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Timothy J. Lundgren

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October 17, 2019

Ms. Lisa Felice
Executive Secretary
Michigan Public Service Commission
7109 W. Saginaw Highway
P.O. Box 30221
Lansing, Michigan 48909

Re: MPSC Case No. U-20359

Dear Ms. Felice:

Attached for electronic filing in the above-referenced matter, please find the Direct Testimony of Alexander Zakem, Exhibit, and Proof of Service, which has been served on all interested parties. Thank you for your assistance in this matter.

Sincerely,

VARNUM

Timothy J. Lundgren

TJL/kks

cc: ALJ
Parties

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
Indiana Michigan Power Company)
for authority to increase its rates for the)
sale of electric energy and for approval)
of depreciation rates and other related)
matters.)
_____)

Case No. U-20359

DIRECT TESTIMONY & EXHIBIT OF

ALEXANDER J. ZAKEM

ON BEHALF OF

ENERGY MICHIGAN, INC.

1 **Q. Please state your name and business address.**

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

4

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

6 A. I am testifying on behalf of Energy Michigan, Inc. (“Energy Michigan”).

7

8 **Q. Please state your professional experience.**

9 A. Since January of 2004, I have been an independent consultant providing services to
10 various clients, including members of Energy Michigan.

11

12 From March 2002 to December 2003, I was Vice President of Operations for Quest
13 Energy, an alternative energy supplier in Michigan. My responsibilities included the
14 overall direction and management of Quest’s power supply to its retail customers. This
15 included power supply planning, development of customized products, negotiation with
16 suppliers, planning and acquiring transmission rights, and scheduling and delivery of
17 power. It also included managing risk with respect to market price movements and
18 variation of customer loads.

19

20 Prior to joining Quest, I was employed by Detroit Edison from 1977 to 2001, where from
21 1998 to 2001 I was the Director of Power Sourcing and Reliability, responsible for
22 purchases and sales of power for mid-term and long-term periods, planning for

1 generation capacity and purchase power needs, strategy for and acquisition of
2 transmission rights, and related support for regulatory proceedings.

3

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

6

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

8 A. Yes. I have testified as an expert witness in several proceedings before the Michigan
9 Public Service Commission (“Commission”), on topics such as standby rates, retail rates
10 and regulations, recovery and allocation of costs and revenues, and the effects of rate
11 restructuring. I have also testified before the Federal Energy Regulatory Commission
12 (“FERC”). Case citations are provided in Exhibit EM-1 (AJZ-1). In addition, I have
13 participated in various Commission-sponsored workshops and stakeholder working
14 groups.

15

16 **Q. Are you sponsoring any exhibits?**

17 A. Yes. I am sponsoring the following exhibits:

- 18 • Exhibit EM-1 (AJZ-1): Qualifications

19

20 **Q. What is the purpose of your testimony?**

21 A. Indiana Michigan Power Company (“I&M”) charges its Open Access Distribution
22 (“OAD”) customers a capacity charge as compensation for the capacity that I&M
23 provides to the PJM Interconnection (“PJM”) to meet PJM’s requirements for the

1 aggregated customers' loads. In I&M's previous rate order¹, the Commission set the
2 capacity charge at the PJM Net Cost of New Entry ("Net CONE"). In this proceeding,
3 I&M is proposing to make one of two changes to the method previously approved by the
4 Commission:

5 **A. Adjustment to Net CONE Method:** If the Commission continues the current
6 method of Net CONE, then I&M is proposing that a portion of power supply non-
7 capacity charges in effect be added into the capacity charge to OAD customers,
8 while being removed from the costs allocated to full service customers.

9 **B. Embedded Cost Method:** I&M is proposing that the capacity charge be based
10 on embedded cost of service, not the Net CONE method;

11

12 My testimony will address these proposed changes and recommend to the Commission
13 that the changes be denied. I will recommend two methods of compensating I&M for
14 providing capacity to OAD customers.

