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March 29, 2017

Ms. Kavita Kale, Executive Secretary
Michigan Public Service Commission
7109 W. Saginaw Hwy.
Lansing, MI 48933

Re: MPSC Case No. U-17691-R

Dear Ms. Kale:

On behalf of Retail Energy Supply Association, enclosed herewith for filing in the above-referenced matter, please find the Direct Testimony of Brian Earhart with Exhibit and Certificate of Service. If you have any questions, please feel free to contact my office. Thank you.

Very truly yours,

Fraser Trebilcock Davis & Dunlap, P.C.

Jennifer Utter Heston

Jennifer Utter Heston

Jennifer Utter Heston
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Enclosures

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the Matter of the Application of DTE Gas Company for Approval of a Gas Cost Recovery Plan, 5 Year Forecasts and Monthly GCR Factor for the 12-Month Period April 2015 – March 2016	)))))	MPSC Case No. U-17691-R

DIRECT TESTIMONY OF BRIAN EARHART

On behalf of the Retail Energy Supply Association

March 29, 2017

I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. Please state your name and by whom you are employed.

A. My name is Brian Earhart. I am employed by Interstate Gas Supply, Inc. ("IGS") in the position Manager, Gas Supply & Risk. My business address is 6100 Emerald Parkway, Dublin, Ohio 43016.

Q. Please describe your educational background and work history?

A. I received a bachelor's degree in business administration with a specialization in transportation and logistics from The Ohio State University in 2002. Immediately upon graduating I began my career in the energy field at IGS Energy where I have worked continuously for 15 years in various roles of increasing responsibility. In 2015 I was promoted to Gas Supply & Risk manager, a title I hold today. I am responsible for managing the scheduling and trading group for part of IGS' service territory which includes all of Michigan, including DTE.

Q. On whose behalf are you filing testimony in this proceeding?

A. I am filing testimony on behalf of the Retail Energy Supply Association ("RESA").[1]

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address DTE's proposed reconciliation of Reservation Charge costs applicable to gas customer choice ("GCC") and gas cost recovery ("GCR") customers. In its November 22, 2016 Order and January 31, 2017 Order Denying Rehearing in DTE's GCR plan proceeding, MPSC Case No. U-17691, the Commission

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[1] The comments expressed in this filing represent the position of the Retail Energy Supply Association (RESA) as an organization but may not represent the views of any particular member of the Association. Founded in 1990, RESA is a broad and diverse group of more than twenty retail energy suppliers dedicated to promoting efficient, sustainable and customer-oriented competitive retail energy markets. RESA members operate throughout the United States delivering value-added electricity and natural gas service at retail to residential, commercial and industrial energy customers. More information on RESA can be found at www.resausa.org.

held that for the twelve-month period ending on March 31, 2016, GCC customers should receive a 30% discount on DTE's Reservation Charge costs. DTE's proposed reconciliation of GCR-related costs fails to implement the Commission's orders. Therefore, my testimony addresses DTE's flawed proposed reconciliation and identifies an appropriate adjustment of the Reservation Charge paid by GCC customers for the 2015-2016 gas year.

II. BACKGROUND

Q. What is DTE's Reservation Charge?

A. DTE requested and received approval to establish a Supplier of Last Resort ("SOLR") Reservation Charge to compensate DTE for pipeline capacity assets that DTE holds to serve GCR customers and allegedly to stand ready to meet its SOLR obligation for GCC customers. The costs associated with these capacity assets are recovered from both GCC and GCR customers through the Reservation Charge.

Q. Can you please briefly describe the background of DTE's Reservation Charge?

A. Yes. In DTE's 2013-2014 GCR case, Case No. U-17131, the Commission approved a Reservation Charge that amounted to approximately 26 cents per Mcf charged to all customers. However, in the 2013-2014 GCR case, the Commission left the possibility open to explore a capacity assignment program ("CAP") in DTE's next GCR proceeding. A CAP would have assigned a portion of DTE's capacity assets to AGSs, and in exchange AGSs would have paid for the cost of the capacity assets to the pipeline directly thereby alleviating the need for GCC customers to pay the Reservation Charge.

