still believes it is appropriate for the Commission to require DTE to separate those costs according to power supply and delivery charges.

Through the testimony and exhibits of Mr. Zakem and in its briefing, Energy Michigan proposed that the collection of the uncollectible expenses be separated into a distribution portion and a power supply portion in the rate design for the rate class. The PFD rejected such a separation if the Commission continues to treat uncollectible expenses as a company-wide overhead, but recommended such a separation if the Commission accepts DTE's proposal to allocation uncollectible expenses back to the rate classes from which those expenses arise.

As discussed above, this PFD concluded that continuing to treat uncollectible expense as a company overhead expense, recovered through the distribution charge, is reasonable. In addition, this PFD recognizes that there is an inconsistency between the traditional recognition of this expense as company overhead and Energy Michigan's proposal to recover this expense through both distribution and power supply charges. However, if the Commission chooses to accept DTE Electric's recommendation to treat uncollectible expense as caused by individual rate classes, this PFD further recommends that the Commission accept Mr. Zakem's proposal to bifurcate collection of the expense. Once one views uncollectible expense as caused by each customer class, it also appears reasonable to view uncollectible expense as related to the magnitude of each billing component.

PFD, page 120. Energy Michigan views the separation of uncollectible expenses into their constituent power supply and distribution portions as a rate design issue, not an allocation issue. On this point, the PFD appears to agree: “. . . Mr. Zakem's proposal could be considered rate design, rather than cost allocation or functionalization.” PFD, page 119.

The PFD recognizes that rate design does not have to be determined totally by allocation rationale. For instance, on one hand the PFD rejects any change to the existing 50-25-25 formula for allocating production costs: “First and foremost, this PFD finds that no party has established that increasing the demand weighting in the formula otherwise established by 2008 PA 286 and 2014 PA 169 better aligns cost with causation.” PFD, page 74. On the other hand, the PFD

accepts DTE's proposed rate design for the new D11 rate that has very low energy charges and high demand charges. PFD, page 126. The outcome is that the PFD does not require that all of the production costs that are allocated by energy – the “25-25” part of the 50-25-25 formula – be put into the energy component of the D11 rate.

Energy Michigan sees the rate design for recovery of uncollectible expenses similarly – the method of allocation of uncollectible expense to rate classes should not be controlling. Whether the method of allocation is by total costs of service as a company-wide overhead, as at present, or by allocation back to rate classes, as DTE proposes, the unpaid charges for the distinct services of distribution and power supply can and should be included in the respective distribution and power supply components of the rate design within each class.

To support its rejection of Energy Michigan's proposal, the PFD cites the Commission's rejection of a proposal regarding uncollectible expenses in Case No. U-15244. *See* PFD, page 119, citing Case No. U-15244, order of December 23, 2008. However, the Commission's decision in U-15244 approached the separation of distribution and power supply from a different perspective, examining “customer accounts, customer service and information, and sales expenses” and then opining that “these expenses are all related to customer service and customer contact and distribution is where they belong.” Case No. U-15244, order of December 23, 2008, page 81.

Energy Michigan believes that it is now worthwhile for the Commission to re-examine the issue of separation of uncollectible expenses because the Commission is now faced with an important distinction it did not address in Case No. U-15244, that between the customer service-related expenses caused by billing of uncollectible expenses – such as perhaps mail notices, postage, phone calls, etc. – and the amounts of the charges not paid for actual distribution and

power supply services rendered. While the language from the quoted order may have adequately addressed the issues brought before the Commission in U-15244, it does not address those that Energy Michigan has presented in this case. In fact, if the Commission were to base its conclusion in this docket on the determination made in U-15244 without further analysis, as the PFD appears to encourage, it would have to ignore Energy Michigan's current testimony and would be engaged in circular reasoning. In the context of the information made available in this case, it is not sufficient to say that uncollectibles are customer service expenses, and so conclude without examination that therefore distribution "is where they belong."

As Mr. Zakem has shown in Exhibit A-2, line 6, DTE has estimated approximately \$58 million annually in unrecovered expenses from uncollectibles. It is clear that what DTE is seeking recovery for are specific power supply and distribution services rendered but not paid for, not compensation for contacting customers who have not paid their bills. Therefore, a summary conclusion about such costs being related to customer service is not sufficient.

In short, Energy Michigan's point in this case has been that it is time to refine the way uncollectible expenses are recovered within rate design. The recovery of revenue representing non-payment for two specific services, distribution and power supply, is not an allocation issue but rather a rate design issue. The recovery should be within the separate rate components that exist for each service. That is exactly the reason that the billing for distribution and power supply services was "unbundled" in the first place.

II. CONCLUSIONS.

For these reasons, Energy Michigan recommends that the recovery of uncollectible expenses be separated into distribution and power supply within each rate class, no matter which

allocation method the Commission decides, whether continuing the present “company-wide overhead” method or DTE’s proposed “back to the rate class” method.

WHEREFORE, for the reasons stated herein, as well as in Energy Michigan’s testimony, exhibits, and initial and reply briefs, Energy Michigan respectfully requests that the Commission issue its final order in this case:

- A. Rejecting DTE's proposal to change the present method of allocating uncollectibles to rate classes;
- B. Require DTE to separate uncollectibles into distribution and power supply costs, whether or not DTE’s proposal for allocation of uncollectibles is accepted.

Respectfully submitted,

Varnum LLP
Attorneys for Energy Michigan, Inc.

May 5, 2015

By: _____

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_____)

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 5th day of May, 2015, she served an electronic copy of the **Exceptions 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

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