STATE OF MICHIGAN
GRETCHEN WHITMER
GOVERNOR

DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
PUBLIC SERVICE COMMISSION

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Find enclosed the Revised Direct Testimony of Kirk D. Megginson and Exhibit S-4 with revised pages 6, 7, and 13 of Schedule D-5.

There was a data entry error on line 97 of the originally filed Exhibit S-4, Schedule D-5, page 6.

The error impacted the average result noted on line 99 of the same page and the result of Staff's historical CAPM analysis as noted on Exhibit S-4, Schedule D-5, page 7.

The corrected average CAPM ROE was revised to 10.25% (from 10.00% in the originally filed version). The corrections are highlighted in yellow in the enclosed versions on the Exhibits.

S T A T E O F M I C H I G A N

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

*** * * ***

In the matter of the application of	**)**	
CONSUMERS ENERGY COMPANY	**)**	
for authority to increase its rates for the	**)**	**Case No. U-21389**
generation and distribution of electricity and	**)**	
for other relief	**)**	

QUALIFICATIONS AND REVISED DIRECT TESTIMONY OF

KIRK D. MEGGINSON

MICHIGAN PUBLIC SERVICE COMMISSION

~~August 29, 2023~~
September 21, 2023

QUALIFICATIONS OF KIRK D. MEGGINSON
CASE NUMBER U-21389
PART I

Q. Please state your name, business address and occupation.

A. My name is Kirk D. Megginson and my business address is 7109 West Saginaw Highway, Lansing, MI 48917. I am employed by the Michigan Public Service Commission (MPSC or Commission) as a Financial Specialist in the Revenue Requirements Section of the Regulated Energy Division.

Q. Please describe your educational and professional background.

A. I graduated with a Bachelor of Science degree in Mechanical Engineering from Michigan State University in March 1991 and received my Master of Business Administration degree with a concentration in Finance from Clark Atlanta University in May 2002.

From 1991 to 2000, I worked for the Michigan Consolidated Gas Company as an account manager, primarily responsible for managing the natural gas transportation accounts of certain industrial and commercial clients in Wayne and Washtenaw counties.

In December 2002, I began work as a Financial Analyst at the MPSC. As a Financial Analyst, I analyzed and reported on the financial statistics of regulated Michigan jurisdictional utility companies and assisted the MPSC Revenue Requirements section in utility rate case hearings and other projects as necessary. In October 2008, I transitioned to a Financial Specialist and currently provide Staff with expert testimony on capital structure development, debt and equity costing, business and credit risk analysis, and other finance-related issues in rate case proceedings.

Q. Have you received ongoing training since joining the MPSC?

A. Yes. In addition to my academic training, I have attended several seminars and workshops on electric and gas utility financial analysis, credit risk and rating analysis and accounting and auditing methodology while employed at the MPSC. In August 2003, I attended the two-week regulatory studies program offered by the Michigan State University, Institute of Public Utilities, which covered various aspects of utility regulation and energy sector fundamentals. I attend assorted segments of the regulatory studies program and other related seminars on a regular basis. I have also attended training sessions provided by Standard & Poor's on credit rating development and on regulatory finance methodology provided by industry experts.

Q. Have you participated in other rate increase cases prior to this case?

A. Yes, I have. I have participated in the following rate increase request cases:

Case Number	Company Name	Description
U-13470	Michigan Gas Utilities	Capital Structure
U-13575	SEMCO Gas Co.	Capital Structure
U-13688	Wisconsin Public Service Corp.	Capital Structure
U-14838	Detroit Edison Co.	Capital Structure/Debt Cost Rate
U-14893	SEMCO Energy Co.	Capital Structure/Cost of Capital
U-15190	Consumers Energy (Gas Div.)	Capital Structure/Cost of Capital
U-15245	Consumers Energy (Electric Div.)	Capital Structure/Cost of Capital
U-15506	Consumers Energy (Gas Div.)	Capital Structure/Cost of Capital
U-15985	Michigan Consolidated Gas Co.	Capital Structure/Cost of Capital
U-15986	Consumers Energy (Gas Div.)	Capital Structure/Cost of Capital
U-16191	Consumers Energy (Electric Div.)	DOE Liability Trust Fund
U-16418	Consumers Energy (Gas Div.)	ROE Recommendation
U-16472	Detroit Edison Co.	ROE Recommendation

QUALIFICATIONS OF KIRK D. MEGGINSON
CASE NUMBER U-21389
PART I

1	U-16794	Consumers Energy (Electric Div.)	ROE Recommendation
2	U-17197	Consumers Energy (Gas Div.)	Cost of Capital (case withdrawn)
3	U-17643	Consumers Energy (Gas Div.)	Capital Structure/Cost of Capital
4	U-17735	Consumers Energy (Electric Div.)	Capital Structure/Cost of Capital
5	U-17880	Michigan Gas Utilities	Capital Structure/Cost of Capital
6	U-17882	Consumers Energy (Gas Div.)	Capital Structure/Cost of Capital
7	U-17895	Upper Peninsula Power Co.	Capital Structure/Cost of Capital
8	U-17990	Consumers Energy (Electric Div.)	Capital Structure/Cost of Capital
9	U-17999	DTE Energy (Gas Div.)	Capital Structure/Cost of Capital
10	U-18014	DTE Energy (Electric Div.)	Capital Structure/Cost of Capital
11	U-18124	Consumers Energy (Gas Div.)	Capital Structure/Cost of Capital
12	U-18370	Indiana-Michigan Power Co.	Capital Structure/Cost of Capital
13	U-18255	DTE Electric	Capital Structure/Cost of Capital
14	U-18424	Consumers Energy (Gas Div.)	Capital Structure/Cost of Capital
15	U-18999	DTE Gas	Capital Structure/Cost of Capital
16	U-20134	Consumers Energy (Electric Div.)	Capital Structure/Cost of Capital
17	U-20322	Consumers Energy (Gas Div.)	Capital Structure/Cost of Capital
18	U-20359	Indiana-Michigan Power Co.	Capital Structure/Cost of Capital
19	U-20561	DTE Electric	Cost of Capital
20	U-20650	Consumers Energy (Gas Div.)	Capital Structure/Cost of Capital
21	U-20697	Consumers Energy (Electric Div.)	Capital Structure/Cost of Capital
22	U-21148	Consumers Energy (Gas Div.)	Capital Structure/Cost of Capital
23	U-21224	Consumers Energy (Electric Div.)	Capital Structure/Cost of Capital
24	U-21308	Consumers Energy (Gas Div.)	Capital Structure/Cost of Capital

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to provide a recommendation on behalf of the Michigan Public Service Commission Staff (Staff) regarding the recommended capital structure, return on common equity (ROE) and overall rate of return that Consumers Energy Company's Electric Division (Consumers Energy, Consumers Electric or the Company) should be allowed to earn on its Michigan jurisdictional electric utility investment. The recommendations provided in this testimony are based on a large degree of technical expertise and professional judgment in the area of financial analysis.

Q. Are you sponsoring any exhibits on behalf of Staff in this proceeding?

A. Yes. I am sponsoring Staff Exhibit S-4; Schedules D-1 through D-5:

Schedule	Page	Title
D-1	1	Test Year Overall Rate of Return
D-2	1	Long-Term Debt Balance and Cost Rate
D-3	1	Short-Term Debt Balance and Cost Rate
D-4	1	Preferred Stock Balance and Cost Rate
D-5	1	Projected Common Equity Balance
D-5	2	Electric Utility Proxy Group Corporate Statistics
D-5	3	Proxy Group Credit Rating's Criteria
D-5	4	Electric Proxy Group Return on Common Equity
D-5	5	Discounted Cash Flow Model (DCF)
D-5	6	Capital Asset Pricing Model (CAPM) Historical Market Risk Premium Development
D-5	7	Historical CAPM Estimate
D-5	8	Projected CAPM Estimate
D-5	9	Dow Jones Utility Average Year 2000 - 2022
D-5	10	Electric Utility Historical Market Return

	D-5	11	Bond Yield + Risk Premium Model Estimate
	D-5	12	Other State Commission ROE Decisions 2020-2022
	D-5	13	Cost of Equity Range and ROE Recommendation

Q. Was the proposed Exhibit S-4 prepared by you and/or under your direction?

A. Yes.

Q. Please summarize Staff's capital structure and ROE recommendation.

A. Staff recommends a return on equity of 9.80% predicated on a capital structure with a permanent equity layer of 50.02%. Staff's equity layer request is a reduction to the 50.75% equity layer authorized in the Company's last electric rate case, Case No. U-21224, and aligns with the Commission's request for Consumers Energy's ratemaking equity layer to reach equilibrium. Staff's ROE is the midpoint of its 9.30% - 10.30% ROE range.

To aid in the determination of a fair return on equity for the Company, and since Consumers Energy is not publicly traded, a group of nine publicly traded electric and/or electric-gas utility companies was used as a comparable proxy to the Company. The proxy group's data was used in the traditional Discounted Cash Flow (DCF) model and both the historical and projected Capital Asset Pricing Models (CAPM). In addition to those traditional models, a Bond Yield + Risk Premium analysis and a review of electric ROE authorizations from other state jurisdictions from 2020 through 2022 was also considered in this case. Staff's 9.80% ROE recommendation considers the Commission request for restraint and prudence in ROE recommendations, as well as Consumers Electrics'

currently authorized 9.90% ROE. The Company requests a 10.25% ROE based on a 51.50% equity layer as outlined in its application.

Q. How is your testimony structured?

A. My testimony is structured in two parts. Part I corresponds to my Schedules D-1 through D-4 exhibits, which describes all of the ratemaking capital structure components and their cost rates other than common equity. Part II describes my recommended common equity balance and cost of equity recommendation. That testimony corresponds to my Schedule D-5 exhibits.

Q. Please outline Consumers Energy's current credit rating.

A. Company witness Marc Bleckman provides the Company's ratings as shown on Exhibit A-32, Schedule D-6, page 1 of 1. Standard & Poor's (S&P) rates Consumers Energy's senior secured debt "A," which was raised from "A-" in December 2013. Moody's rates Consumers senior secured debt "A1," which was reduced from "Aa3" in May 2021. Fitch rates Consumers senior secured debt "A+," which was raised two notches from "A-" in March 2016.

Q. Have the rating agencies held the Company's credit rating steady despite the one notch revision from Moody's in 2021?

A. Yes. As noted earlier, S&P has held the Company's credit rating steady for over eight years and Fitch has held it steady for over seven years. Moody's one notch downward revision from Aa3 (equivalent to S&P's AA- rating) puts the Company's credit rating more in line with the other two agencies ratings.

Q. Did Moody's downward revision negatively affect Consumers Energy's ability to access capital at reasonable rates?

A. No. Despite the downward revision from Moody's, the Company should be able to access the capital markets for reasonably, if not preferably, priced borrowings in the future. Referring to Company witness Bleckman's Exhibit No. A-33, which outlines country-wide utility debt issuances over the past few years, Consumers Energy issued over $1.2 billion in long-term debt from August 2022 through January 2023 at a very competitive rate and credit spread. The issuances averaged 100 basis point credit spread, which was either on par or well below the issuances of other utilities shown on the exhibit. Thus, despite the downgrade from Moody's, the revision did not appear to affect the Company's ability to secure moderately priced debt and the Company anticipates approximately two billion in long-term debt issuances in this test year alone.

Q. What is the Federal Reserve's anticipated activity with respect to interest rates?

A. The Federal Open Market Committee (Fed) anticipates a slowdown in the series of rate hikes to the federal funds rate[1] that they implemented to help battle inflation. Starting in March 2022, the Fed initiated their uptick in rates and raised the federal funds rate from 0.25% to 0.50%. In May 2022, the Fed raised the federal funds rate from 0.50% to 1.0%. In June 2022, the Fed raised the federal funds rate from 1.0% to 1.75% and from 1.75% to 2.50% in July 2022, and then from 2.5% to 3.25% in September 2022. The Fed's back-to-back-to back 75 basis

[1] **The U.S. Fed Funds Rate**

The U. S. Federal Funds Rate is the interest rate a U.S. Federal Reserve depository institution (bank, S&L or Credit Union) will charge another bank to borrow their excess reserves held at the Federal Reserve. These reserves, or Federal Funds, are traded by banks (usually overnight) to meet their reserve requirements or enable the clearing of financial transactions.

points increase was a first in its modern history. From that point forward, the Fed raised the federal funds rate between 25-50 basis points each month, from 3.25% to 4.50% by year-end 2022. In 2023, the Fed steadily raised the federal funds rate by 25 basis points each month (with the exception of June) to its current rate of 5.50% as of July 2023. The Fed stated that their 2% inflation target was not quite reached, but it was progressing towards that target, and the Fed would monitor the nation's economy carefully in an effort to reach that mark. The Company has asserted that the Fed has artificially kept long-term interest rates low.[2] However, the Fed has steadily increased interest rates, in direct contradiction to the Company's assertion, to tamp down inflation. This distinction is relevant as it connects to the Company's use of improper datapoints in its ROE analyses.