Q. Did RESA propose a CAP in DTE's next GCR plan case?

A. Yes. RESA and IGS recommended a CAP for DTE in DTE's 2014-2015 GCR plan case, MPSC Case No. U-17332.

Q. What was the outcome of RESA and IGS's CAP proposal in the 2014-2015 DTE GCR Case?

A. Ultimately the Commission declined to adopt the CAP proposal stating:

> The Commission takes note of the ALJ's finding that the capacity acquired to meet the SOLR obligation may provide benefits to GCR customers that are not available to GCC customers. PFD, pp. 42-43. However, the Commission also notes that IGS and RESA failed to show the extent of any such inequity or that the CAP was a feasible and appropriate mechanism to attempt to remedy any inequity.[2]

Further, the Commission stated:

> Going forward, the Commission seeks to ensure that the allocation of pipeline reservations costs and associated SOLR service is equitable and accurate. No party took issue with the amount of the reservation charge in this case. The Commission expects the amount of the reservation charge to be reviewed in plan cases to make sure that it is appropriate based on actual operations and expenses, and is commensurate with the benefits afforded by SOLR service for both GCR and GCC customers.[3]

Q. Did RESA propose a CAP in DTE's 2015-2016 GCR Plan case?

A. No. While RESA maintains that a CAP is a reasonable and proven means to share pro rata capacity benefits and costs, RESA did not propose a CAP in that proceeding. Rather RESA took note of the Commission's Order in DTE's 2014-2015 GCR case noting that no party took issue with the amount of the Reservation Charge to ensure that it is equitable and accurate.

Q. What did RESA propose in DTE's 2015-2016 GCR Plan case, MPSC Case No. U-17691?

[2] Order dated April 23, 2015, MPSC Case No. U-17332, p. 14 (citation included in the original).
[3] *Id.*

A. RESA's witness, Mr. Daniel Dishno, developed a model in that case to calculate the dollar value of the benefit GCR customers receive that is not received by GCC customers associated with the Reservation Charge. RESA recommended that the model be used to determine an appropriate adjustment to the Reservation Charge to ensure that the charge is equitable and accurate between GCR and GCC customers commensurate with the different benefits that each class of customer receives.

Q. How do DTE's capacity assets uniquely benefit DTE's GCR customers?

A. DTE retains all of the rights to its pipeline reservation assets. The benefit of holding pipeline capacity is having the ability to transport natural gas from Point A to Point B through the pipeline. Delivering supply from Point A to Point B allows DTE to capture a market spread value, which ultimately lowers the average supply cost for GCR customers. Currently DTE utilizes the majority of the pipeline assets it retains to transport gas for GCR customers to the DTE distribution network. Conversely, AGSs are responsible for delivering the gas to the DTE distribution network for GCC customers, thus GCC customers do not get the same benefit from the pipeline reservation assets as GCR customers. Charging GCC customers a Reservation Charge allows DTE to recoup demand charges while giving only GCR customers the benefit of the Point A to Point B market spread. GCC customers then pay for demand charges twice; once through the Reservation Charge to DTE and the other time to their AGS through the process of their AGS having to either procure its own capacity or purchase city-gate supply which is inclusive of pipeline transport charges.

Q. Did the Commission adopt a Reservation Charge adjustment?

A. Yes. In its November 22, 2016 Order in Case U-17691, the Commission stated the following:

> Having reviewed the parties' arguments, the record, and the PFD, the Commission finds that the PFD's analysis is well-reasoned and adopts the PFD's recommendation to approve RESA's proposal. The Commission agrees with RESA's initial premise that GCR customers benefit from gas commodity cost savings that are not available to GCC customers thus placing GCC customers at a relative disadvantage. Though the exact amount of that benefit was disputed in this case, the record indicates that GCR customers do benefit to some degree. See, 4 Tr 343, 537. The Commission also agrees with RESA that the pipeline spread value resulting in gas commodity cost savings for GCR customers is separate from midstream revenues from arbitrage activity of buying gas at a lower price and selling it at a higher price. The Commission approves of RESA's proposal, which amounts to a discount for GCC customers of 30% of the reservation charge. The GCR customers will be responsible for the balance of the reservation charges. Using this 30% discount to the GCC customers resolves the complexities presented by RESA's proposed flat fee reservation charges.[4]

