

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
EDWARD L. FALLETICH

THE DETROIT EDISON COMPANY
QUALIFICATIONS OF EDWARD L. FALLETICH

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

2 A. My name is Edward L. Falletich. My business address is The Detroit Edison
3 Company, 2000 Second Avenue, Detroit, Michigan 48226.

4

5 **Q. What is your present position with The Detroit Edison Company?**

6 A. I am Manager of Pricing in the Regulatory Affairs Department.

7

8 **Q. Will you please summarize your formal educational background?**

9 A. I graduated from Lawrence Institute of Technology in 1980 with a Bachelor of
10 Science degree in Electrical Engineering. I have also taken several graduate-
11 level business courses at Wayne State University.

12

13 **Q. Have you completed any other courses of study?**

14 A. Yes. I have completed Power Systems Engineering, Economic Analysis,
15 Public Utility Accounting, Rate Setting in Public Utilities, Marginal Costing, and
16 various other rate/pricing-related seminars.

17

18 **Q. Are you a member of any technical or professional organizations?**

19 A. Yes. I am the Detroit Edison representative on the EEI Economic Regulation
20 and Competition Committee.

21

22 **Q. Will you please summarize your business experience?**

23 A. I joined Detroit Edison in 1969 in the Stores and Transportation Department.
24 In September 1970, I transferred to the Meter Department as a Single-Phase
25 Watt-hour Meter Tester and Group Work Leader.

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In January 1974, I transferred to the Revenue Requirement Department as an Engineering Technician. I performed various economic and financial studies, including preparation of annual depreciation studies.

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In June 1976, I was promoted to Associate Economic Analyst. I assisted in the preparation of working capital, rate base, revenue deficiency, and depreciation studies.

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In April 1979, I transferred to the Cost-of-Service Division as an Associate Cost Analyst. My responsibilities included the preparation of cost-of-service studies utilized in the Company's electric rate case filings.

13

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In June 1980, I was promoted to Senior Cost Analyst within the Cost-of-Service Division. I was involved in the preparation of cost-of-service and unit cost studies for both MPSC and FERC filings.

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18

In October 1981, I transferred to the Rate Research Division of the Rate Department. As a Principal Rate Research Engineer, my responsibilities included designing and implementing rates; interpreting rates, rules and regulations; and planning, developing, and directing engineering and economic studies for rate design. In January 1984, I assumed the position of Acting Supervisor of Rate Research.

24

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In August 1988, I was appointed Supervisor of Product Pricing and Marketing

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1 Issues. I was responsible for retail rate design, pricing policy/administration,
2 interpreting rules/regulations, and load research. I also began functioning as
3 the regulatory interface with external customers on pricing matters.

4

5 In July 1993, I was appointed to the position of Director of Pricing with overall
6 responsibility for Pricing, Cost-of-Service, Load Research, and Customer
7 Options. In February 1998, the Pricing organization was transferred to the
8 Regulatory Affairs Department. I currently have responsibility for the Pricing
9 function. In 2002, the title of Director was changed to that of Manager.

10

11 **Q. Have you testified previously before the Michigan Public Service**
12 **Commission or the Federal Energy Regulatory Commission?**

13 A. Yes. I submitted cost-of-service and rate design testimony in the FERC Docket
14 Nos. ER81-213-000 and ER82-723-000. I have also testified in a number of
15 proceedings in Michigan on behalf of Detroit Edison. In Case No. U-6590-R, I
16 testified to the revenue impact of lifeline rates. In Case No. U-7660, I testified
17 to residential rate design and rules/regulations. In Case Nos. U-8789 and U-
18 10102, I testified to commercial, governmental, and industrial rates, standby
19 rates, allocation schedules, and billing determinants. In Case No. U-10646, I
20 testified regarding the Special Manufacturing Contracts. In Case No. U-11495,
21 I testified regarding special contract discounts and proposed Rider No. 10
22 revisions. In Case No. U-11726, I provided rebuttal testimony in the Fermi 2
23 amortization proceeding. In Case No. U-11956, I testified regarding the
24 revenue impacts of Electric Choice and the allocation of transition charges. In
25 Case No. U-12595, I submitted testimony regarding the implementation of

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1 securitization charges and related rate reductions. In Case No. U-12639, I
2 submitted testimony regarding the implementation of class specific
3 equalization transition charges. In Case No. U-13350, the Company's 2002
4 filing to determine net stranded costs, I testified to the determination of the
5 proposed transition charge. In Case No. U-13808, I testified to the Company's
6 proposed rate design, cost-of-service, Power Supply Cost Recovery (PSCR)
7 factor, and to various issues related to Electric Choice. In Case No. U-14399, I
8 testified to the proposed unbundling of Edison's tariffs and the removal of inter-
9 class subsidies. In Case No. U-13808-R/U-14474, I testified to the proposed
10 transition charges required to recover Detroit Edison's 2004 net stranded
11 costs.