Q. Is Staff's ROE recommendation still reasonable despite the rise in interest rates?

A. Yes. Staff's 9.80% ROE recommendation is at the high end of a fair return for the Company. Staff's 9.80% ROE recommendation provides the Company with approximately 5.70% in spread value above its long-term debt cost of 4.10%. That means that Staff's recommended ROE is very suitable compensation for the Company's equity. Staff's ROE is only 10 basis points below the Company's currently high 9.90% rate, which is roughly 35 basis points above the 2022 nation-wide ROE average of approximately 9.54% and above the first half of 2023's country-wide average of 9.56%. Staff's ROE recommendation is about 25 basis points above the national average, which can be viewed as favorable.

[2] Company Witness T. Wehner, Direct Testimony p 16.

Q. In this case as in past rate cases, the Company has opined on certain of its financial metrics, primarily the funds from operation to debt ratio (FFO-to-Debt). Did Staff review and provide an analysis of this ratio in this case?

A. Yes. I conducted an FFO-to-debt analysis and used the following FFO-to-Debt ratio formula taken from S&P:

$$\text{Funds From Operations / Total Debt} = \frac{\text{Net income from operations + depreciation \& amortization + deferred income taxes + other noncash items}}{\text{Long-term debt + current maturities + commercial paper and other ST-debt}}$$

I reviewed 2022 data from the Company's 10-K report filed with the Securities & Exchange Commission (SEC) to obtain my inputs. The following FFO-to-Debt ratio was calculated:

Sheet 1.

(2022 Data)	
	2022 10-K
FFO	(in millions
NOI	$ 945
Dep + Amo	$ 1,088
Def Inc. Tax	$ 134
Other non-cash	$ (87)
Funds from Ops	$ 2,080
Total Debt	2022 10-K
LTD	$ 9,192
Current Maturities	$ 1,000
STD (Letters of Credit	$ 20
Total Debt	$ 10,21
FFO/Debt	**20.37%**

As you can see from Sheet 1, the FFO-to-Debt ratio was 20.37%, which considered the Commission's 9.90% ROE and 50.75% equity ratio authorized in

the Company's previous electric rate order in Case No. U-21214. Additionally, in the May 31, 2023 Moody's credit report, the report noted that Consumers Energy's FFO-to-Pre-Working Capital/Debt was 20.20% in year-end 2022, in line with Staff's calculation. That ratio is well above the downgrade threshold of 18.0% or lower on a sustained basis according to Moody's.[3] The report also noted that the Company benefits from a regulatory framework that is generally credit supportive and that Company's rating could be upgraded if Michigan's regulatory framework becomes more formulaic and/or additional cost recovery mechanisms for Consumers Energy are approved. The Company has requested a suite of cost recovery mechanisms in this case, which if approved, could provide more timely recovery of costs, provide an increased level of cash flow and risk reduction, and could result in a credit rating upgrade.

Q. Have credit rating agencies commented on the positive aspects of Michigan's regulatory environment?

A. Yes. The credit rating agencies routinely comment on the credit supportiveness of Michigan regulation. In Moody's May 31, 2023 credit report, the agency remarked "the regulatory environment in Michigan remains relatively credit supportive… Consumers Energy will continue to benefit from a consistent and generally credit supportive regulatory environment…(Michigan) has a regulatory framework that we view to be more credit supportive than most other states…the

[3] Company Witness M. Bleckman, Audit Response U21389-SA-CE-068, p 1 of 1. The Company provided the most up to date credit rating reports from S&P, Moody's and Fitch. S&P and Fitch noted FFO-to-debt ratio forecasts of between 19-21%.

regulatory framework has been streamlined, improving both the rate case process and the timeliness of cost recovery…Michigan utilities benefit from numerous formulaic rate adjustment mechanisms that provide a high degree of cash flow stability and assurance of recovery."[4] S&P also noted that " We view Michigan's regulatory construct as above average compared to peers because of the benefit of a forward-looking test year, a streamlined 10-month rate case process, and various constructive rate mechanisms. These constructive rate mechanisms enable CE to generally earn its allowed ROE and minimize regulatory lag."[5] Fitch also noted that "the Michigan regulatory environment remains constructive from a credit perspective. Supportive state legislation and MPSC policies mitigate regulatory lag through the use of a forward test year, a 10-month review period for general rate cases, and power supply and gas cost recovery mechanisms."[6] Thus, credit rating agencies acknowledge that Michigan has a very equitable regulatory environment that is supportive of a utility's ability to recover its costs, provide a steady return to its shareholders, and provide an opportunity for the utility to maintain and grow its business in a healthy manner. This also necessitates that a proper capital structure, along with a fair and reasonable ROE, is a requirement for Consumers Energy in this case. Staff's capital structure and ROE recommendation provides the needed balance of equity and fairness to the Company and its ratepayers. The Commission should strongly consider and then adopt Staff's capital structure and ROE recommendation.

[4] Moody's Investor Services – Credit Opinion (May 31, 2023), p 2-3.
[5] S&P Global Ratings - (July 25, 2022), p 2-4
[6] Fitch Ratings – (February 13, 2023) p 1.

Part I. Capital Structure Balance and Component Cost Development

Q. Please start by summarizing the recommended ratemaking capital structure balances of Staff and the Company.

A. The following chart outlines the capital structure balances recommended by the Company and Staff:

Chart 1.

Components (000)	Company	Staff
Long-Term Debt	10,833,149	10,833,149
Preferred Stock	37,315	37,315
Common Equity	11,543,000	10,879,549
Short-Term Debt	294,000	294,000
Deferred FIT	4,280,000	4,280,000
Job Development Investment Tax Credits	130,000	130,000

Thus, according to Chart 1, Staff agrees with the Company's recommended balances except for common equity.

Q. Please explain your recommended common equity balance.

A. I considered the Company's actual common equity balance through May 31, 2023. I then followed the Company's preferred method for estimating retained earnings and used the Company's 2022 net income in my analysis. I approximated $189 million in retained earnings to the end of the test year, which equates to $15.75 million added to the equity balance each month from June 2023 to February 28, 2025.

Q. Did you recognize the Company's equity infusion request in this case?

A. No, not in this case. In its application, the Company noted that it planned to receive an equity infusion of $75 million in February 2023, $400 million in May 2023, and $350 million in February and June 2024 and February 2025 from its parent CMS Energy. Since I used actual balances through the end of May 2023 in my analysis, the February and May 2023 infusions are accounted for. However, no additional equity infusions were recognized in this case.

Q. Why did you not recognize any further equity infusions in this case?

A. The Company noted that its equity infusion schedule was designed to maintain its recommended 51.50% equity layer. However, the Commission's stated objective, from many cases ago, is that the Company target its ratemaking capital structure to a level 50/50 debt to equity ratio. Staff did not recognize an equity infusion schedule in this case in adherence to that request. Over the years, the Commission has provided observation and guidance with respect to the Company's ratemaking capital structure. The Commission stated in its December 22, 2021 Order in Case No. U-20963:

> …the Commission believes a capital structure that is roughly balanced between debt and equity strikes the appropriate balance between ensuring access to capital at attractive rates, on the one hand, and maintaining customer affordability on the other.[7]

Additionally, the Commission remarked in its September 2019 Order in Consumers Energy's Gas Case No. U-20322:

[7] MPSC Case No. U-20963, 12/22/2021 Order, p 220

The Commission continues to find that Consumers' treatment as a stand-alone company for ratemaking purposes requires it to maintain a capital structure that is evenly balanced between debt and equity.[8]

The Commission previously addressed the equity layer issue in its February 2017 Order in Consumers Energy's Electric Case No. U-17990, when it stated:

> The Commission desires to arrive at an optimized capital structure that is both supportive of planned infrastructure investments yet is not unnecessarily burdensome on ratepayers. The Commission also anticipates that a cycle of heavier-than-usual investment will present an ideal opportunity to rebalance Consumers' capital structure to reach its 50/50 goal[9].

A few months later, in the Commission's July 2017 Order in Consumers Energy's Gas Case. No. U-18124, the Commission further noted:

> (The Commission) disagrees with Consumers that its proposed capital structure is sufficiently balanced to avoid scrutiny. The Commission cannot overemphasize the company's responsibility to rebalance its equity and debt capital. [10]

Those Orders highlight the Commission's interest and concern about the makeup of the Company's ratemaking capital structure and its impact on ratepayers. The Commission has not strayed from its position that the Company rebalance its debt and equity levels to 50%. The Commission has been patient with the Company's "progression" to lower its ratemaking equity level. However, the Commission does prefer that the Company reach equilibrium. Staff has gradually lowered its equity layer recommendations in previous rate cases to adhere with the Commission's request. The following chart shows Staff's equity balance

[8] MPSC Case No. U-20322, 9/26/2019 Order, p 62
[9] MPSC Case No. U-17990, 2/28/2017 Order, p 64
[10] MPSC Case No. U-18124, 7/31/2017 Order, p 45- 46.

recommendations from previous rate cases both in Consumers Energy's gas and electric divisions:

	Case No.	Application Date	Staff Equity Recommendation
Consumers - Gas	U-21308	12/22/2022	50.50%
Consumers - Elec.	U-21224	4/28/2022	50.50%
Consumers - Gas	U-21148	12/1/2021	51.05%
Consumers - Elec.	U-20963	2/25/2021	51.02%
Consumers - Elec.	U-20697	2/27/2020	51.11%
Consumers - Gas	U-20650	12/16/2019	51.61%
Consumers - Gas	U-20322	11/30/2018	52.05%
Consumers - Elec.	U-20134	5/14/2018	51.83%
Consumers - Gas	U-18424	10/31/2017	52.00%
Consumers - Elec.	U-18322	3/31/2017	52.64%

From the chart, you can see that Staff has methodically lowered its recommended equity balance in subsequent rate cases in response to the Commission's request. Staff's 50.02% common equity balance in this case fully supports the Commission's objective that the Company reach a capital structure that is level in both equity and debt. Staff's recommended capital structure is less costly to ratepayers and yet still reasonable for the Company to maintain its wide access to capital markets.

Q. Have other intervenors recommended a balanced capital structure for Consumers Energy in previous rate cases?

A. Yes. The Attorney General (AG) has recommended a 50/50 capital structure for Consumers Energy in the majority of the past rate cases. The Association of Businesses Advocating Tariff Equity (ABATE) has also advocated for a 50%

ratemaking equity level in previous rate cases.[11] The AG supports a level capital structure by recommending a reduction to common equity with a corresponding increase in the Company's long-term debt component. Though Staff develops its capital structure in a different manner, the objective is still the same, a capital structure that is evenly split between debt and equity.[12] Staff's 50% equity layer along with its favorable 9.80% ROE recommendation should be adopted by the Commission.

Q. Referring to page 24 of Company witness Bleckman's direct testimony and on Exhibit A-14, Schedule D-1 Adjusted, page 2, Mr. Bleckman suggests that the Company's 51.50% equity-based ratemaking capital structure could be considered "balanced" on an adjusted-basis. The Company suggests that its capital structure be viewed on the basis that other debt-like instruments not represented in rate cases, should be taken into account when determining an appropriate capital structure. Is the Company correct in its position that its adjusted-basis capital structure is appropriate as a balanced ratemaking capital structure?

A. No. The Company has continuously made the argument that several debt-like instruments should be considered in the ratemaking capital structure that the ratemaking process has specifically excluded in capital structure development. The Company notes that capital leases, securitized assets, power purchase agreements, and other items should be considered in the ratemaking capital

[11] ABATE Witness C. Walters – CE Electric Case No. U-21224- Direct testimony, p 69.
[12] Staff has no issue with the AG's method of arriving at a 50/50 capital structure. The addition and deletion of debt and equity in the capital structure appears to be a reasonable process to arrive at a level capital structure.

structure and notes that "By including these balances, which are reflected on the Company's balance sheet, the Company's debt is higher, and the resulting equity ratio is lower compared to a regulatory basis. It is important for the Company's regulators to take into consideration these debt items...when determining the Company's authorized equity ratio so as to avoid negative credit consequences such as a credit rating downgrade"[13] The Commission should reject the Company's arguments in this case as the Commission rejected them in the Company's previous electric rate case No. U-20963. The Commission, in Case No. U-20963, stated in its order:

> **"While the Commission appreciates Consumers' detailed analysis, the adjusted equity ratio is, nevertheless, insufficient to demonstrate that a 52% equity ratio is appropriate. As stated above, the Commission desires to reach a balanced capital structure that is both supportive of the company's plans and is not unnecessarily burdensome on ratepayers. The Commission finds that the company's adjusted capital structure does not reflect the appropriate balance and represents a departure from the "established ratemaking method that develops a weighted cost of capital based on the sources of financing rate base."[14]**

Therefore, the Commission acknowledged that the Company's "adjusted basis" capital structure was inappropriate as a ratemaking capital structure in ~~the~~ Consumer Energy's previous electric order and should find the same inappropriate basis in this case as well.

