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May 19, 2006

VIA ELECTRONIC CASE FILING

Ms. Mary Jo Kunkle
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
Lansing, Michigan 48909-7721

Re: MPSC Case No. U-14703

Dear Ms. Kunkle:

Enclosed for filing is the Direct Testimony of James T. Selecky on behalf of the Association of Businesses Advocating Tariff Equity and the City of Mackinac Island along with a Proof of Service.

Very truly yours,

CLARK HILL PLC

Robert A.W.
Strong

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Strong
DN: CN = Robert A.W. Strong, C
= US, O = Clark Hill
Date: 2006.05.18 08:38:40 -04'00'

Robert A. W. Strong

cc w/enc: ALJ Hon. Sharon Feldman
Parties of Record

/ag

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**Before the
Michigan Public Service Commission
Case No. U-14703**

EDISON SAULT ELECTRIC COMPANY

Direct Testimony of
James T. Selecky

On Behalf of
**Association of Businesses Advocating Tariff Equity
and
The City of Mackinac Island**

May 19, 2006
Project 8475



**Before the
Michigan Public Service Commission
Case No. U-14703**

EDISON SAULT ELECTRIC COMPANY

Direct Testimony of James T. Selecky

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

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

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

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

6 **Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

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

8 **Q ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

9 A I am presenting testimony on behalf of the Association of Businesses Advocating
10 Tariff Equity ("ABATE") and the City of Mackinac Island. The member company of
11 ABATE, the City of Mackinac Island and their residents and business community are
12 substantial purchasers of electricity from Edison Sault Electric Company ("Edison
13 Sault" or "Company").

1 **Q HAVE YOU PRESENTED TESTIMONY IN PRIOR PROCEEDINGS BEFORE THE**
2 **MICHIGAN PUBLIC SERVICE COMMISSION (“COMMISSION” OR “MPSC”)?**

3 A Yes. I have presented testimony before this Commission in numerous proceedings.

4 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

5 A The purpose of my testimony is to address the level of costs that Edison Sault is
6 proposing to include in its Power Supply Cost Recovery (“PSCR”) Plan for the twelve-
7 month period ending December 31, 2006. Specifically, I will address certain costs
8 that result from the Joint Operating Agreement (“JOA”) between Wisconsin Electric
9 Power Company (“WEPCo”) and Edison Sault. It is important to note that the JOA-
10 related costs are significant. Although the JOA purchases only represent 24% of the
11 net power supply in MWh, it comprises 49% of the net power supply cost. The fact
12 that I have not addressed an issue should not be construed as an endorsement of an
13 Edison Sault position.

14 **Q PLEASE BRIEFLY EXPLAIN THE JOA.**

15 A The JOA is an agreement that Edison Sault has with WEPCo regarding power supply
16 resources. WEPCo and Edison Sault are subsidiaries of Wisconsin Energy
17 Corporation. The JOA initially went into effect July 1, 2000.

18 The JOA allows for capacity needs beyond each utility’s existing resources to
19 be jointly obtained and the costs of such capacity allocated to each party. Energy
20 needs are to be met by economically dispatching generating units. Edison Sault
21 witness Leroy Baatz also briefly describes the JOA in his direct testimony.

22 Edison Sault voluntarily terminated Amendment 1 to the JOA and replaced it
23 with Amendment 2. On April 1, 2005, Amendment 2 was put into place. Edison Sault

1 contends that participation in the MISO energy markets by WEPCo and Edison Sault
2 required changes to the calculation of the price of energy and therefore a required
3 new Amendment was implemented.