15

16 **Q. Would you summarize your recommendations to the Commission?**

17 A. There are three recommendations:

18

19 1. *The Commission should deny I&M's proposal for a \$9.6 million effective new*
20 *adjustment to the Net CONE method.*

21

¹ Case No. U-18370, order dated April 12, 2018.

1 I&M's proposed new adjustment is derived from the cost allocation difference
2 between the Embedded Cost method and the Net CONE method, and in effect
3 simply turns the Net CONE method into the Embedded Cost method.

4

5 2. *The Commission should deny I&M's proposed Embedded Cost method.*

6

7 The Embedded Cost method does not reasonably reflect the cost of providing
8 capacity-only service to OAD customers. The Commission rejected the method
9 in the previous Case No. U-18370 and the method should remain rejected.

10

11 3. *The Commission should continue a fair-value-based method of compensating*
12 *I&M for the capacity-only service it provides to OAD customers.*

13

14 I recommend PJM's Final Zonal Capacity Price as a visible and fair price.
15 Alternatively, the current PJM Net CONE is also a visible price and represents
16 fair value of capacity-only in the longer term; therefore, it would also be
17 reasonable to continue this method.

18

19 **Q. How does I&M explain the reasons for its proposed changes to capacity charges?**

20 A. I&M witness Mr. Andrew Williamson explains in his direct testimony:

21 In Case No. U-18370, the Commission noted that its decision was constrained by
22 the record before it and that the Commission could revisit the issue in the future.
23 In that light, in this case I&M requests the Commission approve capacity charges
24 based on cost of service and not a proxy method using a PJM Net CONE price.²

² Andrew Williamson, direct testimony, page 22, lines 5-9.

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Q. Is I&M’s explanation of the previous case accurate?

A. The statement is accurate as far as it goes, yet more context can show why and how the capacity charge issue might be revisited in this proceeding. In the April 12, 2018 order, the Commission stated:

Based on this guidance and the evidence in this case about an equitable and accurate rate for capacity, the Commission finds it appropriate to revisit the methodology approved by the Commission in Case No. U-17032.

The Commission agrees with the Staff that, because **I&M’s current capacity rate improperly includes some production-demand classified costs that are not capacity-related, it should be rejected.** By contrast, the Commission finds that, based on the record in this case, **net CONE can be used to appropriately identify what portion of production costs are actually incurred to supply capacity.**

As explained by ABATE, net CONE is the amortized net cost of a new CT generation facility. This peaking generation is the lowest cost utility generation that can provide capacity and, therefore, it is a **good proxy for the cost I&M would incur if it constructed generation principally for the purpose of providing capacity.** In addition, using net CONE removes the limited energy and ancillary service margins that are not directly related to capacity service. The Commission **finds this proposed method,** which begins with total embedded production-related costs and **subtracts non-capacity-related costs,** to be **reasonable.**

The Commission notes that its decision must be based on the evidentiary record before it and is **constrained by the testimony, exhibits, arguments, facts, and circumstances presented in this case. The Commission may revisit, in a future rate case,** whether to retain this net CONE methodology or use an approach that more closely aligns with the capacity charge methodology approved in Case Nos. U-18239 and U-18248 (i.e., using fixed costs offset by fuel and other revenues).

The Commission **finds unpersuasive I&M’s claim that, if net CONE is used to set the capacity rate, rates will differ between OAD customers and standard service customers, thus resulting in a subsidy.** As explained by the Staff, the **company incorrectly assumes that all production capacity-related costs are incurred to provide capacity.** The attachments to this order demonstrate that the

1 rates calculated for OAD and standard service customers using net CONE do not
2 differ.³
3
4

5 **Q. What is the context for the Commission’s decision?**

6 A. The Commission is saying that its decision is a reasonable method of determining
7 capacity charges based on the record before it. It is not saying that there was insufficient
8 evidence in the case, or that relevant testimony or exhibits were stricken from the record.
9 It is not saying that “but for” some technical error that it would have chosen I&M’s
10 proposal. In fact, as it states, the Commission rejected I&M’s proposed capacity rate
11 because it “improperly includes some production-demand classified costs that are not
12 capacity-related.”⁴ And the Commission found that another proposal also on the record,
13 the Net CONE proposal, was reasonable.