THE DETROIT EDISON COMPANY
DIRECT TESTIMONY OF EDWARD L. FALLETICH

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

2 A. The purpose of my direct testimony is to develop and support: 1.) the
3 proposed billing determinants for 2007; 2.) the corresponding proposed
4 unbundled rate design; 3.) the surcharges necessary to recover Edison's
5 overall jurisdictional revenue deficiency for 2007; 4.) the proposed Choice
6 Tracker Mechanism (CTM); and 5.) the proposed changes necessary to
7 update the current Rule B-4.8 -- Power Supply Cost Recovery (PSCR)
8 Clause fuel base component and loss factor.

9

10 **Q. Mr. Falletich, are you sponsoring any exhibits?**

11 A. Yes. I am sponsoring in whole, or in part, the following exhibits:

<u>Exhibit</u>	<u>Schedule</u>	<u>Title</u>
DE-13	E2	Test Year Sales by Rate Schedule – 2007
DE-13	E3	Billing Determinants by Rate Schedule – 2007
DE-13	E4	Summary of Present and Proposed Revenue by Rate Schedule - 2007
DE-13	E5	Typical Monthly Bills - 2007
DE-13	E6	Rate/Revenue Calculations by Rate Schedule – 2007
DE-13	E6.1	2007 Power Supply Cost Recovery Factor & Base
DE-13	E6.2	Choice Tracker Mechanism (CTM)
DE-13	E7	Reconciliation of 2005 and 2007 Billing Determinants and Revenues
DE-13	E8	Summary of Tariff Changes Other than Schedule

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Prices

2

DE-13 E9

Proposed Tariff Sheets – 2007

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

5

A. Yes, they were.

6

7

Q. Will you please summarize your conclusions and recommendations?

8

A. The summary of my conclusions and recommendations are listed below:

9

- Edison has an overall jurisdictional revenue deficiency of \$45,283,000. I am proposing that the revenue deficiency be allocated to distribution customers on an equal percentage of revenue basis and be collected by means of a ¢/kWh surcharge on metered distribution customers and on a percent of revenue basis from unmetered customers. I am proposing no changes to the current power supply base rates other than the inclusion of my proposed fuel base component which is included in Rule B-4.8.

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- The basis for my proposed surcharges is the cost-of-service study prepared by Mr. Heiser which identifies the functionalized cost-to-serve for each major customer rate class. The cost-of-service is based on the 2005 normalized costs supported by Mr. Horgan and the subsequent known and measurable changes through 2007 supported by Mr. VanHaerents. Mr. Heiser's cost-of-service study utilizes the 4CPMH/25/50/25 methodology adopted by the Commission in its Final Order in Case No. U-

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1 14399 and is the cost-of-service methodology that the Commission
2 directed Edison to use for cost-of-service purposes in this proceeding.

3

4 • Power Supply base rate charges for each metered tariff have been
5 redesigned to reflect the inclusion of my proposed fuel base component
6 which is included in Rule B-4.8.

7

8 • Distribution base rate charges have been designed in a manner that
9 includes the recovery of both distribution system costs and any inter-class
10 rate subsidies. The proposed distribution charges will be applied uniformly
11 to all customers, full-service and those electing an alternative electric
12 supplier. In addition, as I stated earlier, distribution customers will be
13 assessed a surcharge to recover Edison's overall 2007 jurisdictional
14 revenue deficiency of \$45,283,000.

15

16 • Edison is proposing to implement a Choice Tracker Mechanism (CTM).
17 The purpose of the CTM is to track any deviations in electric choice sales,
18 up or down, from the electric choice sales level used in setting the base
19 rates in this proceeding, and then surcharge or credit full-service customer
20 rates for any increase or decrease in non-fuel power supply revenues as a
21 result of a change in choice sales. The CTM will moderate and smooth out
22 the effects of revenue and PSCR changes associated with changes in
23 electric choice sales from year to year. For an increase in electric choice

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1 sales, full-service customers would see a CTM surcharge and also receive
2 the PSCR benefits of any mitigation efforts (e.g. increased 3rd party sales,
3 reduced purchases). Likewise, if electric choice sales were to decline, full-
4 service customers would receive a CTM credit to help defray any
5 increases in PSCR costs. The CTM proceeding would parallel the filing of
6 Edison's annual PSCR reconciliation proceeding.