Q. Are there other reasons to reject the Company's "adjusted basis" capital structure request?

[13] Company Witness M. Bleckman, Direct Testimony, p 24-26.
[14] Order – U-20963 p 204

A. Yes. To start, debt like instruments such as securitized debt is debt that is technically not on the Company's books. In the Company's previous securitization case, Case No. U-12505, the Company noted that ***"Securitization involves the delinking of the credit quality of the issued bonds from that of the utility in order to achieve higher credit ratings and lower financing costs. In order to accomplish this, the utility sells the securitization property and other collateral to a bankruptcy remote special purpose entity ("SPE" or "Issuer") in what constitutes a "true sale" for bankruptcy purposes. This sale insulates the collateral from the credit risk of the utility."***[15] Therefore, securitization debt should not be viewed as an impact to the Company's debt profile. In addition, securitized debt is required to meet additional financing and security measures to afford it the highest credit rating possible (AAA). Specifically, the concept that all customers are required to pay the debt, regardless of customer type, provides the higher measure of security. The concept is known as non-bypassability. In the Company's previous securitization case, the Company noted "***the imposition and amount, collection period, allocation among customers, nonbypassability, and true-ups of securitization charges would need to be described, authorized and affirmed by the Commission in the financing order. The non-bypassability element minimizes the degree to which the collection of securitization charges will be hampered by customers who switch generation suppliers…"***[16] Therefore, securitized debt is not a factor that negatively impacts the Company's debt profile

[15] Case No. U-12505: Direct testimony of Robert H. Hoffman, p 3-4. (Emphasis added.)
[16] *Id* at 26 (Emphasis added.)

but may improve the Company's profile because the debt is afforded the highest possible credit rating.

Second, what rating agencies consider in their deliberations for credit evaluation and what is considered in the rate making process should not be intertwined. The considerations are separate and distinct and involve several factors that are unrelated to the ratemaking process. The Company's attempt to blend credit rating agency deliberations of debt and debt-like items in the development of the Company's credit metrics and use it as a relevant consideration in the Company's ratemaking capital structure development is selective and arbitrary and should be rejected by the Commission, as the Commission has rejected the notion in past rate cases.

Q. The Company mentions an endorsement from Staff with respect to securitization as a consideration in the ratemaking profile of the Company in an Integrated Resource Plan (IRP) case, Case No. U-21090. Does the suggested treatment in that case play a role in the recommended treatment of securitization in this case.

A. No. In that IRP case, Staff discussed its potential agreement with a limited and targeted accommodation on treatment of certain regulatory assets related to the Company's retirement of a few aging coal plants. Staff's testimony in that case was not a blanket agreement that Staff routinely considers that non-ratemaking items should be factored into the Company's general rate case capital structure. Staff stands behind its position in this case, as it has done in past rate cases, that securitization debt and other non-ratemaking items, should not be considered in the development of the Company's ratemaking capital structure.

Q. You state that common equity is costlier to ratepayers than debt, can you illustrate that point?

A. Yes. Based on the Company's embedded historical debt schedule ending December 2022, the Company's average long-term debt cost was 3.68%.[17] Thus, for every dollar of debt in the capital structure, it cost ratepayers approximately 3.7 cents. In Case No. U-18424, the Company commented on the Tax Cut and Jobs Act of 2017 and its impact on taxes. The Company provided a pre and post-tax reform table. I use the table provided by the Company in my analysis below:

Pre-Tax ROE = ROE / (1 – Tax Rate)

	Pre-Tax Reform	Post-Tax Reform
Authorized ROE	9.90%	9.90%
Tax Rate	35.0%	21.0%
Pre-Tax ROE	15.23%	12.53%

Hence, prior to tax reform, for every dollar of common equity added to the capital structure, it cost ratepayers 15.2 cents or roughly 4x the Company's cost of debt of 3.7 cents. Post tax reform, it cost ratepayers 12.5 cents for every dollar added of common equity, or over 3x the cost of debt. Currently, as shown in the Company's Schedule D-2, Consumer Energy's average embedded long-term debt

[17] Cost of LT-Debt for Historical Year ended December 31, 2022. Exhibit No. A-4 (JCA-23), Schedule D-2, page 1 of 1.

has since increased above 4.0%. With the cost of debt increasing, it is even more important to establish a proper equity to debt ratio to maintain reasonable costs to ratepayers. Staff's 50.02% equity recommendation establishes that sensible objective of equilibrium and lessens the burden on stressed ratepayers, especially in this environment of economic uncertainty and elevated inflation. Higher costs for household necessities are a real factor for many ratepayers and keeping energy costs affordable is important.

Q. Please summarize the recommended cost rates of Staff and the Company.

A. The chart below outlines the cost rates recommended by the Company and by Staff:

Chart 2.

Components	Company	Staff
Long-Term Debt	4.14%	4.14%
Preferred Stock	4.50%	4.50%
Common Equity	10.25%	9.80%
Short-Term Debt	4.79%	4.79%
Deferred FIT	0.00%	0.00%
Job Development Investment Tax Credits	Blended cost	Blended cost

Based on Chart 2, Staff disagrees with the Company's cost rate for common equity. Staff agrees with the other cost rates.

Q. Please explain the difference in Staff's common equity cost rate.

A. I provide a thorough discussion of my return on equity analysis and recommendation and the difference between Staff's and the Company's cost of equity determination below.

Part II. Return on Equity Analysis

Q. In establishing a legal basis for Staff's return on equity analysis in this rate case, what considerations did Staff take into account?

A. Traditionally, when considering a return on equity recommendation for a utility company, Staff refers to the legal guidelines set forth in the landmark cases of *Hope* and *Bluefield*. In *Bluefield Water Works and Improvement Co. vs. Public Service Commission,* 262 U.S. 679, 692-693 (1923) case, the Court stated:

> "A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures."

Furthermore, in 1944 in *Federal Power Commission vs. Hope Natural Gas Company,* 320 U.S. 591, 603 (1944) case, the Court stated:

> "From the investor or company point of view, it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investment in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital."

The U.S. Supreme Court established an "end result" doctrine which surmised that how a capital structure and rate of return was determined was not so important as

long as the end result was appropriate and reasonable for the case at hand. No one methodology provides an exact measure of a fair rate of return on equity, but some methods provide good estimates. The Discounted Cash Flow method (DCF) and the Capital Asset Pricing Model (CAPM) are the primary models most utility financial analysts use in rate cases to determine a fair and reasonable cost of equity for regulated utility companies. I employed those same methods in this rate case along with a bond yield + risk premium method and a comparison of recent electric ROE determinations from other state jurisdictions.

Q. Please explain the development of the electric utility proxy group you used to aid in the development of Consumers Electric's cost of equity recommendation.

A. I primarily looked at six criteria in selecting a proxy group of comparable utility companies used in my ROE analysis: 1) each utility had to have net plant greater than $8.0 billion but less than $35.0 billion to better compare in size and footprint to Consumers Energy's electric division; 2) each company had to derive no less than 50% or more of its revenues from regulated electric distribution service; 3) each utility had to have an investment grade rating within three notches from that of Consumers Energy from the two primary rating agencies, S&P and Moody's; 4) each company had to currently be paying dividends to shareholders; 5) each utility had to be followed by 2 or more International Business Estimating System (I/B/E/S) analysts; and 6) each company was not currently involved in a merger or major corporate acquisition. With this selection criteria, I came up with a list of 9 electric utility companies, which are outlined in Schedule D-5, page 2 of 13.

Q. Does your proxy group differ from that of the Company's proxy group?

A. Yes, slightly. The Company's proxy group consisted of 8 utilities, six of which were included my proxy group. The Company included Xcel Energy and Entergy in its proxy group that I excluded from mine. Entergy and Xcel Energy had average net plant well over $40 billion, much larger than my upper limit of $35 billion and much larger than Consumers Energy's net plant of $22.4 billion. Thus, they were unsuitable for inclusion. I included Eversource Utilities, Pinnacle West and OGE Energy Corp in my proxy group that the Company did not. The three companies included in my proxy group met my criteria and thus were suitable for inclusion. Nonetheless, Staff's proxy group is relatively similar to the Company's proxy group.

Q. Please provide a brief description of your Schedule D-5, pages 2 and 4.

A. Schedule D-5, page 2, provides some business statistics on Consumers Energy and the proxy group utilities used in this rate case. Columns (e) and (f) describe the credit ratings assigned to each utility by the credit rating agencies S&P and Moody's. The proxy group's average S&P credit rating is (A-/BBB+), which is one to two notches below Consumers Energy's credit rating of (A). Moody's average credit rating for the group is (Baa1), which is three notches below Consumers Energy's credit rating of (A1). Thus, Consumers Energy is considered a less risky company than Staff's proxy group. Columns (j) through (k) highlight the latest allowed return on equity for each electric utility or electric utility subsidiary in the proxy group, along with the allowed equity layer

according to the Regulatory Research Associates database.[18] The average authorized ROE is 9.38% for the electric proxy group and the average equity layer is 52.75%. Consumers Energy's current 9.90% authorized ROE in substantially higher than the 9.38% average proxy group ROE, however, the Company's 50.75% equity layer, is less than the current 52.75% equity layer for the proxy group.

Schedule D-5, page 4 describes the return on common equity for the proxy group and Consumers Electric from 2018 through 2022. The average return on equity over the 5-year period for the proxy group was 9.96% and for Consumers Electric was 9.64%. Over the past four years Consumers Electric has earned less its authorized ROE.

Discounted Cash Flow Model (DCF) Analysis

Q. Please provide a brief explanation of the DCF and how it is used in this analysis.

A. The DCF method has been a widely used approach for estimating equity investors return demand since the 1960s. It was introduced after the 1929 stock market crash by I. Fisher in 1930 and expanded upon by J.B. Williams in 1938 before being elaborated on by M.J. Gordon and E. Shapiro. The approach derives its basis by surmising how investors evaluate stocks for potential investment. The formula assesses that investors value securities by evaluating the present value of expected future cash flows attributed to those securities. The model suggests that expected future cash flows include dividends, the projected market value of the

[18] The Regulatory Research Associates is a subsidiary of S&P Global Market Intelligence.

security at liquidation, and the discount or capitalization rate investors apply to the future cash flows. The model evaluates the current price of a stock with the assumption that the growth of the stock will be constant throughout its life and that its growth will be less than the cost of its equity. The formula is

$P = D_1 / k – g$ where:

P = Price per share

D_1 = Dividend per Share Expected

k = Cost of Equity

g = Expected Growth Rate

Rearranging the above formula into the basic DCF formula is the mathematical equation that states that the cost of equity is equal to the security's dividend yield plus a projected future growth rate of the stock. The basic DCF formula is

$K = D_1/P + g$ where:

K= Cost of Equity

D_1 = Expected Quarterly Dividend Rate Annualized

P = Market Price of the Security

(D_1/P = Dividend Yield)

g = Expected Growth Rate

Q. Please explain the computation of your DCF estimate.

A. I outline my DCF analysis on Schedule D-5, page 5 of 13. I used May 1, 2023 through July 1, 2023 closing stock prices and averaged the results. I then annualized current quarterly paid dividends to calculate dividend yields for the proxy group. The dividend yield is modified by the semi-annual compounding method based on the formula $DCF = (D_1/P) *[1 + 0.5g] + g$. The semi-annual

compounding model is the preferred model to use when performing a DCF analysis on a group of comparison companies.[19] This is also the preferred method used by Federal Energy Regulatory Commission (FERC). The ratemaking dividend yield is highlighted in column (j).

The bottom section of the page highlights the projected growth rates in the proxy group's earnings for a 3 to 5-year period. The growth rate in earnings were gathered from widely used and well-known sources such as the Yahoo Finance, Value Line and Zacks. The average growth rate estimates ranged from a low of 4.97% to a high of 6.66%.

Q. What DCF cost of equity estimate did you arrive at?

A. I arrived at an average DCF cost of equity estimate of 9.72%. The DCF cost of equity was determined using the constant model, which adds the average dividend yield to the expected growth rate noted by lines [A] +[B].

Q. Did Consumers Energy provide a DCF cost of equity estimate?

A. Yes. Company witness Todd Wehner, as shown on Exhibit A-14, Schedule D-5, p 5 of 12, provides a DCF cost of equity estimate of 9.88% using the Company's eight-utility proxy group and I/B/E/S only analyst dividend growth rates.

Q. Do you agree with the Company's DCF analysis?

A. I agree with the Company's DCF ROE estimate but disagree with parts of the Company's analysis. I disagree with Mr. Wehner's use of only I/B/E/S 3-year consensus dividend growth rates in the DCF formula.

[19] Parcell, D.C., *The Cost of Capital – A Practitioner's Guide* 10-13 (1997 ed).

Q. Please explain your disagreement with the Company's analysis.

A. The use of the dividend per share growth metric is unwarranted. Staff uses the growth in earnings per share metric, which is the basis and foundation for the dividends a company can pay out, and is the preferred metric used by Staff and the other intervenors. The Company has used earnings growth estimates in the past as earning growth metrics are routinely tracked by analysts used by the Company, Staff and other intervenors. However, dividend growth metrics are not as readily tracked by analysts. Financial literature further expounds upon the rationale for using earnings growth estimates in the DCF analysis. Dr. Morin, in his widely referenced *New Regulatory Finance* book discusses the appropriateness of using earnings growth forecasts instead of dividend growth forecasts.[20]

Q. The Company shows a flotation cost adjustment to its estimates. Should the inclusion of flotation costs be considered in any of the cost of equity models for the Company?

