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Before the

Public Service Commission

of the State of Michigan

Case No. U-12359

THE DETROIT EDISON COMPANY

Direct Testimony of

James T. Selecky
(Revised)

On Behalf of

ABATE

November 2000
Project 7398

BAI
BRUBAKER & ASSOCIATES, INC.

Revised

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INTRODUCTION

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A James T. Selecky; 1215 Fern Ridge Parkway, Suite 208; St. Louis, Missouri, 63141.

Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?

A I am a consultant in the field of public utility regulation and a principal in the firm of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A These are set forth in Appendix A to this testimony.

Q ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A I am presenting testimony on behalf of the Association of Businesses Advocating Tariff Equity (ABATE). Member companies of ABATE are substantial purchasers of electricity from The Detroit Edison Company (DECo or Company).

Q HAVE YOU PRESENTED TESTIMONY IN PRIOR DETROIT EDISON COMPANY (DECO OR COMPANY) PROCEEDINGS BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION (COMMISSION OR MPSC)?

A Yes. I have been involved in many prior DECo proceedings before this Commission.

Q WHAT IS THE SUBJECT MATTER OF YOUR DIRECT TESTIMONY?

A The subject matter of my testimony is directed toward the implementation costs associated with the Retail Open Access (ROA) program and the collection of those costs from ratepayers.

SUMMARY OF CONCLUSIONS

Q WOULD YOU BRIEFLY SUMMARIZE YOUR CONCLUSIONS IN THIS PROCEEDING?

A Yes. Any proposal to implement a uniform implementation cost recovery surcharge per kWh for all customer classes would result in a reallocation of cost responsibility among the different customer classes and should be rejected.

IMPLEMENTATION COSTS

Q HAS DECO PRESENTED ANY TESTIMONY REGARDING AN APPROPRIATE METHOD TO RECOVER PRUDENT IMPLEMENTATION COSTS IN THIS PROCEEDING?

A No. The testimony of Mr. McCormick does not mention an appropriate method of cost recovery. Mr. McCormick basically states that 1999 implementation costs that DECo seeks to recover amount to $21.2 million. This is in contrast to a projected amount presented by Mr. Gessner in Case No. U-11956 of $38.2 million for 1999.

The stated reason for the charge from $38.2 to $21.2 million for 1999 expenditures by Mr. McCormick is, ". . . the lower than forecasted level of participation."

Q WHAT TYPES OF COSTS ARE INCLUDED IN THE IMPLEMENTATION COSTS CLAIMED BY DECO?

A The data presented by Mr. McCormick indicates that the majority of the implementation costs represents customer and retailer billing costs.

Q WHAT IS THE IMPLICATION OF THE PATTERN OF EXPENDITURES?

A Most of the costs are customer-related costs. In standard cost of service and associated rate design before the MPSC, virtually all of these costs would be allocated to customer classes based on numbers of customers. None of these costs are energy or kWh-related. Therefore, these costs should be allocated to classes based on the number of customers in each class and collected on that basis.

Q HAS DECO PERFORMED ANY STUDIES TO DETERMINE HOW IMPLEMENTATION COSTS SHOULD APPROPRIATELY BE ALLOCATED TO CLASSES ON THE BASIS OF COST OF SERVICE OR COST CAUSATION?

A The following data requests and responses indicate that no studies were performed by DECo.

"ABDE1.2/2

Question:

Please provide all studies done by Detroit Edison that show how the 1999 implementation costs (and also for any other year) are appropriately allocated to classes of customers based on cost of service or cost causation.

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Answer:

No such studies have been performed by the Company.

ABDE1.3/3

Question:

How would Detroit Edison allocate the implementation costs to classes in a cost of service study? Please provide details.

Answer:

No such studies have been performed by the Company.

ABDE1.4/4

Question:

Please provide all studies done by Detroit Edison that show how all implementation costs are caused by classes and the appropriate cost-based methodology to collect implementation costs consistent with cost of service.

Answer:

No such studies have been performed by the Company."

Q ALTHOUGH THE PREVIOUSLY MENTIONED DISCOVERY RESPONSES BY DECO INDICATED THAT NO STUDIES HAVE BEEN PERFORMED TO SHOW HOW IMPLEMENTATION COSTS ARE CAUSED BY CUSTOMER CLASSES, DID DECO PROVIDE INFORMATION WITH RESPECT TO THE COST CAUSATION OF IMPLEMENTATION COSTS BY CLASS IN CASE NO. U-11956?

A Yes. In response to Data Request ABDE2.28/31, in Case No. U-11956, DECo witness James Gessner stated the following:

"Q For the various costs shown on Exhibit ___ (JJG-1), please identify which rate classes (residential, commercial, industrial and lighting) cause the various costs to be incurred.

A A preliminary study conducted in mid-1998 on cost allocation among customer classes is provided herein as Attachment ABDE2.28/31. This work tentatively applied 44% of program

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costs to residential, 11% to small commercial, 29% to large commercial (three phase) and 16% to primary. None of these costs were allocated to lighting. To date, this work has not been updated. Furthermore, costs for the years 1999 through 2001 are forecasts, not actual."

Q WHAT IS YOUR RECOMMENDATION WITH REGARD TO THE APPROPRIATE COST ALLOCATION AND COST RECOVERY OF PRUDENT IMPLEMENTATION COSTS?