14
15 **A. Adjustment to Net Cone Method**

16
17 **Q. What are the implications of I&M’s proposal in this proceeding regarding an
18 adjustment to the Net CONE method?**

19 A. Under a Net CONE method, I&M now proposes that OAD customers pay I&M an
20 additional \$9.6 million for non-capacity costs, under the rationale that the Net CONE
21 method has improperly shifted \$9.6 million of non-capacity costs from OAD customers
22 to standard service customers. I&M witness Mr. Andrew Williamson explains:

³ Case No. U-18370, order April 12, 2018, pages 71-72. Emphasis added.

⁴ Case No. U-18370, order April 12, 2018, page 71.

1 As shown by Company witness Fee, the result of the PJM Net Cone rate design is
2 a cost shift of approximately \$9.6 million to standard service customers through
3 I&M's power supply non-capacity charges.⁵
4

5 The cost shift is the result of OAD customers not paying I&M's power supply
6 non-capacity charge which includes capacity-related costs I&M continues to incur
7 even when customers take service under the OAD tariff.⁶
8
9

10 **Q. Do you agree with this explanation?**

11 A. No, I do not agree with I&M's explanation. I&M asserts a charge to OAD customers for
12 non-capacity costs based on embedded cost of service. The result of this argument is that
13 I&M has merely transformed the Net CONE method into the Embedded Cost method,
14 without changing the name.
15

16 The explanation assumes that a customer who switches from standard service to OAD
17 service should continue to pay all the same power supply non-variable costs as it did on
18 standard service. I&M is asserting that the compensation it receives from OAD
19 customers for capacity should include non-capacity costs. The only logical explanation I
20 can see for this cost shift is if I&M is asserting some type of "stranded cost" that should
21 be paid by OAD customers, which I will address later.
22

23 I&M asserts that going from the embedded cost method to the Net CONE method
24 resulted in a "cost shift of approximately \$9.6 million to standard service customers
25 through I&M's power supply non-capacity charges."⁷ By the same reasoning, I&M's

⁵ Andrew Williamson, direct testimony, page 22, lines 2-5. Emphasis added.

⁶ Andrew Williamson, direct testimony, page 22, lines 14-16. Emphasis added.

⁷ Andrew Williamson, direct testimony, page 22, lines 3-5.

1 proposal to go from the present Net CONE method to the embedded cost method will
2 result in a cost shift of approximately \$9.6 million to OAD customers for non-capacity
3 charges. Again, OAD customers do not take non-capacity services from I&M.

4
5 **Q. How does I&M propose to charge OAD customers the \$9.6 million?**

6 A. I&M in effect makes an adjustment that transfers \$9,569,092 from standard service
7 customers to OAD customers. I&M determines this amount by comparing an allocation
8 of Net CONE to OAD customers to an allocation of unadjusted power supply costs from
9 its cost-of-service model, in Exhibit A-16, Schedule F-1.1.1. I&M witness Mr. George
10 Fee explains:

11 **Q. What are the results of the Net Cone calculation?**

12
13 A. Exhibit A-16, Schedule F-1.1.1: Net Cone & Open Access Distribution
14 Reallocation shows the detailed calculations. As can be see in Figure GF-4
15 [p.24 of Mr. Fee's direct testimony] the total reclassification of costs from
16 capacity to non-capacity affects standard service customers by \$9,569,092.⁸
17

18 I&M witness Mr. Andrew Williamson proposes that the capacity charge to OAD
19 customers be based on the cost-of-service model.

20 “ . . . in this case I&M requests the Commission approve capacity charges based
21 on cost of service and not a proxy method using a PJM Net CONE price.⁹
22

23 The result of this proposal is that the \$9.6 million difference between the Net CONE
24 method and the full cost-of-service method ends up in the proposed revenues for OAD
25 customers. The difference is shown in Mr. Matthew Nollenberger's direct testimony,
26 page 23, Figure MWN-2. On the line “Total OAD Classes,” present revenue would

⁸ George Fee, direct testimony, page 24, lines 1-5.

