

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Commission's own motion)
ordering **THE DETROIT EDISON COMPANY**)
to show cause why its retail rates for the sale)
and distribution of electric energy should not)
be decreased.)

Case No. U-14838

QUALIFICATIONS
AND
DIRECT TESTIMONY
OF
DAVID W. BROOME

THE DETROIT EDISON COMPANY
QUALIFICATIONS OF DAVID W. BROOME

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1 **Q. Would you please state your full name and business address?**

2 A. My name is David W. Broome. My business address is The Detroit Edison
3 Company, 2000 Second Avenue, Detroit, Michigan 48226.

4

5 **Q. What is your present position with DTE Energy?**

6 A. My current position is Director of Customer Service Program Management.

7

8 **Q. Would you please state your educational background?**

9 A. I graduated from Wayne State University with a Bachelor and a Masters
10 degree in Business Administration. I also earned a Master of Science
11 degree in Information Systems from Lawrence Technological University.

12

13 **Q. Would you please describe your work experience?**

14 A. I have been employed by the Detroit Edison Company since 1980 in a
15 number of positions of increasing responsibility.

16

17 **Q. Would you please describe your more recent positions and duties?**

18 A. From June 2002 until the present I have been leading the program
19 management and continuous improvement function within Customer
20 Service at Detroit Edison. In this role, I have been responsible for
21 developing and implementing continuous improvement initiatives targeted at
22 improving key operational metrics. Some of the initiatives that I have led in
23 the recent past include instituting solutions within the call center targeted at
24 performance management and redesigning the workload processes. These

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1 initiatives resulted in a dramatic improvement to Average Speed of Answer
2 and labor savings as performance improvements and efficiencies were
3 realized.

4

5 From 1998 to 2002 I held the position of Division Information Officer. In this
6 role I was responsible for Information Technology application development,
7 application maintenance, requirement gathering and business unit
8 relationships for numerous business units within DTE.

9

10 From 1995 to 1998 I held the position of Director, Wholesale Billing and
11 Administration. In this role I was responsible for the billing and contract
12 administration of wholesale electric contracts for Detroit Edison. While
13 holding this position, I was charged with leading the development of both
14 the Information Technology and business process infrastructure.

15

16 From 1991 to 1994 I held the position of Project Manager within the
17 Wholesale Billing and Administration function. In this position, I led the
18 development and implementation of various computer applications including
19 the second release of a Wholesale Billing System.

20

THE DETROIT EDISON COMPANY
DIRECT TESTIMONY OF DAVID W. BROOME

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

2 A. The purpose of my testimony is to support as reasonable and necessary,
3 the expected operation and maintenance expenses in the area of Customer
4 Service for the test year 2007. In addition, I will support as reasonable and
5 necessary, the actual 2005 and estimated 2006 and 2008 through 2011
6 expenditures for the same categories as for the 2007 test year. Key items
7 include the impacts of Customer Service Performance Excellence Process
8 (PEP) initiatives, proposed changes to the billing rules and the impact of
9 Automated Meter Reading (AMR) implementation.

10

11 **Q. Mr. Broome, which exhibits are you supporting?**

12 A. I am supporting all or part of the information on the following exhibits:

13 Exhibit DE-16

14 Schedule F3-5 Capital Expenditures – Energy Delivery and Customer
15 Service (co-sponsored with Mr. Dow)

16 Schedule F5-4 O&M Expense – Customer Service

17 Schedule F5-5 O&M Expense – Regulated Marketing

18 Schedule F5-6 Summary of Uncollectible Expense

19 Schedule F5-11 MPSC Standards of Performance-Customer Service

20

21 **Q. Were the above-mentioned exhibits prepared by you or under your**
22 **direction?**

23 A. Yes, they were.

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1 **Q. What is the role of Customer Service at DTE?**

2 A. Customer Service is responsible for managing our customer relationships
3 and collecting revenues for both Detroit Edison and Michigan Consolidated
4 Gas Company (MichCon). Customer Service is comprised of several
5 organizations responsible for conducting the work associated with the
6 processes of Customer Care and Collecting Revenue.