4 **Q PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.**

5 A My conclusions and recommendations can be summarized as follows:

- 6 1) Edison Sault's proposed PSCR costs are excessive and unreasonable.
- 7 2) The recently signed JOA between WEPCo and Edison Sault as applied
8 unnecessarily increases costs to Edison Sault's ratepayers.
- 9 3) Under the JOA, Edison Sault should be able to purchase excess WEPCo
10 electricity at WEPCo's cost to generate. The proposed PSCR Plan assumes
11 that Edison Sault will purchase all of its JOA energy at the MISO prices.
- 12 4) The MPSC should adjust the PSCR Plan costs to reflect 25% of the JOA
13 energy being purchased at WEPCo's average cost. This would reduce the
14 JOA energy costs by \$2.371 million and the Edison Sault ratepayer's costs by
15 \$1.793 million.
- 16 5) The MPSC should require Edison Sault and WEPCo to track Edison Sault's
17 energy purchases under the JOA and WEPCo's opportunity sales for
18 purposes of reconciling Edison Sault's 2006 actual energy costs.
- 19 6) The MSPC should exclude from the PSCR costs 50% of Edison Sault's
20 pooled capacity charge of \$2.520 million. This would reduce the PSCR costs
21 that are passed on to ratepayers by \$1.120 million.
- 22 7) The pooled capacity costs should be reduced because Edison Sault derives
23 no benefit from any energy that is produced by the pooled capacity.
- 24 8) In total, the MPSC should reduce Edison Sault's estimated PSCR Plan costs
25 by \$2.913 million. This reduces the PSCR factor from Edison Sault's
26 proposed 12.45 mills per kWh to 7.87 mills per kWh.

27 **Q DO YOU HAVE ANY COMMENTS TO MAKE ABOUT THE POWER COSTS THAT**
28 **RESULT FROM THE JOA?**

29 A Yes. The power costs that result from the JOA purchases are excessive. In addition,
30 the charges that result from the JOA have not been approved for inclusion in utility

1 rates. Finally, as I will show later, the charges that Edison Sault is proposing to
2 include in the PSCR are inconsistent with the terms and conditions of the JOA.

3 The JOA energy price projection in 2006 is estimated to be \$67 per MWh.
4 This price projection for the JOA energy is an estimate of the locational marginal
5 prices ("LMP") for the MISO market clearing prices. The LMP includes energy,
6 marginal losses and marginal congestion components. In addition, Edison Sault is
7 required to pay an estimated pooled capacity resource charge of \$2.520 million per
8 year, or approximately \$6.00 per kW-month, while not receiving any energy-related
9 benefits. These capacity and energy charges make the price of purchased power
10 under the JOA unreasonable.

11 **Q DO YOU BELIEVE THAT THE JOA JUSTIFIES THE ENERGY PRICES THAT**
12 **EDISON SAULT IS FORECASTING?**

13 **A** No. The JOA allows both WEPCo and Edison Sault to purchase power from one
14 another at cost, before excess power purchases are offered in the wholesale market.

15 Specifically, the JOA states the following:

16 "6.02 Disposition of Excess Capacity Resources. All of the Parties
17 Excess Capacity Resources shall be offered for sale to the other Party
18 prior to be included in an Off-System Sale. Excess Capacity
19 Resources shall be purchased by a Party at cost." (Emphasis added)

20 The JOA defines Off-System Sales to mean all wholesale sales to a third party of
21 energy and/or capacity. (Paragraph 1.21)

22 All of the energy that Edison Sault purchases under the JOA is priced at MISO
23 LMP. Edison Sault is not purchasing any energy from WEPCo under Amendment 2
24 of the JOA at WEPCo's cost to generate. That is, Edison Sault does not receive any
25 JOA energy from WEPCo at WEPCo generation cost even though WEPCo has

1 excess capacity available to make opportunity sales. As a result, WEPCo's energy
2 charges to Edison Sault are unnecessarily high and unreasonable.

3 **Q DOES WEPCO SELL ANY EXCESS ENERGY IN THE WHOLESALE MARKET?**

4 A Yes. In WEPCo's 2006 PSCR Plan case, Case No. U-14707, WEPCo witness
5 Thomas Lorden sponsored an exhibit that compares the PSCR Plan costs for years
6 2005 and 2006. That exhibit shows that WEPCo is forecasting opportunity sales of
7 696,260 MWh in 2006. (Case No. U-14707, Exhibit A-7 (TPL-7)). These sales are
8 being sold into MISO at an estimated price of approximately \$73 per MWh.