⁹ Andrew Williamson, direct testimony, page 22, lines 7-9. Emphasis added.

1 decrease by \$113 thousand under the Net CONE method, but instead increases by \$9,506
2 thousand under I&M's proposed "embedded power supply cost of service" method. The
3 difference is ($\$113 + \$9,506 =$) \$9,619 thousand, or rounded to \$9.6 million.

4

5 **Q. How do non-capacity costs get relabeled as capacity costs?**

6 A. In my observation, the basis for costs getting re-categorized is simply definitional. I&M
7 maintains that all "fixed" costs are by definition "capacity related." I&M also asserts that
8 all "non-capacity" costs are "energy" costs – that is, variable costs. I&M asserts:

9 Power supply capacity rates should reflect the fixed costs of the generation
10 resources that are used to actually serve I&M's customers.¹⁰

11

12 Setting power supply capacity rates in a way that moves any of the fixed
13 generation costs to non-capacity rates results in a capacity rate that is not cost
14 based and is harmful to I&M's standard service customers by increasing their
15 non-capacity (i.e. energy) rates.¹¹

16

17 **Q. Do you agree with these definitions and assumptions?**

18 A. No, I do not agree. I do acknowledge that the question of what portion of a joint cost is
19 "capacity" and what is "non-capacity" has been a long-standing issue in rate design. In
20 the electric industry, capacity is the ability to convert energy in one form (fuel) to energy
21 in another form (electric energy) at a specified output rate. Capacity is the measure of the
22 rate of converting some type of fuel into electric energy, measured in MegaWatts.
23 Capacity is not the generating plant itself or the cost of the entire plant or even all the
24 fixed investment costs. For example, a portion of the investment in a plant may be to
25 increase the efficiency of the energy conversion – and while that investment may be a

¹⁰ Andrew Williamson, direct testimony, page 23, lines 8-9.

¹¹ Andrew Williamson, direct testimony, page 23, lines 12-14. Emphasis added.

1 fixed cost it does not follow that therefore such investment must be labeled a capacity
2 cost, especially in the situation at hand where I&M is entitled to recover only capacity
3 costs as determined by the Commission.

4

5 The Commission recognized that not all fixed costs are capacity costs in its previous
6 order:

7 As explained by ABATE, net CONE is the amortized net cost of a new CT
8 generation facility. This peaking generation is the lowest cost utility generation
9 that can provide capacity and, therefore, it is a *good proxy for the cost I&M would*
10 *incur if it constructed generation principally for the purpose of providing*
11 *capacity*.¹²

12

13 Further, a fixed investment cost that is not a capacity cost is not therefore a variable cost,
14 regardless of whether or not such non-capacity cost is recovered as a variable energy
15 charge.

16

17 **Q. How is I&M treating the \$9.6 million of non-capacity costs?**

18 A. In essence, I&M is taking \$9.6 million of non-capacity costs, labeling them as fixed
19 costs, then translating fixed costs into capacity costs, and then allocating the \$9.6 million
20 as additional capacity costs to OAD customers as compensation for the revenues that
21 I&M believes that OAD customers should continue to pay. The outcome is that I&M is
22 proposing to collect full embedded fixed costs for power supply – capacity and non-
23 capacity – from OAD customers for whom it is providing only capacity service. Thus,
24 I&M’s proposal is equivalent to asking the Commission for “stranded costs” due to

¹² Case No. U-18370, order April 12, 2018, pages 71-72. Emphasis added.

1 Electric Choice – labeled as the non-capacity portion of full embedded fixed costs – to
2 be paid by OAD customers. The Commission should deny this proposal.

3

4 **Q. Is I&M eligible to collect stranded costs?**

5 A. As a legal issue, Energy Michigan will address this in its brief. As a practical matter, no.
6 The statute under MCL 460.10 that originally allowed recovery of stranded costs was
7 subsequently changed to put a time limit on the recovery of stranded costs.