7

8 **Q. Please identify these organizations.**

9 A. The Customer Care organization manages requests for account
10 establishments of new service, responds to inquiries regarding account
11 information, schedules work orders and responds to emergency and trouble
12 calls. The Customer Care organization responds to customers via the
13 Customer Service 1-800 number, through the Internet and through written
14 correspondence.

15

16 Customer Billing is responsible for meter reading, residential and
17 commercial billing, major accounts billing, resolving bill issues, and
18 establishing accounts.

19

20 Credit and Collections manages credit policies and accounts receivable
21 collection (including termination of service), delivers bill payment options to
22 customers, and detects and resolves energy theft and fraud.

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1 Consumer Affairs is responsible for resolving customer issues that have
2 escalated beyond the normal resolution route within Detroit Edison and
3 MichCon. Consumer Affairs handles internal escalated complaints,
4 complaints filed with the MPSC and is the company liaison with MPSC Staff
5 on customer complaints.

6

7 **Q. How are costs being allocated between Detroit Edison and MichCon**
8 **for Customer Service?**

9 A. Each organization has a cost allocation based on the actual driver of activity
10 within that organization. The allocations for the current year are based on
11 actual data from the previous year.

12

13 Customer Care allocates costs based on the number of electric and gas
14 customers. For 2005, 66.06% of Customer Care costs were allocated to
15 Detroit Edison and 33.94% of costs were allocated to MichCon. This
16 allocation was based on 1,879,779 Detroit Edison customers and 965,852
17 MichCon customers. Each overlap customer is counted as a one-half gas
18 and one-half electric customer.

19

20 Customer Billing has two drivers of cost allocation. The number of gas and
21 electric meters is used to allocate Meter Reading costs and the number of
22 customers drives the allocation of costs for billing. In 2005, Detroit Edison
23 was allocated 72.09% of meter reading costs and MichCon was allocated
24 27.91%. This allocation was based on 2,631,666 Detroit Edison meters and

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1 1,018,839 MichCon meters. In 2005, Detroit Edison was allocated 66.06%
2 of billing costs and MichCon was allocated 33.94%. This allocation was
3 based on 1,879,779 Detroit Edison customers and 965,852 MichCon
4 customers.

5
6 Credit and Collections allocates costs based on the number of accounts in
7 arrears. In 2005, 54.68% of Credit & Collections costs were allocated to
8 Detroit Edison and 45.32% of costs were allocated to MichCon. This
9 allocation was based on 393,055 Detroit Edison accounts in arrears and
10 325,749 MichCon accounts in arrears.

11
12 Uncollectible expense is not allocated. Uncollectible expense is determined
13 by review of individual arrearage accounts for each company and then
14 recorded separately based on actual uncollectible performance.

15
16 Consumer Affairs allocates costs based on the number of MPSC and
17 Corporate complaints. In 2005, 60% of costs were allocated to Detroit
18 Edison while MichCon was allocated 40%.

19

20 **Performance Excellence Process (PEP) Initiatives**

21 **Q. Is Customer Service impacted by the PEP initiatives?**

22 A. Yes. Customer Service has two main PEP initiatives. The first initiative is
23 to reduce the cost of handling customer calls and the second is to reduce
24 the cost of credit centers without significantly impacting customer

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1 satisfaction. As part of these initiatives we have outsourced some calls and
2 closed some credit centers. The total savings from all Customer Service
3 PEP initiatives is projected to be \$5.0 million in 2007 and \$5.85 million for
4 each of the years 2008-2011.

5

6 **Q. Please describe the call outsourcing initiative being pursued by**
7 **Detroit Edison?**

8 A. As of May 1st, 2006, Detroit Edison has outsourced 90% of its service calls,
9 turn on/disconnect calls, billing calls and collection calls which, taken
10 together, account for approximately 47% of total call volumes. We are
11 continuing to evaluate outsourcing an increasing number of calls. We are
12 currently projecting a savings of \$1.9 million from 2005 base levels.

