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May 29, 2024

VIA ELECTRONIC CASE FILING

Executive Secretary
Michigan Public Service Commission
7109 W. Saginaw Highway
Lansing, Michigan 48917

Re: Case No. U-21291 – In the matter of the application of DTE Gas Company for authority to increase its rates, amend its rate schedules and rules governing the distribution and supply of natural gas, and for miscellaneous accounting authority.

Dear Executive Secretary:

Enclosed for filing please find the Association of Businesses Advocating Tariff Equity's Rebuttal Testimony & Exhibit of Jessica York; Rebuttal Testimony of Christopher Walters; and Proof of Service for the same, in the above referenced proceeding.

Sincerely,

CLARK HILL PLC
Stephen A. Campbell
Campbell
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SAC/lkd
cc: Parties of Record

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Application of DTE GAS)
COMPANY for authority to increase its)
rates, amend its rate schedules and rules)
governing the distribution and supply of) Case No. U-21291
natural gas, and for miscellaneous)
accounting authority)

Rebuttal Testimony of Jessica A. York

1 I. Introduction

2 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A Jessica A. York. My business address is 16690 Swingley Ridge Road, Suite 140,
4 Chesterfield, MO 63017.

5 Q ARE YOU THE SAME JESSICA A. YORK WHO PREVIOUSLY FILED TESTIMONY
6 IN THIS PROCEEDING?

7 A Yes. I filed Direct Testimony on behalf of the Association of Businesses Advocating
8 Tariff Equity ("ABATE"). ABATE consists of large customers that purchase substantial
9 amounts of natural gas and/or delivery service from DTE Gas Company ("DTE"
10 or "Company"). They primarily take service under DTE's Extra Large Transportation
11 ("Rate XLT") service tariff and Extra-Extra Large Transportation ("Rate XXL") service
12 tariff.

1 **Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

2 A My Rebuttal Testimony will address the Michigan Public Service Commission (“MPSC”
3 or “Commission”) Staff’s (“Staff”) recommendations regarding Class Cost of Service
4 Study (“CCOSS”), revenue apportionment and rate design. Specifically, I will respond
5 to the Direct Testimonies of Staff witnesses Kevin S. Krause, Nicholas M. Revere, and
6 Madison S. Todd.

7 My silence with regard to any issue should not be construed as an endorsement
8 of positions taken by other parties on that issue.

9 **II. Staff’s CCOSS and Revenue Distribution**

10 **Q WHAT ARE STAFF’S RECOMMENDATIONS WITH RESPECT TO THE**
11 **COMPANY’S CCOSS?**

12 A Staff witness Mr. Revere recognizes that DTE’s alternate CCOSS reflecting increased
13 granularity with respect to the allocation of costs associated with distribution mains
14 complies with the Commission’s directive in its Order in the prior rate case.¹ However,
15 he goes on to say that for purposes of this case, it would be inappropriate to utilize the
16 additional CCOSS directly, as recognizing the difference in costs in rates should be
17 accompanied by a reexamination of the structure of rates.² Further, he argues that the
18 scope of rate redesign, as well as determining the best way to approach it, is too large
19 for the context of a 10-month rate case.³ Despite these comments, Staff has used the
20 additional CCOSS as a guide to how revenue responsibility should be shifted between

¹See the Direct Testimony of Nicholas Revere at page 6.

²*Id.* at 7.

³*Id.*

1 transportation schedules when adjustments must be made to maintain the current
2 breakeven points.⁴

3 Lastly, Mr. Revere recommends the Company continue to provide the Alternate
4 CCROSS in future rate cases, and continue to explore the best way to modify rate design
5 to directly utilize this alternate CCROSS.⁵

6 **Q HAVE YOU COMPARED STAFF'S PROPOSED REVENUE APPORTIONMENT TO**
7 **THE RESULTS OF BOTH DTE'S PREFERRED CCROSS AND ITS ALTERNATE**
8 **CCROSS, BASED ON STAFF'S ADJUSTMENTS?**

9 A Yes. A comparison of the results of the two CCROSS models with Staff's adjustments,
10 to Staff's proposed revenue apportionment is presented in Table JAY-1-RT.