8 The commission shall authorize rates that will ensure that an electric utility that
9 offered retail open access service from 2002 through October 6, 2008 fully
10 recovers its restructuring costs and any associated accrued regulatory assets. This
11 includes, but is not limited to, implementation costs, stranded costs, and costs
12 authorized under section 10d(4) as it existed before October 6, 2008, that have
13 been authorized for recovery by the commission in orders issued before October
14 6, 2008. The commission shall approve surcharges that will ensure full recovery
15 of all such costs by October 6, 2013.¹³

16

17 Further, the Commission’s definition of stranded costs meant that once a utility received
18 its next rate increase – and was thus able to collect its approved revenue requirement
19 from that point forward – there could be no more stranded costs.

20 Stranded costs would be the difference between each year’s revenue requirement
21 associated with fixed generation assets, generation-related regulatory assets, and
22 capacity payments associated with PPAs and that year’s revenues available to
23 cover those costs.¹⁴

24

25 Consequently, with the Commission’s final order in this proceeding, I&M will be
26 authorized to implement rates that collect the approved revenue requirement for power

¹³ Michigan MCL 460.10a(8).

¹⁴ Case No. U-12639, order December 20, 2001, page 4. Emphasis added.

1 supply, and consequently after the date of the final order there would not and could not
2 be stranded costs according to the Commission's definition of stranded costs.

3

4 **Q. What is the financial effect of I&M's proposal to allocate \$9.6 million of costs from
5 standard service customers to OAD customers, on the grounds that OAD customers
6 should be paying for non-capacity costs?**

7 A. The financial effect of the \$9.6 million allocation can be determined from Figure MWN-2
8 on page 23 of Mr. Nollenberger's direct testimony, described following:

9

10 The line labeled "Total OAD Classes" shows Total Present Revenue of \$7,649
11 (thousand) and "Embedded PS-C, Total Net Increase" of \$9,506, which as the
12 percentage next to it is an increase of 124.28%, more than double the Net CONE
13 charge to OAD customers. In tabular form, the financial effect is:

14

15	OAD Present Revenue	\$ 7,649
16	OAD Proposed Revenue	17,155
17	Increase	9,506
18	Percent Increase	124.28 %

19

20 **Q. What is your recommendation to the Commission?**

21 A. I recommend that the Commission deny I&M's proposed allocation of \$9.6 million of
22 non-capacity charges from standard service to OAD service. The proposal mimics a
23 stranded cost charge, is not supported by "cost of service," is not corroborated by the
24 rationale of the Commission's previous decision in Case No. U-18370, imposes a very

1 large and unfair financial burden on OAD customers, and essentially transforms the Net
2 CONE method into the Embedded Cost method.

3
4 **B. Embedded Cost Method**

5
6 **Q. Is I&M proposing a charge to OAD customers that reflects the cost of providing**
7 **capacity service to those customers?**

8 A. “Cost of service” under regulation is a method approved by the Commission applied to a
9 specific set of circumstances. Cost of service is not simply a software Excel file, for
10 example. I&M assumes, although does not justify, that its “embedded cost method” is
11 the proper way to determine the cost of providing capacity service to OAD customers.

12 As discussed by Company witness Williamson, the company is requesting the
13 Commission approve power supply rates found in Exhibit IM-70 (MWN-2) that
14 include all embedded production demand-related costs as power supply capacity-
15 related.¹⁵

16
17 I&M is requesting the Commission approve power supply rates consistent with
18 Exhibit IM-70 (MWN-2) as presented by Company witness Nollenberger. This
19 approach sets power supply capacity rates based on the embedded cost method
20 using the fixed costs I&M incurs to provide capacity for all its customers,
21 including OAD customers.¹⁶

22
23 The I&M proposal would have the Commission agree that “all embedded production
24 demand-related costs” and “the embedded cost method using the fixed costs” are
25 precisely the costs of providing capacity service to OAD customers, simply because such
26 costs come out of I&M’s computer model. As explained previously, not all fixed costs or

¹⁵ Matthew Nollenberger, direct testimony, page 22, lines 18-21. Emphasis added.

¹⁶ Andrew Williamson, direct testimony, page 24, lines 17-21. Emphasis added.

