

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, 2000)
_____)

Case No. U-12892

QUALIFICATIONS AND TESTIMONY OF
NANCY G. KATSARELAS

July 31, 2001

QUALIFICATIONS OF NANCY G. KATSARELAS

CASE NO. U-12892

PART I

1 Q. Please state your name and business address.

2 A. My name is Nancy G. Katsarelas. My business address is 6545 Mercantile Way,
3 Lansing, Michigan 48909.

4 Q. Whom are you employed by and what is your position?

5 A. I am employed as an auditor with the Michigan Public Service Commission
6 (MPSC). I am currently assigned to the Audit Section of the Electric Division.

7

8 In 1979 I was hired by this Commission as an auditor assigned to the Valuation
9 and Depreciation Section of Technical Services Division. I was responsible for
10 small telephone company depreciation case and also assisted on large depreciation
11 cases. I was frequently assigned to the Compliance Audit Section, which audited
12 various Michigan utilities for overall compliance with the Uniform System of
13 Accounts.

14

15 Early in 1982 I was transferred to the Electric Division, Audit Section. I have
16 planned and performed audits of electric utilities serving Michigan customers in
17 matters relating to rate increases and decreases, power supply cost recovery
18 reconciliation and various special audits.

19

20 During my employment with the MPSC I have been a member of various
21 Commission task forces including the Continuing Property Records Plan of
22 Michigan Bell. I was also regional coordinator of the Michigan Insulation
23 Outreach Program.

24

25 I am a Certified Public Accountant licensed in the State of Michigan.

QUALIFICATIONS OF NANCY G. KATSARELAS

CASE NO. U-12892 PART I

1 Q. Have you ever testified before this Commission?

2 A. I have testified in or provided testimony for the following cases:
3
4

5	<u>Company</u>	<u>Case No.</u>	<u>Type</u>
6	Ontonagon County REA	U-6652	Rate/TIER
7	Southeastern Michigan	U-6698	Rate/TIER
8	Consumers Power Company	U-7512-R	PSCR Reconciliation
9	Oceana Electric	U-7973	Rate Case
10	Wolverine Power Supply	U-8115	Rate Case
11	Wolverine Power Supply	U-7872-R	PSCR Reconciliation
12	Ontonagon County REA	U-8049-R	PSCR Reconciliation
13	Thumb Electric Coop.	U-8051-R	PSCR Reconciliation
14	Detroit Edison Company	U-7775-R	PSCR Reconciliation
15	Wolverine Power Supply	U-8052-R	PSCR Reconciliation
16	Detroit Edison Company	U-8020-R	PSCR Reconciliation
17	Ontonagon County REA	U-8281-R	PSCR Reconciliation
18	Wolverine Power Supply	U-8284-R	PSCR Reconciliation
19	Blue Water Beach Water Co.	U-8915	Rate Case
20	Alpena Power Company	U-8936	Rate Case
21	Wisconsin Public Service	U-8587-R	PSCR Reconciliation
22	Wolverine Power Supply	U-8543-R	PSCR Reconciliation
23	Northern States Power	U-8884-R	PSCR Reconciliation
24	Wisconsin Public Service	U-8882-R	PSCR Reconciliation
25	Fruitbelt Electric Co.	U-8889-R	PSCR Reconciliation
26	Indiana Michigan Electric	U-8905-R	PSCR Reconciliation

QUALIFICATIONS OF NANCY G. KATSARELAS

CASE NO. U-12892

PART I

1	<u>Company</u>	<u>Case No.</u>	<u>Type</u>
2	Consumers Power Company	U-9346	Rate Case
3	Detroit Edison Company	U-10103-R	PSCR Reconciliation
4	Wisconsin Electric Company	U-10183	Rate Case
5	Wisconsin Electric Company	U-11837	Rate Case
6	Detroit Edison Company	U-12359	Program Audit
7	Wisconsin Electric Company	U-12725	Rate Case

TESTIMONY OF NANCY G. KATSARELAS

**CASE NO. U-12892
PART II**

1 Q. What is the purpose of your testimony in this proceeding?

2 A. The purpose of my testimony is to describe the audit performed on the retail open
3 access program costs for year ended December 31, 2000 and to present Staff's
4 position relating to year-end costs.

5 Q. Describe Staff's review of the Electric Choice Implementation Costs.

6 A. Staff performed an on-site audit of the implementation cost for the twelve months
7 ending December 31, 2000. The audit consisted of reviewing contractor invoices,
8 company related labor and expense summaries, Internal Audit Reports, journal
9 entries and the overall reasonableness of charges recorded on the company books
10 and records relating to the open access program.

11 Q. Would you please discuss the Staff's finding and recommendation regarding
12 Detroit Edison's implementation costs?

13 A. Yes. I would refer to Exhibit S-____(NGK-1), titled, "Electric Choice
14 Implementation Costs for twelve months ended December 31, 2000." The exhibit
15 summarizes, on lines 1-6, the costs presented by Company witness Joseph
16 McCormick, A-____(JAM-1). Each category is made up of Company labor,
17 Contractor and Consultant labor, and material, equipment and other costs. Also
18 included are overhead charges.
19 Invoices support the sample of contractor billings, consultant labor, material and
20 equipment expense. Staff sampled those invoices and found no material
21 discrepancies.