7

8 • As in any major rate proceeding, I have reset the PSCR fuel base
9 component, the PSCR factor and the PSCR loss factor included in Rule B-
10 4.8. The current PSCR fuel base component of 17.32 mills/kWh will be
11 changed to 24.22 mills/kWh, the PSCR factor will be set to 0.00 mills/kWh,
12 and the current loss factor of 7.2% will be revised to 7.6%. I have used
13 these PSCR components for my rate design proposals in this case. For
14 actual billings in 2007, the PSCR factor will be set in the 2007 PSCR Plan
15 Case which will be filed in the fall of 2006. If the Commission issues an
16 Order in this case before the end of 2006, Edison will make the
17 appropriate adjustment to the 2006 PSCR factor to line up with the new
18 fuel base component. Similarly, in its 2007 PSCR Plan filing Edison will
19 accommodate the current basing point as well as the proposed basing
20 point so that the PSCR factor can be properly aligned to the Commission
21 Order in this case whenever it is issued.

22

23 **Q. What serves as the basis for your proposed rates in this proceeding?**

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1 A. The basis for my proposed rates is the cost-of-service study prepared by
2 Mr. Heiser and presented as Exhibit DE-13, Schedule E1. The cost-of-
3 service study identifies the unbundled power supply and distribution cost-to-
4 serve each major rate class and also is used to define the level of any inter-
5 class rate subsidies. I asked Mr. Heiser to identify only the major customer
6 classes when preparing his cost-of service study. Edison currently provides
7 over 35 available tariffs and rider options and, substantially more
8 combinations. For many of the smaller tariffs there may not be adequate
9 load data on which to develop a reasonable and reliable cost analysis.
10 Examples of these tariffs may include tariffs such as residential time-of-day,
11 supplemental space heating, commercial time-of-day, interruptible general
12 service, etc. In my opinion, the fact that every tariff is not separately
13 identified in the cost-of-service is not significant, as these smaller tariffs
14 represent approximately 5% of Edison's total sales.

15

16 **Q. You have used the term "inter-class rate subsidy". What do you mean**
17 **by this term?**

18 A. The term "inter-class rate subsidy" represents the dollar difference between
19 a rate class's revenues paid under existing rate levels and what the
20 revenues would be had customer class rates been based solely on cost-of-
21 service. The subsidy is equal to the level of the class revenue deficiency or
22 sufficiency. A revenue deficiency for purposes of Edison's presentation is a
23 positive number and indicates that a tariff or rate class is paying rates less

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1 than its cost-to-serve. This is the case with the residential rate class.
2 Likewise, a sufficiency or negative subsidy indicates that the customer class
3 is paying rates above its cost-to-serve. This is the case for the C&I class of
4 customers. For Detroit Edison, historically, C&I rates have been set at a
5 level higher than their cost-to-serve, resulting in the subsidization of lower
6 than cost-based rates for the residential rate class.

7

8 **Q. What is the functionalized revenue deficiency/sufficiency based on the**
9 **results of Mr. Heiser's cost-of-service study?**

10 A. Mr. Heiser's cost-of-service analysis shows a revenue deficiency of
11 \$62,874,000 for the power supply function and a revenue sufficiency of
12 \$17,591,000 for the distribution function for an overall net jurisdictional
13 revenue deficiency of \$45,283,000.

14

15 **Q. Why have you proposed to collect Edison's overall revenue deficiency**
16 **of \$45,283,000 from only distribution customers?**

17 A. Although Mr. Heiser's cost-of-service shows a distribution revenue
18 sufficiency, this sufficiency is attributed to returning electric choice
19 customers and their contribution to the inter-class rate subsidies that are
20 currently included only in full-service C&I distribution rates and not in C&I
21 electric choice distribution rates. Therefore, it is inappropriate to include this
22 additional inter-class rate subsidy contribution when determining the
23 distribution revenue deficiency and the subsequent ratemaking for

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1 distribution customers.

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3 **Q. Why is it inappropriate to include this additional level of contribution**
4 **to inter-class rate subsidy in the determination of your proposed**
5 **distribution rates?**

6 A. In Case No. U-14399, the Commission's inclusion of the inter-class rate
7 subsidies only in full-service C&I distribution rates was really more form than
8 substance. Although the inter-class rate subsidies were included only in full-
9 service C&I distribution rates, the effect of doing so from the perspective of
10 a generation "price to beat", was no different than had the Commission
11 included the inter-class rate subsidies in power supply rates. In either case,
12 Edison would realize an inter-class rate subsidy revenue increase or
13 decrease if electric choice sales deviated from that assumed in setting
14 unbundled base rates in the last rate case proceeding. Therefore, it is
15 inappropriate to consider this additional contribution to the inter-class rate
16 subsidies as an increase in distribution revenues to recover distribution
17 costs, and should not be included in my determination of the proposed
18 distribution rates.