TABLE JAY-1-RT											
<u>Staff's CCROSS Results vs. Proposed Revenue Apportionment (\$000)*</u>											
Line	Rate Schedule	Total Revenues at Current Rates (1)	Preferred CCROSS			Alternate CCROSS			Staff Proposed Net Increase / (Decrease)		
			Net Increase / (Decrease) to Reach Cost of Service Amount	Percent	Index	Net Increase / (Decrease) to Reach Cost of Service Amount	Percent	Index	Amount	Percent	Index
		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
1	GS-1/GS-2	\$ 355,402	\$ 11,083	3.1%	0.75	\$ 14,009	3.9%	0.94	\$ 5,329	1.5%	0.36
2	Rate A	1,125,079	47,674	4.2%	1.01	59,668	5.3%	1.27	55,787	5.0%	1.19
3	Rate 2A	35,363	(36)	-0.1%	(0.02)	337	1.0%	0.23	1,576	4.5%	1.07
4	Rate S	10,575	583	5.5%	1.32	729	6.9%	1.65	(492)	-4.6%	(1.11)
5	Rate ST	46,063	(9,169)	-19.9%	(4.76)	(10,295)	-22.3%	(5.34)	(5,205)	-11.3%	(2.70)
6	Rate LT	30,967	(934)	-3.0%	(0.72)	(7,812)	-25.2%	(6.03)	(3,486)	-11.3%	(2.69)
7	Rate XLT	29,299	11,137	38.0%	9.08	(3,646)	-12.4%	(2.97)	1,568	5.4%	1.28
8	Rate XXLT	31,324	3,671	11.7%	2.80	11,903	38.0%	9.08	9,164	29.3%	7.00
9	Exelon	13,145	6,179	47.0%	11.23	5,294	40.3%	9.62	5,849	44.5%	10.65
10	Total**	\$ 1,677,217	\$ 70,189	4.2%	1.00	\$ 70,189	4.2%	1.00	\$ 70,092	4.2%	1.00

Sources and Notes:
* Includes gas cost for bundled service customer classes.
** Difference between CCOS increase and proposed increase is due to rounding.
Exhibit S-6.0, Schedule F1
Exhibit S-6.0, Schedule F2.
Exhibit S-6.0, Schedule F3.

⁴Id.

⁵Id. at 8.

1 As shown in the table, Staff's adjusted version of DTE's Preferred CCOSS
2 shows that an increase of about \$3.7 million, or 11.7%, would be needed for the
3 XXLT class to reach cost of service. However, Staff proposes an increase of
4 \$9.2 million, or 29.3%, or 7x the system average, based on the results of the Alternate
5 CCOSS. Thus, despite Staff's proposed revenue deficiency being about 34% less than
6 DTE's,⁶ Staff's revenue spread assigns approximately \$5.5 million more (\$9.164 million
7 – \$3.671 million) to the XXLT class than indicated by the Company's Preferred CCOSS
8 model, and about \$4.5 million more (\$9.164 million - \$4.613 million) than proposed by
9 the Company in its recommended revenue apportionment.

10 **Q IS STAFF'S PROPOSED REVENUE SPREAD FOR THE TRANSPORTATION**
11 **CLASSES REASONABLE?**

12 **A** No. Staff's proposed revenue apportionment for the transportation classes should be
13 rejected, as it is based on the results of two flawed CCOSS models.

14 Both CCOSS models rely on the Peak and Average ("P&A") cost allocation
15 method for transmission and distribution capacity costs. For the reasons explained in
16 detail in my Direct Testimony, the P&A method does not accurately assign costs to
17 cost-causers based on the load characteristic that drives DTE's investment in
18 transmission and distribution main capacity. Indeed, the P&A method effectively
19 penalizes higher load factor customers for efficiently utilizing the system capacity that
20 was installed to serve them.

21 In addition, setting aside the use of the P&A method, there are other
22 deficiencies with the Alternate CCOSS that would need to be addressed before it can
23 be relied upon for revenue apportionment and rate design purposes.

