

**BEFORE THE
MICHIGAN PUBLIC SERVICE COMMISSION**

Case No. U-13715

CONSUMERS ENERGY COMPANY

Direct Testimony on Remand of

James T. Selecky

On behalf of

Association of Businesses Advocating Tariff Equity

March 12, 2004
Project 7974



BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

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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 ARE YOU THE SAME JAMES T. SELECKY WHO SUBMITTED DIRECT
7 TESTIMONY IN THIS PROCEEDING?**

8 A Yes. I filed Direct Testimony in this docket on behalf of ABATE on April 8, 2003.

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

10 A I am presenting testimony on behalf of the Association of Businesses Advocating Tariff
11 Equity (“ABATE”). Member companies of ABATE are substantial purchasers of
12 electricity from Consumers Energy Company (“Consumers” or “Company”).

13 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

14 A The purpose of my testimony is to address the assets that Consumers is proposing to
15 securitize and the development of charges that recover the securitized costs. Any items
16 that I have not addressed should not be construed as an endorsement of Consumers’
17 position.

1 **QUALIFIED COSTS**

2 **Q HOW MUCH QUALIFIED COSTS IS CONSUMERS PROPOSING TO**
3 **SECURITIZE IN THIS CASE?**

4 A Consumers is proposing to securitize \$544.323 million of qualified costs. This is the
5 amount that the Commission authorized to be securitized in its June 2, 2003 Order in this
6 proceeding. The breakdown of the qualified costs that Consumers is recommending to
7 securitize is shown on Exhibit A-____ (MAT-5).

8 **Q DO YOU HAVE ANY COMMENTS TO MAKE REGARDING THE COSTS**
9 **THAT CONSUMERS IS PROPOSING TO SECURITIZE?**

10 A Yes. As shown in Column (b) of Exhibit A-____ (MAT-5), Consumers has
11 \$644.389 million of qualified costs to be securitized. Because Consumers is only
12 proposing to securitize \$544.323 million, the claimed eligible qualified costs exceed the
13 amount of securitization by \$90.066 million. Therefore, I propose that the Commission
14 exclude from the costs to be securitized all 1998 through 2000 retail open access
15 (“ROA”) implementation costs. These costs are \$64.108 million and are shown on
16 Exhibit A-____ (MAT-5).

17 **Q IF THESE COSTS ARE EXCLUDED, WILL CONSUMERS STILL BE ABLE TO**
18 **SECURITIZE \$554.323 MILLION OF COSTS?**

19 A Yes. Excluding the 1998 through 2000 ROA implementation costs leaves Consumers
20 with \$580.281 million of claimed qualified costs.

1 **Q WHY ARE YOU PROPOSING TO ELIMINATE THE ROA IMPLEMENTATION**
2 **COSTS FROM THE COSTS TO BE SECURITIZED?**

3 A The advantage of excluding ROA implementation costs is that all of the securitized costs
4 will be related to bundled service. As a result, choice customers would not be assessed
5 securitization and tax surcharges.

6 **Q WHY SHOULD ROA CUSTOMERS BE EXCLUDED FROM ANY**
7 **SECURITIZATION SURCHARGES?**

8 A ROA customers should be excluded from any securitization surcharge because the
9 qualified costs that are to be securitized are not providing transmission or distribution
10 service to these customers. ROA customers are only utilizing Consumers' distribution
11 assets and not their generation assets. Under my proposal, all of the costs that will be
12 securitized are generation-related. To the extent that these assets are currently used by
13 ROA customers, the costs are recovered through ancillary service rates that are approved
14 by the Federal Energy Regulatory Commission (FERC). The only way that ROA
15 customers would be responsible for a portion of these costs is if the Commission
16 determined that Consumers has stranded costs. The recovery of stranded costs should be
17 addressed in a stranded cost hearing and not in a financing or securitization hearing.

18 **Q IF THE COMMISSION DETERMINES THAT THE SECURITIZATION**
19 **CHARGE SHOULD BE APPLIED TO BOTH BUNDLED AND CHOICE RATES,**
20 **WHAT IS YOUR RECOMMENDATION?**

21 A My recommendation is that if the Commission determines that ROA customers should be
22 assessed securitization charges, those charges should be offset by an equal credit. The
23 result is that ROA customers would not be charged for the recovery of qualified

1 securitized costs that are generation related. If ROA customers are assessed a
2 securitization charge without a corresponding offset, ROA customers will be penalized
3 because they will be paying the equivalent of stranded costs. This will impair the ROA
4 program. ROA customers are or will be buying generation service from other suppliers.
5 Clean Air Act-related costs are included in the generation service charges that they pay to
6 third-party generation service suppliers.