9 In this Edison Sault proceeding, by contrast, Mr. Baatz's Exhibit A-1 (LMB-1),
10 Page 2 of 4 shows that in 2006, Edison Sault's intends to purchase from WEPCo
11 223,284 MWh under the JOA. It should be noted that these MWh that are purchased
12 under the JOA are priced out at a MISO price of \$67 per MWh. However, Edison
13 Sault will not be purchasing any of this power at WEPCo's actual generation cost. As
14 a result, Edison Sault is purchasing the JOA power at a cost significantly greater than
15 WEPCo's 2006 average fuel and purchased power cost of \$24.48 per MWh.

16 **Q WHAT IS YOUR RECOMMENDATION REGARDING THE JOA ENERGY COSTS**
17 **THAT THE MPSC SHOULD INCLUDE IN EDISON SAULT'S PSCR RELATED TO**
18 **THE JOA?**

19 A My recommendation is that the MPSC should reduce the cost associated with
20 WEPCo's JOA sales. For purposes of establishing the PSCR factor in this case, the
21 MPSC should price 25% of Edison Sault's purchases under the JOA at WEPCo's
22 average fuel and purchased power price of \$24.48 per MWh. I have utilized the 25%
23 figure because it is unknown at this time how much of the JOA purchases will be

made at WEPCo's cost to generate and the exact cost of those purchases is also unknown. Therefore, this represents a conservative estimate. In addition, the MPSC should instruct Edison Sault and WEPCo to keep track of the hourly purchases that Edison Sault makes under the JOA and the opportunity sales that WEPCo makes so the actual cost for the JOA can be tracked. This is necessary to accurately establish the JOA energy costs that are included in the 2006 PSCR cost reconciliation hearing that will take place in 2007.

Making this adjustment would reduce Edison Sault's net power supply cost by approximately \$2.371 million and the PSCR costs by \$1.793 million. All of the net power supply costs are not passed on to the Michigan jurisdictional ratepayers. A portion of the net power supply costs is passed on to Cloverland Electric Cooperative. Therefore, the PSCR customers only see a portion of the cost reduction.

Q DO YOU HAVE A SECOND RECOMMENDATION TO MAKE REGARDING EDISON SAULT'S PROPOSED PSCR FACTOR?

A Yes. Included in the PSCR cost is a pooled capacity charge of \$2.520 million, or \$6.00 per kW-month. Although this cost is not specifically included in the JOA, Edison Sault is seeking to pass on this cost as a result of the JOA.

Q PLEASE BRIEFLY DESCRIBE THE POOLED CAPACITY COSTS.

A Specifically, Amendment 2 of the JOA addresses the pooled capacity as follows:

"6.03 Pooling of Capacity Requirements. The Capacity Requirements of each Party over and above each Parties' Embedded Capacity Resources shall be pooled."

"6.04 Designation of Pooled Capacity Resources. All Pooled Capacity Resources shall be set forth in Schedule C of this agreement which shall be updated from time to time as required."

1 A review of Schedule C does not indicate that there are any capacity
2 requirements. In fact, Schedule C states the following:

3 "1. Contract for the purchase 98 MW of capacity, beginning on
4 10/1/2000 and ending on 9/30/2000."

5 It is clear from the review of Schedule C and the JOA that the specific pooled
6 capacity charges sought by Edison Sault were not approved by the FERC. Moreover,
7 it is also clear that these capacity charges are associated with power purchased in
8 excess of six months.

9 **Q DO YOU THINK THAT THE COST ASSOCIATED WITH THE POOLED CAPACITY**
10 **IS REASONABLE?**

11 A No. Edison Sault does not derive any low-cost energy from the capacity that
12 comprises the pooled capacity. Edison Sault pays for its portion of the pooled
13 capacity resources, and then pays an LMP price for energy. In addition Edison Sault
14 states that this capacity is needed to maintain a 15% reserve margin. Finally, it is
15 unclear that Edison Sault requires this capacity given that the energy that Edison
16 Sault is purchasing under the JOA is coming from MISO. I do not believe that MISO
17 has any requirements in place that establish a 15% reserve margin. Participation in
18 MISO should reduce planning reserve margins downward from previous levels.