A. No. The inclusion of flotation costs as a basis point increase to any of the Company's cost of equity models should be rejected by the Commission. Consumers Energy does not incur flotation costs because as a subsidiary of its parent company CMS Energy, it does not issue common stock. Since it does not issue common stock, it does not incur flotation costs. Thus, flotation cost enhancement to any of the Company's ROE estimates should be rejected.

[20] Dr. (Roger) Morin, *New Regulatory Finance*, pp 302-303.

Capital Asset Pricing Model (CAPM) Analysis

Q. Please discuss Staff's Historical CAPM method.

A. The CAPM model was derived from the study and analysis of economists Sharpe, Lintner and Treynor and in its simplified form is expressed by the equation:

$$E(R) = R_f + \beta^*[E(Rm) - R_f]$$

Where: E(R) = Expected rate of return on a risky security
R_f = Risk free rate of return
E(Rm) = Expected market rate of return
β = The systematic risk or beta of a security

In theory the CAPM model differentiates between two types of risk: diversifiable and non-diversifiable risk. The theory suggests that an investor's required return is based on the investor's exposure to risk that is systemic in the market, i.e. non-diversifiable risk. Risk that is unique to a particular security is called firm specific risk. One of CAPM's primary assumptions is that investors are fully invested in the market, i.e. invested in a portfolio of stocks, and thus eliminate or substantially reduce firm specific risk. Hence, the model infers that investors risk exposure is primarily composed of market risk and since this is risk that cannot be diversified away, it should be the basis for investor compensation. The beta coefficient measures the volatility of a security's stock price as it relates to changes or movements in the market and represents the risk factor.

Q. What equity risk premium estimate did you use in your historical CAPM analysis?

A. In evaluating the historical risk premium, I reviewed the latest edition of the Ibbotson Associates study entitled *Stocks, Bonds, Bills and Inflation: The 2023*

Classic Yearbook. The study provides historical values for market return indices used in the estimation of risk premiums and common equity costs and is updated annually. I reviewed return data for the period 1926-2022. Taking the difference between the average stock return and government bond return over that period indicated a ~~6.89%~~ 7.17% market risk premium (MRP).

Q. What risk free rate (R_f) did you use in your CAPM analysis?

A. Government securities are commonly considered to be risk-free. The risk-free rate used in my CAPM analysis is the yield associated with a long-term U.S. government Treasury bond. I reviewed IHS Markit's and Blue Chip Financials' long-term Treasury bond yield forecasts for 2023 and 2024. I used a 25% weighting factor to the 2023 estimate and 75% weight to the 2024 estimate to establish an average risk-free rate of 3.84%.

Q. What beta did you use in your analysis and its source?

A. I used the electric group's beta derived from Value Line. By definition, the market beta is 1. The Value Line beta is a forward-looking beta, which measures a 60-month average raw beta on a weekly basis and adjusts that raw beta by a convergence factor towards the market beta 1. Stocks with betas less than 1 are considered less volatile and thus less risky than stocks with betas greater than 1.

Q. What historical CAPM cost of equity estimate did you arrive at?

A. Combining the average risk-free rate of 3.84% with the calculated historical risk premiums of ~~6.89%~~ 7.17% and the electric group's beta in the CAPM formula [Rf + β*(MRP)], I computed an average CAPM cost of equity of ~~10.00%~~ 10.25% for the historical period.

Q. Did you provide a projected CAPM analysis?

A. Yes. To account for the forward-looking nature of the CAPM, primarily with respect to overall market return and equity risk premium derivation, I also conducted a projected CAPM analysis.

Q. Please explain your Projected CAPM analysis.

A. Company witness T. Wehner, provided a projected market risk premium of 6.53% derived from a forecast risk premium analysis of the S&P 500, as shown on Exhibit No. A-14, Schedule D-5, p 10 of 12. I used the Company's projected MRP in my projected CAPM analysis.

Q. Why did you use the Company's projected MRP in this case?

A. In recent rate cases, Staff has used its Value Line method for estimating a forecast MRP in its projected CAPM analysis. However, recently the Value Line data has produced risk premium values that could be considered outliers, and thus unsuitable for use as reasonable inputs into a CAPM analysis. Therefore, Staff has decided to forego the use of its Value Line analysis in this case and rely on the Company's S&P 500 MRP.

Q. Have you used the Company's projected MRP in past rate cases or expressed concern with the Company's derivation of its projected MRP?

A. In past rate cases, I may have used the Company's projected MRP, but I have not done so recently. However, I generally agreed with the Company's derivation of its projected MRP with respect to its S&P 500 analysis. In past electric and gas rate cases for the Company, such as Case Nos. U-20963 and U-21148, I noted "*To start, the Company's total beta CAPM and ECAPM analysis uses a projected*

S&P 500 index estimate to develop its market risk premiums (MRP). I have no problem with Company's MRP derivation." Thus, even though Staff disagreed with the Company's improper ECAPM and other unorthodox CAPM analyses, Staff did not dispute the Company's S&P 500 MRP computation. Therefore, Staff's use of the Company's S&P 500 MRP in this case is reasonable.

Q. What projected CAPM cost of equity estimate did you arrive at?

A. Combining the average risk-free rate of 3.84% with the projected risk premium of 6.53% provided by the Company and the electric group's beta in the CAPM formula [Rf + β*(MRP)], I computed an average projected CAPM cost of equity of 9.68%.

Q. Did the Company provide a CAPM analysis and cost of equity estimate?

A. Yes. The Company provided two analyses, a projected CAPM analysis, and a projected empirical CAPM or ECAPM analysis.

Q. Please explain how the Company derived its CAPM results.

A. The Company provided a traditional CAPM analysis that used Value Line betas, a 30-year risk-free rate and a projected market risk premium. The Company's projected CAPM analysis produced an average ROE estimate of 12.89%. The Company's ECAPM approach modifies the traditional CAPM approach with the inclusion of an "alpha" adjustment that purports to better align low beta companies with observed returns in the market.[21] The Company uses 1.5% for its alpha factor and calculated an average ECAPM ROE estimate of 13.09%.

[21] *Id.* at 48.

Q. Do you agree with the Company's Projected CAPM and ECAPM analyses?

A. No. The Company's Projected CAPM analysis is straightforward except for the use of its projected market risk premium. The Company uses a blend of short timeline and bogus MRP estimates, along with its reasonable S&P 500 estimate, to introduce an inflated and unreasonable market risk premium used in its analyses. The Company uses short timelines of (2011-2022) and (1942-1951), as well as a decade old estimate of 12%, to average a market risk premium of 10.42%. As Staff has noted in many previous cases, market data over short periods can be quite volatile and unreliable because economic anomalies and/or unforeseen market disruptions can affect economic data materially. The Company's use of this improper data produces an overinflated and wholly unreasonable CAPM ROE estimate. The Commission should give no weight to the bogus MRP used in the Company's CAPM analyses. The Company used its projected S&P 500 MRP as a single input into its Projected CAPM analysis as recently as its last gas and electric rate cases. The switch to this blended result is novel and unwarranted and should be rejected.

Q. Please explain Staff's disagreement with the Company's ECAPM approach.

A. Staff disagrees with the use of ECAPM approach in general. The ECAPM was established based on the results of the CAPM using raw betas and short-term debt metrics. The Company's ECAPM analysis uses Value Line adjusted betas and long-term debt estimates. This renders the need for the ECAPM adjustment moot. Value Line modifies its beta using the "Blume" adjustment that adjusts beta to account for the tendency to converge toward the market beta 1.00. Value Line

adjusts its beta by using the equation $\beta_{adjusted} = 0.34 + 0.66\ \beta_{raw}$. To illustrate this difference in a CAPM analysis, Staff provides a sample analysis below:

Example 1.

Value Line Beta ($\beta_{adjusted}$) =	0.70
$\beta_{adjusted} = 0.34 + 0.66\ \beta_{raw}$	
$0.66\ \beta_{raw} = \beta_{adjusted} - 0.34$	
$\beta_{raw} = 0.36 / 0.66$ =	0.54
Sample Risk-free rate (Rf) =	2.5%
Sample Market Risk Premium (MRP)	7.0%
CAPM using adjusted Value Line beta	
$K = Rf + \beta_{adjusted}$ x MRP	
$K = 2.5\% + (0.70)*(7.0\%)$ =	**7.40%**
ECAPM using raw beta where X = 0.34	
$K = Rf + X$ x MRP + $(1 - X)(\beta_{raw}$ x MRP)	
$K = 2.5\% + 0.34*(7.0\%) + (1- 0.34)*(0.54 \times 7.0\%)$	
$K = 2.5\% + 2.4\% + 2.5\%$ =	**7.40%**

From the equation above, you can see that using adjusted betas in the regular CAPM equation produces the same results as using raw betas in the ECAPM analysis. Therefore, using adjusted betas in the ECAPM analysis is tantamount to double counting the beta and improperly inflating the ROE estimate. This supports Staff's contention that Value Line betas are improper for use in the ECAPM analysis. The ALJ also agreed with this beta concern in the PFD of the Company's electric rate case in Case No. U-17735.[22] Thus, Staff's ratemaking

[22] Specifically, the ALJ said, "In addition, it seems that Mr. Rao incorrectly applied an 'adjusted beta' when performing his ECAPM analysis instead of using a 'raw beta,' thus causing him to effectively 'double-count the adjustment to the return on equity estimate.' As a result…those analyses appear to have produced results that were higher than they should have been." MPSC Case No. U-17735, PFD, p 86.

CAPM analysis, with its use of long-term risk-free rates and adjusted betas, renders the ECAPM adjustment unnecessary. The Commission has not considered or opined upon the merits of the ECAPM approach or its ROE estimate in the past and should not consider, nor provide merit, to this approach in this case as well.

Bond Yield + Risk Premium Analysis

Q. Please outline your bond yield + risk premium analysis.

A. My bond yield + risk premium approach incorporates the spread from historical electric utility realized stock returns and historical composite utility bond yields and adds this spread to current long-term utility bond yields to obtain an investor's current reasonable required rate of return. I also incorporate an historical Treasury Bond analysis to estimate an additional bond yield + risk premium ROE estimate.

Q. Please explain the derivation of your bond yield + risk premium approach.

A. I reviewed the Electric Utility Realized Market Return Average from 1932 through 2022 compared with the A-Rated Public Utility Bond Yield Average over the same period. Mergent Public Utility Manual & Bond Record provided complete market return and bond yield data until 2002. Therefore, in order to obtain utility market data for 2003 to 2022, I used data from the Dow Jones Utilities index as shown on Exhibit No. S-4, Schedule D-5, page 9 of 13.

The average electric utility market return over that period was 10.97% and the average A-rated composite utility bond yield was 6.29% over the same period. Subtracting the bond yield from the market return yielded an historical

spread of 4.68%. In addition, a Treasury Bond yield of 5.78% was derived over the same historical period to produce an historical Treasury Bond spread of 5.19% as shown on Schedule D-5, page 11 of 13.

Q. What bond data did you use in your risk premium calculation?

A. I use utility bond yield data for A-rated and BBB-rated utility bonds. I reviewed Value Line bond data from May 2023 through July 21, 2023. The average yield for A-rated bonds over the period was 5.35% and for BBB-rated bonds was 5.65%. Adding these current bond yields to the historical market risk premium of 4.68% produced a ROE estimate of 10.03%% for the A-rated bond and 10.33% for the BBB-rated bond. Additionally, the historical Treasury Bond spread of 5.19% was added to the A-rated bond yield to produce an ROE estimate of 9.03%.

Q. Did the Company provide a Risk Premium (RP) analysis and ROE estimate?

A. Yes. The Company provided an RP analysis that produced an average ROE estimate of 12.92%.

Q. Do you agree with the Company's RP analysis and ROE result?

A. No. The Company uses a short timeline (2011-2022) in its risk premium analysis that is bogus and unwarranted. This timeline produces an unreasonably high electric utility common stock spread over A-rated utility bonds of 7.40%. The Company's historical spread, from 1932-2022, is shown to be 4.55%. Thus, the Company's impractical short timeline risk premium is over 285 basis points higher than the historical risk premium. This emphasizes that market data over short periods can be quite unreliable because economic anomalies and/or

unforeseen market disruptions can affect economic data materially. The Company's use of this improper data produces an overinflated and wholly unreasonable ROE estimate. The Commission should give no weight to the Company's risk premium analysis.

Q. Did you review any other study in your return on equity analysis?

A. Yes. As noted on Schedule D-5, page 12 of 13, I reviewed the authorized rate of return decisions for electric utilities rendered by other state commissions across the country for the years 2020, 2021, 2022 and through the first half of 2023. The average authorized ROE decisions for 2020 was 9.45%, for 2021 was 9.38%, for 2022 was 9.54%, and for the 1st half of 2023 is 9.56%. That equates to a 3.5-year average of approximately 9.50%, which is well below Staff's ROE 9.80% recommendation. The 21 rate cases observed in the first half of 2023 averaged an authorized ROE of 9.56%. Thus, Staff's 9.80% ROE recommendation is well above the current average ROEs from across the country this year, suggesting that Staff's ROE recommendation is not only fair but may be viewed as favorable to the Company.