1 all costs labeled as “demand-related” are capacity costs – some investment costs could be
2 for improved efficiency, environmental quality, and other attributes.

3

4 **Q. Is I&M’s embedded cost a reasonable method of charging OAD customers for the
5 capacity required by PJM?**

6 A. No, it is not reasonable, because the traditional “embedded cost” method under traditional
7 regulation and the associated “cost of service” model were designed only to allocate total
8 costs over standard service customers in a way that regulators ruled was a reasonable way
9 of splitting joint costs of facilities whose entire costs are being used to provide services to
10 those standard service customers.

11

12 In the situation here, OAD customers do not receive all the attributes and services that the
13 power supply facilities are capable of. I&M provides to PJM, on behalf of OAD
14 customers, only “capacity” service – the rate of conversion of fuel into electric energy –
15 to meet PJM’s requirements for meeting customer load, where “load” is the rate of
16 conversion of electric energy into something useful to the customer, such as heat or
17 mechanical energy. Both capacity and load are measured the same way, in MegaWatts.
18 OAD customers do not receive services of efficient energy, environmental quality,
19 electric ancillary services, etc. While those services have value, standard service
20 customers receive that value, and therefore standard service customers should pay for the
21 cost of the facilities that is not reasonably attributed to only “capacity.”

22

23 **Q. Can the joint costs of generation be split uniquely into capacity and non-capacity?**

1 A. No. Cost of jointly producing two types of products from a single resource cannot be
2 uniquely split into the exact cost of producing one product and the other product. A
3 classic example from economics is a cow. Cows produce beef and hides, jointly. Both
4 have value. The economic question is: How much does the beef cost and how much do
5 the hides cost? There is no unique answer.

6
7 A similar long-standing question is asked in the electricity industry: How much of the
8 investment in a facility is used to produce capacity and how much is used to produce
9 energy? And further, if capacity service is provided to two customers at different times,
10 how much should each pay?

11
12 The regulatory answer has been allocation of costs, a reasonable and equitable allocation
13 of joint costs where “reasonable” and “equitable” are determined by the regulators.

14

15 **Q. How has the Commission ruled on the current issue of capacity charges for OAD**
16 **customers?**

17 A. In the current situation, the Commission ruled in Case No. U-18370 on the basis of a
18 reasonable allocation of joint costs, identifying Net CONE as a reasonable proxy for the
19 capacity portion of joint costs. As quoted previously, and partially repeated here:

20 The Commission agrees with the Staff that, because I&M’s current capacity rate
21 improperly includes some production-demand classified costs that are not
22 capacity-related, it should be rejected. By contrast, the Commission finds that,
23 based on the record in this case, **net CONE can be used to appropriately**
24 **identify what portion of production costs are actually incurred to supply**
25 **capacity.**

26

27 As explained by ABATE, net CONE is the amortized net cost of a new CT
28 generation facility. This peaking generation is the lowest cost utility generation

1 that can provide capacity and, therefore, **it is a good proxy for the cost I&M**
2 **would incur if it constructed generation principally for the purpose of**
3 **providing capacity.** In addition, using net CONE **removes the limited energy**
4 **and ancillary service margins that are not directly related to capacity service.**
5 The Commission finds this proposed method, which begins with total embedded
6 production-related costs and subtracts non-capacity-related costs, to be
7 reasonable.¹⁷
8

9 **Q. What is your recommendation to the Commission?**

10 A. I&M's proposal to charge OAD customers full embedded fixed power supply costs
11 should be rejected.
12

13 **Q. What is your assessment of a capacity charge for OAD customers?**

14 A. I&M is entitled to fair compensation for services rendered. I recommend that OAD
15 customers pay I&M the fair value of the capacity service they receive.
16

17 The fair value in this situation is the PJM "Final Zonal Capacity Price" from PJM's
18 Reliability Pricing Model ("RPM") for the zone in Michigan that I&M is in and for the
19 appropriate time period. The price is visible and is set by competitive auction.
20

21 In PJM, the fair value of capacity for various time periods is established by the RPM.
22 The RPM price is determined by an auction. PJM as an RTO charges the RPM price to
23 LSEs in PJM to pay for capacity purchased at auction to cover the aggregate load in PJM
24 – except PJM does not charge LSEs who have opted, as Fixed Resource Requirements
25 ("FRRs"), to dedicate specified owned capacity to fulfill their capacity requirements
26 separate from the auction.