Q. Did the Commission clarify how the Reservation Charge adjustment should be calculated?

A. Yes. In its January 31, 2017 Order Denying Rehearing in Case No. U-17691, the Commission clarified that the two separate Reservation Charges should be calculated consistent with "Example A" in DTE's petition for rehearing, which was consistent with RESA's Reservation Charge calculation entered into evidence in that case as Exhibit RES-1.[5] The Reservation Charge adjustment calculation begins with a single, uniform, overall-average reservation rate based on total GCC and GCR sales and total pipeline reservation costs (net of credits). The ordered 30% discount is then applied to the overall-average reservation rate to establish a 30% discounted SOLR Reservation Charge

[4] Order dated November 22, 2016, MPSC Case No. U-17691 p. 24.
[5] Order Denying Rehearing dated January 31, 2017, MPSC Case No. U-17691, p. 10.

for GCC customers. The capacity costs associated with the 30% discount are then re-allocated to GCR customers to establish a separate Reservation Charge for GCR customers. The costs recovered via the SOLR Reservation Charge applied to GCC customers and the Reservation Charge applied to GCR customers equals DTE's total authorized pipeline capacity costs (net of credits).

Q. Did the Commission clarify when the 30% discount would be effective?

A. Yes. In its January 31, 2017 Order Denying Rehearing in Case No. U-17691, the Commission clarified that the 30% SOLR Reservation Charge reduction was to be effective for the gas year ending on March 31, 2016. Specifically, the Commission stated:

> With respect to the date the approved adjustment would become effective, RESA is correct that the Commission's decision was for the 12-month GCR plan year period ending March 31, 2016, as noted in the order's caption. **Accordingly, the effective date of its implementation would be the start of the GCR plan year, or April 1, 2015**. This cost allocation may be trued up during the GCR reconciliation proceeding for the 2015-2016 plan year.[6]

Thus, the Commission ordered that the 30% discount be applied during this reconciliation proceeding.

III. <u>RESERVATION CHARGE RECONCILIATION</u>

Q. Does DTE's proposed SOLR Reservation Charge reconciliation pre-filed in this 2015-2016 GCR reconciliation case comply with the Commission's November 22, 2016 Order and January 31, 2017 Order Denying Rehearing in DTE's 2015-2016 GCR plan case?

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[6] *Id*. (emphasis added).

A. No. DTE filed its application to reconcile its gas costs for the 2015-2016 gas year on June 30, 2016, before the Commission issued its November 22, 2016 Order in DTE's 2015-2016 GCR plan case.

Q. Has DTE file revised testimony or exhibits in compliance with the Commission's orders in DTE's 2015-2016 GCR plan case?

A. As of the deadline for filing Staff and Intervenor testimony in this reconciliation case, DTE has not filed a revised Reservation Charge reconciliation to comply with the Commission's plan case orders.

Q. Have you prepared a revised Reservation Charge reconciliation to implement the Commission's orders for GCC customers?

A. Yes. My proposed Reservation Charge reconciliation for GCC customers is shown in attached Exhibit RES-1 (BEA-1).

Q. Please explain your proposed Reservation Charge reconciliation for GCC customers?

A. My proposed GCC Reservation Charge reconciliation follows the "Example A" authorized by the Commission in its January 31, 2017 Order Denying Rehearing in the GCR plan case. Specifically, as shown on Exhibit RES-1 (BEA-1), page 1 of 3, line A, I calculated DTE's total system sales by adding DTE's GCR volumes of 105,546,810 Mcf (as shown on DTE's Exhibit A-15, page 1 of 2, line 7) to DTE's GCC volumes of 29,792,410 Mcf (as shown on DTE's Exhibit A-19, page 1 of 2, line 6). DTE's total reported GCC and GCR sales in 2015-2016 were 135,339,221 Mcf.

