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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of THE DETROIT EDISON COMPANY to recover implementation costs for the period ended December 31, 1999.	))))	Case No. U-12359

QUALIFICATIONS

AND

DIRECT TESTIMONY

OF

JOSEPH A. McCORMICK

THE DETROIT EDISON COMPANY
QUALIFICATIONS OF JOSEPH A. MCCORMICK

Line No.

Q. Please state your name and business address?

A. My name is Joseph A. McCormick. My business address is 2000 Second Avenue, Detroit, Michigan 48226.

Q. What is your present position with the Detroit Edison Company?

A. I am the Supervisor in the Budget and Management Information Group of the Electric Choice Implementation Team.

Q. Please summarize your formal educational background.

A. I received my Master of Public Administration from Wayne State University in 1989, my Bachelor of Business Administration from Eastern Michigan University in 1979, and my Associate of Science in Business from Monroe County Community College in 1977.

Q. Please summarize your employment experience at Detroit Edison.

A. I joined Detroit Edison in 1985 and in 1986 attained the position of Associate Business Analyst. Since then, I have worked as a Business Analyst, Staff Assistant and Supervisor-Administrative. My duties over the years have included: preparing, analyzing and reporting on power plant budgets; assisting in the design and analysis of key performance measures and monthly cash flow statements; developing performance measurement models; performing employee relations activities including: union relations,

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supervision, retirements, and transfers; performing goal setting and objectives, employee evaluations and monitoring of results; designing and implementing computer based training; and performing contract administrator duties.

Q. What are your responsibilities on the Electric Choice Implementation Team (ECIT)?

A. I am responsible for the administration of, and reporting on, the entire ECIT budget. While with the ECIT, I have assisted in the creation of the accounting structure, implemented an appropriation of funds process and developed the 1999 budget.

Q: Have you ever testified before this Commission and if so, please list the cases?

A: Yes. I have testified before the Commission in Case No. U-11956.

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DIRECT TESTIMONY OF JOSEPH A. MCCORMICK

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Q. Please describe the purpose of your testimony.

A. The purpose of my testimony is to provide details related to the Company's incurred 1999 implementation costs and accounting for those costs.

Q. Mr. McCormick, are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit Nos. A-1 (JAM-1) and A-2 (JAM-2) which are attached.

Q. Were these exhibits prepared by you or under your direction?

A. Yes, they were.

Q. Would you please describe the information contained in A-1 (JAM-1)?

A. Exhibit No. A-1 (JAM-1) presents the 1999 full year Electric Choice actual expenses by source department by resource type. The direct resource types are Detroit Edison labor, consultant/contract labor, material and equipment, and all indirect charges, which include overhead expenses.

Q. The budget is broken into 5 "source departments". Please describe these "source departments".

A: The Customer Transactions source department includes those expenses associated with the analysis, development, implementation, and operation of business processes pertaining to customers. Specifically, these

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expenses include the integration of all program features into the existing enrollment, billing, payment and customer support processes.

The Supplier Transactions source department includes those expenses associated with the analysis, development, implementation, and operation of business functions pertaining to retailers and marketers, including distribution and transmission functions.

The Communication and Education source department includes those expenses associated with the analysis, development, and implementation, of a consistent, timely and ongoing communications program targeted at employee, retailer/marketer, and customer audiences.

The Data Acquisition source department includes those expenses associated with the analysis, development, implementation, and operations necessary for determining customer usage. Determining customer usage includes commercial and industrial metering analysis, and load profiling to support distribution, energy supplies, and Open Access Transmission Tariff charges for residential and small secondary customers.

The Information Technology source department includes those expenses associated with the analysis, development, implementation and operations to significantly change current information systems and create new systems

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to serve the new functions needed for Electric Choice. These new functions include capacity management, bidding, marketer load scheduling, load profiling methodology, and marketer settlements.

Q. Mr. McCormick, please explain the difference between contractor and consultant labor.

A. Contract labor typically consists of labor from a vendor that primarily performs day-to-day functions within the group for a specified period of time. Consultant labor usually consists of labor from a vendor that provides a high level of technical expertise within the project for a specified period of time. Consultants are normally used for the design, development and implementation of systems.

Q. Mr. McCormick, please explain the types of expenses typically classified as material and equipment.

A. Material-related expenses include such expenses as computer equipment, supplies, and software. Any expense classified as "other" also appears on this line. Other expenses include seminar expenses.

Q. Mr. McCormick, please explain the types of expenses classified as direct and indirect expenses.

A. Direct expenses are those expenses that are directly incurred by the Business Unit, such as Detroit Edison labor, contract and consultant labor,

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and materials. Indirect expenses are allocated overheads such as employee benefits, post retirement benefits, vacation accrual, payroll taxes, occupancy costs, and single business tax costs. These are applied to each group through a calculation.

Q. Line 37 shows "cost of capital" calculations. Please define this term and explain this cost.

A. The cost of capital is the required return on assets based on a capital structure, which includes accumulated deferred Federal income taxes, and investment tax credits. The pre-tax rate used is 10.01%, which was used by the Commission for the return on assets to determine rates in MPSC Case Nos. U-10102 and U-11726. The cost of capital calculation is further described in my workpapers.

Q: Line 38 shows "Non-Incremental Labor and Benefits". This amount is removed from the 1999 implementation costs. Please describe this figure and give the reason it is removed from 1999 expenses.

A: The amount on Line 38 represents the 45% of 1998 labor expenses that were asserted to be non-incremental during the MPSC Staff audit and subsequent testimony presented by Gerald F. Geml in Case No. U-11956. This amount was moved to Operating and Maintenance expense following the U-11956 True Up proceedings. The Detroit Edison Company is not seeking recovery of this amount.

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Q. Please list the key milestones achieved by the Electric Choice Team during 1999.

A. The key milestones achieved by the Electric Choice Team during 1999 are listed on the attached Exhibit No. A-2 (JAM-2).

Q. In Case No. U-11956 the Company addressed 1998 expenses and first quarter 1999 expenses. Does this testimony include 1999 first quarter expenses and if so, please explain why?

A. MPSC Staff auditor Gerald F. Geml, in his testimony in Case No. U-11956, asserted that the first three months of 1999, which were presented by the Company in Case No. U-11956, should be deferred until this filing to make the process consistent with the Consumers Energy filing (Case No. U-12358). The Company is not seeking to recover the first quarter implementation costs twice, but rather, is providing full-year 1999 implementation costs for the sake of completeness and to permit the Commission to approve the first quarter 1999 implementation costs in the case it deems appropriate.

Q. Were the expense items shown on Exhibit No. A-1 (JAM-1) accurately booked according to generally accepted accounting principles?

A. Yes they were.

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Q. Mr. McCormick, what is the total amount of 1999 implementation costs that Detroit Edison is seeking to recover?

A. Detroit Edison is seeking to recover $21,237,548

Q. Mr. J. J. Gessner's testimony in Case No. U-11956 estimated total 1999 expenses to be $38,203,000. Please explain the differences between the total amount Detroit Edison is seeking to recover for 1999 and the total amount estimated for 1999 in Mr. Gessner's testimony.

A. The primary reason for the difference between actual and estimated 1999 expenditures is the lower than forecasted level of participation. This level of participation caused certain projected expenses to be deferred. The source department most impacted was Data Acquisition. The purchase and installation of meters as well as meter related programming expenses were deferred.

Q. The testimony of Mr. Gessner in Case No. U-11956 lists the total ECIT expenses for the implementation of Electric Choice to be $120,475,000. To the best of your knowledge, is this still correct?

A. Yes

Q. Does this complete your testimony?

A. Yes.