⁶\$175.7 million / \$265.5 million – 1 = -33.8%.

1 Furthermore, regardless of which CCOSS is used to guide revenue
2 apportionment and rate design, refinements to the transportation rate structures are
3 warranted to ensure that customers served at different service levels
4 (e.g., transmission, high-pressure distribution, or low-pressure distribution) are
5 responsible for the costs associated with the infrastructure used to serve them. Staff's
6 proposed rates do not address this significant issue. As a result, within the XXLT class
7 for example, customers served directly from transmission mains or high-pressure
8 distribution mains are required to pay for portions of the low-pressure distribution
9 system that are not and cannot be used to provide service to them.

10 **Q PLEASE DISCUSS THE SHORTCOMINGS OF THE ALTERNATE CCOSS.**

11 A First, I would note that in theory, the more granular approach to distribution cost
12 allocation used in the Alternate CCOSS would better reflect cost-causation given the
13 differences in the infrastructure used to provide service to the handful of customers
14 within that class. However, there are significant concerns related to the Alternate
15 CCOSS and refinements to the study would be required in order to ensure that
16 distribution main costs are accurately assigned to the XXLT class. Areas of concern
17 are as follows:

- 18 • The Alternate CCOSS relies on the P&A method, which results in an inaccurate
19 measure of the cost of providing service to each class, as described in my Direct
20 Testimony.
- 21 • The Alternate CCOSS reflects a significant change in the allocation of distribution
22 mains costs relative to prior cases.
- 23 • Reliance on the Alternate CCOSS produces significant, unjust, and unreasonable
24 rate impacts for certain classes like Rate XXLT.
- 25 • Peak day demand data is not available by service level within each class. As a
26 result, the Company has assumed that the portion of each class's peak day demand
27 served from transmission and high-pressure distribution mains is equal to the

1 portion of each class's annual throughput served by each type of main.⁷ This calls
2 into question the accuracy of the allocation of costs that rely on customer class
3 contributions to peak demand.

- 4 • DTE needs to review the infrastructure used to provide service to the customers in
5 the XXLT class. It may be the case that a very limited portion of system distribution
6 mains are used to serve customers in this class, such that an allocated slice of total
7 system distribution mains is not appropriate.
- 8 • Rate design improvements are needed to ensure that the cost of distribution mains
9 assigned to Rate XXLT are paid for by the customers in the class who use the
10 distribution infrastructure.

11 **Q WERE SOME OF THESE CONCERNS REGARDING THE ALTERNATE CCOSS**
12 **RAISED BY PARTIES IN THE LAST CASE?**

13 A Yes, and despite the fact that these concerns have not been addressed in this case,
14 Staff has relied, in part, upon the Alternate CCOSS to inform revenue apportionment.
15 As described by Mr. Revere, Staff witness Mr. Todd was instructed to keep each
16 transportation schedule's share of the total transportation revenue requirement
17 between the results of the CCOSS using the current methods of allocation and Staff's
18 Alternate CCOSS to the extent possible while conducting rate design.⁸

19 **Q HAVE YOU REVISED STAFF'S CCOSS MODELS TO REFLECT YOUR**
20 **RECOMMENDED DESIGN DAY DEMAND ALLOCATION OF CAPACITY COSTS?**

21 A Yes. The results are shown in Table JAY-2-RT. In addition, my recommended revenue
22 apportionment using Staff's proposed revenue deficiency is shown in the table.

⁷DTE's response to Discovery Request ABDG-1.22a. Attached as Exhibit AB-19.

⁸See the Direct Testimony of Nicholas Revere at pages 7-8.

