

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  
MICHAEL G. VANHAERENTS

**THE DETROIT EDISON COMPANY**  
**QUALIFICATIONS OF MICHAEL G. VANHAERENTS**

Line  
No.

1     **Q. What is your name and business address, and by whom are you**  
2     **employed?**

3     A. My name is Michael G. VanHaerents. My business address is The Detroit  
4     Edison Company, 2000 Second Avenue, Detroit, Michigan 48226. I am  
5     employed by The Detroit Edison Company.

6

7     **Q. What is your educational background?**

8     A. I graduated from Michigan State University in 1973 with a Bachelor of Arts  
9     degree in Financial Administration. In 1975, I received a Master of Business  
10    Administration degree, with a major in Finance, from Michigan State  
11    University.

12

13    **Q. What is your work experience?**

14    A. I have been employed by The Detroit Edison Company ("Edison" or  
15    "Company") since 1975. My 31 years with Edison has provided me with  
16    vast financial experience in accounting, reporting, forecasting, budgeting  
17    and ratemaking related to Edison financial information. Prior to my  
18    managerial positions and duties discussed below, I completed leadership  
19    roles in implementing new accounting pronouncements, special studies and  
20    analysis relating to valuation and pricing, cost of capital and regulatory  
21    accounting issues.

22

23    **Q. What are your more recent job responsibilities and positions?**

24    A. In 1999, I was promoted to Manager of Regulatory Accounting directing a

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1 group of nine employees. Regulatory Accounting provided accounting  
2 services for Detroit Edison's regulated business. These services included  
3 the accounting and forecasting of revenues and interest on debt. My group  
4 also provided accounting strategies and support on regulatory issues while  
5 coordinating regulatory reporting to the Federal Energy Regulatory  
6 Commission ("FERC") and the Michigan Public Service Commission  
7 ("Commission").

8

9 In 2001, I was appointed Controller and Chief Accounting Officer of The  
10 Detroit Edison Securitization Funding LLC, a non-utility subsidiary of Detroit  
11 Edison. This entity's sole purpose was to issue \$1.75 billion of  
12 securitization bonds backed by securitization property created pursuant to  
13 2000 PA 142 and authorized by Commission Order in Case No. U-12478  
14 and to recover the debt service from ratepayers on behalf of the  
15 securitization bondholders.

16

17 In mid-2001, I was appointed Manager of Financial Planning. In this  
18 position I was responsible for coordinating and preparing long-term financial  
19 forecasts to facilitate strategic and operating business plans.

20

21 In late 2002, I was appointed Manager of Revenue Requirements. I was  
22 responsible for determining both Edison and Michigan Consolidated Gas  
23 Company revenue requirements, depreciation rate studies, nuclear  
24 depreciation and regulatory accounting research.

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1

2 **Q. What is your current position?**

3 A. I was promoted to Director of Edison Consolidation and Regulatory Support  
4 in 2004. I am responsible for the coordination, development, analysis, and  
5 reporting of all annual and long-range financial forecasts for Edison  
6 including communicating performance variances to Senior Management.  
7 This responsibility primarily involves control of Edison's Corporate Planning  
8 Model ("CPM") that consolidates into DTE's planning system. The CPM is  
9 driven on specific forecast assumptions with compiled forecast inputs from  
10 various operating and financial groups within Edison. Other key  
11 responsibilities of my area include: accounting and forecasting of sales,  
12 margins, regulatory assets, regulatory accounting research and related  
13 ratemaking.

14

15 **Q. Are you a member of any professional organizations?**

16 A. I am a member of the Institute of Management Accountants.

17

18 **Q. To what extent have you participated in prior rate cases and other**  
19 **regulatory proceedings?**

20 A. I filed direct and rebuttal testimony in The Detroit Edison Company's main  
21 electric rate case, Case No. U-13808, to support the rate base, cost of  
22 capital used in determining return on rate base, adjusted net operating  
23 income and the revenue deficiency calculations. In 2005, I testified to the  
24 appropriate accounting and ratemaking treatment for FAS 143 Asset

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1 Retirement Obligations. In 2004, I was the regulatory policy witness in Case  
2 No. U-14201 seeking accounting approval to capitalize certain business  
3 system costs. I filed testimony in Case Nos. U-13350 and U-12639 relating  
4 to Edison's net stranded costs. In Case No. U-14079, I supported recovery  
5 of a return on Customer Choice Implementation Costs. In 2000, I testified in  
6 Case No. U-12478 describing Detroit Edison's Qualified Costs that comply  
7 with the Qualified Costs defined in Public Act 142 of 2000 ("PA 142"). I also  
8 testified in Case No. U-11956 in 1999, describing the amounts of stranded  
9 costs Detroit Edison should recover in future true-up cases. I have testified  
10 twice relating to Detroit Edison's Fermi impairment accounting, in Case Nos.  
11 U-11495 in 1999 and U-11726 in 1998. In 1996, I testified as a fuel  
12 accounting witness in Case No. U-10702-R and as a demand side  
13 management accounting witness in Case No. U-10867. In 1992, I testified  
14 as a tax witness in both Case No. U-10083, relating to the implementation of  
15 FAS 109, and Case No. U-8683 in 1987, relating to the Tax Reform Act of  
16 1986. In 1990, I was the deferred income tax accounting witness in Case  
17 No. U-9599 and provided witness support in Case No. U-9866. In 1984, I  
18 was the historical accounting witness before the Federal Energy Regulatory  
19 Commission (FERC), Docket No. ER-84-418-000, and provided support for  
20 the accounting witness in the 1981 FERC case, Docket No. ER-81-213-000.  
21 In addition, I provided primary support for the accounting and forecast  
22 witness in the Company's main electric rate filings before the Commission in  
23 Case Nos. U-10102, U-8789 and U-7660.

**THE DETROIT EDISON COMPANY**  
**DIRECT TESTIMONY OF MICHAEL G. VANHAERENTS**

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

2     A.   The purpose of my testimony is to support Edison's total electric financial  
3       statements for the 2005 historical test year through the 2007 forecasted test  
4       year including adjustments necessary for presenting the financial  
5       information in the appropriate format for ratemaking purposes. My  
6       testimony supports the development of the 2007 test year adjusted electric  
7       operating income and balance sheet based on known and measurable  
8       changes beyond the 2005 normalized electric financial statement. To  
9       comply with the Commission's filing requirements, I will also provide  
10      forecasted Edison electric financial statements for the years 2006 through  
11      2011.

12

13    **Q.   Are you sponsoring any exhibits along with your testimony?**

14    A.   Yes. At the beginning of each main section of my testimony, I provide a  
15      listing of the exhibits I am sponsoring within that section. My calculations  
16      are performed on a total electric basis. Where jurisdictional separations are  
17      required, Edison witness Mr. Heiser will support the jurisdictional amounts.

18

19                                   **Historical Test Year**

20

21    **Q.   Will you explain in more detail your testimony relating to the Historical**  
22      **Test Year – 2005?**

23    A.   My testimony for the 2005 Historical Test Year discusses information  
24      contained on my exhibits relating primarily to the balance sheet and net

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1 operating income with certain adjustments that are necessary to present the  
 2 financial information in the appropriate ratemaking format.

3

4 **Q. What exhibits are you supporting for the 2005 historical period?**

5 A. I am supporting or jointly sponsoring the following exhibits:

6

7 Exhibit Schedule Description

8 DE-2 B3 13 Month Average Adjusted Balance Sheet – Total  
 9 Electric

10 DE-2 B3-1 Year-End Adjusted Balance Sheet – Total Electric

11 DE-2 B4 Adjusted Balance Sheet - Assets and Other Debits

12 DE-2 B5 Adjusted Balance Sheet - Liabilities and Other Credits

13 DE-3 C1 Adjusted Net Operating Income – Total Electric and  
 14 Jurisdictional Electric

15 DE-3 C6 Allowable Charitable Contributions

16 DE-3 C7 Disallowed Corporate Memberships

17 DE-3 C8 Disallowed Advertising Expenses

18 DE-3 C11 MERC Operating Income

19 DE-3 C12 Amortization of the Loss on Reacquired Debt

20 DE-3 C13 No Residential Rate Cap Adjustment

21 DE-3 C14 Weather Normalization Adjustment

22 DE-3 C15 Eliminate Regulatory Asset Operating Income

23 DE-3 C16 Eliminate Securitization Tax Revenue and Expense

24 DE-3 C17 Eliminate Property Tax Settlement

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1 DE-3 C18 Eliminate Federal Income Tax Adjustment

2 DE-3 C19 Incentive Plan Adjustment

3 DE-3 C20 Eliminate Gain on Sale

4

5 **Q. Were these exhibits prepared by you or under your direction?**

6 A. Yes. The primary source of the data for these exhibits is the Company's  
 7 books and records. Adjustments were made, as discussed later in my  
 8 testimony, to allow the information to be more easily utilized for ratemaking  
 9 purposes.

10

11 **Q. Does the Company's financial presentation in this rate case reflect any**  
 12 **adjustments for FAS 143, "Accounting for Asset Retirement**  
 13 **Obligations", and/or FIN 47, "Accounting for Conditional Asset**  
 14 **Retirement Obligations", and their implementation by Edison?**

15 A. No. On January 1, 2003, the Company adopted FAS 143 and at December  
 16 31, 2005 adopted FIN 47. The Company determined it is legally obligated  
 17 to decommission the radioactive portion of its Fermi 2 nuclear power plant,  
 18 and to a lesser extent, has legal retirement obligations for gasoline and oil  
 19 storage tanks, an oil pipeline and PCB transformers at its fossil power  
 20 plants, peakers and service centers. As stated on page 29 of Edison's 2005  
 21 Form 10-K, "We believe that adoptions of FAS 143 and FIN 47 result  
 22 primarily in timing differences in the recognition of legal asset retirement  
 23 costs that we are currently recovering in rates. We defer such timing  
 24 differences under FAS 71, 'Accounting for the Effects of Certain Types of  
 25 Regulation'." Since the incremental liability of adopting FAS 143 and FIN 47

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1 is entirely offset by a corresponding net plant Asset Retirement Cost and a  
2 regulatory asset there is no impact on the revenue requirements in this  
3 case. As a result, no adjustment to the 2005 balance sheet and income  
4 statement is necessary.