13

14 **Q. Why does this initiative yield savings?**

15 A. This initiative yields savings because the outsourced cost per call is
16 significantly lower than Detroit Edison's internal cost (\$6.66 internally versus
17 \$2.35-\$2.56 externally). Outsourcers are able to locate call centers in
18 opportune labor markets, where they can pay wage and benefit structures
19 that are much less than what Detroit Edison must pay in the local labor
20 market and under existing labor contracts.

21

22 **Q. What has been the impact of this initiative thus far on customer**
23 **satisfaction?**

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1 A. Preliminary results of call quality and representative satisfaction levels as
2 rated by our customers have been good. Specifically, we began measuring
3 satisfaction levels of customers who were handled by a vendor vs. those
4 handled by our in house phone representatives at the beginning of 2006.
5 For the first quarter of 2006, there was no statistically significant difference
6 in call quality and representative performance perceptions between the two
7 groups.

8

9 **Q. What plans does Detroit Edison have in place to safeguard against**
10 **erosion in call quality as more calls are outsourced?**

11 A. Detroit Edison has, and will continue to monitor call quality. Our approach is
12 to pilot outsourcing different types of calls, one type at a time. Specifically,
13 a small proportion of the targeted calls are sent to the outsourcer, results
14 are evaluated, deficiencies are addressed and then a larger proportion of
15 the calls are sent. This approach has typically resulted in 2-3 months of
16 elapsed time from the beginning of the process to the outsourcing of the
17 majority of a particular call type.

18

19 Moreover, Detroit Edison has a dedicated team in place to develop and
20 execute a comprehensive quality program. This program is comprised of
21 four main components:

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1 First, a team of Detroit Edison leaders will work on site with the vendor as
2 new call types are outsourced in order to quickly respond to and address
3 deficiencies.

4

5 Second, vendors are required to institute a call monitoring program and
6 report results to Detroit Edison on a regular basis. Results are cross-
7 checked by Detroit Edison quality specialists to ensure call handling
8 standards are being met.

9

10 Third, Detroit Edison quality specialists are monitoring the vendor's call
11 monitoring results to validate whether or not the vendor is in compliance
12 with the established requirements.

13

14 Fourth, Detroit Edison and the vendor hold calibration sessions. Calls are
15 observed and evaluated jointly to develop and sustain a high degree of
16 comparability.

17

18 **Q. What is the purpose of credit centers?**

19 A. Detroit Edison's credit centers are focused on the Credit & Collections
20 objectives of reducing arrears and uncollectible expense by conducting
21 credit-related interviews. Our secondary focus is to provide customers with
22 a payment processing channel.

23

24 **Q. What is Detroit Edison's plan for closing credit centers?**

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1 A. As of March 31st, we have closed 3 credit centers in 2006. These credit
2 centers were chosen for closure after analyzing volumes of transactions
3 processed and the nature of the transactions processed. Based on this
4 analysis, we determined that most of our customers could be served with
5 alternative customer service channels, such as our fax process, credit card
6 payment method, and the use of alternative payment locations such as
7 grocery stores. These changes are discussed further later in my testimony.

8
9 We plan to continue pursuing the closure of additional offices during the
10 remainder of 2006. Our plan is to close 4 credit centers and keep 3 open to
11 serve our customers with the greatest need; we will retain our West 7 Mile
12 credit center, our East 8 Mile credit center and our credit center located in
13 Hamtramck. These three offices have our highest traffic volume, in terms of
14 credit related interviews – the primary focus of our credit center operations.
15 These office closings are projected to result in savings of \$1.2 million.

16
17 **Q. What do you expect the impact of closing credit centers to be on**
18 **customer satisfaction?**

19 A. Customer research data indicates that a small number of our customers
20 reported visiting an office in the recent past six months. Further, this has
21 been declining in recent years from 11% reporting a visit in 2003 to 7% in
22 2005. Therefore, we do not expect overall satisfaction levels to decline
23 significantly. Nonetheless, we are instituting a variety of mitigation

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1 measures in order to ensure viable options for all those customers
2 impacted.