Q. Based on your ROE analysis, what is Staff's recommended cost of common equity for Consumers Energy's electric division in this rate case?

A. Below is a summary of Staff's cost of equity estimates and Staff's recommended ROE range and ratemaking ROE based on Staff's analysis of its cost of equity models, a review of other ROE authorizations across the nation and recommendations outlined by the Commission with respect to a reasonable ROE determination:

Methodology		ROE
Traditional DCF:		9.72%
Historical CAPM:	~~10.00%~~	10.25%
Projected CAPM using Company Projected RP of S&P 500:		9.68%
Historical Risk Premium – A-Rated Utilities:		10.03%
Historical Risk Premium – Baa/BBB Rated Utilities:		10.33%
Treasury Bond + Risk Premium:		9.03%
Average Electric Utility Authorized ROE Across the U.S. – 1st half 2023:		9.56%
Average Electric Utility Authorized ROE Across the U.S. – 1st Qtr 2023		9.54%
Average Electric Utility Authorized ROE Across the U.S. – 1st Qtr 2023		9.38%
Average Electric Utility Authorized ROE Across the U.S. – 1st Qtr 2023		9.45%
Recommended Cost of Equity Range:		9.30% - 10.30%
ROE Recommended for use in Overall Cost of Capital:		**9.80%**

Based on the results above, it is Staff's judgment that a cost of equity recommendation for Consumers Electric falls within the range of 9.30% - 10.30%, as highlighted in Exhibit S-4, Schedule D-5, page 13 of 13. Considering the Company's current authorized ROE of 9.90% and the Commission's guidance that ROE recommendations reflect prudence, it is Staff's judgement that its ROE recommendation for Consumers is 9.80%.

Q. Does Staff's recommended ROE align with Consumers Energy's recommendation in this rate case?

A. No. Company witness Wehner supports a cost of equity of 10.25%. The Commission should reject this recommendation for several reasons. First, the ROE request is 35 basis points higher than the Company's currently authorized 9.90% ROE, which does not coincide with the Commission's request for prudence. The request also does not coincide with the Commission's approval of

numerous risk-reducing mechanisms and programs for the Company in past rate cases. The Commission previously approved a Financial Compensation Mechanism ("FCM"), an Industrial and Residential Demand Response ("DR") Program, and a Conservation Voltage Reduction ("CVR") Program, along with surcharge mechanisms to pay for each of those programs. This all but ensured recovery of the costs associated with those programs and lowered the Company's overall business and financial risk. The Company has also requested a new Distribution Investment Recovery Mechanism, along with a surcharge mechanism in this case as well. The Company likens its new mechanism to DTE's Infrastructure Recovery Mechanism outlined in the Commission Order for DTE Electric in Case No. U-20836 in November 2022. This proposed mechanism lowers the Company's overall business and financial risk, which calls for a more reasonable and prudent equity layer and ROE along the lines of Staff's recommendation. Thus, the Company's approved risk-reduction programs, its request for new risk-reduction mechanisms, along with its practice of filing of a new rate case no more than 12 months after its prior rate case, calls for an ROE dramatically less than the Company's 10.25% request. Staff's fairer and more equitable 9.80% ROE is the most suitable recommendation that properly balances the needs of the Company along with fairness to ratepayers.

Capital Structure and ROE Summary

Q. Please summarize your capital structure and ROE recommendation

A. My recommendations are as follows:

1. Staff recommends a capital structure with a 50.02% equity layer.

2. Staff recommends an ROE of 9.80%.

3. Staff recommends a proxy group consisting of nine utilities that fit within Staff's six-metric selection criterion.

4. Staff recommends the use of three ROE models, the DCF model, the CAPM model and the Risk Premium + Bond Yield model. Staff also recommends a review of nationally authorized ROEs to help assess the Company's recommended ROE.

5. Staff recommends the Commission reject Consumers Energy's unreasonable ROE recommendation of 10.25%. Staff notes that the Company's credit rating is solid, the Company has risk-reduction programs in place, and the Company has requested new risk-reduction mechanisms in this case. This enhances the Company's moderate to low business risk, which should necessitate a more equitable ROE and equity layer for the benefit of the Company and its ratepayers.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * *

In the matter of the application of **CONSUMERS ENERGY COMPANY** for authority to increase its rates for the generation and distribution of electricity and for other relief	))))))	Case No. U-21389

EXHIBITS OF

REGULATED ENERGY DIVISION

MICHIGAN PUBLIC SERVICE COMMISSION

September 21, 2023

Case No.: U-21389
Witness: Kirk D. Megginson
Exhibit No: S-4
Schedule: D-1
Date: Aug. 29, 2023

Consumers Energy Company (Electric Division)
Overall Capital Structure for the
Test Year Ending February 28, 2025

Schedule D-1

Line	(a) Description	(b) Amount	(c) Permanent Ratio	(d) Total Capital Ratio	(e) Cost Rate	(f) Weighted Cost	(g) Convrsn Factor	(h) Pre-Tax Weighted Cost
1	Long Term Debt	$10,833,149,000	49.81%	40.95%	4.14%	1.70%	1.0000	1.70%
2	Preferred Stock	$37,315,000	0.17%	0.14%	4.50%	0.01%	1.3391	0.01%
3	Common Equity	$ 10,879,549,000	50.02%	41.13%	9.80%	4.03%	1.3391	5.40%
4	Total Permanent Capital	$21,750,013,000	100.00%					
5	Short Term Debt	$ 294,000,000		1.11%	4.79%	0.05%	1.0000	0.05%
6	Deferred FIT	$4,280,000,000		16.18%	0.00%	0.00%	1.0000	0.00%
7	Job Dev Invest Tax Credits	$130,000,000						
8	Def JDITC - Long Term Debt	$64,749,817		0.24%	4.14%	0.01%	1.0000	0.01%
9	Def JDITC - Preferred Stock	$223,032		0.00%	4.50%	0.00%	1.3391	0.00%
10	Def JDITC - Common Equity	$65,027,151		0.25%	9.80%	0.02%	1.3391	0.03%
11	Total JDITC	$130,000,000				0.03%		0.04%
12	Total Capitalization	$26,454,013,000		100.00%		5.82%		7.20%

notes
Line 1 KDM - Schedule D-2
Line 2 KDM-Schedule D-4
Line 3 KDM - Schedule D-5, page 1 of 13
Line 5 KDM - Schedule D-3, page 1
Line 6 company sponsored
Line 7 company sponsored

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Consumers Energy Company (Electric Division)
Staff Long-Term Debt Balance and Cost Rate
Test Year Ending February 28, 2025

Schedule D-2

Line	(a) Mortgage Bonds	(b) Original Issue Date	(c) Maturity Date	(d) Interest Rate	(e) Initial Amount (000)	(f) Cost Based On Net Proceeds	(g) Amount Outstanding (000)	(j) Annual Cost (000)	(k) Annual Cost (%)
1	5.800%	11-Aug-05	15-Sep-35	5.800%	175,000	5.888%	175,000	10,304	
2	6.170%	01-Sep-10	01-Sep-40	6.170%	50,000	6.243%	50,000	3,121	
3	4.970%	15-Oct-10	15-Oct-40	4.970%	50,000	5.005%	50,000	2,502	
4	3.190%	17-Dec-12	16-Dec-24	3.190%	51,500	3.244%	39,615	1,285	
5	3.390%	17-Dec-12	15-Dec-27	3.390%	35,500	3.436%	35,500	1,220	
6	4.310%	17-Dec-12	15-Dec-42	4.310%	263,000	4.342%	263,000	11,418	
7	3.950%	17-May-13	15-May-43	3.950%	425,000	4.019%	425,000	17,079	
8	3.125%	18-Aug-14	31-Aug-24	3.125%	250,000	3.230%	115,385	3,727	
9	4.350%	18-Aug-14	31-Aug-64	4.350%	250,000	4.443%	250,000	11,107	
10	4.100%	06-Nov-15	15-Nov-45	4.100%	250,000	4.167%	250,000	10,417	
11	3.250%	10-Aug-16	15-Aug-46	3.250%	450,000	3.347%	450,000	15,063	
12	3.950%	22-Feb-17	15-Jul-47	3.950%	350,000	4.035%	350,000	14,122	
13	3.18% (Private Placement)	28-Sep-17	28-Sep-32	3.180%	40,000	3.207%	40,000	1,283	
14	3.52% (Private Placement)	28-Sep-17	28-Sep-37	3.520%	125,000	3.550%	125,000	4,437	
15	3.86% (Private Placement)	28-Sep-17	28-Sep-52	3.860%	20,000	3.899%	20,000	780	
16	3.18% (Private Placement)	15-Nov-17	15-Nov-32	3.180%	60,000	3.207%	60,000	1,924	
17	3.52% (Private Placement)	15-Nov-17	15-Nov-37	3.520%	210,000	3.550%	210,000	7,454	
18	3.86% (Private Placement)	15-Nov-17	15-Nov-52	3.860%	30,000	3.899%	30,000	1,170	
19	4.050%	14-May-18	15-May-48	4.050%	550,000	4.170%	550,000	22,936	
20	3.68% (Private Placement)	01-Oct-18	01-Oct-27	3.680%	100,000	3.701%	100,000	3,701	
21	4.01% (Private Placement)	01-Oct-18	01-Oct-38	4.010%	215,000	4.041%	215,000	8,688	
22	4.28% (Private Placement)	01-Oct-18	01-Oct-57	4.280%	185,000	4.302%	185,000	7,959	
23	3.800%	13-Nov-18	15-Nov-28	3.800%	300,000	3.922%	300,000	11,765	
24	4.350%	13-Nov-18	15-Apr-49	4.350%	550,000	4.435%	550,000	24,390	
25	3.750%	28-May-19	15-Feb-50	3.750%	300,000	3.875%	300,000	11,625	
26	3.100%	03-Sep-19	15-Sep-50	3.100%	550,000	3.200%	550,000	17,600	
27	Floating Rate FMB	19-Sep-20	01-Sep-69	0.080%	75,650	3.760%	75,650	2,844	
28	3.500%	26-Mar-20	01-Aug-51	3.500%	575,000	3.550%	575,000	20,413	
29	2.500%	13-May-20	13-May-50	2.500%	525,000	2.534%	525,000	13,304	
30	Floating Rate FMB	20-May-20	20-May-70	0.080%	134,139	3.760%	134,349	5,052	
31	Floating Rate FMB	7-Oct-20	7-Oct-70	0.080%	126,497	3.760%	126,497	4,756	
32	2.650%	2-Aug-21	15-Aug-52	2.650%	300,000	2.703%	300,000	8,109	
33	3.600%	11-Aug-22	15-Aug-32	3.600%	350,000	3.670%	350,000	12,845	
34	4.200%	11-Aug-22	17-Aug-52	4.200%	450,000	4.268%	450,000	19,206	
35	4.650%	10-Jan-23	1-Mar-28	4.650%	425,000	4.868%	425,000	20,689	
36	4.625%	23-Feb-23	15-May-33	4.625%	700,000	4.730%	700,000	33,110	
37	5.24% (Private Placement)	15-May-23	15-May-26	5.240%	115,000	5.635%	115,000	6,480	
38	5.07% (Private Placement)	15-May-23	15-May-29	5.070%	50,000	5.281%	50,000	2,641	
39	5.17% (Private Placement)	15-May-23	15-May-32	5.170%	95,000	5.322%	95,000	5,056	
40	5.38% (Private Placement)	15-May-23	15-May-37	5.380%	140,000	5.491%	140,000	7,687	
41	New Debt Issue #1	1-Aug-23	1-Aug-53	4.940%	400,000	5.012%	400,000	20,048	
42	New Debt Issue #2	1-May-24	1-May-54	4.870%	500,000	4.942%	384,615	19,008	
43	New Debt Issue #3	1-Aug-24	1-Aug-54	4.870%	570,000	4.942%	306,923	15,168	
44	Total Mortgage Bonds						$ 10,841,534	$ 443,493	
45	PCRB - MSF LORB - 19	01-Oct-19	01-Oct-49	1.800%	75,000	1.865%	75,000	$ 1,399	
46	PCRB - MSF LORB - 21	07-Oct-21	01-Apr-35	0.875%	35,000	0.994%	35,000	$ 348	
47	Total PCRB Debt						$ 110,000	$ 1,747	
48	Total All-Ecompassing Long-Term Debt						$ 10,951,534	$ 445,240	4.07%
49	Amortized Call Premium on reaquired debt							3,305	
50	Unamortized Debt Expense						$ (118,385)		
51	Ratemaking Long-Term Debt						$ 10,833,149	$ 448,545	**4.14%**