5

6 **Q. Does the Company's financial presentation in this rate case reflect the**  
7 **2001 securitization of Fermi and other qualified costs?**

8 A. No. Consistent with the Order and filing in Case No. U-13808, this filing  
9 does not include the financial impact of the 2001 securitization financing.  
10 Securitization costs are recovered with separate securitization bond and tax  
11 surcharges that are reviewed annually in a separate true-up proceeding.

12

13 **Q. Have you consolidated any subsidiary companies with DECo in the**  
14 **preparation of your historical and forecasted test period exhibits?**

15 A. Yes. Midwest Energy Resources Company ("MERC"), a wholly owned  
16 subsidiary of DECo involved in low-sulfur western coal storage and  
17 transshipment operations, has been incorporated in the preparation of all  
18 exhibits. Pursuant to the Commission Order in the Case No. U-5108, all  
19 revenues, expenses, rate base and capitalization impacts of MERC are to  
20 be considered in the Company's ratemaking process.

21

22 **Q. Will you describe Exhibit DE-2, Schedule B3?**

23 A. Exhibit DE-2, Schedule B3, 13-Month Average Adjusted Balance Sheet –  
24 Total Electric, is being co-sponsored with Mr. Horgan. All columns

Line

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1 presented on this schedule represent the 13-month average balances for  
2 2005 utilizing December 31, 2004 through December 31, 2005 balances. I  
3 am supporting all columns on pages 1 of 4 and 2 of 4 of Exhibit DE-2,  
4 Schedule B3, which are referenced below, while Mr. Horgan, supports all  
5 columns on pages 3 of 4 and 4 of 4 of the schedule. Column (b), entitled  
6 "Detroit Edison 13 Month Average" represents the average of DECo's 2005  
7 balance sheet utilizing the monthly balances as reported in the MPSC Form  
8 P-521 format. This column does not include MERC financial information.  
9 Column (c) represents MERC's 2005 13-month average balance sheet that  
10 is included for ratemaking purposes as previously discussed. Column (d)  
11 entitled "Consolidated Detroit Edison 13-month average" is the summation  
12 of the amounts included in columns (b) and (c) and ultimately reflects the  
13 inclusion of MERC.

14

15 **Q. Will you explain column (e), Securitization Taxes on Exhibit DE-2,**  
16 **Schedule B3?**

17 A. As stated above, there are no securitization costs included in this case. The  
18 2005 books of Detroit Edison reflect a \$762 million regulatory asset with an  
19 offsetting accumulated deferred federal income tax liability relating to the  
20 principal payment of the securitization bond, which is not deductible for tax  
21 purposes. Since these amounts are recovered with the securitization tax  
22 surcharge, and are not part of this case, I have removed both the \$762  
23 million regulatory asset and its offsetting accumulated deferred federal  
24 income tax liability. This guarantees that there is no ratemaking impact from

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1 securitization in this case.

2

3 **Q. Will you explain columns (f) and (g), Regulatory Assets on Exhibit DE-**  
4 **2, Schedule B3?**

5 A. The Commission Order in Case No. U-13808 was clear that regulatory  
6 assets recovered with surcharges are excluded from rate base (page 64,  
7 Case No. U-13808 Order, dated 11/23/2004). In order to comply with both  
8 the Commission Order and the basic ratemaking principle that total electric  
9 rate base equals total electric capitalization, columns (f) and (g) remove all  
10 surcharged regulatory assets and their associated capital. For each  
11 surcharged regulatory asset amount excluded, I removed 35% of the  
12 amount for Accumulated Deferred Federal Income Tax ("ADFIT") capital  
13 with the remaining capital removed based on the Commission ordered  
14 return on the regulatory asset amount. For example, column (f) removes  
15 \$96 million of Customer Choice Implementation Cost regulatory asset from  
16 rate base which has an authorized 7% return on the balance. Since rate  
17 base must equal capitalization, I removed \$34 million of ADFIT (\$96 million  
18 \* 35%) with the remaining \$62 million removed from short-term debt capital.  
19 Short-term debt is the capital source for the Customer Choice  
20 Implementation Cost regulatory asset since the 7% return was  
21 representative of a short-term debt rate per the Commission Order in Case  
22 No. U-11955.

23

24 Column (g) of Exhibit DE-2, Schedule B3, removes all the regulatory asset

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1 amounts related to the Regulatory Asset Recovery Surcharge ("RARS")  
2 recovery authorized in Case No. U-13808 and deferred enhanced security  
3 costs allowed under section 10d(11) of Act 141 in the amount of \$199  
4 million. The RARS regulatory assets are Clean Air Act, Capital in Excess of  
5 Base Depreciation, Midwest Independent System Operator ("MISO")  
6 expenses, and the refund of the over-recovery for the 1997 storm expenses.  
7 The rate of return authorized for RARS is the authorized overall pretax cost  
8 of capital of 9.74%. A capital reduction of \$199 million is required to  
9 account for the capital that financed the regulatory asset removal of \$199  
10 million. I removed \$70 million of ADFIT (\$199 million \* 35%) with the  
11 remaining \$129 million reducing long-term debt by \$66 million and common  
12 equity by \$63 million based on the 2005 average permanent capital ratios of  
13 51% debt and 49% equity.

14

15 **Q. Will you explain column (h), Thermal/Other Non-Utility on Exhibit DE-2,**  
16 **Schedule B3?**

17 A. This is an electric rate case. Therefore, column (h) removes the thermal  
18 energy and non-utility balance sheet amounts from the Edison consolidated  
19 balance sheet.

20

21 **Q. Will you explain column (i), Total Electric on Exhibit DE-2, Schedule**  
22 **B3?**

23 A. Column (i), Total Electric, represents the Edison electric balance sheet after  
24 the adjustments previously discussed for Schedule B3. These 2005 electric

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1 balances are used by Mr. Horgan to determine rate base and the  
2 capitalization is used to develop 2005 cost of capital.

3

4 **Q. Will you describe Exhibit DE-2, Schedule B3-1?**

5 A. Exhibit DE-2, Schedule B3-1, Year-End Adjusted Balance Sheet – Total  
6 Electric, is being co-sponsored with Mr. Horgan. All columns presented on  
7 this schedule represent year-end balances for 2005. I am supporting all  
8 columns on pages 1 of 4 and 2 of 4 of Exhibit DE-2, Schedule B3-1, which  
9 are referenced below, while Mr. Horgan supports all columns on pages 3 of  
10 4 and 4 of 4 of the schedule. Column (b), entitled “Detroit Edison Year-End”  
11 represents Edison’s 2005 balance sheet as reported in the MPSC Form P-  
12 521. This column does not include MERC financial information. Column (c)  
13 represents MERC’s 2005 year-end balance sheet that is included for  
14 ratemaking purposes as previously discussed. Column (d), entitled  
15 “Consolidated Detroit Edison Year-End 2005,” is the summation of the  
16 amounts included in columns (b) and (c) and ultimately reflects the inclusion  
17 of MERC. Columns (e) through (h) are the same adjustments made to  
18 Schedule B3, except using 2005 year-end amounts. In addition, column (g)  
19 also uses 2005 year-end permanent capital ratios of 52% debt and 48%  
20 equity to reduce long-term debt and common equity related to the removal  
21 of 2005 year-end regulatory asset amounts from rate base. Column (i),  
22 “Total Electric” represents the Edison electric balance sheet for year-end  
23 2005 after adjustments.

24

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1 **Q. Will you describe Exhibit DE-2, Schedule B4 and Schedule B5?**

2 A. Exhibit DE-2, Schedule B4, is the Assets and Other Debits portion and  
3 Exhibit DE-2, Schedule B5, is the Liabilities and Other Credits portion of the  
4 Edison Adjusted Balance Sheet – Total Electric for 2005. Column (b)  
5 represents the 13-month average balances while column (c) reflects end of  
6 year balances. Both columns are from column (i) of Exhibit DE-2, Schedule  
7 B3 and Schedule B3-1, respectively.

8

9 **Q. What items are you supporting on Exhibit DE-3, Schedule C1?**

10 A. Exhibit DE-3, Schedule C1, shows the detail of determining Adjusted Net  
11 Operating Income. My testimony supports Total Electric Adjusted Net  
12 Operating Income except for lines 11 and 12 supported by Mr. Horgan. Mr.  
13 Heiser supports column (m) of Schedule C1 – Jurisdictional Electric  
14 Adjusted Net Operating Income.

15

16 **Q. Will you explain line 2 of Exhibit DE-3, Schedule C1?**

17 A. Net Operating Income of \$443 million on line 2, column (l), and its  
18 supporting detail was determined from the Company's books and records  
19 and is the amount reported in the Company's 2005 Annual Report to the  
20 MPSC on Form P-521.

21

22 **Q. Why do you make adjustments to Net Operating Income as reflected**  
23 **on lines 5 through 10?**

24 A. These adjustments reflect certain inclusions and exclusions to the reported

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1 Net Operating Income amount to arrive at an allowable rate case filing level.

2 The inclusions represent items that are allowable for ratemaking but which

3 fall below the calculation of Net Operating Income on the Income Statement.

4 Conversely, the exclusions represent items that are not allowable for

5 ratemaking but which fall within the calculation of Net Operating Income on

6 the Income Statement.

7

8 **Q. Will you explain your adjustments on lines 5 through 10 of Schedule**  
9 **C1?**

10 A. Line 5 reflects Allowance for Funds Used During Construction ("AFUDC"),  
11 as prescribed by the Commission's standard filing requirements. AFUDC is  
12 included as an adjustment to Recorded Net Operating Income since the  
13 construction work in progress balance is included in rate base. To qualify  
14 for AFUDC treatment, construction must be at least 6 months in duration  
15 and cost in excess of \$50,000. AFUDC recorded in 2005 was \$6.1 million.

16

17 Exhibit DE-3, Schedule C6, supports line 6, Allowable Charitable  
18 Contributions. The purpose of this schedule is to make an adjustment to  
19 include contributions made to Urban Coalitions as recoverable costs.  
20 However, the company made no such contributions during 2005 so no  
21 adjustment is necessary.