19

20 **Q. How was the level of inter-class rate subsidies included in existing**
21 **full-service C&I distribution rates determined?**

22 A. The inter-class rate subsidy level included in current full-service C&I
23 distribution rates was determined and approved in Edison's unbundling

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1 proceeding (Case No. U-14399). In that proceeding, the Commission
2 accepted the Staff's proposed cost-of-service methodology but rejected the
3 application of a separate but equal RAC and instead, directed Edison to
4 include the level of C&I inter-class rate subsidies only in full-service C&I
5 distribution rates. The inclusion of the C&I inter-class rate subsidies only in
6 full-service C&I distribution rates resulted in returning C&I electric choice
7 customers providing not only a contribution to non-fuel power supply costs,
8 but also an additional contribution to the inter-class rate subsidy that they
9 were not paying as electric choice customers.

10

11 **Q. What is the level of the additional contribution to the inter-class rate**
12 **subsidies?**

13 A. I have determined the contribution level to be \$67 million. I calculated this
14 by multiplying the level of returning C&I electric choice sales (C&I electric
15 choice sales of 9,250 GWh assumed in Case No. U-14399 less 3,400 GWh
16 of C&I electric choice sales assumed in this proceeding) by the difference in
17 the full-service C&I distribution rates and the C&I electric choice distribution
18 rates. The difference in the two rates represents the level of inter-class rate
19 subsidies that were included in full-service distribution rates in Case No. U-
20 14399.

21

22 **Q. Can you explain how you determined that the overall revenue**
23 **deficiency of \$45,283,000 should be applied to only distribution**

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1 **customers?**

2 A. The cost-of-service indicated a distribution revenue sufficiency of
3 approximately \$18 million. Without the added contribution of the inter-class
4 rate subsidy revenue from returning C&I electric choice customers, which,
5 as I stated earlier, is no different than if the subsidy were included in power
6 supply rates, results in a distribution revenue deficiency of approximately
7 \$49 million (\$67 million less \$18 million). As this is larger than the overall
8 jurisdictional revenue deficiency of \$45 million, I am proposing that the
9 overall jurisdictional revenue deficiency of \$45,283,000 be collected through
10 distribution rates.

11

12 **Q. Can you discuss the basis for your proposed power supply and**
13 **distribution base rate charges?**

14 A. My proposed power supply base rate charges for each metered tariff have
15 been redesigned to incorporate my proposed fuel base component included
16 in Rule B-4.8.

17 The proposed distribution base rate charges have been designed in a
18 manner that includes the recovery of both distribution system costs and any
19 inter-class rate subsidies. The proposed distribution charges will be applied
20 uniformly to all customers, full-service and those electing an alternative
21 electric supplier. In addition, distribution customers will also be assessed a
22 surcharge to recover Edison's proposed overall jurisdictional revenue
23 deficiency in this proceeding.

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2 **Q. Why is it appropriate to apply uniform distribution charges to both full-**
3 **service and choice customers?**

4 A. Uniform distribution charges are appropriate for at least two reasons. First, it
5 simplifies the energy decision-making process for the customer when
6 shopping for alternative energy prices as the customer can easily compare
7 Edison's power supply price to that of an alternative electric supplier. The
8 current distribution rate structure for C&I customers contains one price for
9 full-service distribution customers and another lower distribution price for
10 electric choice customers. One of the key tenets of unbundling rates was to
11 simplify the energy procurement decision-making process for customers.
12 Unfortunately, the current unbundled rate structure provides no more
13 generation price transparency than what was afforded customers under the
14 previous bundled rate structure.

15 Second, the current distribution tariff structure includes the C&I inter-class
16 rate subsidy only in full-service distribution rates, and not in C&I electric
17 choice distribution rates, and therefore, continues to send artificial price
18 signals to customers to the detriment of Edison and its full-service
19 customers.

20

21 **Q. Is there an alternative to the current distribution price structure and its**
22 **inherent inequities?**

23 A. Yes. The other alternative would be to immediately eliminate all inter-class

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1 rate subsidies. My proposed uniform distribution charges for each tariff
2 effectively negates the inherent bias introduced by inter-class rate subsidies
3 until such time that these subsidies can be eliminated from all full-service
4 rates. By that I mean, that unlike today, the level of inter-class rate subsidies
5 will no longer have to be considered when customers are evaluating their
6 power supply options as customers will be able to simply compare Edison's
7 power supply price to that of an alternative electric supplier.