TABLE JAY-2-RT

Design Day Demand CCROSS vs. Proposed Revenue Apportionment (\$000)

<u>Line</u>	<u>Rate Schedule</u>	<u>Total Revenues at Current Rates</u> (1)	<u>Preferred CCROSS*</u> <u>Net Increase / (Decrease) to Reach Cost of Service</u>			<u>Alternate CCROSS*</u> <u>Net Increase / (Decrease) to Reach Cost of Service</u>			<u>ABATE Proposed Net Increase / (Decrease)</u>		
			<u>Amount</u> (2)	<u>Percent</u> (3)	<u>Index</u> (4)	<u>Amount</u> (5)	<u>Percent</u> (6)	<u>Index</u> (7)	<u>Amount</u> (8)	<u>Percent</u> (9)	<u>Index</u> (10)
1	GS-1/GS-2	\$ 355,402	\$ 18,511	5.2%	1.24	\$ 17,562	4.9%	1.18	\$ 18,511	5.2%	1.24
2	Rate A	1,125,079	71,518	6.4%	1.52	72,139	6.4%	1.53	47,633	4.2%	1.01
3	Rate 2A	35,363	466	1.3%	0.32	539	1.5%	0.36	466	1.3%	0.32
4	Rate S	10,575	936	8.9%	2.12	912	8.6%	2.06	448	4.2%	1.01
5	Rate ST	46,063	(12,579)	-27.3%	(6.53)	(13,043)	-28.3%	(6.77)	-	0.0%	-
6	Rate LT	30,967	(6,622)	-21.4%	(5.11)	(10,908)	-35.2%	(8.42)	-	0.0%	-
7	Rate XLT	29,299	241	0.8%	0.20	(7,721)	-26.4%	(6.30)	241	0.8%	0.20
8	Rate XXLT	31,324	(5,173)	-16.5%	(3.95)	7,875	25.1%	6.01	-	0.0%	-
9	Exelon	13,145	2,890	22.0%	5.25	2,835	21.6%	5.15	2,890	22.0%	5.25
10	Total	\$1,677,217	\$ 70,189	4.2%	1.00	\$ 70,189	4.2%	1.00	\$ 70,189	4.2%	1.00

Sources and Notes:
* Uses Staff's CCROSS models and replaces the P&A allocator with Design Day (i.e. Peak Day) Demand.

1 Q WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE CCROSS AND
2 REVENUE APPORTIONMENT?

3 A I continue to support the recommendations made in my Direct Testimony. That is, I
4 recommend an alternative revenue apportionment reflecting no rate change for
5 Rate XXLT, and I recommend bringing Rate XLT to cost of service based on a Design
6 Day Demand CCROSS with a below-system average increase (0.20x the system
7 average based on Staff's proposed revenue deficiency, as shown above in
8 Table JAY-2-RT).

9 Alternatively, I recommend a system average increase across all classes,
10 provided the Company commits to provide a properly conducted Average and Excess
11 Demand ("AED") CCROSS in its next rate case. As explained in my Direct Testimony,
12 my alternative revenue apportionment would reflect a compromise between the P&A

1 and Design Day Demand CCOSS until an AED CCOSS is conducted, and until such
2 time as concerns regarding the Alternate CCOSS have been addressed.

3 **III. Staff's Proposed Transportation Rate Design**

4 **Q PLEASE DISCUSS THE RATE DESIGN FOR TRANSPORTATION CUSTOMERS.**

5 A Transportation customers take service under Rate ST (Small Transportation), Rate LT
6 (Large Transportation), Rate XLT and Rate XXL. While these rates are treated as
7 separate classes in the CCOSS, they are all included in a single tariff rate schedule
8 which uses economic breakeven points based on usage to develop target rate levels.⁹

9 **Q WHAT IS THE PURPOSE OF RATE XXL?**

10 A As noted by DTE, Rate XXL is designed to retain the very largest End Use
11 Transportation ("EUT") customers that would otherwise bypass DTE's system and take
12 service directly from interstate transmission pipelines.¹⁰ Their size, energy
13 consumption, and location near interstate pipelines afford these customers the
14 opportunity and means to make an investment to bypass DTE's system.¹¹

15 **Q PLEASE DISCUSS STAFF'S PROPOSED RATE DESIGN FOR THE**
16 **TRANSPORTATION RATE SCHEDULES.**

17 A Staff's proposed rate design for the transportation customers is based on its proposed
18 revenue apportionment identified in Table JAY-1-RT, as well as the preservation of
19 existing break-even points between rate schedules.¹² In addition, Mr. Todd

⁹See the Direct Testimony of H.J. Decker at pages 10-11.