I then identified DTE's total incurred pipeline reservation costs net of credits, which were $45,349,192 (Exhibit RES-1 (BEA-1), page 1 of 3, line C). This figure is from DTE's Exhibit A-16, page 1 of 4, line 12.

I then divided DTE's total pipeline reservation costs of $45,349,192 by DTE's total system throughput of 135,339,221 Mcf, to derive a uniform, overall-average Reservation Rate of $0.335 per Mcf (Exhibit RES-1 (BEA-1), page 1 of 3, line D). This is the rate that would have been necessary to recover DTE's capacity costs through a uniform charge applicable to both GCC and GCR customers.

I then discounted the overall-average rate by 30% to $0.235 per Mcf to reflect the SOLR Reservation Charge that GCC customers should have paid to DTE based upon actual volumes of sales (Exhibit RES-1 (BEA-1), page 1 of 3, line E). Based upon actual GCC volumes multiplied by the discounted SOLR Reservation Charge, GCC customers should have paid $6,987,946. In actuality, GCC customers paid $8,443,198 in Reservation Charges in 2015-2016 (source: DTE's Exhibit A-19, page 1 of 2, line 11). Thus, GCC customers over paid DTE $2,244,065 when taking into account the prior-period over payment of $788,813.

Q. What is the significance of the calculation reflected on your Exhibit RES-1 (BEA-1), page 1 of 3, line G.

A. Line G of my Exhibit RES-1 (BEA-1), page 1 of 3, shows the total Reservation Charges as a percent of the Total Pipeline Reservation Cost (net of credits) for both GCC and GCR customers. These percentages are the annual allocated total pipeline cost responsibility for each class.

Q. Did you produce a Reservation Charge reconciliation by month for GCC customers?

A. Yes. Exhibit RES-1 (BEA-1), page 2 of 3, is a Reservation Charge reconciliation by month. This exhibit shows unbilled volumes by month for GCC and GCR customers from DTE's Exhibit A-19, page 1 of 2, and Exhibit A-15, page 1 of 2, respectively. Line 5 is DTE's reported Pipeline Reservation Costs (net of credits) by month from DTE's Exhibit A-16, page 1 of 4, line 12. I then apply the allocation percentages from my Exhibit RES-1 (BEA-1), page 1 of 3, line G, to DTE's reported Pipeline Reservation Costs (net of credits) on Line 5 to derive the Pipeline Reservation Cost responsibility for each class based on the application of the new, discounted SOLR Reservation Charge. Line 14 shows the actual Reservation Charges collected from GCC customers each month during the 2015-2016 gas year from DTE's Exhibit A-19, page 1 of 2, line 11. Line 17 is the difference between the actual demand charges recovered from GCC customers (Line 14) and the demand charges that should have been recovered from GCC customers using the discounted SOLR Reservation Charge (Line 8) by month.

Q. What was the total over-recovery of SOLR Reservation Charges from GCC customers in 2015-2016?

A. The total over-recovery of SOLR Reservation Charges from GCC customers in 2015-2016 was $2,244,064. DTE collected $8,443,198 from GCC customers in 2015-2016, plus had a carry-forward balance of $788,813, for a total recovery of $9,232,011 from GCC customers. The GCC customer's share of DTE's actual pipeline reservation costs (net of credits) in 2015-2016 was $6,987,946. The difference between $9,232,011 in

GCC reservation charge revenues and $6,987,946 in pipeline reservation costs (net of credits) allocated to GCC customers is $2,244,064.

Q. Did you produce a revised interest calculation for the GCC Reservation Charge?

A. Yes. Exhibit RES-1 (BEA-1), page 3 of 3, is a revised GCC Reservation Charge interest calculation modeled after DTE's GCC Reservation Charge interest calculation, as shown on Exhibit A-19, page 2 of 2.