22

23 Line 7, Disallowed Corporate Memberships, as ordered by this Commission  
24 in previous cases, is shown on Schedule C7. This schedule calculates the

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1 disallowance of 2005 social and service organization membership expense.

2 The adjustment decreases electric expense by \$70,000 and increases  
3 electric net operating income by \$45,000 on a net of tax basis.

4

5 Line 8, Disallowed Advertising Expenses, is supported by Schedule C8,  
6 which classifies 2005 electric advertising expenses by categories as  
7 prescribed by the standard filing requirements. The purpose of this exhibit  
8 is to identify the advertising expenses that are disallowed by the  
9 Commission as described in the filing requirements. This adjustment results  
10 in a decrease in electric expense of \$824,000 and an increase in electric net  
11 operating income of \$524,000 on a net of tax basis.

12

13 Line 9, MERC Operating Income, is supported by Schedule C11, which  
14 identifies the 2005 net operating income of MERC of \$2.7 million to be  
15 added to recorded net operating income. The MERC net operating income  
16 reflects the exclusion of interest expense which is included in the cost of  
17 capital. Edison has already recognized in net operating income the benefits  
18 of MERC's third party revenues and the earnings of the Venture Fuels  
19 partnership as well as the expenses associated with MERC as a reduction  
20 of fuel expense. As a result, Schedule C11 also reclassifies portions of  
21 MERC's net operating income line items to properly consolidate with  
22 Edison.

23

24 Line 10 represents Amortization of the Loss on Reacquired Debt and is

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1 supported by Exhibit DE-3, Schedule C12. In an effort to reduce interest  
2 costs, DECo has redeemed and refinanced long-term debt securities in prior  
3 years, in advance of their scheduled maturities. The cost related to each of  
4 these early redemptions is amortized over the life of the new issue as  
5 prescribed by the Commission's Uniform System of Accounts. The 2005  
6 amortization of the Loss on Reacquired Debt results in a decrease in net  
7 operating income of \$2.9 million. This expense is displayed on a pretax  
8 basis since the tax deduction is in the calculation of tax expense that is  
9 already included in net operating income.

10

11 **Q. Why are you making normalization adjustments to Net Operating**  
12 **Income as reflected on lines 18 through 28?**

13 A. The Order initiating this case requires the development of the 2007 test year  
14 based on known and measurable changes from the 2005 actual test year.  
15 Known and measurable changes should not include unusual or one time  
16 events that occurred in 2005, but should include real changes between the  
17 years. The 2005 test year must be adjusted to reflect the same normal  
18 baseline as the 2007 test year as far as rate levels, weather impacts, one-  
19 time expense impacts, etc. These normalization adjustments reflect certain  
20 inclusions and exclusions to the 2005 reported Net Operating Income  
21 amount to arrive at an allowable normal rate case filing level as the starting  
22 point to develop the 2007 test year.

23

24 **Q. Will you explain your No Residential Rate Cap Adjustment on lines 18**

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1 **through 20 of Schedule C1?**

2 A. Act 141 rate caps for residential customers expired December 31, 2005. As  
3 a result, residential rates increased starting in 2006 for both base rates and  
4 PSCR rates reflecting current Commission Orders. Schedule C13 of Exhibit  
5 DE-3 compares 2005 residential revenue with and without rate relief. Line  
6 37 of the schedule displays the impacts of no residential rate caps in 2005.  
7 Column (f), line 37 shows that the elimination of the rate cap credit would  
8 provide an additional \$113 million of base rate revenue and \$72 million of  
9 net operating income shown on line 19 of Exhibit DE-3, Schedule C3. In  
10 addition, due to high PSCR expense incurred in 2005 that exceeded PSCR  
11 rate recovery Edison was not able to recognize PSCR under-recovery  
12 revenue due to residential rate caps of \$106 million, and \$67 million of net  
13 operating income displayed on line 43 of Exhibit DE-3, Schedule C13. The  
14 \$106 million PSCR under-recovery assumes no residential deferral of MISO  
15 costs normally included in the PSCR expense.

16

17 **Q. Exhibit DE-3, Schedule C1, line 21 displays a Weather Normalization**  
18 **Adjustment you are supporting. Will you explain this \$63 million net**  
19 **operating income adjustment?**

20 A. The significantly warmer than normal temperatures in the summer of 2005  
21 resulted in a \$99 million pretax margin benefit and an increase in Edison's  
22 2005 net operating income of \$63 million as shown on Schedule C14. The  
23 higher temperatures resulted in increased air conditioning usage and a 41%  
24 increase in "Cooling Degree Days" over "Normal Cooling Degree Days", as

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1 compared against a standardized 30-year period. The 2005 Cooling  
2 Degree Days were the second highest in the Company's history. Edison's  
3 2005 electric sales volumes were 1,418 GWh higher than the annual normal  
4 weather sales. Underlying the \$99 million pretax margin benefit was above  
5 normal sales revenue of \$143 million offset in part by an increase in power  
6 supply cost of \$44 million.

7

8 **Q. Why are you proposing to make an adjustment to eliminate this \$99**  
9 **million of gross margin and \$63 million of net operating income?**

10 A. The rate case assumes that for electric sales, historical normal weather will  
11 occur for the forecast period, including the 2007 test year. Thus, for  
12 comparison purposes the 2005 historical test year must be adjusted to a  
13 normal weather basis. The \$63 million reduction to net operating income  
14 eliminates Edison's 2005 earnings benefit related to the abnormal weather  
15 that occurred in 2005.

16

17 **Q. Why are you eliminating Regulatory Asset Operating Income shown on**  
18 **line 22 of Exhibit DE-3, Schedule C1?**

19 A. As stated previously, the Commission Order in Case No. U-13808 was clear  
20 that regulatory assets recovered with surcharges are excluded from rate  
21 base and likewise must be removed from net operating income so as to not  
22 impact revenue deficiency. Schedule C15 shows that Edison recorded in  
23 2005 \$62 million of pretax operating income for regulatory asset residential  
24 deferrals and recoveries from other customer classes. This results in a \$39

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1 million net operating income benefit that is eliminated on line 22 of Schedule  
2 C1.

3

4 **Q. Will you explain the Regulatory Asset Reclass on line 23 of Exhibit DE-**  
5 **3, Schedule C1?**

6 A. The \$62 million pretax operating income adjustment to eliminate Regulatory  
7 Asset Operating Income made above includes \$33 million relating to 2005  
8 MISO expenses allocated to the residential class. MISO costs are a  
9 transmission related expense included in the PSCR and are normally  
10 classified with fuel and purchased power expense. Therefore, I am  
11 reclassifying \$33 million of MISO expense from the regulatory asset  
12 adjustment amount to fuel and purchased power expense on line 23 of  
13 Schedule C1.

14

15 **Q. Why did you eliminate the Securitization Tax Revenue and Expense on**  
16 **line 24 of Schedule C1?**

17 A. As previously stated, consistent with the Order and filing in Case No. U-  
18 13808, this filing does not include the financial impact of the 2001  
19 securitization financing. Therefore, line 24 of Schedule C1 removes the  
20 2005 securitization tax revenue and expense which are completely  
21 offsetting with no impact on net operating income. This adjustment as  
22 shown on Schedule C16 is necessary so that the normalized 2005 net  
23 operating income detail is comparable to the forecast period which excludes  
24 securitization.

Line

No.

1

2     **Q. Will you explain the elimination of income related to Property Tax**  
3     **Settlement Adjustment on line 25 of Schedule C1?**

4     A. In 2005, a Property Tax Global Settlement Agreement was implemented  
5     between the DTE Energy utilities, the State of Michigan and local units of  
6     government. The Property Tax Global Settlement Agreement requires local  
7     governments to use the Michigan State Tax Commission multiplier tables to  
8     value Electric and Gas transmission and distribution utility property. Under  
9     the agreement, Edison recorded a property tax expense reduction of \$17  
10    million in 2005 for the years 2002 and 2003. Line 25 of Schedule C1  
11    eliminates this one-time property tax benefit of \$17 million and decreases  
12    net operating income by \$11 million. Exhibit DE-3, Schedule C17 displays  
13    the detailed calculation of this adjustment.

14

15    **Q. Why are you making an adjustment to eliminate a Federal Income Tax**  
16    **Adjustment on Exhibit DE-3, Schedule C1, line 26?**

17    A. Edison conducted an analysis in 2005 to true-up the current and deferred  
18    federal income tax balances in the general ledger. This process of truing-up  
19    account balances is common practice. As shown on Schedule C18, this  
20    adjustment is necessary so that normalized 2005 net operating income is  
21    comparable to the forecast period which excludes any tax true-up expense.  
22    Line 26 of Schedule C1 eliminates the 2005 federal income tax true-up  
23    adjustment of \$14 million and increases net operating income by the same  
24    \$14 million.

Line

No.

1

2     **Q. Will you explain the Incentive Plan Adjustment on line 27 of Schedule**  
3     **C1?**

4     A. Edison's corporate compensation includes an incentive plan to reward  
5     employees for corporate, group and/or individual accomplishments that  
6     meet or exceed targets set by the Company's Executive Committee and  
7     approved by its Board of Directors. In 2005, Edison recorded \$33 million of  
8     employee incentive plan expense for exceeding target levels as shown on  
9     line 1 of Schedule C19. A normalized employee incentive plan expense for  
10    planning purposes should be based on meeting and not exceeding  
11    corporate set targets. If incentive plan targets were met and not exceeded  
12    in 2005 an incentive plan expense of \$27 million would have been recorded  
13    as shown on Schedule C19. Therefore, line 27 of Exhibit DE-3, Schedule  
14    C1, reduces incentive plan expense by \$6 million to reflect meeting and not  
15    exceeding incentive plan target levels in 2005, and increases net operating  
16    income by \$4 million.