3

4 **Q. What plans does Detroit Edison have to minimize customer**
5 **inconvenience as a result these closings?**

6 A. Detroit Edison has undertaken initiatives that will offer more convenience to
7 our customers.

8 Today, Detroit Edison customers who choose to pay their electric bills in a
9 credit center have other bill payment options, including:

- 10 – eBill: eBill is a free service for our customers to view, print and pay
11 their utility bills online using a Visa® card or bank account.
- 12 – Express Pay: Customers have the option to make an immediate
13 payment using a credit card, debit card or checking account for a
14 small fee.
- 15 – Automated Bill Payment: A customer can automatically have the
16 monthly energy bill amount deducted from a bank account on the
17 due date.
- 18 – Pay by mail: Customers can return the payment coupon with a
19 check or money order using the enclosed envelope.

20

21 In addition to those channels noted above, Detroit Edison has an Authorized
22 Payment Agent network of 135 agents across Michigan. Customers have
23 the option of paying in person at any one of these authorized payment agent

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1 locations. Authorized agents accept payments in cash, check or money
2 order for full or partial payments.

3

4 Customers can find Pay Agents either by visiting my.dteenergy.com and
5 searching by city or zip code or by calling Customer Care at 1-800-477-
6 4747.

7

8 In addition, for our customers with credit related issues, we have developed
9 a toll free faxing process capability that allows customers that are not
10 located close to a credit center, or have extenuating circumstances that
11 prevent a visit to a credit center, the option to fax required documents and
12 work with a credit representative over the phone to resolve a credit issue.

13

14 **Q. How will the remaining PEP savings be realized?**

15 A. The remaining savings will be achieved through operational efficiencies in
16 our Billing, Data Collection, Consumer Affairs, Project Management and
17 Staff functions.

18

19 **Regulated Marketing**

20 **Q. What is the role of Regulated Marketing at Detroit Edison?**

21 A. Regulated Marketing serves a number of purposes:

22 First, Regulated Marketing is the first responder to any commercial/industrial
23 customer outage. In this role, we are responsible for coordination of
24 restoration efforts.

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2 Second, Regulated Marketing serves as the primary liaison and account
3 management function for approximately 10,000 commercial/industrial
4 customers (over \$25,000 in annual revenues per customer). Specifically,
5 we assist these customers with billing information and support, ancillary
6 product selection and service and optimal rate class selection.

7

8 Third, Regulated Marketing manages new and existing, regulated programs.
9 Programs are targeted at Premium Power, Renewable Energy, Demand
10 Side Management and Energy Efficiency.

11

12 In addition, Regulated Marketing houses an ethnic marketing function
13 designed to meet the additional needs of minority business and residential
14 customers as well as an economic development function that works with the
15 State of Michigan in an effort to attract new business to our territory.

16

17 **Q. How are costs being allocated between Detroit Edison and MichCon**
18 **for Regulated Marketing?**

19 A. Detroit Edison and MichCon have separate Regulated Marketing groups,
20 however certain functions in Detroit Edison's Regulated Marketing group,
21 such as, Economic development and ethnic marketing support both
22 companies. Therefore, the majority, 96.18% of Detroit Edison's Regulated
23 Marketing costs are allocated to Detroit Edison while the remaining 3.82%

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1 are allocated to MichCon. This allocation is based on three methods
2 dependent on function within the group:

3 1. Primary Services, energy partnership, and efforts targeted
4 specifically to electric program and product development are
5 allocated 100% to Detroit Edison.

6 2. Account management and generic program support are allocated
7 based on a time study.

8 3. Economic development and ethnic marketing are allocated by
9 number of customers.

10

11 **Q. Is Regulated Marketing impacted by the PEP?**

12 A. No, the regulated marketing PEP has not been completed at this time.

13

14 **Q. Are there any other initiatives besides the PEP that will significantly**
15 **impact Customer Service?**

16 A. Yes. There are two other initiatives that will significantly impact Customer
17 Service. The Detroit Edison initiated program to provide Automated Meter
18 Reading (AMR) and the Michigan Public Service Commission (MPSC) Staff
19 initiative to change the customer billing rules.