New Debt Issuance Cost Rate Projection	Yr-2023	2024
IHS Markit (S&P Global Market) - 30-yr bond yield forecast (July 2023, p 44)	3.93%	3.81%
Blue Chip 30-yr bond (Company discovery response-U21389-AG-CE-0280) (June 30, 2023)	3.85%	3.83%
Average of IHS Markit and Value Line	3.89%	3.82%
Credit Spread =	1.05%	1.05%
Forecasted cost rate for New 2020 & 2021 debt issuances:	**4.94%**	**4.87%**

(2) Adopted Company's projected LIBOR rate for Floating, PRCB debt and call premium on reaquired debt & unamortized debt expense

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Consumers Energy Company (Electric Division)
Short-Term Debt Balance and Cost Rate
Test Year Ending February 28, 2025

Short-Term Debt Facilities (million)

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	Type of Facility	Agreement Date	Expiration	Facility Amount	Letters of Credit	Amount Unused	Avgerage Borrowings
1	JPMorgan Revolver	Jun-18	Jun-23	$ 1,100.0	$ 29.3	$ 1,070.7	
2	Commercial Paper Facility	Sep-14	N/A	$ 500.0			$ 242.7
3	Scotiabank Revolver	Nov-15	Nov-19	$ 250.0	$ 27.3	$ 222.7	
4	Renewables Liability			$ 51.3	$ -	-	
5	Total Average Borrowings			$ 1,901.3	$ 56.6	$ 1,293.4	**$ 242.7**

Source: [Revolver, LOC & Renewables - M.R. Bleckman Exhibit A-14, Schedule D-3, pg 2 of 2]

Short-Term Debt Cost Rate

		Applicable ST-Rate	Interest Rate Spread	Estimated Rate	Average Borrowings	Cost of Funds ($)	Cost Rate (%)
1	JPMorgan Revolver[1]	0.57%	0.88%	1.45%	$ -	$ -	
2	LOC fees[1a]			-		$ 0.50	
3	Select Fees (JP Morgan & Scotiabank)[2]			-	-	$ 1.52	
4	Commercial Paper Facility[1]	4.76%	0.00%	4.76%	$ 242.70	$ 11.55	
5	Renewables Liability[1b]	1.00%		1.00%	$ 51.30	$ 0.51	
6	Total Short-Term Debt Cost				$ 294.00	$ 14.1	**4.79%**

Description and Caluculation of Costs — Source

(1) 3-month Commercial Paper forecast for Yr. 2023 = 5.12%: Yr. 2024 = 5.05%: Yr. 2025 = 3.53% — IHS Markit: US Economic Outlook (July 2023)

avg. = 4.76% (weighted 20% Yr-2023 - 60% Yr-2024 - 20% Yr-2025)

(1a) Adopted Company cost of LOC fees — M.R. Bleckman, Exhibit A-14, Schedule D-3, page 2 of 2

(1b) Avg. short-term borrowing rate assumed for Years (2022-2029) — M.R. Bleckman - Case No. U-21197: Renewable Energy Cost Recon Regulatory Liability Balance Forecast (Exhibit No. A-2. p. 1 of 1)

(2) J.P.Morgan & Scotiabank Revolver — Cost Rate

Unused Balance fee Revolver: $1,070.0 million x 0.075% =	$0.80	M.R. Bleckman, Exhibit A-14, Schedule D-3, page 2 of 2
Unused Balance fee Scotiabank: $222.70 million x 0.075% =	$0.17	
Amortization of Upfront Revolver fees:	$0.55	M.R. Bleckman, Exhibit A-14, Schedule D-3, page 2 of 2
Total Projected Fees	$1.52	

Consumers Energy Company (Electric Division)
Preferred Stock Balance and Cost Rate
Test Year Ending February 28, 2025

(a)	(b)	(c)	(d)	(e)	(f)	(g)
		Par	Shares	Amount	Cost	Total
Line	Description	Value	Outstanding	Oustanding	Rate	Cost
1	Preferred Stock	$100.00	373,148	$37,314,800	4.5%	$1,679,166

Consumers Energy Company (Electric Division)
Common Equity Balance Forecast
Test Year Ending February 28, 2025

(a)	(b)	(c)	(d)
Month - Year	Common Stock Balance	Retained Earnings[2]	Equity Infusions[3]
Feb. 2023	*$ 10,058,716,000*		
Mar. 2023	*$ 10,154,068,000*		
Apr. 2023	*$ 10,180,916,000*		
May 2023	*$ 10,643,299,000*	$15,750,000	
Jun. 2023	$ 10,659,049,000	$15,750,000	
Jul. 2023	$ 10,674,799,000	$15,750,000	
Aug. 2023	$ 10,690,549,000	$15,750,000	
Sep. 2023	$ 10,706,299,000	$15,750,000	
Oct. 2023	$ 10,722,049,000	$15,750,000	
Nov. 2023	$ 10,737,799,000	$15,750,000	
Dec. 2023	$ 10,753,549,000	$15,750,000	
Jan. 2024	$ 10,769,299,000	$15,750,000	
Feb. 2024	$ 10,785,049,000	$15,750,000	
Mar. 2024	$ 10,800,799,000	$15,750,000	
Apr. 2024	$ 10,816,549,000	$15,750,000	
May 2024	$ 10,832,299,000	$15,750,000	
Jun. 2024	$ 10,848,049,000	$15,750,000	
Jul. 2024	$ 10,863,799,000	$15,750,000	
Aug. 2024	$ 10,879,549,000	$15,750,000	
Sep. 2024	$ 10,895,299,000	$15,750,000	
Oct. 2024	$ 10,911,049,000	$15,750,000	
Nov. 2024	$ 10,926,799,000	$15,750,000	
Dec. 2024	$ 10,942,549,000	$15,750,000	
Jan. 2025	$ 10,958,299,000	$15,750,000	
Feb. 2025	$ 10,974,049,000	$15,750,000	
13-mth average	**$ 10,879,549,000**		

Notes

1) actual common equity figures through May 2023 from Consumers Energy Audit Response U21389-SA-CE-069

2) retained earnings

2022 net income = $945 million

$945 million*(1 - 0.8) = $189.0 million: Estimating $189 million in retained earnings

$189 million / 12 months = $15.75 million added to balance per month

Estimating retained earnings from Jun. 2023 - February 28, 2025

3) equity infusion(s)	Yr -2023	Yr -2024	Yr-2025
Company Forecast	Feb - $75 million May - $400 million	Feb - $350 million Jun - $350 million	Feb - $350 million
Staff Forecast	Included	No infusion	No infusion

In adherence with the Commission's objective of a levelized debt and equity balance for Consumers Energy, and in conjunction with the Commission's authorized equity balance of 50.75% as part of a settlement agreement in the Company's last electric rate case (No. U-21224), Staff does not recognize a future equity infusion schedule in this case.

Consumers Energy Company - Electric Division
Test Year Ending February 28, 2025

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Electric Proxy Group Corporate Statistics

Line No.	(a) Company	(b) Ticker Symbol	(c) Net Plant ($Mil)	(d) % Reg Elec Revs	(e) S&P Issuer Rating	(f) Moody's Issuer Rating	(g) Dividend Payout (%)	(h) Value Line Beta	(i) I/B/E/S Analyst Coverage	(j) Last Allowed ROE[1]	(k) Authorized Equity Layer	(L) Date of ROE Order
1	Alliant Energy	LNT	16,247	86	A-	Baa2	63	0.85	10	10.00%	52.50%	11/18/2021
2	Ameren, Inc.	AEE	31,262	88	BBB+	Baa1	57	0.85	12	7.85%	50.00%	12/1/2022
3	DTE Energy Co.**	DTE	28,767	75	BBB+	Baa2	75	0.95	14	9.90%	50.00%	11/18/2022
4	Eversource Utilities	ES	33,378	84	A-	Baa1	61	0.90	16	9.80%	53.21%	11/30/2022
5	Evergy, Inc.	EVRG	22,137	100	A-	Baa2	73	0.90	6	Not Stated	Not Stated	11/21/2022
6	OGE Energy Corp	OGE	10,547	98	BBB+	Baa1	73	1.00	8	9.50%	53.37%	12/14/2022
7	Pinnacle West	PNW	16,854	100	BBB+	Baa1	78	0.90	12	8.70%	54.67%	11/2/2021
8	Portland General Electric	POR	8,465	100	BBB+	A3	69	0.90	9	9.50%	50.00%	4/25/2022
9	WEC Energy Group	WEC	29,114	54	A-	Baa1	65	0.80	13	9.80%	58.22%	12/29/2022
10	Average		15,926	87	A-/BBB+	Baa1	68	0.89	9	9.38%	52.75%	
11	Consumers Electric Division*		11,331	80	A	A1	80			9.90%	50.75%	1/19/2023

Proxy Group Selection Criteria:

- Net plant $8.0 billion - less than $35 billion
- Regulated electric revenues approximately 50% or greater
- Investment grade credit rating within three notches of CE Electric's rating
- currently paying dividends to shareholders
- followed by 2 or more I/B/E/S analysts
- not involved in a major merger or utility company acquisition

		YR-2022
FFO/Debt	CE-total	17.75%
FFO/Debt	CE-Electric	19.73%

source: (JC Aponte) Exhibit A-1, Schedule A-2, p-1-6

Source: Value Line Investment Survey (May - July 21, 2023)
S&P Global Market Intelligence (Site uses several data sources)

[1]column (j): most recent authorized electric ROE or average ROEs from S&P Global Market Intelligence

*Consumers Electric: credit rating data obtained from Exhibit A-32, Schedules D-6, page 1 of 1:
-Net plant data from Exhibit A-2, Schedule B-1, page 1 of 1 for period ending Dec. 31, 2022 (JC Aponte)

**DTE Energy's subsidiary - DTE Electric - current authorized ROE and previous authorized equity layer

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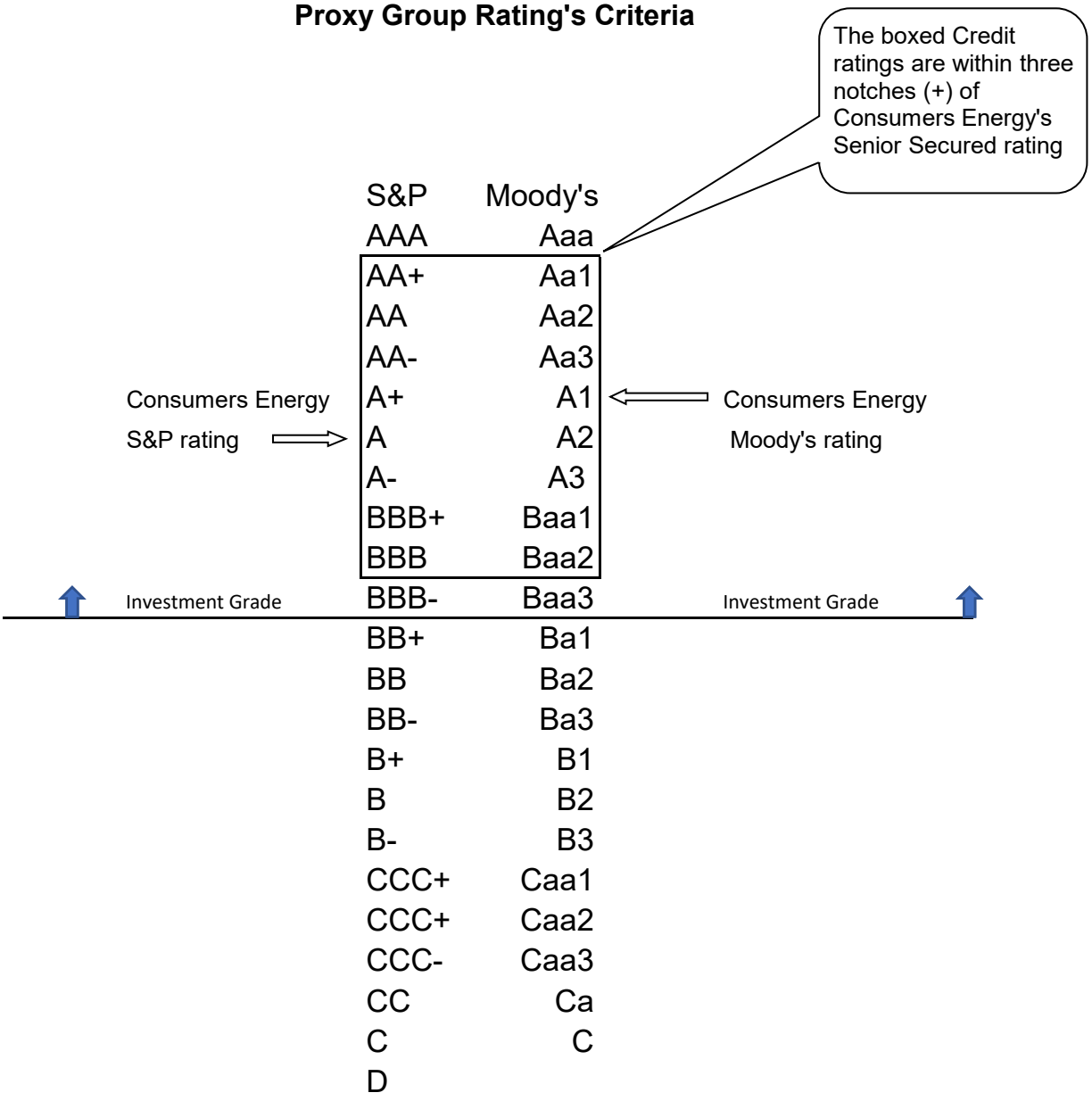
Consumers Energy Company (Electric Division)
Test Year Ending February 28, 2025