17

18    **Q. Why did you make the Gain on Sale adjustment on line 28 of Schedule**  
19    **C1?**

20    A. In 2005, Edison recognized a \$2.9 million gain on sale of Sulfur Dioxide  
21    ("SO<sub>2</sub>") Emission Allowances. This sale was mandated by the  
22    Environmental Protection Agency ("EPA") through the operation of the EPA  
23    auction process. Edison proposed in its 2006 PSCR Plan Case No. U-  
24    14702 that any gains or losses from future SO<sub>2</sub> Emission Allowance sales

Line  
No.

1 be recorded as fuel expense and included in the PSCR. As a result, base  
2 rates will not be impacted by any gains or losses of future SO<sub>2</sub> Emission  
3 Allowance sales. Therefore, line 28 of Exhibit DE-3, Schedule C1  
4 eliminates \$2.9 million of the gain on sale of SO<sub>2</sub> Emission Allowances and  
5 decreases net operating income by \$1.9 million.

6

7 **Q. What is the Adjusted Normalized 2005 Net Operating Income amount?**

8 A. Inclusion of both rate case adjustments and normalization adjustments  
9 supported by Mr. Horgan and myself determines an Adjusted Normalized  
10 2005 Net Operating Income for Electric of \$492 million. This amount is  
11 detailed on Exhibit DE-3, Schedule C1, line 31. The \$492 million is included  
12 in the 2005 revenue requirement calculation supported by Mr. Horgan.

13

14

**FORECAST PERIOD**

15

16 **Q. How was the financial forecast for the years 2006 through 2011**  
17 **prepared, and how does your testimony relate to the projected 2007**  
18 **test period?**

19 A. My testimony supports projected Edison electric financial statements for the  
20 years 2006 through 2011 based on known and measurable changes from  
21 2005 adjusted normalized amounts. As previously discussed, regulatory  
22 assets recovered with surcharges are excluded from the forecast so they  
23 will not impact base rate determination. The forecasted financial statements  
24 were derived primarily from known and measurable inputs supported by

Line  
No.

1 numerous Edison witnesses. The forecast was compiled utilizing Edison's  
2 Corporate Planning Model ("CPM"). As directed by the Commission Order  
3 initiating this case, my testimony will develop for the 2007 test year, the  
4 Edison electric operating income statement and balance sheet based on  
5 known and measurable changes that are expected to occur beyond the  
6 2005 adjusted normalized amounts.

7

8 **Q. What exhibits have you prepared in support of the projected test**  
9 **period?**

10 A. I am supporting or jointly sponsoring the following exhibits:

11

| 12 | <u>Exhibit</u> | <u>Schedule</u> | <u>Description</u>                                      |
|----|----------------|-----------------|---------------------------------------------------------|
| 13 | DE-10          | B2              | Total Electric Balance Sheet - Changes from Year End    |
| 14 |                |                 | Balances for the Years 2005 - 2007 (Based on            |
| 15 |                |                 | Known and Measurable Changes from 2005                  |
| 16 |                |                 | adjusted normalized amounts)                            |
| 17 | DE-10          | B3              | Total Electric Balance Sheet - Average Balances for the |
| 18 |                |                 | Years 2006 - 2007                                       |
| 19 | DE-11          | C1              | Adjusted Net Operating Income – Total Electric and      |
| 20 |                |                 | Jurisdictional Electric Year 2007 (Based on Known       |
| 21 |                |                 | and Measurable Changes from 2005 adjusted               |
| 22 |                |                 | normalized amounts)                                     |
| 23 | DE-11          | C13             | Revenues – Known and Measurable Change                  |
| 24 | DE-11          | C14             | Fuel and Purchased Power – Known and Measurable         |

Line  
No.

|    |       |     |                                                      |
|----|-------|-----|------------------------------------------------------|
| 1  |       |     | Change                                               |
| 2  | DE-11 | C15 | Depreciation and Amortization – Known and            |
| 3  |       |     | Measurable Change                                    |
| 4  | DE-11 | C16 | Property and Other Taxes – Known and Measurable      |
| 5  |       |     | Change                                               |
| 6  | DE-11 | C17 | FIT – Known and Measurable Change                    |
| 7  | DE-11 | C18 | AFUDC– Known and Measurable Change                   |
| 8  | DE-11 | C19 | Amortization of the Loss on Reacquired Debt– Known   |
| 9  |       |     | and Measurable Change                                |
| 10 | DE-14 | B4  | Total Electric Balance Sheet – Year End Balances for |
| 11 |       |     | the Years 2006 to 2011                               |
| 12 | DE-14 | B5  | Total Electric Balance Sheet – Average Balances for  |
| 13 |       |     | the Years 2006 to 2011                               |
| 14 | DE-15 | C1  | Total Electric Income Statement – Years 2006 to 2011 |
| 15 | DE-17 | I   | Total Electric Sources and Uses of Funds Summary     |
| 16 |       |     | Years 2006 to 2011                                   |
| 17 | DE-18 | J   | Summary of Major Forecast Assumptions                |

18

19 **Q. Were these exhibits prepared by you or under your direction?**

20 A. Yes, they were.

21

22 **Forecast Assumptions**

23 **Q. What assumptions were used in the forecast and embedded in the**  
24 **CPM?**

Line  
No.

1     A.   Exhibit DE-18, Schedule J, is a two-page schedule that captures the key  
2           assumptions and drivers, used in developing the forecast for the years 2006  
3           through 2011,as sponsored by various witnesses in this case. Page 1 of the  
4           schedule, lines 1 through 28, shows the forecasted electric sales and  
5           electric customer count used in deriving the electric revenue forecast. Mr.  
6           Colandrea supports the forecasted electric sales in his testimony and  
7           exhibits. Also provided on Page 1, lines 34 through 40, is a detailing of the  
8           power supply expense developed in the forecast. The detail behind the  
9           power supply expense was provided by Mr. Byron and is supported in his  
10          testimony and exhibits. Lines 43 through 55 provide the rate case source  
11          reference of the rates used to derive the revenue forecast. Mr. Falletich and  
12          myself are the sponsoring witnesses for the specific existing rates used in  
13          the revenue calculation.

14

15          Page 2 of Schedule J, lines 1 through 6, shows the total O&M expenses and  
16          capital expenditures developed in the forecast. Mr. Brudzynski's Exhibit  
17          DE-16, Schedule F5, provides a more detailed summary of the O&M costs  
18          which are supported by Messrs. Brudzynski, Colonnello, Harris, Dow,  
19          Broome, Lueders and Lapplander. Mr. Brudzynski's Exhibit DE-16,  
20          Schedule F3 also provides a detailed summary of the capital expenditures  
21          supported in this case by Messrs. Brudzynski, Colonnello, Harris, Dow,  
22          Boyd, Broome and Lapplander. Lines 8 through 13 provide a source  
23          reference for the book depreciation rates used in the forecast. These  
24          depreciation rates are the currently authorized rates and are the basis for

Line  
No.

1 the composite depreciation rates used for the forecast period. I am  
2 sponsoring the application of these composite depreciation rates in  
3 forecasting depreciation expense.

4

5 Lines 18 through 22 capture the general tax and various income tax rates,  
6 and revenue gross-up factor used in our forecast and revenue deficiency  
7 calculations. A Federal Tax rate of 35% and Michigan Single Business Tax  
8 rate of 1.9% are used for the purposes of this forecast and are assumed to  
9 remain at these percentages along with no changes in tax laws. Mr. Horgan  
10 is sponsoring the derivation of the Gross Municipal Tax Rate and Gross  
11 Revenue Conversion Factor in his Exhibit DE-11, Schedule C5.

12

13 Line 24 captures the projected annual common equity dividends as defined  
14 by Mr. Stadnikia. These dividends assume no change in our current  
15 dividend policy. Projected capitalization percentages and associated costs  
16 are shown on lines 29 through 36. Mr. Stadnikia provided projected long-  
17 term debt and common equity permanent capital structure percentages. In  
18 addition, Mr. Stadnikia provided and supported in his testimony the cost  
19 rates for short and long-term debt reflected on lines 34 and 35. The  
20 Company's external consultant witness Dr. Morin is supporting the Return  
21 on Common Equity shown on line 36.

22

23 **Electric Income Statement Forecast**

24

Line  
No.

1     **Q. Will you explain the forecasted electric income statements contained**  
2     **within the filing?**

3     A. The electric income statements shown on Exhibit DE-15, Schedule C1  
4     represents the projected Edison electric income statements for the years  
5     2006 through 2011. Edison's electric financial statements represent Detroit  
6     Edison Company plus MERC. As directed by the Commission Order  
7     initiating this case, Exhibit DE-11, Schedule C1 develops the 2007 Edison  
8     electric operating income statement based on known and measurable  
9     changes from 2005 adjusted normalized amounts.

10

11    **Q. How were Revenues developed in Edison's electric operating income?**

12    A. Line 1 of Exhibit DE-15, Schedule C1, contains Edison's electric revenues  
13    for the forecasted period 2006 through 2011. These revenues were derived  
14    from the projected electric volumes provided by Mr. Colandrea multiplied by  
15    existing tariff rates. These tariff rates include electric base tariff rates plus  
16    nuclear decommissioning and PSCR surcharges. No RARS, Customer  
17    Choice Implementation cost and Securitization surcharges are included as  
18    explained previously in my testimony. PSCR surcharges are adjusted  
19    annually in the forecast to offset PSCR expenses so as to not impact  
20    revenue deficiency/sufficiency. Both PSCR revenues and PSCR expenses  
21    are reduced for implementing Performance Excellence Process ("PEP")  
22    savings supported by Mr. Harris and Mr. Brudzynski. Also, the significant  
23    under-recovery of PSCR expenses in 2005 and 2006 is assumed to be  
24    recovered in 2007 having no impact on revenue but significantly increasing

Line

No.

1 cash in 2007. These projected revenues reflect the modest service area  
2 sales growth and the impact from customer choice. Mr. Falletich supports  
3 the detailed revenue forecast as shown on Exhibit DE-13, Schedule E4,  
4 page 2 of 4.