8

9 **Q. Edison has proposed a Choice Tracker Mechanism (CTM). Can you**
10 **please explain why such a mechanism is necessary?**

11 A. A CTM, in my opinion, is necessary to address the concerns regarding the
12 volatile swings in Edison's revenues and PSCR costs as electric choice
13 sales have drastically varied from the electric choice sales levels used in
14 setting base rates in the last major rate proceeding. These swings can have
15 a significant impact, both positive and negative, on Edison's earnings. The
16 level of electric choice sales has proven to be quite volatile since the
17 introduction of Electric Choice. Choice sales were approximately 1,300
18 GWh in 2001 and increased approximately 750% to 9,800 GWh in 2004, the
19 peak year for choice sales. In this proceeding, 2007 electric choice sales
20 are projected to decline by approximately 65% from 2004 levels to 3,400
21 GWh. The recent drop in electric choice sales from that used in setting base
22 rates in Case No. U-13808 has resulted in some parties alleging that Edison
23 may in fact be earning more than its authorized rate of return. I believe this

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1 is a major reason behind the Commission's direction that Edison should
2 explain why, in fact, it is not over earning. Electric choice sales levels are
3 impacted by many factors such as changes in electric market prices and
4 marketing strategies of alternative electric suppliers. These factors can
5 drastically change from those used when setting base rates. A CTM will
6 serve to more expeditiously identify and monitor the effects of the potentially
7 volatile swings in customer choice sales levels and ensure that Edison does
8 not financially benefit from electric choice sales declines, or be financially
9 harmed from electric choice sales increases.

10

11 **Q. Can you summarize how the CTM would operate?**

12 A. As I stated earlier, the purpose of the CTM is to track any deviations in
13 electric choice sales, up or down, from the electric choice sales level used in
14 setting the base rates in this proceeding, and then surcharge or credit full-
15 service customer rates for any increase or decrease in non-fuel power
16 supply revenues as a result of a change in electric choice sales. The CTM
17 will operate to levelize and smooth out the effects of revenue changes
18 associated with changes in electric choice sales from year to year. For an
19 increase in electric choice sales, full-service customers would see a CTM
20 surcharge and also receive the PSCR benefits of any mitigation efforts (e.g.
21 increased 3rd party sales, reduced purchases). Likewise, if electric choice
22 sales were to decline, full-service customers would receive a CTM credit to
23 help defray any increases in PSCR costs. The CTM proceeding would

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1 parallel the filing of Edison's annual PSCR reconciliation proceeding. The
2 CTM proceeding would determine for the previous calendar year the
3 increase or decrease in electric choice sales from that used in setting base
4 rates in this proceeding and also calculate the associated change in
5 Edison's non-fuel power supply revenues. If electric choice sales were to
6 increase, the corresponding non-fuel power supply revenue decrease would
7 be charged to full-service metered customers in the form of a CTM
8 surcharge. Likewise, if electric choice sales decreased, a CTM credit would
9 be applied to full-service metered customers.

10

11 **Q. How would the level of non-fuel power supply revenue increase or**
12 **decrease be determined?**

13 A. The non-fuel power supply revenue increase or decrease would be based
14 on the average power supply price level for the major customer classes less
15 the base fuel and net purchased power component included in base rates
16 and less the Regulatory Asset Recovery Surcharges (RARS). I would
17 recommend that for convenience and ease of administration, that the non-
18 fuel power supply price be based on the average non-fuel power supply
19 price for the major rate classes, as opposed to the tedious and complex
20 implementation and tracking of each individual tariff change. I have defined
21 the four major rate classes which represent the bulk of Edison's retail sales
22 to be Residential, C&I secondary, Non-Auto C&I primary, and Auto primary
23 (Rate No. D7).

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2 **Q. How would the level of the CTM surcharge or credit be determined?**

3 A. I will first generically address how the CTM surcharge or credit would be, for
4 example, determined in the 2008 CTM reconciliation proceeding and, later
5 in my testimony, in my discussion of Exhibit DE-13, Schedule E6.2, I will
6 provide an illustration of the development of a CTM surcharge and also
7 explain the development on my proposed non-fuel power supply prices.

8 First, the actual 12 months of 2007 electric choice sales for each major
9 customer group will be compared to the level of electric choice sales for
10 each major rate class used to set base rates in this proceeding.

11 Second, the variation in electric choice sales for each major rate class
12 would be multiplied by class-specific non-fuel power supply prices to arrive
13 at the class-by-class change in non-fuel power supply revenues.

14 Third, a single CTM surcharge or credit will be determined by dividing the
15 net change in non-fuel power supply revenues from all the major rate
16 classes by the projected 2008 full-service metered sales to arrive at the
17 resultant CTM surcharge or credit. The CTM surcharge or credit will be
18 applied equally to full-service metered customers as this is how any
19 associated changes in PSCR would be applied.

20

21 **Q. How does Edison propose to address any over or under recoveries of**
22 **non-fuel power supply revenues in the CTM proceeding?**

23 A. Since the CTM surcharge or credit will be based on a projection of full-

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1 service metered sales, there may be some amount of over or under
2 recovery once actual full-service metered sales are known. If, for example,
3 the application of the CTM surcharge resulted in an under recovery of non-
4 fuel power supply revenues of \$5 million, the \$5 million would be included in
5 the 2009 CTM reconciliation proceeding and netted against any proposed
6 non-fuel power supply gains or losses based on actual results for 2008.