Proxy Group Rating's Criteria



Consumers Energy Company (Electric Division)
Test Year Ending February 28, 2025

Electric Proxy Group & Consumers Energy Electric
Return On Common Equity (%)

Line No.	(a) Company	(b) Ticker Symbol	(c) 2018	(d) 2019	(e) 2020	(f) 2021	(g) 2022	(h) Average
1	Alliant Energy	LNT	11.2	10.7	10.8	11.0	10.9	10.92
2	Ameren, Inc.	AEE	10.7	10.3	9.7	10.2	10.4	10.26
3	DTE Energy Co.**	DTE	10.9	10.0	11.0	9.1	13.0	10.80
4	Eversource Utilities	ES	9.0	8.8	8.8	9.1	9.2	8.98
5	Evergy, Inc.	EVRG	5.3	7.8	7.1	9.5	8.1	7.56
6	OGE Energy Corp	OGE	10.6	10.9	11.5	11.6	11.0	11.12
7	Pinnacle West	PNW	9.8	9.9	9.8	10.5	8.0	9.60
8	Portland General Electric	POR	8.5	8.3	9.5	9.0	8.8	8.82
9	WEC Energy Group	WEC	10.8	11.2	11.5	11.9	12.5	11.58
10	Average							9.96
12	Consumers Energy Electric*		11.11	9.63	9.55	9.03	8.90	9.64

Source: Value Line Investment Survey (May - July, 2023)
*Consumers Energy Electric's 2018-2022 figures derived from monthly financial reports

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Consumers Energy Company (Electric Division)
Test Year Ending February 28, 2025

Discounted Cash Flow (DCF) Analysis

Stock Price & Dividend Analysis

Line	Company	Ticker Symbol	(a)	(b)	(ċ) Closing Monthly Stock Price 1-May-23	(d) Closing Monthly Stock Price Jun. 1, 2023	(e) Closing Monthly Stock Price Jul. 1, 2023	(f) Avg. Closing Monthly Stock Price	(g) Most Recent Quarterly Dividend	(h) Current Annualized Dividend	(i) Current Annual Dividend Yield	(j) Adjusted[1] Annual Dividend Yield [A]
1	Alliant Energy	LNT			51.46	52.48	53.01	52.32	0.453	1.81	3.46%	3.58%
2	Ameren, Inc.	AEE			81.07	81.67	84.31	82.35	0.63	2.52	3.06%	3.16%
3	DTE Energy Co.**	DTE			107.6	110.02	109.31	108.98	0.953	3.81	3.50%	3.60%
4	Eversource Utilities	ES			69.23	70.92	72.64	70.93	0.675	2.70	3.81%	3.93%
5	Evergy, Inc.	EVRG			57.85	58.42	58.96	58.41	0.613	2.45	4.20%	4.31%
6	OGE Energy Corp	OGE			35.28	35.91	35.49	35.56	0.414	1.66	4.66%	4.78%
7	Pinnacle West	PNW			77.28	81.46	82.54	80.43	0.865	3.46	4.30%	4.41%
8	Portland General Electric	POR			48.73	46.83	46.36	47.31	0.475	1.90	4.02%	4.13%
9	WEC Energy Group	WEC			87.35	88.24	88.68	88.09	0.78	3.12	3.54%	3.64%

Growth Rate Forecast

Line	Company	Ticker Symbol	Analysts: *Yahoo*[2] *5-Year Growth Forecast*	Analysts: *Value Line*[3] *5-7 Year Growth Forecast*	Analysts: *Zacks*[4] *3-5 Year Growth Forecast*	Average Analyst Growth Forecast [B]	One-Step DCF Cost of Equity Estimate [A] + [B]
1	Alliant Energy	LNT	7.00%	6.50%	6.47%	6.66%	10.24%
2	Ameren, Inc.	AEE	5.90%	6.50%	6.43%	6.28%	9.43%
3	DTE Energy Co.**	DTE	7.40%	4.50%	6.00%	5.97%	9.57%
4	Eversource Utilities	ES	6.70%	6.50%	6.34%	6.51%	10.44%
5	Evergy, Inc.	EVRG	2.67%	7.50%	5.22%	5.13%	9.44%
6	OGE Energy Corp	OGE	N/A	6.50%	3.65%	5.08%	9.85%
7	Pinnacle West	PNW	6.10%	2.50%	6.32%	4.97%	9.38%
8	Portland General Electric	POR	5.90%	5.00%	5.90%	5.60%	9.73%
9	WEC Energy Group	WEC	5.50%	6.00%	5.76%	5.75%	9.40%
11	Average ROE Estimate						**9.72%**

Notes and Sources

1. Adjusted div. yield is 1/2 the annual growth rate to account for dividend distributions throughout year: equation = Div. yield*(1 + 0.5*avg. growth rate)
2. Yahoo Finance Analyst Estimates: July 19, 2023
3. Value Line: (May - July 21, 2023)
4. Zack's Estimates: July 2023

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Statistics for Historical CAPM Analysis

Line No.	Period	Large Company Total Returns Returns (%)	Long Term Gov Bonds Income Returns (%)	Market Risk Premium
1	1926	11.62	3.73	7.89
2	1927	37.49	3.41	34.08
3	1928	43.61	3.22	40.39
4	1929	(8.42)	3.47	(11.89)
5	1930	(24.90)	3.32	(28.22)
6	1931	(43.34)	3.33	(46.67)
7	1932	(8.19)	3.69	(11.88)
8	1933	53.99	3.12	50.87
9	1934	(1.44)	3.18	(4.62)
10	1935	47.67	2.81	44.86
11	1936	33.92	2.77	31.15
12	1937	(35.03)	2.66	(37.69)
13	1938	31.12	2.64	28.48
14	1939	(0.41)	2.40	(2.81)
15	1940	(9.78)	2.23	(12.01)
16	1941	(11.59)	1.94	(13.53)
17	1942	20.34	2.46	17.88
18	1943	25.90	2.44	23.46
19	1944	19.75	2.46	17.29
20	1945	36.44	2.34	34.10
21	1946	(8.07)	2.04	(10.11)
22	1947	5.71	2.13	3.58
23	1948	5.50	2.40	3.10
24	1949	18.79	2.25	16.54
25	1950	31.71	2.12	29.59
26	1951	24.02	2.38	21.64
27	1952	18.37	2.66	15.71
28	1953	(0.99)	2.84	(3.83)
29	1954	52.62	2.79	49.83
31	1955	31.56	2.75	28.81
32	1956	6.56	2.99	3.57
33	1957	(10.78)	3.44	(14.22)
34	1958	43.36	3.27	40.09
35	1959	11.96	4.01	7.95
36	1960	0.47	4.26	(3.79)
37	1961	26.89	3.83	23.06
38	1962	(8.73)	4.00	(12.73)
39	1963	22.80	3.89	18.91
40	1964	16.48	4.15	12.33
41	1965	12.45	4.19	8.26
42	1966	(10.06)	4.49	(14.55)
43	1967	23.98	4.59	19.39
44	1968	11.06	5.50	5.56
45	1969	(8.50)	5.95	(14.45)
46	1970	4.01	6.74	(2.73)
47	1971	14.31	6.32	7.99
48	1972	18.98	5.87	13.11
49	1973	(14.66)	6.51	(21.17)
50	1974	(26.47)	7.27	(33.74)
51	1975	37.20	7.99	29.21
52	1976	23.84	7.89	15.95
53	1977	(7.18)	7.14	(14.32)
54	1978	6.56	7.90	(1.34)
55	1979	18.44	8.86	9.58
56	1980	32.42	9.97	22.45
57	1981	(4.91)	11.55	(16.46)
58	1982	21.41	13.50	7.91
59	1983	22.51	10.38	12.13
60	1984	6.27	11.74	(5.47)
61	1985	32.16	11.25	20.91
62	1986	18.47	8.98	9.49
63	1987	5.23	7.92	(2.69)
64	1988	16.81	8.97	7.84
65	1989	31.49	8.81	22.68
66	1990	(3.17)	8.19	(11.36)
67	1991	30.55	8.22	22.33
68	1992	7.67	7.26	0.41
69	1993	9.99	7.17	2.82
70	1994	1.31	6.59	(5.28)
71	1995	37.43	7.60	29.83
72	1996	23.07	6.18	16.89
73	1997	33.36	6.64	26.72
74	1998	28.58	5.83	22.75
75	1999	21.04	5.57	15.47
76	2000	(9.11)	6.50	(15.61)
77	2001	(11.88)	5.53	(17.41)
78	2002	(22.10)	5.59	(27.69)
79	2003	28.70	4.80	23.90
80	2004	10.87	5.02	5.85
81	2005	4.91	4.69	0.22
82	2006	15.80	4.68	11.12
83	2007	5.49	4.86	0.63
84	2008	(37.00)	4.45	(41.45)
85	2009	26.46	3.47	22.99
86	2010	15.06	4.25	10.81
87	2011	2.11	3.81	-1.7
88	2012	16.00	2.4	13.6
89	2013	32.39	2.86	29.53
90	2014	13.69	3.12	10.57
91	2015	1.38	2.47	-1.09
92	2016	11.96	2.3	9.66
93	2017	21.83	2.67	19.16
94	2018	-4.80	2.97	-7.77
95	2019	33.07	2.58	30.49
96	2020	17.63	1.58	16.05
97	2021	28.71	1.73	26.98
98	2022	-18.11	2.61	-20.72
99	**1926 - 2022 AVE**	**12.02**	**4.85**	**7.17**

Source: Ibbotson Stocks, Bonds, Bills, & Iinflation (SBBI) 2023 Classic Yearbook, Roger Ibbotson, *et al* .

Consumers Energy Company (Electric Division)
Test Year Ending February 28, 2025

Case No.: U-21389
Witness: Kirk D. Megginson
Exhibit No: S-4
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Capital Asset Pricing Model Analysis
(Historical)

Historical Market Risk Premium (1)

	(1926 - 2022)
Average Historical Common Stock Return[(1)]	12.02%
Average Historical LT Government Bond Return	4.85%
Market Risk Premium	7.17%

	(a)	(b)	(c)	(d)	(e)	(f)
Line	Company	Ticker Symbol	Value Line Beta	Risk Free Rate[2]	Historical Market Risk Premium	Historical CAPM
1	Alliant Energy	LNT	0.85	3.84%	7.17%	9.93%
2	Ameren, Inc.	AEE	0.85	3.84%	7.17%	9.93%
3	DTE Energy Co.**	DTE	0.95	3.84%	7.17%	10.65%
4	Eversource Utilities	ES	0.90	3.84%	7.17%	10.29%
5	Evergy, Inc.	EVRG	0.90	3.84%	7.17%	10.29%
6	OGE Energy Corp	OGE	1.00	3.84%	7.17%	11.01%
7	Pinnacle West	PNW	0.90	3.84%	7.17%	10.29%
8	Portland General Electric	POR	0.90	3.84%	7.17%	10.29%
9	WEC Energy Group	WEC	0.80	3.84%	7.17%	9.58%
10	Average					**10.25%**
11	Minimum					9.58%
12	Maximum					11.01%

Notes and Sources
(1) Historical CAPM Data, Ibbotson

[(2)] Risk-free Rate = 30-Year/ Long-term Treasury Bond Yield

Source	Source Date	Yr-2023	Yr-2024
IHS Markit	17-Jul-23	3.93%	3.81%
Blue Chip	Dec 22 - Feb 2023	3.85%	3.83%
average		3.89%	3.82%
Weights		25%	75%
Ratemaking Risk-Free Rate:			**3.84%**

CAPM Equation = Risk Free + Beta*(Risk premium)

Consumers Energy Company (Electric Division)
Test Year Ending February 28, 2025

Case No.: U-21389
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Capital Asset Pricing Model Analysis
(Projected)

Line	(a) Company	(b) Ticker Symbol	(ċ) Value Line Beta	(d) Risk Free Rate[1]	(e) Company Projected Mkt Risk Premium[2]	(f) Projected CAPM
1	Alliant Energy	LNT	0.85	3.84%	6.53%	9.39%
2	Ameren, Inc.	AEE	0.85	3.84%	6.53%	9.39%
3	DTE Energy Co.**	DTE	0.95	3.84%	6.53%	10.04%
4	Eversource Utilities	ES	0.90	3.84%	6.53%	9.72%
5	Evergy, Inc.	EVRG	0.90	3.84%	6.53%	9.72%
6	OGE Energy Corp	OGE	1.00	3.84%	6.53%	10.37%
7	Pinnacle West	PNW	0.90	3.84%	6.53%	9.72%
8	Portland General Electric	POR	0.90	3.84%	6.53%	9.72%
9	WEC Energy Group	WEC	0.80	3.84%	6.53%	9.06%
10	Average					**9.68%**