5

6 Total revenues also include certain utility related Miscellaneous Revenues  
7 which I support. These miscellaneous revenues primarily consist of:  
8 services charges, late payment charges, utility pole charges, real estate  
9 rentals, CIAC Tax gross-ups, Rider 2 revenues supported by Mr. Heiser,  
10 and transmission service revenues which reflect 2005 amounts for the  
11 forecast period. The only miscellaneous revenues that have a specific  
12 forecast relate to MERC third party sales supported by Mr. Lapplander and  
13 Capital use revenue increase from other DTE entities to reimburse Edison  
14 for the shared use of Edison's assets which I support.

15

16 **Q. What is the known and measurable change in revenues from the 2005**  
17 **normalized amount to 2007?**

18 A. Exhibit DE-11, Schedule C1, line 6 shows the known and measurable  
19 change in revenue of \$108 million. Schedule C13 of this exhibit compares  
20 the 2005 normalized revenue amount to the total 2007 revenue amount.  
21 Mr. Falletich supports the 2007 tariff revenue amount of \$4,346 million on  
22 Schedule C13, and explains the change from 2005 actual revenues in his  
23 testimony and exhibits. In addition to Mr. Falletich's 2007 tariff revenue  
24 amount, I have included sales for resale revenues, miscellaneous revenues,

Line

No.

1 industrial steam revenues and have reclassified Mr. Byron's third party sales  
2 revenues of \$99 million from fuel and purchase power expense to revenue.  
3 I have excluded from 2007 revenues RARS, Customer Choice  
4 Implementation cost and Securitization surcharges since they do not impact  
5 base rate revenue deficiency. Comparing the adjusted 2007 revenue of  
6 \$4,334 million to the 2005 normalized revenue of \$4,226 million results in a  
7 known and measurable revenue change of \$108 million as shown on Exhibit  
8 DE-11, Schedule C1.

9

10 **Q. How was the Fuel and Purchased Power Expense portion of Edison's**  
11 **electric operating expense developed?**

12 A. Line 4 of Exhibit DE-15, Schedule C1, contains Edison's electric fuel and  
13 purchased power expense for the forecast period 2006 through 2011. Fuel  
14 and Purchased Power expenses are supported by Messrs. Byron,  
15 Lapplander and Colonnello on Exhibit DE-16, Schedule F11-1, and  
16 described within their direct testimony. Mr. Harris and Mr. Brudzynski  
17 support a reduction in fuel and purchased power expense for PEP savings  
18 starting in 2007.

19

20 **Q. What is the known and measurable change in Fuel and Purchased**  
21 **Power Expense from the 2005 normalized amount to 2007?**

22 A. Exhibit DE-11, Schedule C1, line 7, shows the known and measurable  
23 change reduction in fuel and purchased power expense of \$61 million.  
24 Total fuel and purchased power expense for 2007 is \$1,440 million.

Line

No.

1 Schedule C14 of this exhibit compares the 2005 normalized fuel and  
2 purchased power expense amount to the total 2007 expense amount. Mr.  
3 Byron supports the 2007 fuel and purchased power expense amount  
4 excluding PEP savings of \$1,371 million and explains the change from 2005  
5 actual amounts in his testimony and exhibits. Mr. Harris and Mr. Brudzynski  
6 support an additional \$30 million reduction in expense due to PEP savings.  
7 As previously stated, I have reclassified Mr. Byron's third party sales  
8 revenues of \$99 million from fuel and purchase power expense to revenue.  
9 Comparing the adjusted 2007 fuel and purchased power expense of \$1,440  
10 million to the 2005 normalized amount of \$1,501 million results in a known  
11 and measurable fuel and purchased power expense reduction of \$61 million  
12 as shown on Exhibit DE-11, Schedule C1.

13

14 **Q. How was the O&M Expense portion of Edison's electric operating**  
15 **expense developed?**

16 A. Line 5 of Exhibit DE-15, Schedule C1, contains Edison's electric O&M  
17 expenses for the forecasted period 2006 through 2011. O&M expenses are  
18 supported by various Company witnesses and described within their direct  
19 testimony. These witnesses also support the known and measurable  
20 changes from 2005 to 2007 within their respective area. Mr. Brudzynski  
21 summarizes the development of the forecasted O&M expenses including  
22 significant reductions for PEP savings in Exhibit DE-16, Schedule F5.

23

24 **Q. What is the known and measurable change in O&M Expense from the**

Line  
No.

1           **2005 normalized amount to 2007?**

2       A.   Exhibit DE-11, Schedule C1, line 8, shows the known and measurable  
3           change in O&M expense of \$17 million. This amount is derived from Mr.  
4           Brudzynski's O&M summary Exhibit DE-16, Schedule F5.

5

6       **Q. How was the Depreciation and Amortization Expense portion of**  
7           **Edison's electric operating expense developed?**

8       A.   Line 6 of Exhibit DE-15, Schedule C1, contains Edison's electric  
9           depreciation and amortization ("D&A") expenses for the forecasted period  
10          2006 through 2011. D&A reflects book depreciation, which is based on  
11          existing Commission approved depreciation rates. D&A also reflects  
12          nuclear decommission amortization which offsets nuclear decommissioning  
13          revenue surcharge amounts each year. The projected increase in D&A is  
14          due to:

- 15               1) Significant environmental in-service movements from 2007 through  
16               2011 supported by Mr. Boyd;
- 17               2) Enterprise Business System ("EBS") in-service movement in 2007  
18               supported by Mr. Brudzynski;
- 19               3) Automated Meter Reading System ("AMR") capital expenditures and  
20               in-service movements supported by Mr. Dow;
- 21               4) Increased capital expenditures supported by various witnesses that  
22               are moved in-service each year;
- 23               5) Amortization of EBS regulatory asset amounts starting in 2007;
- 24               6) Amortization of Cost-to-Achieve ("CTA") PEP savings supported by

Line  
No.

1

Mr. Brudzynski.

2

3

**Q. Will you explain the amortization of EBS regulatory asset amounts starting in 2007?**

4

5

A. The Commission Order in Case No. U-14201 authorized deferral of EBS costs after January 1, 2006. These costs would normally be capitalized under the Commission's Uniform System of Accounts Plant Instructions and expensed under SOP 98-1, including overheads. Per the Commission Order, Edison will have deferred \$26 million as a regulatory asset by the 2007 in-service date of EBS. Mr. Brudzynski supports the \$26 million regulatory asset deferral amount. The Commission Order also stated that: "Prudently incurred costs included within the EBS regulatory asset amount will be recovered by Edison as a part of its electric rates approved in Edison's first general rate case order effective after January 1, 2006. The amortization period of the EBS regulatory asset will be consistent with its authorized recovery." Both Act 141 and the Commission Order in Case No. U-13808 established 5 years as the normal recovery period of regulatory asset amounts. Since this is the first rate case since January 1, 2006, Edison is requesting recovery over a normal 5 year recovery period of the EBS regulatory asset amount of \$26 million, effective with the final order in this proceeding. As a result, I have included \$5 million of annual EBS amortization expense for 2007 through 2011.

6

7

8

9

10

11

12

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14

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16

17

18

19

20

21

22

23

24

**Q. Will you explain the amortization of CTA related to PEP savings?**

Line

No.

1 A. Edison filed an accounting application to defer CTA related to PEP savings  
2 in Case No. U-14907. Mr. Brudzynski supports deferring \$165 million of  
3 CTA costs in 2006. The application also requests authority to amortize the  
4 deferred CTA costs over a 5 year period starting in the year following the  
5 deferral. As a result, I have included \$33 million of annual CTA amortization  
6 expense for 2007 through 2011.

7

8 **Q. What is the known and measurable change in D&A Expense from the**  
9 **2005 normalized amount to 2007?**

10 A. Exhibit DE-11, Schedule C1, line 9 shows the known and measurable  
11 change in D&A expense of \$65 million. Schedule C15 of this exhibit shows  
12 the development of the 2007 D&A expense of \$531 million from the 2005  
13 normalized D&A expense of \$466 million. The D&A known and measurable  
14 change increase is due to:

- 15 1) \$5 million for environmental in-service movements
- 16 2) \$10 million for EBS in-service movement
- 17 3) \$1 million for AMR in-service movement
- 18 4) \$11 million base capital in-service movement
- 19 5) \$5 million amortization of EBS regulatory asset
- 20 6) \$33 million amortization of CTA costs

21

22 **Q. Should D&A be reduced for the retirement of meters as a result of the**  
23 **AMR in-service movement in 2007 and beyond?**

24 A. No. As part of the AMR installation of new technology AMR meters over the

Line  
No.

1 next 5 years, Edison will be replacing and retiring existing meters. Mr. Dow  
2 supports the AMR benefits and implementation plan in his testimony.  
3 Normal retirement accounting would transfer the retired meters by reducing  
4 plant-in-service Account 101 and charging the depreciation reserve Account  
5 108 for the original cost of the retired meters. Historically, ratemaking  
6 provides for the continued recovery of retired plant assets not fully  
7 depreciated by adjusting depreciation rates to continue recovering the  
8 retired net plant asset amount. However, Edison is still awaiting the  
9 Commission's directive in Case No. U-14292 in determining future  
10 depreciation rates related to the ratemaking of removal costs prior to filing a  
11 depreciation case. It is anticipated that there will be a regulatory time lag  
12 period between the retirement of existing meters due to AMR and a future  
13 Edison rate order adopting new depreciation rates. Therefore, I am  
14 requesting that the Commission authorize Edison to maintain retired meter  
15 amounts due to AMR in plant-in-service Account 101 and continue  
16 depreciation on these retired meters. This authorization will expire with a  
17 future Edison rate order adopting new depreciation rates adjusted for AMR  
18 meter retirements. As a result, the forecast period does not retire meters  
19 due to AMR or alter depreciation expense for such meters.

20

21 **Q. How was the Property and Other Tax Expense portion of Edison's**  
22 **electric operating expense developed?**

23 A. Line 8 of Exhibit DE-15, Schedule C1, contains Edison's electric property  
24 and other tax expenses for the forecasted period 2006 through 2011.

Line  
No.