7

8 **Q. Depending on the Commission's findings in its Final Order, can you**
9 **envision any modification(s) that may be required to your proposed**
10 **Choice Tracker Mechanism?**

11 A. Yes. There is one major item that would require a modification to the CTM.
12 If for some reason, the Commission were to maintain the existing C&I
13 distribution rate structure which includes inter-class rate subsidies only in
14 C&I full-service distribution rates, I would recommend one modification to
15 Edison's proposed CTM.

16

17 **Q. What modification would you propose?**

18 A. Under the existing C&I distribution rate structure, as customers opt for
19 electric choice, Edison incurs not only the loss of non-fuel power supply
20 revenues but also a loss of the contribution to inter-class rate subsidies
21 included in the full-service C&I distribution charges. Likewise, as customers
22 return from electric choice, Edison realizes a gain in not only its non-fuel
23 power supply revenues but also receives additional revenues associated

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1 with the level of inter-class rate subsidies that returning electric choice
2 customers will pay under the full-service C&I distribution rate structure.
3 Therefore, if the Commission was to maintain the existing C&I distribution
4 rate structure where inter-class rate subsidies are only included in full-
5 service C&I distribution rates, I would recommend that the calculation of the
6 CTM surcharge or credit be modified to include not only the non-fuel power
7 supply price but also the addition of a price component to reflect the level of
8 any inter-class rate subsidies included in full-service C&I distribution rates to
9 properly determine any gains or losses in revenues associated with
10 variations in electric choice sales levels from that approved in this
11 proceeding. This modification, if necessary, would ensure that there is an
12 accurate accounting of all revenue gains or losses associated with
13 movements to and from electric choice.

14

15 **Q. Will you please describe Exhibit DE-13, Schedule E2?**

16 A. The Commission's filing requirements require an exhibit showing "test year
17 sales by rate schedule". Exhibit DE-13, Schedule E2, is a cover sheet
18 stating that the required sales information is included in Exhibit DE-13,
19 Schedule E6.

20

21 **Q. Will you please describe Exhibit DE-13, Schedule E3?**

22 A. This exhibit, as in Schedule E2, states that the required information (billing
23 determinants) is shown on Exhibit DE-13, Schedule E6.

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2 **Q. Will you please describe Exhibit DE-13, Schedule E4?**

3 A. This exhibit summarizes the present and proposed revenues and proposed
4 revenue increase by rate schedule for 2007. I have included a cover page
5 and three additional pages in the exhibit. Page 2 is a comparison of total
6 present and proposed revenues for each tariff and the corresponding
7 change in total revenues. Page 3 is a comparison of present and proposed
8 power supply revenues and shows no change in present and proposed
9 revenues. As I discussed earlier, the overall revenue deficiency is being
10 assigned to distribution rates. Page 4 is a comparison of present and
11 proposed distribution revenues and reflects the recovery of Edison's overall
12 revenue deficiency of \$45,283,000. The revenue deficiency has been
13 allocated on an equal percent of distribution revenues and will be recovered
14 on a ¢/kWh from metered distribution customers and on an equal percent
15 basis from unmetered customers. The surcharge percentage increase for
16 unmetered customers is based on a percentage of their total revenues as
17 these customers' rates are not unbundled.

18

19 **Q. Will you please describe Exhibit DE-13, Schedule E5?**

20 A. This exhibit shows the 2007 typical monthly bills by rate schedule under
21 both present and proposed rates. I have selected a variety of energy
22 consumption levels and load factors to indicate the impact of the proposed
23 rate changes.

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2 **Q. Will you please describe Exhibit DE-13, Schedule E6?**

3 A. This exhibit shows the detailed rate design and revenue calculations by rate
4 schedule under both present and proposed rates for 2007, including my
5 proposed distribution rate increase surcharges. The exhibit details the billing
6 determinants, rates, revenues, and the application of the proposed
7 distribution rate increase surcharges for each tariff. The key changes in my
8 proposed rates from present rates are: 1.) the redesign of power supply
9 base rate charges to include the proposed Rule B-4.8 fuel base; 2.) the
10 redesign of the distribution charges to reflect that the distribution charges
11 will apply equally to full-service customers and customers electing an
12 alternative electric supplier, 3.) the resetting of the PSCR factor to zero; 4.)
13 the elimination of the Rate Reduction Credit (RRC) as Edison is seeking
14 recovery of the expenses associated with RRC; and 5.) the application of
15 my proposed distribution surcharges necessary to recover Edison's overall
16 jurisdictional revenue deficiency.