Q. Did you make any adjustments to DTE's interest calculation?

A. Yes. I made two adjustments to DTE's proposed interest calculation. First, I updated the monthly balances to reflect the application of the 30% discounted SOLR Reservation Charge. Second, I adjusted the interest calculation to reflect the fact that the 2015-2016 gas year is a leap year. As a result, the applicable annual interest rate is divided by 366 days to determine a daily rate, and the number of days for February 2016 is adjusted from 28 to 29.

Q. What is the total amount of interest for the 2015-2016 gas year?

A. The total amount of interest accrued for the 2015-2016 should be $50,812, as shown on my Exhibit RES-1 (BEA-1), page 3 of 3, line 14.

Q. Based on your calculations, what is the total 2015-2016 Reservation Charge balance for GCC customers?

A. When including interest for April 1, 2015 through March 31, 2016, the total over-recovered GCC SOLR Reservation Charge balance is $2,294,876.

Q. Does that conclude your testimony?

A. Yes it does.

DTE GAS COMPANY
GCC RESERVATION CHARGE (RC) ADJUSTMENT CALCULATION

Yearly

	Gas Year April 2015 thru March 2016 True Up		**GCR**	**GCC**	**Total**
A	Total Sales (MCF)-Unbilled volumes		105,546,810	29,792,410	135,339,221
	Actual Demand $ recovered via SOLR in 2015-2016		$30,061,135	$8,443,198	
	Prior Period Over (Under) Collection		$2,009,475	$788,813	
B	**Total Dollars charged April 2015- March 2016**		**$32,070,610**	**$9,232,011**	
C	Pipeline Reservation Cost (net of credits)				$45,349,192
D	Overall-Average Reservation Rate (Line C (Total) / Line A (Total))	0.335			
E	**Adjusted SOLR Reservation Charge for GCC (30% Discount)**	0.235			
F	What should have been collected when new rates applied		$38,361,246	$6,987,946	$45,349,192
G	Reservation Charges as a % of Total		84.59%	15.41%	100.00%
H	**FINAL** Over (Under) Recovery (Line B - Line F)		($6,290,636)	$2,244,065	

DTE GAS COMPANY

Reservation Charge Reconciliation
For GCC Customers Only
April 2015 through March 2016

Case No.: U-17691-R
Exhibit: RES-1 (BEA-1)
Witness: B. Earhart

Line No.	(a) Monthly	(b)	(c) Apr-15	(d) May-15	(e) Jun-15	(f) Jul-15	(g) Aug-15	(h) Sep-15	(i) Oct-15	(j) Nov-15	(k) Dec-15	(l) Jan-16	(m) Feb-16	(n) Mar-16	(o)
1	GCC Sales (Unbilled)		2,581,665	1,161,653	795,115	749,668	715,556	803,214	1,767,816	2,961,308	3,666,305	5,810,398	5,142,475	3,637,237	29,792,410
2	GCR Sales (Unbilled)		8,891,032	3,724,312	2,535,905	2,433,088	2,221,234	2,387,842	5,889,955	10,519,743	13,236,954	21,654,205	19,089,685	12,962,856	105,546,810
3	Total		**11,472,697**	**4,885,965**	**3,331,020**	**3,182,756**	**2,936,790**	**3,191,056**	**7,657,771**	**13,481,051**	**16,903,259**	**27,464,603**	**24,232,160**	**16,600,093**	**135,339,221**
5	Pipeline Reservation Cost (net of credits)		$3,779,892	$3,772,675	$3,773,978	$3,745,369	$3,775,822	$3,764,587	$3,562,290	$3,544,262	$4,430,035	$3,704,989	$3,680,364	$3,814,931	$45,349,192
8	Pipeline Reservation Cost w/new SOLR	GCC	$582,451	$581,339	$581,540	$577,131	$581,824	$580,093	$548,920	$546,142	$682,633	$570,909	$567,115	$587,850	$6,987,946
9	Pipeline Reservation Cost w/new SOLR	GCR	$3,197,441	$3,191,336	$3,192,438	$3,168,238	$3,193,998	$3,184,494	$3,013,369	$2,998,119	$3,747,402	$3,134,080	$3,113,250	$3,227,081	$38,361,246
10			**$3,779,892**	**$3,772,675**	**$3,773,978**	**$3,745,369**	**$3,775,822**	**$3,764,587**	**$3,562,290**	**$3,544,262**	**$4,430,035**	**$3,704,989**	**$3,680,364**	**$3,814,931**	**$45,349,192**
14	Actual Demand $ recovered via RC		$734,315	$314,723	$210,151	$194,748	$186,081	$219,214	$494,398	$829,290	$1,050,615	$1,683,642	$1,490,911	$1,035,109	**$8,443,197**
		Carryover													
17	Over (Under) Recovery	$788,813	$151,864	($266,616)	($371,389)	($382,383)	($395,743)	($360,879)	($54,522)	$283,148	$367,982	$1,112,733	$923,796	$447,259	**$2,244,064**