1 Property and other tax expense consist of property taxes, Michigan Single  
2 Business tax, sales and use tax, municipal excise taxes and the MPSC  
3 Assessment fees. During both the historical and projected test years, the  
4 Company used the current property tax multipliers in recording and  
5 forecasting property tax expense. Property taxes increase each year  
6 primarily due to increased plant additions and modest millage rate increases  
7 based on a 4-year historical average. Specific tax forecasts are made for  
8 other taxes based on taxable income, labor, etc. There are no assumed  
9 changes in the method for computing these other taxes. The change in  
10 property and other tax expenses from 2005 to 2007, not captured by other  
11 known and measurable changes, increases expense by \$6 million as shown  
12 on line 11 of Exhibit DE-11, Schedule C1.

13

14 **Q. How was the Federal Income Tax Expense portion of Edison's electric**  
15 **operating expense developed?**

16 A. Line 9 of Exhibit DE-15, Schedule C1, contains Edison's electric federal  
17 income tax expenses for the forecasted period 2006 through 2011. Federal  
18 income tax expense is calculated based on operating income with a portion  
19 allocated to deferred income tax based on book versus tax temporary  
20 differences. Federal income tax expense also includes an annual feedback  
21 of investment tax credits utilized in prior years. The change in federal  
22 income tax from 2005 to 2007, not captured by other known and  
23 measurable changes, decreases expense by \$5 million as shown on line 12  
24 of Exhibit DE-11, Schedule C1. This change is primarily due to the FIT

Line  
No.

1 reduction from increased interest expense in 2007 compared to 2005.

2

3 **Q. How did you compute Operating Income?**

4 A. Revenues less Operating Expenses yields Operating Income shown on Line  
5 12 of Exhibit DE-15, Schedule C1. Operating Income is relatively flat from  
6 2006-2008 and is projected to decline from 2008-2011 due to significant  
7 increases in expenses related to capital additions, O&M increases partially  
8 offset by improved operating efficiencies (i.e. PEP savings), modest sales  
9 and margin growth, and no assumed rate increases.

10

11 **Q. Will you describe the income statement line items below Operating**  
12 **Income?**

13 A. The sum of lines 15 and 27 of Exhibit DE-15, Schedule C1, derives total  
14 AFUDC related to environmental and EBS capital expenditures. Lines 24  
15 and 25 shows Total Interest Expense developed in the forecast based on  
16 Edison's debt obligations and coupon rates supported by Mr. Stadnikia.  
17 Finally, line 30 provides the Total Electric Net Income for the forecast period  
18 of 2006 through 2011. Total Electric Net Income is projected to decline from  
19 2007-2011 due to significant increases in expenses related to capital  
20 additions and related financing costs, O&M increases partially offset by  
21 improved operating efficiencies (i.e. PEP savings), modest sales and margin  
22 growth and no assumed rate increases.

23

24 **Q. Are there any other adjustments in the development of the 2007 Total**

Line  
No.

1       **Electric - Adjusted Net Operating Income as shown in Exhibit DE-11,**  
2       **Schedule C1?**

3       A.   Yes. Mr. Horgan and I are supporting various adjustments to Total Electric -  
4       Operating Income as detailed on Schedule C1, lines 13 to 16. These  
5       adjustments reflect proposed inclusion and/or exclusion of Operating  
6       Income items that for ratemaking purposes need to be taken into account. I  
7       am supporting the adjustments on lines 13 through 14 of Schedule C1. No  
8       adjustments are necessary for disallowed corporate memberships and  
9       advertising costs as they are carried forward into the forecast by developing  
10       the forecast from the 2005 normalized O&M expenses which included these  
11       adjustments.

12

13       **Q.   What adjustments did you make to the 2007 Operating Income on**  
14       **Exhibit DE-11, Schedules C1?**

15       A.   Line 13 reflects the change in AFUDC from 2005 to 2007 of \$30 million  
16       derived on Schedule C18 that is added to 2007 operating income, net of tax,  
17       of \$22 million.

18

19       Line 14 represents the inclusion of Amortization of the Loss on Reacquired  
20       Debt as supported by Schedule C19. This adjustment is prescribed by the  
21       Commission's standard filing requirements and relates to the costs related  
22       to early redemption of securities, which are refinanced with lower cost  
23       issues. Since there are no early redemptions of long-term debt assumed in  
24       the forecast, there is no change in Amortization of the Loss on Reacquired

Line

No.

1 Debt in 2007 from the 2005 amount of \$3 million. Mr. Horgan is supporting  
2 the remaining adjustments on Exhibit DE-11, Schedule C1.

3

4 **Q. What is the 2007 Total Electric - Adjusted Net Operating Income**  
5 **amount as shown in Exhibit DE-11, Schedule C1?**

6 A. Line 20 displays the 2007 Total Electric – Adjusted Net Operating Income  
7 Amount of \$572 million.

8

9 **Balance Sheet Forecast**

10

11 **Q. Will you explain the Edison forecasted electric balance sheet**  
12 **statements contained within the filing?**

13 A. The electric balance sheet statement shown on Exhibit DE-14, Schedule  
14 B4, represents the projected Edison electric year-end balance sheet for the  
15 years 2006 through 2011. The electric balance sheet statement shown on  
16 Exhibit DE-14, Schedule B5, represents the projected Edison electric  
17 average balance sheet for the years 2006 through 2011 derived from the  
18 year-end balances in Schedule B4. As previously stated, Edison's electric  
19 financial statements represent Detroit Edison Company plus MERC. As  
20 directed by the Commission Order in this case, Exhibit DE-10, Schedule B2,  
21 develops the 2006 and 2007 Edison electric year-end balance sheet  
22 amounts based on known and measurable changes from 2005 actual  
23 amounts. Exhibit DE-10, Schedule B3 derives the 2006 and 2007 Edison  
24 electric average balance sheet based on the year-end balances in Schedule

Line  
No.

- 1 B2.
- 2
- 3 **Q. Given that Exhibit DE-10, Schedule B3 and Exhibit DE-14, Schedule B5**
- 4 **reflect average balance sheet data, what type of average is being**
- 5 **developed?**
- 6 A. The average balances reflect simple annual average, calculated using
- 7 projected year-end balances (i.e. beginning balance plus ending balance
- 8 divided by two).
- 9
- 10 **Q. Will you provide an overview of the major components making up the**
- 11 **Assets and Other Debits reflected in Exhibit DE-14, Schedule B4, and**
- 12 **then explain the known and measurable changes from 2005 balances**
- 13 **to develop 2006 and 2007 amounts on Exhibit DE-10, Schedule B2?**
- 14 A. Exhibit DE-14, Schedule B4, and Exhibit DE-10, Schedule B2, have four
- 15 major asset components:
- 16 1) Total Utility Plant and Property
- 17 2) Other Property and Investment
- 18 3) Current Assets
- 19 4) Deferred Debits
- 20
- 21 **Total Utility Plant and Property**
- 22 Total Utility Plant and Property (lines 2 through 10) is comprised primarily of
- 23 Net Utility Plant (line 7), which is projected to increase each year resulting
- 24 from annual capital expenditures being greater than the annual depreciation

Line  
No.

1 allowance charge. These projections reflect substantial capital expenditures  
2 primarily related to environmental improvements, AMR and EBS. Mr.  
3 Brudzynski's Exhibit DE-16, Schedule F3 provides a functional detailing of  
4 Edison's total projected capital expenditures. Further, the various  
5 operational witnesses will provide details on the capital expenditures they  
6 are sponsoring.

7

8 Net Capital Leases (line 8) is being held constant during the forecast period  
9 at the 2005 year-end level. Net Nuclear Fuel Property (line 9) balance  
10 fluctuates during the forecast period based on annual capital additions vs.  
11 the annual amortization to fuel expense.

12

13 **Q. What is the known and measurable change in Total Utility Plant and**  
14 **Property?**

15 A. Exhibit DE-10, Schedule B2, line 3, reflects a plant-in-service change from  
16 2005 to 2006 of \$626 million. This change is due to \$594 million of base  
17 capital expenditures in 2006, \$32 million of environmental in-service  
18 movement supported by Mr. Boyd, and an additional \$100 million of in-  
19 service movement from 2005 construction work-in-progress ("CWIP")  
20 amounts which are higher than normal less \$100 million for assumed plant  
21 retirements transferred to depreciation reserve. The higher than normal  
22 2005 CWIP amounts results from Edison no longer recording capital  
23 expenditures directly into a temporary plant-in-service account (Account  
24 106) but holds these amounts in CWIP (Account 107) awaiting mostly

Line  
No.

1 manual in-service movements from its legacy asset management system.  
2 Edison is transitioning its asset management to the fully integrated  
3 computerized EBS software by 2007 which will streamline the process of in-  
4 service movements and will no longer need to utilize a temporary plant-in-  
5 service account.

6

7 The plant-in-service change from 2006 to 2007 is \$993 million. This change  
8 is due to \$671 million of base capital expenditures in 2007, \$173 million of  
9 environmental in-service movement supported by Mr. Boyd, and \$249  
10 million in-service movement for EBS supported by Mr. Brudzynski less \$100  
11 million for assumed plant retirements transferred to depreciation reserve.

12

13 The CWIP change from 2005 to 2006 is \$246 million. This change is due to  
14 \$249 million of environmental capital expenditures less \$32 million  
15 transferred to in-service; \$129 million of capital expenditures for EBS; less  
16 \$100 million transferred to in-service for base capital projects. The CWIP  
17 reduction from 2006 to 2007 of \$29 million results from \$350 million of  
18 environmental capital spending less \$173 million transferred to in-service  
19 and \$44 million for EBS capital expenditures less \$249 million transferred to  
20 in-service.

21

22 The change in depreciation reserve for both 2006 and 2007 represents  
23 depreciation expense excluding nuclear decommissioning and both EBS  
24 and CTA amortizations discussed previously in the operating income

Line  
No.

1 section of my testimony. The depreciation reserve is adjusted each year by  
2 \$100 million for plant retirements transferred from plant-in-service amounts.

3

4 The change in Nuclear Fuel Property from 2005 to 2006 is a reduction of  
5 \$15 million. The change is due to purchases of nuclear fuel of \$20 million  
6 less nuclear fuel expense of \$35 million. The change in Nuclear Fuel  
7 Property from 2006 to 2007 is \$28 million. The change is due to purchases  
8 of nuclear fuel of \$64 million less nuclear fuel expense of \$36 million.