17

18 **Q. Are the present revenues shown on this exhibit the same as the**
19 **present revenues utilized in the Company's determination of the 2007**
20 **proposed revenue deficiency?**

21 A. Yes, with a couple of exceptions. The present revenues used in the
22 determination of the proposed revenue deficiency for 2007 excludes the
23 revenues recovered under the Securitization, RARS, and Customer

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1 Implementation surcharges. However, I have included these surcharge
2 revenues in my present revenues so as to properly show the impact of the
3 proposed rate changes on customers existing bills.

4

5 **Q. How did you develop the 2007 billing determinants?**

6 A. The 2007 billing determinants were prepared using the Corporate Sales
7 Forecast, sponsored by Dr. Colandrea, which develops monthly sales and
8 customer counts by the major customer classes. Additional division of these
9 major rate groups was necessary to complete the billing determinants for all
10 rate classes. This further division of sales and customers to individual rate
11 classes was based on historic ratios, trends, or averages. This includes
12 reviewing such things as: on peak and off peak ratios, hours use of demand,
13 average use per customer, declines in customer participation in certain tariffs
14 (e.g. water heating), transfers to customer choice, temperature variations from
15 year to year, etc.

16

17 **Q. Will you please describe Exhibit DE-13, Schedule E6.1?**

18 A. This exhibit details the development of my proposed PSCR base, loss factor,
19 and the PSCR factor included in the Company's Rule B-4.8. I have also
20 determined a PSCR factor to be used in my determination of the 2007 present
21 revenues for this proceeding. As I discussed earlier, the factor used for billing
22 in 2007 will be determined in the 2007 PSCR Plan Case which will be filed in
23 the fall of 2006, and it will be based on more recent and available estimates

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1 of 2007 power supply cost information. The PSCR base has been revised to
2 reflect the level of the Company's 2007 power supply expenses, including
3 the recovery of transmission expenses associated with the procurement of
4 transmission services. These expense levels are supported by Mr. Byron.
5 The existing PSCR base of 17.32 mills/kWh has been changed to 24.22
6 mills/kWh for 2007. The corresponding PSCR factor has been reset to 0.00
7 mills/kWh as my proposed base fuel component has been included in the
8 proposed power supply base rate charges. I have also revised the existing
9 loss factor of 7.2% to 7.6%. This is based on the relationship of net system
10 output to system sales. The resetting of the existing PSCR fuel base
11 component is typically done in the context of a general rate proceeding.

12

13 **Q. Will you please describe Exhibit DE-13, Schedule E6.2?**

14 A. This exhibit contains two sections; the first is an illustration of how the
15 respective CTM surcharge or credit would be determined. The second section
16 shows the derivation of my proposed non-fuel power supply prices that will be
17 used in determining the non-fuel power supply revenue gain or loss
18 associated with changes in electric choice sales levels from that approved in
19 this proceeding. I will now describe the two sections of Exhibit DE-13,
20 Schedule E6.2:

21 **Illustration of CTM Reconciliation**

22 This section provides an illustration on how Edison's proposed Choice Tracker
23 Mechanism would operate. The example is an illustration of the calculation of

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1 a hypothetical CTM surcharge in the 2008 reconciliation proceeding based on
2 actual 2007 results. On Line 1, I have shown for each on the four major
3 customer classes, Edison's proposed electric choice sales in this proceeding.
4 These sales levels would serve as the base level of electric choice sales from
5 which to determine the annual variation in electric choice sales. Line 3 is an
6 illustration using an assumed actual 2007 electric choice sales level for each
7 major rate class. Line 4 shows the variation in class-by-class electric choice
8 sales levels from that used in setting base rates in this proceeding. To this
9 amount, I have applied my proposed non-fuel power supply prices on Line 6 to
10 arrive at the resultant non-fuel power supply revenue increase or decrease for
11 each major rate class. For purposes of this example, I have assumed both an
12 increase and a decrease in electric choice sales from the base level. The
13 illustrative net revenue increase of \$33 million shown on Line 7, Column (f), is
14 then divided by the illustrative 2008 full-service metered sales of 50,000 GWH
15 to arrive at the net CTM surcharge, shown on Line 10, Column (f), of
16 0.066¢/kWh. This surcharge, as I discussed earlier, would be applied equally
17 to all full-service metered sales.

18

19 **Derivation of Non-Fuel Power Supply Prices**

20 This section shows the derivation of my proposed non-fuel power supply
21 prices used in calculating the CTM surcharge or credit. The starting point on
22 Line 14 is my proposed total power supply revenues for each major customer
23 class. On line 15, I subtract revenue received from the Regulatory Asset

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1 Recovery Surcharges (RARS), and on Line 16, I subtract revenue associated
2 with my proposed Rule No. B-4.8 fuel base component to arrive at Line 17,
3 the net non-fuel power supply revenues needed to determine the proposed
4 non-fuel power supply price for each major customer class. These class
5 specific non-fuel power supply revenues are then divided by Edison's
6 projected 2007 sales by major rate class to arrive at my proposed non-fuel
7 power supply prices shown on Line 21.