TESTIMONY OF NANCY G. KATSARELAS

**CASE NO. U-12892
PART II**

1 All cost for the year 2000 were booked directly to account #186, a deferred asset
2 account. They were not expensed and closed out to the income statement at year-
3 end like normal operating expenses.

4

5 The equipment purchase for this program was deferred to the #186 account rather
6 than booked to Plant accounts.

7 Q. Did you review DECO labor expense and determine if there was any non-
8 incremental labor?

9 A. A schedule of company labor, prepared by the internal auditors, calculated the
10 non-incremental labor percentage. For year ended December 31, 2000, the
11 percentage of non-incremental labor was 29%.

12

13 The non-incremental labor is the portion of DECO labor that is recovered through
14 base rates. The remaining portion of labor is new labor hired subsequent to the
15 last DECO rate case, MPSC Case No. U-10102, January 21, 1994.

16 Company witness, Mr. Joseph McCormick, included non-incremental labor in his
17 filed exhibit. Total DECO labor was \$3,600,129 including \$1,044,037 of non-
18 incremental labor. The total company labor should be \$2,556,092 when the non-
19 incremental labor portion is removed.

20 Q. Are you recommending any disallowances?

21 A. Yes. I am recommending that \$1,044,037 of non-incremental company labor be
22 removed from the \$27,360,033 implementation costs before carrying cost are

TESTIMONY OF NANCY G. KATSARELAS

**CASE NO. U-12892
PART II**

1 computed. This disallowance is consistent with the Commission's findings in
2 MPSC Case No. U-12359.

3 Q. Are you including carrying costs in your presentation?

4 A. Yes. Carrying cost are computed using the 7% rate authorized in MPSC Case No.
5 U-12359. The company has computed carrying cost on a monthly basis. Staff
6 recomputed carrying cost by first removing 29% of monthly labor from monthly
7 expenses.

8 Q. What is the total Electric Choice Program Implementation cost Staff is supporting
9 in the proceeding after making the above adjustments?

10 A. The total implementation cost for year ended December 31, 2000 should be
11 approximately \$27,225,289.

12 Q. Do you have any further comments to make regarding this matter?

13 A. Yes. I would like to mention that the scope of this audit did not include an
14 evaluation of the electric choice program. The audit was performed on financial
15 data only. The purpose of the audit was to determine if the amounts booked for
16 implementation costs by Detroit Edison and presented by the Company witness,
17 Mr. Joseph McCormick, are fair and reasonable.

18 Q. Does that conclude your testimony?

19 A. Yes.

DETROIT EDISON ENERGY CO.
Electric Choice Implementation Costs
for twelve months ending December 31, 2000

Case No: U-12892
Exhibit: S-_____(NGK-1)
Witness: N.G. Katsarelis

LINE	DESCRIPTION	Year 2000
1	Customer Transactions	3,861,804
2	Supplier Transactions	2,381,775
3	Communication & Education	1,057,555
4	Data Equipment Acquisition	5,843,977
5	Information Systems	14,214,922
	SUBTOTAL	<u>27,360,033</u>
	STAFF ADJUSTMENTS	
6	Carrying Costs (7%)	909,293
7	Adjustment for non-incremental labor	<u>(1,044,037)</u>
8	ADJUSTED ELECTRIC CHOICE EXPENSE	<u>27,225,289</u>

PROOF OF SERVICE



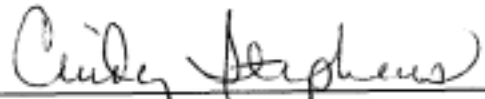
STATE OF MICHIGAN)

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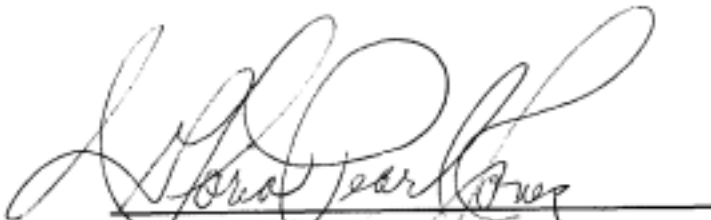
Case No. U-12892

County of Ingham)

Cindy Stephens, being duly sworn, deposes and says that on July 31, 2001, A.D. she served a copy of the attached Testimony and Exhibits, by mailing copies thereof by first class mail, postage prepaid or by inter-departmental mail, to the persons as shown on the attached service list.



Subscribed and sworn to before me
this 31st day of July A.D., 2001


Gloria Pearl Jones
Notary Public, Ingham County, Michigan,
My Commission Expires: June 5, 2003

GLORIA PEARL JONES
Notary Public, Ingham County, MI
My Commission Expires June 5, 2003

SERVICE LIST FOR DOCKET # U - 12892-
DATE OF PREPARATION: 07/31/2001

CASE #

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