9

10 **Other Property and Investments**

11 **Q. Will you explain Other Property and Investments?**

12 A. Other Property and Investments (lines 11 through 16 of Exhibit DE-14,  
13 Schedule B4) is primarily made up of the Nuclear Decommission Trust Fund  
14 (line 15). The trust fund continues to increase over time as funded by the  
15 Commission approved decommissioning charge. Line 14, Investments &  
16 Special Funds is being held constant during the forecast period at the 2005  
17 year-end level. Line 15 of Exhibit DE-10, Schedule B2, reflects the nuclear  
18 decommissioning trust fund increase of \$39 million in 2006 and \$38 million  
19 in 2007.

20

21 **Current Assets**

22 **Q. What is included in Current Assets on lines 17 through 29 of Exhibit**  
23 **DE-14, Schedule B4?**

24 A. Individual line items were either held constant at 2005 levels or directly tied

Line  
No.

1 to changes in revenues, fuel expenses, O&M expenses and/or capital  
2 expenditures.

3

4 For simplicity Cash, Temporary Cash Investments, Accounts Receivable,  
5 Other Accounts Receivable, Uncollectibles, Unbilled Revenues, Material  
6 and Supplies Inventory, and Prepayments (lines 18 through 23, lines 26  
7 through 27) are all being held at 2005 year-end levels. Fuel Inventory (line  
8 25) grows reflecting increasing fuel expense each year as supported by Mr.  
9 Lapplander on Exhibit DE-14, Schedule B6. Fuel Inventory also includes  
10 emission allowances inventory supported by Mr. Byron on Exhibit DE-16,  
11 Schedule F8-9. Exhibit DE-10, Schedule B2, line 25, reflects a minor fuel  
12 inventory reduction from 2005 to 2006 of \$0.7 million and an increase in fuel  
13 inventory of \$10 million from 2006 to 2007.

14

15 Exhibit DE-14, Schedule B4, line 28, shows Other Current Assets increasing  
16 in 2006 and decreasing in 2007 to 2005 levels based on PSCR under-  
17 recovery in 2006 and collections in 2007. Other items in Other Current  
18 Assets are maintained at 2005 levels from 2007 through 2011. Exhibit DE-  
19 10, Schedule B2, line 28 reflects a known and measurable 2006 PSCR  
20 under-recovery of \$158 million. Combined with the 2005 PSCR under-  
21 recovery of \$138 million results in an assumed \$296 PSCR recovery in  
22 2007 resulting in a decrease in Other Current Assets from 2006 to 2007.

23

24 **Deferred Debits**

Line  
No.

1 Q. What is included in Deferred Debits on lines 30 through 47 of Exhibit

2 DE-14, Schedule B4?

3 A. Unamortized Debt Expense and Premium on lines 31 and 32 reflects annual  
4 straight-line amortization of \$2 million. These balances are tied to specific  
5 debt issues and are amortized over the life of the issues.

6

7 As previously discussed, the regulatory asset related to Asset Retirement  
8 Obligations on line 34 was created based on the Company's adoption of  
9 FAS 143 and FIN 47. Since the incremental liability of adopting FAS 143  
10 and FIN 47 is entirely offset by a corresponding net plant Asset Retirement  
11 Cost and this regulatory asset amount, there is no impact on the revenue  
12 requirements in this case. As a result, no adjustment to the 2005 balance  
13 sheet and income statement is necessary. Therefore, the forecasted  
14 regulatory asset amount for Asset Retirement Obligations is held constant at  
15 2005 levels.

16

17 The regulatory asset related to Minimum Pension Liability (line 35) of \$543  
18 million reflects the 2005 ending balance and is assumed to remain constant  
19 over the entire forecast period as a representative amount. Within the  
20 balance sheet, this regulatory asset has a corresponding offsetting Minimum  
21 Pension Liability. Thus, any change in the year-end regulatory asset  
22 balance would be offset by a change in the corresponding Minimum  
23 Pension Liability. Therefore, this regulatory asset and its corresponding  
24 offsetting Minimum Pension Liability do not impact rate base or  
25 capitalization.

Line

No.

1

2 The regulatory asset related to Net Stranded Cost (line 36) of \$112 million  
3 represents Edison's 2004 stranded cost balance that the Company  
4 requested recovery for in Case No. U-14474. Since this case is awaiting a  
5 Commission Order, I have assumed the \$112 million to remain constant  
6 over the entire forecast period.

7

8 Recoverable Income Taxes (line 45), reflects a regulatory asset recorded in  
9 conjunction with an offsetting FAS 109 ADFIT liability. The FAS 109  
10 balance sheet accounts are offsetting and thus do not affect the revenue  
11 requirements. This accounting and rate treatment has been approved by  
12 the Commission in Case No. U-10083.

13

14 Other Deferred Debits (line 46) consists of miscellaneous deferred debits  
15 and is held constant at 2005 year-end levels.

16

17 **Q. How was the EBS Regulatory Asset on line 43 of Exhibit DE-14,**  
18 **Schedule B4 developed?**

19 A. As previously discussed, the Commission Order in Case No. U-14201  
20 authorized deferral of EBS costs after January 1, 2006. These costs would  
21 normally be capitalized under the Commission's Uniform System of  
22 Accounts Plant Instructions and expensed under SOP 98-1, including  
23 overheads. Per the Commission Order, Edison will have deferred \$26  
24 million as a regulatory asset by the 2007 in-service date of EBS. Mr.

Line  
No.

1 Brudzynski supports the \$26 million regulatory asset deferral amount. The  
2 Commission Order also stated that: "Prudently incurred costs included  
3 within the EBS regulatory asset amount will be recovered by Edison as a  
4 part of its electric rates approved in Edison's first general rate case order  
5 effective after January 1, 2006. The amortization period of the EBS  
6 regulatory asset will be consistent with its authorized recovery." Since this  
7 is the first rate case since January 1, 2006, Edison is requesting recovery  
8 over a normal 5 year recovery period of the EBS regulatory asset effective  
9 with the final order in this proceeding. As a result, I have included \$5 million  
10 of annual EBS amortization expense for 2007 through 2011.

11

12 **Q. Will you explain the CTA Deferred Cost on line 44 of Exhibit DE-14,**  
13 **Schedule B4?**

14 A. As previously discussed, Edison filed an accounting application to defer  
15 CTA related to PEP savings in Case No. U-14907. Mr. Brudzynski supports  
16 deferring \$165 million of CTA costs in 2006. The application also requests  
17 to amortize the deferred CTA costs over a 5 year period starting in the year  
18 following the deferral. As a result, I have included \$33 million of annual  
19 CTA amortization expense for 2007 through 2011.

20

21 **Q. What is the known and measurable change in Deferred Debits?**

22 A. Exhibit DE-10, Schedule B2, line 31, reflects an annual reduction in  
23 Unamortized Debt Expense of \$2 million based on annual straight-line  
24 amortization. Line 43 of Schedule B2 reflects EBS cost deferrals of \$11

Line  
No.

1 million in 2006 and \$15 million in 2007 partially offset by \$5 million of  
2 amortization expense in 2007. Line 44 of Schedule B2 reflects \$165 million  
3 of CTA deferred costs in 2006. The 2006 amount is reduced in 2007 by \$33  
4 million of amortization expense. Finally, line 45 of Exhibit DE-10, Schedule  
5 B2, reflects an annual reduction in Recoverable Income Taxes of \$3 million  
6 based on annual straight-line recovery and amortization.

7

8 **Q. Will you continue your overview of the major components making up**  
9 **the Liabilities and Other Credits reflected in Exhibit DE-14, Schedule**  
10 **B4, and then explain the known and measurable changes from 2005**  
11 **balances to develop 2006 and 2007 amounts on Exhibit DE-10,**  
12 **Schedule B2?**

13 A. Exhibit DE-14, Schedule B4, and Exhibit DE-10, Schedule B2, have four  
14 major components:

- 15 1) Capitalization
- 16 2) Non-Current Liabilities
- 17 3) Current Liabilities
- 18 4) Deferred Credits

19

20 **Capitalization**

21 Capitalization (lines 50 through 61) reflects Edison's permanent capital in  
22 the form of long-term debt and common equity. Long-term debt and  
23 common equity balances are projected to strategically target 50% debt and  
24 50% equity in the near term as supported by Mr. Stadnikia. Key long-term

Line  
No.

1 debt drivers include; new capital requirements, scheduled retirements,  
2 refinancing, level of equity, and the amount of short-term debt. Schedule B4  
3 shows that long-term debt balances will increase during the forecast periods  
4 to support Edison's increasing asset base.

5

6 Common equity balances will also need to increase to finance the  
7 increasing asset base and to meet targeted capitalization percentages.  
8 However, projected earnings are not sufficient to meet the targeted equity  
9 capital percentages. Therefore, increased common equity will have to be  
10 funded from additional equity infusions. Schedule B4, projected common  
11 equity reflects the 2005 level of a constant \$305 million in annual dividends  
12 in 2006 through 2011.

13

14 **Q. What is the known and measurable change in Capitalization?**

15 A. Exhibit DE-10, Schedule B2, line 52, reflects a long-term debt increase from  
16 2005 to 2006 of \$229 million. This change is due to \$250 million of new  
17 debt issues less scheduled debt redemptions of \$21 million. The long-term  
18 debt increase from 2006 to 2007 is \$146 million. This change is due to  
19 \$170 million of new debt issues less scheduled debt redemptions of \$24  
20 million. Common Stock increases \$250 million in both 2006 and 2007 as a  
21 result of equity infusions as supported by Mr. Stadnikia. Retained Earnings  
22 increased from 2005 to 2006 by \$58 million resulting from 2006 net income  
23 of \$363 million less common dividend payments of \$305 million. Retained  
24 Earnings increased from 2006 to 2007 by \$61 million resulting from 2007

Line  
No.

1 net income of \$366 million less common dividend payments of \$305 million.

2

3 **Non-Current Liabilities**

4 **Q. What is included in Non-Current Liabilities on lines 62 through 65 of**  
5 **Exhibit DE-14, Schedule B4?**

6 A. Capital Leases liability on line 63 represents the liability offset to Net Capital  
7 Leases Property (line 8). As previously discussed, capital leases are being  
8 held constant during the forecast period at the 2005 year-end level.