20

21 **Q. What will be the impact of AMR on Customer Service?**

22 A. With the planned implementation of a fixed network AMR we expect to
23 significantly increase our meter read rate, improve accuracy, virtually
24 eliminate consecutive estimates, have instant outage notification and thus

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1 improve satisfaction amongst our customers. Based on our plan for
2 implementation, AMR is expected to save us \$1,068,000 in 2007,
3 \$3,287,000 in 2008, \$5,517,000 in 2009, \$8,241,000 in 2010 and
4 \$11,543,000 in 2011 in meter reading costs. Additionally, we expect to
5 reduce electric uncollectibles by \$680,000 in 2007, \$2,023,000 in 2008 and
6 \$2,685,000 for each of the years 2009-2011. Please refer to Mr. Dow's
7 testimony for further details on the implementation plan for AMR.

8

9 **Q. What will be the impacts of the new Billing Rules proposed by the**
10 **MPSC Staff on Customer Service at Detroit Edison?**

11 A. The impacts are many. While Detroit Edison supports and agrees with the
12 provisions emphasizing protection of low income customers, we are
13 concerned that the proposed rules require extensive changes, are complex
14 and in some cases contradictory. We have undertaken a detailed internal
15 analysis of the rules and have determined that it would cost us an additional
16 \$2.2 million annually to comply with these rules. Further, we anticipate that
17 implementation of these rules would result in, at a minimum, an additional
18 \$3.4 million annually in uncollectible expenses.

19

20 In addition, we expect that there will be O & M implementation costs in 2007
21 in light of the plan for a phased in approach to these changes. At this time,
22 we are still assessing those costs.

23

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1 **Q. What are the key Customer Service improvements that have been**
2 **made over the last year?**

3 A. Improving service quality is one of the major priorities for Detroit Edison.
4 Key customer service improvements made by Detroit Edison over the past
5 year include:

6 □ Improved accessibility for our customers by expanding the types of
7 requests that can be handled in our Interactive Voice Response unit
8 (IVR) and our web site. Transaction volumes increased 5 fold in
9 these channels in 2005 as new capability was added. Most recently,
10 Detroit Edison has added the capability in our IVR for customers to
11 access status information on a variety of matters such as outage
12 restoration times, field arrival times and field completion status. It is
13 expected that this initiative will increase overall customer satisfaction
14 by 1% and first call resolution by 10%.

15 □ Electronic bill presentment adoption continues to trend upward. Ebill
16 enrollment has almost tripled from 2003 to 2005 (49,000 to 137,813)
17 as more customers take advantage of this method of receiving their
18 bill. Presenting a bill electronically is cheaper for Detroit Edison than
19 mailing it (\$0.30 vs. \$0.37 respectively).

20

21 **Q. What has been the recent trend in customer satisfaction?**

22 A. Customer perceptions of the value of customer service have increased 5
23 points from 2003 to 2005 (60% to 65%). Similarly, perceptions of call
24 quality continue to increase from 66% in 2002 to 73% at year end 2005.

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1 The survey to obtain these measures is administered by a third party,
2 Market Strategies Inc. (MSI) based in Livonia, MI. We continue to pursue
3 improvement initiatives to increase customer satisfaction.

4

5 **Q. What is Detroit Edison's status on MPSC standards for Customer**
6 **Service?**

7 A. As reported in Exhibit DE-16, Schedule 5-11 Detroit Edison is exceeding
8 the MPSC standards for all the Customer Service related measures. In two
9 of the three cases, we are exceeding these standards by large margins.
10 More specifically, in 2005, the average speed of answer was 48 seconds,
11 exceeding the MPSC standard of 90 seconds by 42 seconds or almost
12 50%. For that same time period, the meter read rate was 93%, 8% better
13 than the 85% MPSC standard. Finally, complaints were responded to
14 within 3 days 98% of the time in 2005, 3% better than the MPSC standard.

15

16 **O & M EXPENDITURES**

17

18 **Q. Would you please describe Exhibit DE-16, Schedule F5-4, "O&M**
19 **Expense – Customer Service"?**

20 A. This Exhibit DE-16, Schedule F5-4 reflects the Operating and Maintenance
21 costs for Customer Service.

22

23 **Q. Would you please describe Exhibit DE-16, Schedule F5-5, "O&M**
24 **Expense – Regulated Marketing"?**

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1 A. This Exhibit DE-16, Schedule F5-5 reflects the Operating and Maintenance
2 costs for Regulated Marketing.