DTE GAS COMPANY

GCC RESERVATION CHARGE (RC) INTEREST CALCULATION

April 2015 through March 2016

Line	Month	Beginning Balance Over/(Under) Recovery	Current Month Over/(Under) Recovery	Current Month Average	Current Month Base For Interest Accrual	Interest Rate	Interest (Revenue)/ Expense
		Col. 1	Col. 2	Col. 3 (Col. 2 * 50%)	Col. 4 (Col. 1 + Col. 3)	Col. 5	Col. 6 (Col. 4 * Col. 5 * days in month / 366)
1	3/31/15 Balance		$ 788,813				
2	April	$ 788,813	151,864	$ 75,932	$ 864,745	10.500%	7,442
3	May	940,677	(266,616)	(133,308)	807,369	10.500%	7,180
4	June	674,061	(371,389)	(185,694)	488,367	10.500%	4,203
5	July	302,672	(382,383)	(191,192)	111,481	10.500%	991
6	August	(79,711)	(395,743)	(197,871)	(277,582)	0.311%	-73
7	September	(475,454)	(360,879)	(180,439)	(655,893)	0.324%	-174
8	October	(836,332)	(54,522)	(27,261)	(863,593)	0.339%	-248
9	November	(890,855)	283,148	141,574	(749,281)	0.334%	-205
10	December	(607,707)	367,982	183,991	(423,716)	0.545%	-196
11	January 16	(239,725)	1,112,733	556,367	316,642	10.500%	2,816
12	February	873,008	923,796	461,898	1,334,907	10.500%	11,106
13	March	1,796,805	447,259	223,629	2,020,434	10.500%	17,969
14	TOTAL		**$ 2,244,064**				***$ 50,812***
15	TOTAL OVER (UNDER) RECOVERY PLUS INTEREST			**$2,294,876**			

Note: If the beginning balance for any month plus the current month average balance is positive, the interest rate utilized in Column 5 is the allowed rate of return of 10.5%

If the beginning balance plus the current month average balance is negative, the interest rate is the average short term borrowing rate for the current month.

The beginning balance is the ending balance from Exhibit A-19 Revised in Case No. U-17332-R

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of DTE GAS COMPANY for a Gas Cost Recovery Reconciliation proceeding for the 12-months ending March 31, 2016	)))))	Case No. U-17691-R

CERTIFICATE OF SERVICE

Angela R. Babbitt hereby certifies that on the 29th day of March, 2017, she served the ***Direct Testimony of Brian Earhart*** with Exhibit and this Certificate of Service on the persons identified on the attached service list via electronic mail.

Angela R. Babbitt

Angela R. Babbitt

Angela R. Babbitt

Digitally signed by Angela R. Babbitt
Date: 2017.03.29 08:53:25 -04'00'

Service List for U-17691-R

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