9

10 Other Non-Current Liabilities (line 64) represents the Asset Retirement  
11 Obligation amount which is primarily for nuclear decommissioning. The  
12 Asset Retirement Obligation increases over time offsetting the nuclear  
13 decommission trust fund increases (line 15) funded by the Commission  
14 approved decommissioning charge. As previously discussed, Asset  
15 Retirement Obligations have no impact on rate base or revenue  
16 requirements In this case. Exhibit DE-10, Schedule B2, line 64, shows the  
17 2006 increase in Other Non-Current Liabilities of \$39 million and a \$38  
18 million increase in 2007. This change exactly offsets the increase in the  
19 nuclear decommissioning trust fund asset on line 15.

20

21 **Current Liabilities**

22 **Q. What is included in Current Liabilities on lines 66 through 74 of**  
23 **Exhibit DE-14, Schedule B4?**

24 A. Edison's Short-term debt balances (line 67) are projected based on

Line  
No.

1 available credit, projected long-term financing and targeted capital structure.  
2 Mr. Stadnikia supports these balances. Accounts Payable (line 68), Taxes  
3 Payable (line 69), Interest Payable (line 70), Dividends Payable (line 71),  
4 and Capital Leases-Current (line 72), are being held constant during the  
5 forecast period at the 2005 year-end level.

6  
7 Other Current Liabilities (line 73) includes vacation and payroll accruals,  
8 other employee liabilities, and inter-company payables that are being held  
9 constant during the forecast period at the 2005 year-end level. In 2006,  
10 Other Current Liabilities also includes \$88 million of the non-benefit related  
11 portion of the CTA cost deferral. Of the \$165 million of projected CTA costs,  
12 the remaining \$77 million portion of the CTA costs relates to pension and  
13 OPEB costs which are included in Other Deferred Credits (line 79).

14

15 **Q. What is the known and measurable change in Other Current**  
16 **Liabilities?**

17 A. Exhibit DE-10, Schedule B2, line 67, reflects a short-term debt reduction of  
18 \$24 million from 2005 to 2006 and a \$2 million reduction from 2006 to 2007.  
19 This change is part of the systematic approach of targeting the capital  
20 structure supported by Mr. Stadnikia. Other Current Liabilities (line 73)  
21 increased by \$22 million from 2005 to 2006. This increase is due to  
22 accruing \$88 million of non-benefit related CTA costs less \$66 million of  
23 cash payments. Other Current Liabilities decreased from 2006 to 2007 by  
24 \$20 million as a result of additional cash payments of CTA costs accrued.

Line

No.

1

2       **Deferred Credits**

3       **Q. What is included in Deferred Credits on lines 75 through 80 of Exhibit**  
4       **DE-14, Schedule B4?**

5       A. Accumulated Deferred Income Taxes (Net), line 76, has previously been  
6       referenced in my testimony as ADFIT. ADFIT reflects the netting of ADFIT  
7       Assets (Account 190) against Liabilities (Accounts 281, 282, and 283).  
8       Since deferred tax balances are reflected in the cost of capital calculation on  
9       a net basis for modeling and financial presentation purposes in this case  
10      they were also consolidated. The primary driver underlying deferred income  
11      taxes is accelerated depreciation for tax purposes versus straight-line  
12      depreciation for book purposes. After 2007, the ADFIT balance is shown to  
13      steadily increase during the projected periods as a result of Edison's capital  
14      expenditure program, which results in increasing tax deductions due to  
15      accelerated depreciation.

16

17      Accumulated FAS 109 Income Taxes, line 77, reflects the outstanding tax  
18      liability balance to account for tax benefits previously flowed through to  
19      ratepayers stemming from the 1993 enactment of FAS 109. FAS 109  
20      required that deferred income taxes be recorded on all cumulative  
21      temporary differences at the current tax rate vs. historical tax rate as  
22      originally recorded. In conjunction with this liability, FAS 109 permits  
23      regulated enterprises to record an offsetting Regulatory Asset (Recoverable  
24      Income Taxes on Schedule B4, line 45. The FAS 109 balance sheet

Line  
No.

1 accounts are completely offsetting and thus do not affect the revenue  
2 requirements. The change in the FAS 109 balance sheet accounts from  
3 year to year does represent the additional amount of income tax expense  
4 that will become payable and will be recoverable in rates. The annual  
5 amortization of the FAS 109 ADFIT balance is \$3 million. This accounting  
6 and rate treatment has been approved by the Commission in Case No. U-  
7 10083.

8  
9 Accumulated Deferred Investment Tax Credits (line 78) are deferred tax  
10 credits generated and utilized by the Company with the tax benefits flowing  
11 back to ratepayers on the same basis as ratepayers pay for the assets that  
12 generated these tax credits. Exhibit DE-14, Schedule B4, line 78, shows a  
13 \$10 million annual feedback of investment tax credit benefits.

14  
15 Other Deferred Credits, line 79, includes the Company's minimum pension  
16 liability, post-retirement benefit liabilities, other benefit plan liabilities,  
17 customer advances, pension tracker and various miscellaneous items. In  
18 2006, \$77 million of CTA costs relating to pension and OPEB are included  
19 in Other Deferred Credits. After 2006, the year-to-year decreasing balance  
20 is primarily the result of increases in pension and OPEB funding.

21

22 **Q. What is the known and measurable change in Deferred Credits?**

23 A. Exhibit DE-10, Schedule B2, line 76, reflects an increase in the ADFIT  
24 balance of \$76 million from 2005 to 2006. This increase is due to increased

Line  
No.

1 accelerated depreciation of plant, increased OPEB payments, and  
2 increased PSCR under-recovery. ADFIT decreased \$48 million from 2006  
3 to 2007 as a result of the forecasted recovery of the 2005 and 2006 PSCR  
4 under-recovery, partially offset by an increase in accelerated depreciation of  
5 plant and increased OPEB and pension funding.

6  
7 Other Deferred Credits (line 79) increased by \$256 million from 2005 to  
8 2006. This increase is due to recognizing a CTA pension and OPEB liability  
9 curtailment of \$77 million, accruing \$161 million of other pension and OPEB  
10 liabilities net of funding, and accruing a 2006 pension tracker liability to  
11 customers of \$18 million. Other Deferred Credits decrease by \$50 million  
12 from 2006 to 2007. This decrease is due to \$56 million of pension funding  
13 in excess of pension accruals, refund of the 2005 and 2006 pension tracker  
14 liability of \$28 million, partially offset by \$34 million of OPEB accrual in  
15 excess of funding.

16

17 **Sources and Uses of Funds Forecast**

18

19 **Q. Have you prepared an Edison electric statement of the Sources and**  
20 **Uses of Funds?**

21 A. Yes. Exhibit DE-17, Schedule I is the Edison Electric Sources and Uses of  
22 Funds Statement for each of the forecasted years. The Sources of Funds  
23 consist of two sections; Internally Generated Funds ("IGF") and Funds from  
24 Financing Activities. The items included in IGF are shown on lines 2

Line  
No.

1 through 10. Net Income on line 3, showing a modest decrease from 2007-  
2 2008 and a material decline each year thereafter, and line 5, non-cash  
3 depreciation are the largest contributors to IGF. Changes in Deferred  
4 Income Taxes, line 6, also contribute to IGF, except for the year 2007. The  
5 year 2007 assumes a \$103 million tax payment for a 2007 PSCR recovery  
6 of \$295 million, included in Working Capital and Other, for the 2005 and  
7 2006 PSCR under-recoveries. In addition to PSCR over/under recoveries,  
8 Working Capital and Other, line 9, includes pension and OPEB funding  
9 requirements. Common stock dividends and investment tax credits result in  
10 reductions to IGF.

11

12 Funds from Financing Activities, lines 12 through 17, consist primarily of  
13 common stock issuances, and long and short-term debt issuances. Line 14,  
14 common stock issuances, show the annual equity infusions necessary to  
15 transition the permanent capital structure to a targeted 50% debt / 50%  
16 equity capital structure as supported by Mr. Stadnikia. New debt will be  
17 issued to either refinance scheduled debt retirements and/or fund projected  
18 increases in Edison's assets.

19

20 The Schedule I - Uses of Funds is detailed on lines 21 through 27 for each  
21 year of the forecast. The major Uses of Funds are; capital expenditures,  
22 nuclear fuel expenditures, debt retirements, and nuclear decommissioning  
23 funding.

24

Line

No.

1

**Commission Request Summary**

2

3 **Q. What are you requesting the Commission to authorize in the Final**  
4 **Order of this rate case?**

5 A. I am requesting the Commission to authorize the following:

6 1) The Commission Order in Case No. U-14201 authorized deferral of  
7 EBS costs after January 1, 2006. Per the Commission Order, Edison  
8 will have deferred \$26 million as an EBS regulatory asset by the  
9 2007 in-service date of EBS. The Commission Order also stated that  
10 prudently incurred EBS regulatory asset amounts will be recovered  
11 by Edison as a part of its electric rates approved in Edison's first  
12 general rate case order effective after January 1, 2006. Both Act 141  
13 and the Commission Order in Case No. U-13808 established 5 years  
14 as the normal recovery period of regulatory asset amounts. Since  
15 this is the first rate case since January 1, 2006, I am requesting the  
16 Commission to authorize recovery in base rates for the EBS  
17 regulatory asset amount of \$26 million, amortized over a normal 5  
18 year recovery period, effective with the final order in this proceeding.

19 2) Edison anticipates that there will be a regulatory time lag period  
20 between the retirement of existing meters due to AMR and a future  
21 Edison rate order adopting new depreciation rates. Therefore, I am  
22 requesting that the Commission authorize Edison to maintain retired  
23 meter amounts due to AMR in plant-in-service Account 101 and  
24 continue depreciation on these retired meters. This authorization will

Line

No.

1                    expire with a future Edison rate order adopting new depreciation  
2                    rates adjusted for AMR meter retirements.

3

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

5     A.   Yes, it does.

6