19 **Q YOU INDICATED THAT THE COST ASSOCIATED WITH THE POOLED**
20 **CAPACITY IS EXCESSIVE. WHAT IS YOUR RATIONALE?**

21 A As I indicated, the estimated pooled capacity charge is \$6.00 per kW-month. The
22 associated energy is at the MISO price, which is estimated to be approximately \$67
23 per MWh. As a means of comparison, Edison Sault has in place a firm purchase of
24 20 MW from WEPCo that contains a capacity cost of \$6.50 per kW-month but the

energy cost is \$23.90 per MWh in 2006. Logically, if a high capacity cost exists, then a lower energy cost should be expected. It is clear that together the pooled capacity cost and associated energy cost are excessive.

Q DO EDISON SAULT'S CUSTOMERS DERIVE ANY ENERGY-RELATED BENEFITS FROM THE POOLED CAPACITY?

A No. Edison Sault's customers do not benefit from any energy generated and sold as a result of the pooled capacity agreement. Any opportunity sales that are made as a result of this pooled capacity are retained by WEPCo and not passed on to Edison Sault ratepayers. In fact, in response to City of Mackinac Island's Fifth Discovery Request, Question No. 3, Edison Sault responded as follows:

"With respect to the Joint Operating Agreement (JOA) between Edison Sault and WEPCo, Edison Sault has no rights to the energy directly produced by Pooled Capacity Resources. Therefore there is no impact if the generator offer is lower than the LMP. The price paid by Edison Sault for energy provided under the JOA is clearly described in Schedule E of the JOA. The Pooled Capacity Resources are those capacity resources contracted for by WEPCo to meet the capacity requirements of WEPCo and Edison Sault. While the capacity contracts that WEPCo has for the Pooled Capacity Resources do contain energy provisions, the cost of energy from these resources are not relevant to the JOA energy calculation. This was also the case prior to the start-up of the MISO market."

It is clear from this response that Edison Sault does not benefit from any energy produced as a result of the Pooled Capacity Resources.

Q WHAT IS YOUR RECOMMENDATION REGARDING THE POOLED CAPACITY COSTS?

A My recommendation is that a significant portion of this capacity cost of \$2.520 million should be excluded from the PSCR cost calculations. A portion of the cost should be excluded because:

- 1 1) The pooled capacity cost is excessive since it is not a source of reasonable
2 cost energy.
- 3 2) Edison Sault's ratepayers do not benefit from any energy that is produced by
4 this capacity.
- 5 3) The capacity cost is not required by any provisions contained in the JOA.
- 6 4) As a means of comparison, capacity cost in the PJM pool is less than \$1.00
7 per MWh. The MISO capacity market is not transparent so comparable
8 capacity cost information is unavailable. In any event, the PJM costs do
9 provide a basis for establishing an appropriate figure for pooled capacity cost
10 to include in the PSCR.

11 **Q WHAT IS YOUR SPECIFIC RECOMMENDATION REGARDING THE LEVEL OF**
12 **POOLED CAPACITY COSTS THAT SHOULD BE INCLUDED IN THE PSCR COST**
13 **CALCULATIONS?**

14 A As previously indicated, it is my position that the cost of \$6.00 per kW-month is
15 excessive given that there are no energy benefits associated with this capacity.
16 Although it is somewhat arbitrary, I am recommending that the Commission reduce
17 the Pooled Capacity Costs by 50%. This would produce a pooled capacity cost of
18 \$3.00 per kW. This would reduce the PSCR cost by \$1.260 million, and the costs
19 that flow through to ratepayers by \$1.120 million.