3

4 **Q. Would you please describe your general O&M expense assumptions**
5 **for the years 2006 through 2011?**

6 A. The assumptions used for the forecasts for 2006 through 2011 for both
7 Customer Service and Regulated Marketing include the effect of inflation on
8 labor and services. In addition, the forecast for Customer Service reflects
9 known and measurable changes such as PEP initiatives, implementation of
10 AMR and the impact of the proposed changes to the billing rules discussed
11 earlier in my testimony. The projections are based on historical trends and
12 the predicted effect of actions taken to improve the cost structure.
13 Customer Service operations expenses are the product of the efforts Detroit
14 Edison is making to maintain and improve its customer service, as
15 discussed earlier in my testimony, as well as events categorized as billing or
16 rate changes and other regulatory changes such as the proposed changes
17 to the billing rules.

18

19 **Q. Would you explain the Customer Service Uncollectible forecast in**
20 **Exhibit DE-16, Schedule F5-6?**

21 A. The uncollectible expense forecast shown on line 9 has been frozen at 2005
22 levels. Even though the expiration of the residential rate caps and higher
23 PSCR factors, along with a depressed economy could lead to an increase in
24 the predicted level of uncollectible accounts, Detroit Edison is projecting that

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1 its initiatives, as discussed below, will offset any increases from these
2 factors. However, as previously noted in my testimony, the projected impact
3 of the proposed changes to the billing practice rules will be to increase
4 uncollectibles by at a minimum \$3.4 million as shown in line 5. This
5 increase is projected to be partially offset by implementation of the AMR
6 disconnect module as shown on line 6.

7

8 Detroit Edison is pursuing a number of initiatives to increase our collections
9 effectiveness. More specifically;

10 □ Detroit Edison continues to optimize resources by using external
11 agencies to contact delinquent customers and utilizing risk scores to
12 improve the effectiveness of calling campaigns, field visits and other
13 collection efforts.

14 □ Detroit Edison is pursuing process improvements such as
15 incorporating credit scores to better understand the overall risk of a
16 customer and the building of strategic models for enhanced customer
17 segmentation.

18 □ Detroit Edison continues to work with the State for passage of a low
19 income universal fund and with various agencies to implement an
20 agency website to apply assistance funds expeditiously.

21 □ Detroit Edison is pursuing the creation of a statewide database of
22 delinquent customers in association with other utilities.

23

24 **Q. Would you explain the Customer Service related capital expenditures**

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1 on Schedule F3-5-Capital Expenditure, Energy Delivery and Customer
2 Service, line 36?

3 A. Capital expenditures for Customer Service shown in line 36 (in the amount
4 of \$4,486,000) consist of a number of information technology projects
5 targeted mainly at enhancing customer self service options such as the
6 Interactive Voice Response Unit and Customer Service Online discussed
7 earlier in my testimony as well as projects targeted at ensuring the
8 maintenance of data security and integrity. The remaining \$766,000 consist
9 of premium power costs related to the installation of on site peak and back
10 up generators for commercial and industrial customers.

11

12 **Q. Please explain the additional adjustments on line 44 of Schedule F3-5.**

13 A. These additional adjustments reflect a transfer of costs for Information
14 Technology projects charged in prior years to the Information Technology
15 organization in the amount of \$3.4 million and additional premium power
16 costs of \$2 million. These costs are inflated by the inflation factor for years
17 2007-2011.

18

19 **Q. In your opinion, are the actual and projected "O&M Expense –**
20 **Customer Service", "O&M Expense – Regulated Marketing and**
21 **"Capital Expenditures-Electric Distribution and Customer Service"**
22 **shown in Exhibit DE-16, Schedules F5-4, F5-5 and Schedule F3-5**
23 **respectively for the years 2005 through 2011 reasonable?**

24 A. Yes, they are. I base my opinion on analysis of past expenditures and the

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1 projected requirements for labor and material needed to meet the Company
2 goals for improving customer service.

3

4 **Q. Does this complete your testimony?**

5 A. Yes, it does.