7 The only way that the ROA customers should pay for a portion of Clean Air Act-
8 related cost is if the Commission determines that Consumers has stranded costs. Then it
9 is appropriate that ROA customers pay their fair share of those costs. Since the
10 Commission has not made a determination that Consumers has any stranded costs, it is
11 inappropriate to charge ROA customers for generation-related costs.

12 **Q PLEASE PROVIDE A SIMPLE EXAMPLE THAT ILLUSTRATES WHY ROA**
13 **CUSTOMERS SHOULD BE EXCLUDED FROM ANY GENERATION-**
14 **RELATED SECURITIZED COSTS ABSENT A STRANDED COST FINDING.**

15 **A** Let us assume that Consumers securitizes all of its generation assets. Under Consumers'
16 proposal, customers who are participating in ROA would be faced with securitization
17 charges that recover all of Consumers' generation costs. ROA customers would be
18 required to pay securitization charges regardless of whether Consumers has any stranded
19 costs. For there to be a viable ROA program, customers who are purchasing generation
20 service from a third-party supplier should not be required to pay for Consumers'
21 generation service and the generation service from their alternate suppliers.

22 **COST RECOVERY**

1 **Q HOW IS CONSUMERS PROPOSING TO COLLECT SECURITIZATION COSTS**
2 **FROM ITS CUSTOMERS?**

3 A Consumers is proposing to collect securitization costs from customers through separate
4 energy surcharges. Consumers' proposed energy surcharges are uniform for all rate
5 classes.

6 **Q SHOULD THE SECURITIZATION CHARGES BE A UNIFORM KWH CHARGE**
7 **FOR ALL RATE CLASSES?**

8 A Absolutely not. Uniform securitization charges for all rate classes as stated on a cents per
9 kWh basis should not be utilized for the recovery of securitization costs for the life of the
10 bonds. The arguments that I put forth in my April 8, 2003 testimony against uniform
11 surcharges are still applicable, and I continue to endorse that testimony.

12 **Q ARE UNIFORM SURCHARGES REQUIRED FOR OBTAINING THE BEST**
13 **POSSIBLE RATING FOR THE SECURITIZED BONDS?**

14 A No. The Consumers witness in this proceeding, Mr. Jack Kattan, indicates that in five of
15 the eight transactions in which Morgan Stanley was the lead manager, uniform
16 securitization charges among all rate classes were not utilized.

17 **Q DO YOU HAVE ANY ADDITIONAL COMMENTS TO MAKE REGARDING**
18 **THE USE OF UNIFORM SURCHARGES?**

19 A Yes. The use of uniform surcharges reallocates cost responsibility. This ignores
20 previous Commission approved cost allocation methodology and penalizes high load
21 factor customers regardless whether they are taking service as a bundled or ROA
22 customer.

1 The rate impacts of each application of a uniform surcharge may not seem
2 significant. However, the application of several uniform surcharges creates rate
3 subsidies, sends incorrect price signals and penalizes high load factor customers. By
4 using uniform surcharges, high load factor customers' rates are set at levels that exceed
5 their cost to serve. As a result, the very customers that the State wants to retain are being
6 penalized for using Consumers' assets efficiently. This puts Michigan at a competitive
7 disadvantage for competing with other states for retaining or attracting new
8 manufacturing jobs.

9 The MPSC Staff in the pending Detroit Edison Company rate case, Case No. U-
10 13808, filed testimony showing that the use of uniform surcharges has made it impossible
11 for high load factor customers on industrial rates to participate in the customer choice
12 program. Conversely, low load factor customers may still be able to economically
13 purchase electricity from alternate generation service suppliers. The Commission needs
14 to follow cost of service principles so a level playing field is created for all customer
15 classes.

16 **Q DOES THIS CONCLUDE YOUR TESTIMONY ON REMAND?**

17 **A Yes, it does.**

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