20 **Q WHAT IS YOUR RECOMMENDATION REGARDING EDISON SAULT'S**
21 **PROPOSED 2006 PSCR PLAN FACTOR?**

22 A Edison Sault's 2006 PSCR Plan costs should be reduced by \$2.913 million. This
23 would reduce the 2006 PSCR factor from 12.45 mills per kWh to 7.87 mills per kWh.

24 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?**

25 A Yes.

Qualifications of James T. Selecky

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

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

4 **Q PLEASE STATE YOUR OCCUPATION.**

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

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

9 A I graduated from Oakland University in 1969 with a Bachelor of Science degree with a
10 major in Engineering. In 1978, I received the degree of Master of Business Admin-
11 istration with a major in Finance from Wayne State University.

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

19 In May of 1975, I transferred to the Rate and Revenue Requirement area of
20 DECo. From that time, and until my departure from DECo in June 1984, I held
21 various positions which included economic analyst, senior financial analyst,

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

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

15 In addition to our main office in St. Louis, the firm also has branch offices in
16 Phoenix, Arizona; Chicago, Illinois; Corpus Christi, Texas; and Plano, Texas.

17 **Q HAVE YOU PREVIOUSLY APPEARED BEFORE A REGULATORY COMMISSION?**

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

21 In addition, I have testified before the regulatory commissions of the States of
22 Colorado, Connecticut, Georgia, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland,
23 Massachusetts, Missouri, New Hampshire, New Jersey, North Carolina, Ohio,
24 Oklahoma, Tennessee, Texas, Utah, Washington, Wisconsin, and Wyoming, and the

1 Provinces of Alberta, Nova Scotia and Saskatchewan. I also have testified before the
2 Federal Energy Regulatory Commission. In addition, I have filed testimony in
3 proceedings before the regulatory commissions in the States of Florida, Montana,
4 New York, Oregon and Pennsylvania and the Province of British Columbia. My
5 testimony has addressed revenue requirement issues, cost of service, rate design,
6 financial integrity, accounting-related issues, merger-related issues, and performance
7 standards. The revenue requirement testimony has addressed book depreciation
8 rates, decommissioning expense, O&M expense levels, and rate base adjustments
9 for items such as plant held for future use, working capital, and post test year
10 adjustments. In addition, I have testified on deregulation issues such as stranded
11 cost estimates and rate design.

12 **Q ARE YOU A REGISTERED PROFESSIONAL ENGINEER?**

13 **A** Yes, I am a registered professional engineer in the State of Michigan.

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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of EDISON SAULT ELECTRIC)
COMPANY for authority to implement a power supply cost)
recovery plan for the 12 month period ending December 31, 2006)

Case No. U-14703

PROOF OF SERVICE

STATE OF MICHIGAN)
)
COUNTY OF OAKLAND)

Robert A.W. Strong, being first duly sworn, deposes and says that he did cause to be filed electronically the Direct Testimony of James T. Selecky on behalf of the Association of Businesses Advocating Tariff Equity and the City of Mackinac Island and Proof of Service in the above docket on the persons identified on the attached service list on May 19, 2006.

**Robert A.W.
Strong**

Digitally signed by Robert A.W.
Strong
DN: CN = Robert A.W. Strong, C
= US, O = Clark Hill
Date: 2006.05.18 08:39:07 -04'00'

Robert A.W. Strong

Subscribed and sworn to before me
this 19th day of May, 2006.

Audrey L. Gilliatt

Digitally signed by Audrey L. Gilliatt
DN: CN = Audrey L. Gilliatt, C = US,
O = ABATE
Date: 2006.05.18 08:39:20 -04'00'

Audrey Gilliatt, Notary Public
Oakland County, MI, acting in Oakland County, MI
My Commission expires: 7/06/06

SERVICE LIST
MPSC Case No. U-14703

Administrative Law Judge

Hon. Sharon L. Feldman
Michigan Public Service Commission
6545 Mercantile Way, #14
Lansing, MI 48911
slfeldm@michigan.gov

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