Notes and Sources
(1) Projected risk-free rate: 30-yr Treasury Bond Yield - per Historical CAPM analysis
(2) Company Projected Equity Risk Premium of S&P 500: T.A. Wehner
-Exhibit No. A-14, Schedule D-5, page 10 of 12

Dow Jones Utility Average

Line	(a) Date	(b) Index value	(c) Price Return %	(d) TR Index Value	(e) TR % age
1	3-Jan-00	276.72		577.38	
2	29-Dec-00	412.16	48.95	890.95	54.31
3	31-Dec-01	293.94	(28.68)	656.90	(26.27)
4	31-Dec-02	215.18	(26.79)	503.29	(23.38)
5	31-Dec-03	266.90	24.04	651.22	29.39
6	31-Dec-04	334.95	25.50	848.16	30.24
7	30-Dec-05	405.11	20.95	1061.35	25.14
8	29-Dec-06	456.77	12.75	1237.84	16.63
9	31-Dec-07	532.69	16.62	1486.82	20.11
10	31-Dec-08	370.76	(30.40)	1072.94	(27.84)
11	31-Dec-09	398.01	7.35	1206.78	12.47
12	31-Dec-10	404.99	1.75	1284.76	6.46
13	30-Dec-11	464.88	14.79	1537.94	19.71
14	31-Dec-12	453.09	(2.54)	1563.18	1.64
15	31-Dec-13	490.57	8.27	1761.56	12.69
16	31-Dec-14	618.08	25.99	2301.45	30.65
17	31-Dec-15	577.82	(6.51)	2230.94	(3.06)
18	31-Dec-16	659.61	14.15	2636.44	18.18
19	31-Dec-17	723.37	9.67	2988.41	13.35
20	31-Dec-18	712.93	(1.44)	3047.76	1.99
21	31-Dec-19	879.17	23.32	3879.67	27.30
22	31-Dec-20	864.64	(1.65)	3939.83	1.55
23	28-Dec-21	980.78	13.43	4609.97	17.01
24	30-Dec-22	967.40	-1.36	4686.93	1.67

Source

Data downloaded from Marketwatch.com with reference to the Dow Jones Utility Average Total Return for December 31, 2022. Address is https://www.marketwatch.com/investing/index/djutr/charts

Case No.: U-21389
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Historical Electric Utility Common Stock & A-Rated Public Utility Bond Return

Period	Market Price - Weighted Average - $ Per Share (End of Dec)	Capital Gain/Loss % Growth (Loss) on Elec Stock	Dividend Yield on Elec Utility Stock (End of Dec) (Mergent)	Total Return (Capital Gain +Dividend Yield)	**ALL UTILITY** Yields on A-Rated Public Utility Bonds (end of Dec)	30-Year Treasury Bond Yields
1931	43.23		7.40	7.40	6.24	
1932	39.42	(8.81)	5.63	(3.18)	5.85	
1933	28.73	(27.12)	6.09	(21.03)	7.22	
1934	21.06	(26.70)	6.74	(19.96)	5.36	
1935	36.06	71.23	3.69	74.92	4.29	
1936	41.60	15.36	4.28	19.64	3.83	
1937	24.24	(41.73)	6.93	(34.80)	4.03	
1938	27.55	13.66	5.26	18.92	3.74	
1939	28.85	4.72	5.23	9.95	3.38	
1940	22.22	(22.98)	7.07	(15.91)	3.10	
1941	13.45	(39.47)	9.44	(30.03)	3.06	
1942	14.29	6.25	8.96	15.21	3.06	
1943	21.01	47.03	6.66	53.69	2.99	
1944	21.09	0.38	6.40	6.78	2.97	
1945	31.14	47.65	4.40	52.05	2.75	
1946	32.71	5.04	4.52	9.56	2.76	
1947	25.60	(21.74)	6.17	(15.57)	3.05	
1948	26.20	2.34	6.22	8.56	3.06	
1949	30.57	16.68	5.50	22.18	2.78	
1950	30.81	0.79	6.00	6.79	2.86	
1951	33.85	9.87	5.61	15.48	3.29	
1952	37.85	11.82	5.07	16.89	3.22	
1953	39.61	4.65	5.28	9.93	3.38	
1954	47.56	20.07	4.50	24.57	3.11	
1955	49.35	3.76	4.60	8.36	3.35	2.75
1956	48.96	(0.79)	4.84	4.05	3.91	2.99
1957	50.30	2.74	4.89	7.63	4.36	3.44
1958	66.37	31.95	3.87	35.82	4.49	3.27
1959	65.77	(0.90)	4.01	3.11	4.96	4.01
1960	76.82	16.80	3.57	20.37	4.65	4.26
1961	99.32	29.29	2.88	32.17	4.65	3.83
1962	96.49	(2.85)	3.18	0.33	4.44	4.00
1963	102.31	6.03	3.25	9.28	4.46	3.89
1964	115.54	12.93	3.19	16.12	4.54	4.15
1965	114.86	(0.59)	3.50	2.91	4.83	4.19
1966	105.99	(7.72)	3.94	(3.78)	5.67	4.49
1967	98.19	(7.36)	4.52	(2.84)	6.67	4.59
1968	104.04	5.96	4.40	10.36	6.87	5.50
1969	84.62	(18.67)	5.47	(13.20)	8.59	5.95
1970	88.59	4.69	5.34	10.03	8.48	6.74
1971	85.56	(3.42)	5.62	2.20	7.90	6.32
1972	83.61	(2.28)	5.88	3.60	7.48	5.87
1973	60.87	(27.20)	8.28	(18.92)	8.24	6.51
1974	41.17	(32.36)	11.73	(20.63)	10.27	7.27
1975	55.66	35.20	8.97	44.17	10.11	7.99
1976	66.29	19.10	7.92	27.02	8.62	7.89
1977	68.19	2.87	8.33	11.20	8.64	7.14
1978	59.75	(12.38)	10.01	(2.37)	9.70	7.90
1979	56.41	(5.59)	11.24	5.65	11.79	8.86
1980	54.42	(3.53)	12.26	8.73	14.63	9.97
1981	57.20	5.11	12.52	17.63	16.29	11.55
1982	70.26	22.83	10.87	33.70	14.43	13.50
1983	72.03	2.52	11.11	13.63	13.52	10.38
1984	80.16	11.29	10.44	21.73	13.11	11.74
1985	94.98	18.49	9.17	27.66	10.97	11.25
1986	113.66	19.67	7.89	27.56	9.12	8.98
1987	94.24	(17.09)	9.68	(7.41)	10.98	7.92
1988	100.94	7.11	8.63	15.74	10.06	8.97
1989	122.52	21.38	7.22	28.60	9.44	8.81
1990	117.77	(3.88)	7.44	3.56	9.73	8.19
1991	144.02	22.29	6.26	28.55	8.88	8.22
1992	141.06	(2.06)	6.25	4.19	8.43	7.26
1993	146.70	4.00	6.16	10.16	7.34	7.17
1994	115.50	(21.27)	7.80	(13.47)	8.76	6.59
1995	142.90	23.72	6.34	30.06	7.23	7.60
1996	136.00	(4.83)	6.67	1.84	7.59	6.18
1997	155.73	14.51	5.82	20.33	7.16	6.64
1998	181.84	16.77	4.40	21.17	6.91	5.83
1999	137.30	(24.49)	5.87	(18.62)	8.14	5.57
2000	227.09	65.40	3.84	69.24	7.84	6.50
2001	200.50	(11.71)	4.47	(7.24)	7.83	5.53
2002	169.50	(15.46)	5.21	(10.25)	6.93	5.53
			Dow Jones Utility Average (Total Return)			5.59
2003				29.39	6.27	4.80
2004				30.24	5.92	5.02
2005				25.14	5.80	4.69
2006				16.63	5.81	4.68
2007				20.11	6.16	4.86
2008				(27.84)	6.54	4.45
2009				12.47	5.79	3.47
2010				6.46	5.56	4.25
2011				19.71	4.33	3.82
2012				1.64	4.00	2.46
2013				12.69	4.81	2.88
2014				30.65	3.94	3.41
2015				(4.60)	4.39	2.47
2016				18.18	4.22	2.30
2017				13.35	3.75	2.67
2018				1.99	4.26	2.97
2019				27.30	3.48	2.58
2020				1.55	2.71	1.67
2021				17.01	3.04	1.91
2022				1.67	5.44	3.97
Electric Utility Return & Public Utility Bond Yield Average				**10.97**	**6.29**	**5.78**

Notes
1932 as beginning point because the Mergent/Moody info for market returns only goes back to 1932. (1932 - 2002)
Mergent's (formerly Moody's) Public Utility Manual 2003 Edition (dec to dec gain/loss + yrly ave yield)
2003-2022 Dow Jones Utility Average TR Index from DJAverages.com as noted on Exhibit S-4, Schedule D-5, page 9

Consumers Energy Company (Electric Division)
Test Year Ending February 28, 2025

Bond Yield + Risk Premium Model

Line No.	(a)		(b)	(c)
	Historical Utility Bond Spread			
1	Electric Utility Realized Market Return Average (1932 - 2022)(1)		10.97%	
2	Realized Utility Bond Yield Average (1932 - 2022)(1)		6.29%	
3	Historical Market Risk Premium	[1]	4.68%	
	Historical Treasury Bond Spread			
4	Electric Utility Realized Market Return Average (1932 - 2022)(1)		10.97%	
5	Realized Treasury Yield Average (1955 - 2022)(1)		5.78%	
6	Historical Treasury Bond Spread	[2]	5.19%	
			A-rated	BBB-rated
7	Value Line Long Term Utility Bond Returns (a)	[3]	5.35%	5.65%
8	Long-Term Treasury Bond Yield : page 7	[4]	3.84%	
9	**Utility Bond Approach - ROE Estimate:**	**[1] + [3]**	**10.03%**	**10.33%**
10	**Treasury Bond Approach - ROE Estimate:**	**[2] + [4]**	**9.03%**	

Notes & Sources

(a) Value Line 25/30 Year Utility Bond Yields %

Date	A-rated	BBB-rated
7/21/2023	5.52	5.78
7/7/2023	5.36	5.70
6/23/2023	5.39	5.70
6/2/2023	5.49	5.79
5/26/2023	5.26	5.55
5/12/2023	5.10	5.37
average	5.35	5.65

(1) Electric-Utility data: Schedule D-5, pg 10 of 13

Consumers Energy Company (Electric Division)
Test Year Ending February 28, 2025

Authorized Returns on Common Equity
Electric Utility Rate Case Decisions
From other State Commissions

2023	No. of Cases	ROE
Jan. thru Jun.	21	9.56

2022	No. of Cases	ROE
Jan. thru Dec	53	9.54

2021	No. of Cases	ROE
Jan. thru Dec.	55	9.38

2020	No. of Cases	ROE
Jan. thru Dec.	55	9.45

Source

Data retrieved from the Regulatory Research Associates
RRA Major Energy Rate Case Decisions - Jan. - Jun. 2023 (July 31, 2023)
Regulatory Research Associates is a group within S&P Global Market Intelligence

Consumers Energy Company (Electric Division)
Test Year Ending February 28, 2025

Case No.:	U-21389
Witness:	Kirk D. Megginson
Exhibit No:	S-4
Schedule:	D-5
page:	Revised 13 of 13
Date:	Aug. 29, 2023

STAFF
Cost of Equity Review

	ROE
Traditional DCF:	9.72%
Historical CAPM:	10.25%
Projected CAPM using Company Projected Risk Premium of S&P 500:	9.68%
Historical Risk Premium - A-Rated Utilities:	10.03%
Historical Risk Premium - Baa/BBB Rated Utilities:	10.33%
Treasury Bond + Risk Premium:	9.03%
Average Electric Utility Authorized ROE Decisions Across the U.S. - 1st Half 2023:	9.56%
Average Electric Utility Authorized ROE Decisions Across the U.S. - Full year 2022:	9.54%
Average Electric Utility Authorized ROE Decisions Across the U.S. - Full year 2019:	9.38%
Average Electric Utility Authorized ROE Decisions Across the U.S. - Full year 2018:	9.45%
Recommended Cost of Equity Range:	9.30% - 10.30%
ROE used in Overall Cost of Capital:	**9.80%**

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application for **Consumers Energy Company** for authority to increase its rates for the generation and distribution of electricity and for other relief.

Case No. **U-21389**
(e-file paperless)

/

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss
COUNTY OF EATON)

Jillian Bowden, being first duly sworn, deposes and says that on **September 21, 2023,** she served a true copy of **REVISED Testimony of Kirk D. Megginson** upon the following parties **via email only**:

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Jillian Bowden

Jillian Bowden

Subscribed and sworn to before me
this **21st** day of **September, 2023**.

Michelle L. Conarton
Digitally signed by Michelle L. Conarton
Date: 2023.09.21 16:09:59 -04'00'

Michelle L. Conarton, Notary Public
State of Michigan, County of Ingham
Acting in the County of Eaton
My Commission Expires: 6-18-2026