A Based on the response to this data request, I recommend that rate class specific surcharges be developed recognizing that 44% of the customer costs are residential, 11% are small commercial, 29% are large commercial and 16% are primary. If this study is not used, the costs should be allocated to classes based on the number of customers in each class. Under no circumstances should implementation costs be allocated or charged to customers on a uniform per kWh basis.

However, I am not proposing a specific cost recovery mechanism in this case for prudent implementation costs. The Michigan Public Service Commission (Commission) in a recent order in Case No. U-11956 stated that it was deferring the recovery of DECo's 1998 implementation costs until the questions regarding the stranded cost recovery are resolved. Specifically the Commission stated the following on this issue:

"Instead of deciding how to effect recovery of the 1998 implementation costs in this order, the Commission will defer the means of recovery until pending questions regarding the stranded cost recovery mechanism are resolved." (Case No. U-11956, Order, page 12)

Since the referenced Order was issued October 24, 2000 and the stranded cost recovery issues are not yet resolved, I recommend that the recovery of the 1999 implementation costs should also be deferred.

Q DO YOU HAVE OTHER COMMENTS ASSOCIATED WITH THE IMPLEMENTATION COSTS REQUESTED BY DECO?

A Yes. In the June 5, 1997 Order in Case No. U-11290, the Commission stated the following regarding the recovery of implementation costs:

> "The Staff Report recommends that audited and verified costs for employee retraining required by restructuring, as well as implementing the direct access system, be included in stranded costs. In implementing this recommendation, the Commission will examine the prudence of all such costs prior to including them in stranded costs." (Pages 12-13, emphasis added)

Q WHAT IS YOUR RECOMMENDATION REGARDING THE DETERMINATION OF THE LEVEL OF IMPLEMENTATION COSTS THAT SHOULD BE INCLUDED IN THE SURCHARGE?

A It is my recommendation that the Commission require the Staff to perform an audit of DECo's proposed implementation costs to determine whether the costs were prudently incurred and incremental and, based on that audit, the rate class surcharges should be developed using an appropriate cost allocation method based on a customer derived allocation factor as commonly used in cost of service studies.

Q DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A Yes, it does.

Qualifications of James T. Selecky

Q **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A James T. Selecky. My business mailing address is P. O. Box 412000, 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000.

Q **PLEASE STATE YOUR OCCUPATION.**

A I am a consultant in the field of public utility regulation and am a principal in the firm of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q **PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EMPLOYMENT EXPERIENCE.**

A I graduated from Oakland University in 1969 with a Bachelor of Science degree with a major in Engineering. In 1978 I received the degree of Master of Business Administration with a major in Finance from Wayne State University.

I was employed by The Detroit Edison Company (DECo) in April of 1969 in its Professional Development Program. My initial assignments were in the engineering and operations divisions where my responsibilities included evaluation of equipment for use on the distribution and transmission system; equipment performance testing under field and laboratory conditions; and trouble-shooting and equipment testing at various power plants throughout the DECo system. I also worked on system design and planning for system expansion.

In May of 1975, I transferred to the Rate and Revenue Requirement area of DECo. From that time, and until my departure from DECo in June, 1984, I held

various positions which included economic analyst, senior financial analyst, supervisor of Rate Research Division, supervisor of Cost-of-Service Division and director of the Revenue Requirement Department. In these positions, I was responsible for overseeing and performing economic and financial studies and book depreciation studies, developed fixed charge rates and parameters and procedures used in economic studies, providing a financial analysis consulting service to all areas of DECo, developing and designing rate structure for electrical and steam service, analyzing profitability of various classes of service and recommending changes therein, determining fuel and purchased power adjustments and all aspects of determining revenue requirements for rate-making purposes.

In June of 1984, I joined the firm of Drazen-Brubaker & Associates, Inc. (DBA). In April, 1995 the firm of Brubaker & Associates, Inc. (BAI) was formed. It includes most of the former DBA principals and staff. At DBA and BAI I have testified in electric, gas and water proceedings involving almost all aspects of regulation. I have also performed economic analyses for clients related to energy cost issues.

In addition to our main office in St. Louis, the firm also has branch offices in Kerrville, Texas; Plano, Texas; Denver, Colorado; and Chicago, Illinois.

Q HAVE YOU PREVIOUSLY APPEARED BEFORE A REGULATORY COMMISSION?

A Yes. I have testified on behalf of DECo in its steam heating and main electric cases. In these cases I have testified to rate base, income statement adjustments, changes in book depreciation rates, rate design, and interim and final revenue deficiencies.

In addition, I have testified before the regulatory commissions of the States of Colorado, Connecticut, Georgia, Illinois, Indiana, Kansas, Maryland, Massachusetts, Missouri, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oklahoma, Tennessee, Texas, Utah, Wisconsin, and Wyoming, and the Provinces of Saskatchewan and Alberta. I also have testified before the Federal Energy Regulatory Commission. In addition, I have filed testimony in proceedings before the regulatory commissions in the States of Iowa, Montana, New York, and Pennsylvania. My testimony has addressed revenue requirement issues, cost of service, rate design, financial integrity, accounting-related issues, merger-related issues, and performance standards. The revenue requirement testimony has addressed book depreciation rates, decommissioning expense, O&M expense levels, and rate base adjustments for items such as plant held for future use, working capital, and post test year adjustments. In addition, I have testified on deregulation issues such as stranded cost estimates and rate design.

Q ARE YOU A REGISTERED PROFESSIONAL ENGINEER?

A Yes, I am a registered professional engineer in the State of Michigan, based upon state examinations.