8

9 **Q. Will you please describe Exhibit DE-13, Schedule E7?**

10 A. This exhibit shows the reconciliation of revenues and billing determinants for
11 2005 & 2007. The Commission on Page 5 of its March 23, 2006 Order to
12 Show Cause, directed Edison to file such a reconciliation. Page 2 of this
13 exhibit shows the changes in total revenues by tariff from 2005 to 2007 and
14 the remaining pages show the changes in billing determinants from 2005 to
15 2007 (e.g. customers, sales, demands, etc.) for each tariff. For the year 2005 I
16 have shown the actual billing determinants as extracted from Edison's billing
17 system. I previously discussed the development of the 2007 billing
18 determinants.

19

20 **Q. Will you please describe Exhibit DE-13, Schedule E8?**

21 A. This exhibit is intended to address any proposed tariff changes other than
22 price changes. I have included in this schedule the proposed changes to
23 both Rule B-4.8 (Power Supply Cost Recovery and Surcharges and Credits

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1 Applicable to Power Supply Service) and, Rule B-4.9 (Surcharges and
2 Credits Applicable to Delivery Service). The changes in surcharges/credits
3 include the resetting of the PSCR factor to zero, and the elimination of the
4 Rate Reduction Credit (RRC) as Edison is seeking recovery of the
5 expenses associated with the RRC in this proceeding. Rule No. B-4.9 has
6 also been modified to incorporate my proposed distribution rate increase
7 surcharges.

8

9 **Q. Will you please describe Exhibit DE-13, Schedule E9?**

10 A. This exhibit contains the proposed tariff sheets. I am co-sponsoring this
11 exhibit with Mr. Newbold and Mr. Shields. Mr. Newbold is responsible for
12 changes to the Retail Access Service Rider (EC2) and Mr. Shields is
13 responsible for the proposed termination of the Optional Retail Access
14 Backup Service tariff (EC3). I am responsible for all other proposed tariff
15 changes. As I discussed earlier, the key tariff changes include new power
16 supply base rate charges that incorporate the new fuel base component and
17 new distribution rates that apply equally to both full-service customers and
18 those customers choosing an alternative electric supplier. I am also
19 proposing some additional tariff changes; the first is the elimination of the
20 Rate No. D6.2 Primary (Space Conditioning Rate) as there are no
21 customers currently served on this rate. The second is some proposed
22 modifications to the terms and conditions of service for Rate No. D8
23 (Interruptible Supply Rate) and Rider No. 10 (Interruptible Supply Rider).

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2 **Q. Can you please explain your proposed changes to Rate D8 and Rider**
3 **No. 10?**

4 A. Yes. My proposed changes are as follows:

5 First, I am proposing that the current non-interruption penalty of \$50/kW for
6 both Rate D8 and Rider 10 be changed to \$10/kW. The current non-
7 interruption penalty has been a deterrent for many customers considering
8 interruptible service at a time when the availability of additional interruptible
9 load would be beneficial to both Edison and its customers. The current
10 penalty level in my opinion is excessive. For example, if Edison were to call
11 for interruptions for three consecutive days during a hot spell and the
12 customer's standby generator which was being used to cover the
13 interruptible load failed, the penalty incurred by the customer during those
14 three days would be roughly equivalent to six months of firm-service pricing.
15 In addition, these customers are also subject to real time energy pricing. I
16 believe the presence of a \$10 penalty along with the extremely high real
17 time energy prices during critical load periods prices will be sufficient
18 incentive for customers to interrupt in accordance with the provisions of the
19 rate.

20 Second, for Rider 10, I am proposing to add a new provision of service
21 entitled "Emergency Generator Back-Up Option". This option will be
22 available to customers who have emergency on-site generation that is used
23 to serve their load during periods of Edison system integrity curtailments. I

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1 am proposing that the qualifying customer, in the event of an unexpected
2 failure of their on-site emergency generation, be allowed to provide
3 replacement power to the Edison's system from a third party supplier. This
4 option would only be available if the generator outage lasts for more than a
5 24 hour period and the customer makes all reasonable efforts to correct the
6 problem. The source of back-up power supply would have to be approved
7 by Edison and, the transaction must also comply with all applicable MISO
8 requirements. If for any reason, the back-up power is deemed by Edison as
9 not delivered, the customer shall be subject to the Rider 10 non-interruption
10 penalty.

11

12 **Q. Does this conclude your testimony?**

13 A. Yes.