¹⁷ Case No. U-18370, order April 12, 2018, pages 71-72. Emphasis added.

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Q. What is your perspective on continuing the Net CONE method?

A. The Net CONE price is also based on value. While the Final Zonal Capacity Price reflects the shorter-term market value – a few years – Net CONE reflects the longer-term value of capacity, and it is also the highest value that the market would reasonably expect to see – why buy capacity at higher than Net CONE when new capacity can be built at the cost of Net CONE?

For the OAD customer, Net CONE (versus the Final Zonal Capacity Price) offers the advantage of more price stability from year to year, compared to a market price that can change from year to year. For I&M Net CONE offers the advantage of higher compensation than the Final Zonal Capacity Price and the highest reasonable compensation that reflects the cost of capacity, along with revenue stability.

PJM’s Final Zonal Capacity Price (versus the Net CONE) offers the advantage of a price determined by actual offers to sell – a true market value of capacity – and thus is a visible, demonstrated, non-theoretical, and equitable transaction point between the I&M as seller and OAD customer as buyer.

Q. What is your recommended capacity charge for OAD customers?

A. My first recommendation to the Commission is the PJM Final Zonal Capacity Price.

1 If the Commission desires a more stable charge over the longer term, the current Net
2 CONE method is also a workable method that fits within similar parameters of a
3 reasonable solution for fair compensation to I&M, for the reasons explained previously in
4 my testimony.

5

6 **Q. Does that complete your direct testimony?**

7 A. Yes, it does.

8

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
Indiana Michigan Power Company)
for authority to increase its rates for the) **Case No. U-20359**
sale of electric energy and for approval)
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_____)

EXHIBIT OF
ALEXANDER J. ZAKEM
ON BEHALF OF
ENERGY MICHIGAN, INC.

ALEXANDER J. ZAKEM

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Plymouth, Michigan 48170
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ajzakem@umich.edu

CONSULTANT – MERCHANT ENERGY AND UTILITY REGULATION

Provides 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 Integrvs 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 POSITIONS : 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

<u>Position</u>	<u>Organization</u>	<u>Time Period</u>
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 Jan 91 to Dec 95
& Corporate Strategy Group**

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: Prior to DTE Energy

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-20471
- Michigan Public Service Commission, U-20162
- Michigan Public Service Commission, U-20134
- Michigan Public Service Commission, U-18248
- Michigan Public Service Commission, U-18239
- Michigan Public Service Commission, U-18014
- Michigan Public Service Commission, U-17990
- Michigan Public Service Commission, U-17767
- Michigan Public Service Commission, U-17735
- Michigan Public Service Commission, U-17689
- Michigan Public Service Commission, U-17688
- Michigan Public Service Commission, U-17429
- Michigan Public Service Commission, U-17087
- Michigan Public Service Commission, U-17032
- Michigan Public Service Commission, U-16794
- Michigan Public Service Commission, U-16566
- Michigan Public Service Commission, U-16472
- Michigan Public Service Commission, U-16191
- Michigan Public Service Commission, U-15768.
- 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.

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
Indiana Michigan Power Company)
for authority to increase its rates for the)
sale of electric energy and for approval)
of depreciation rates and other related)
matters.)
_____)

Case No. U-20359

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss.
COUNTY OF WAYNE)

Karri K. Standish, the undersigned, being first duly sworn, deposes and says that she is a Legal Secretary at Varnum LLP and that on the 17th day of October, 2019 she served a copy of Alexander Zakem's Direct Testimony, Exhibit, and Proof of Service upon those individuals listed on the attached Service List via email at their last known addresses.

Karri K. Standish

SERVICE LIST
MPSC CASE NO U-20359

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