¹⁰See the Direct Testimony of H.J. Decker at page 12.

¹¹See the Direct Testimony of H.J. Decker at pages 12-13.

¹²See the Direct Testimony of Madison Todd at page 4.

1 acknowledges that Staff's rate design considers the percentage share of the revenue
2 requirement to be collected from each transportation schedule based on the Alternate
3 CCOSS.¹³

4 For Rate XXLT, Staff's CCOSS contained in Exhibit S-6 results in a cost based
5 increase (including over-allocations resulting from the P&A method) of about
6 \$3.7 million, or 11.7%. Using the Alternate CCOSS to justify assigning an additional
7 \$5.5 million to Rate XXLT for a total proposed increase of \$9.2 million, or 29.3%, is
8 unjust and unreasonable, and should be rejected.

9 In addition, for the Large Transportation ("LT") and XLT rate schedules, Staff
10 proposes to reduce the customer charges from their current levels. This is
11 inappropriate given the Company's cost of service is largely comprised of fixed costs,
12 and that the transportation rate structure does not include a demand charge for fixed
13 cost recovery.

14 Further, Staff does not propose modifications to the transportation rate structure
15 to address the intra-class allocations of distribution main costs that would be necessary
16 to properly recover the costs of distribution mains from the customers within the various
17 transportation schedules who use that part of the system.

18 **Q DOES STAFF'S PROPOSED RATE DESIGN SUPPORT THE PURPOSE OF RATE**
19 **XXLT?**

20 **A** No. For the reasons I have discussed, Staff's proposal to assign an additional
21 \$5.5 million to the XXLT class based on its Alternate CCOSS does not reflect
22 cost-causation and is inconsistent with the objective of providing competitive,

¹³*Id.* at 7.

1 cost-based rates to customers that have the potential to bypass the Company's
2 distribution system altogether.

3 **Q WHAT IS YOUR RECOMMENDATION WITH RESPECT TO RATE DESIGN?**

4 A I recommend maintaining the existing transportation rate structures, but designing rates
5 to reflect the revenue apportionment outlined in Table JAY-2-RT. Further, I recommend
6 maintaining the transportation customer charges recommended by DTE, and modifying
7 the volumetric distribution charges accordingly.

8 **Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

9 A Yes, it does

MPSC Case No: U-21291

Requester: ABATE

Question No.: ABDG-1.22a

Respondent: T. J. Krysinski

Page: 1 of 1

Question: Referring to the Company's alternate class cost of service study workpaper, "U-21291 Alternate COS for Filing.xlsx":

a. Regarding Revised Allocation Schedule 3T and Revised Allocation Schedule 3H, please explain why it is reasonable to assume that the portion of each class' peak day demand served from transmission and high-pressure distribution mains is equal to the portion of each class' annual throughput served by each type of main. Please provide all documents and analyses relied upon to support the response.

Answer: The Company uses an approximation adjustment as described in the question because the data needed to directly adjust peak day demand by class and service level is not available.

Attachment: None

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

**In the matter of the Application of DTE
GAS COMPANY for authority to increase
its rates, amend its rate schedules and
rules governing the distribution and
supply of natural gas, and for
miscellaneous accounting authority.**

Case No. U-21291

Rebuttal Testimony of
Christopher C. Walters

On behalf of
Association of Businesses Advocating Tariff Equity

May 29, 2024



STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

_____)
In the matter of the Application of DTE)
GAS COMPANY for authority to increase)
its rates, amend its rate schedules and)
rules governing the distribution and)
supply of natural gas, and for)
miscellaneous accounting authority.)
_____)

Case No. U-21291

Rebuttal Testimony of Christopher C. Walters

1 **I. Introduction**

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

3 A Christopher C. Walters. My business address is 16690 Swingley Ridge Road,
4 Suite 140, Chesterfield, MO 63017.

5 **Q ARE YOU THE SAME CHRISTOPHER C. WALTERS THAT FILED DIRECT**
6 **TESTIMONY IN THIS PROCEEDING ON MAY 7, 2024?**

7 A Yes, I am.

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

9 A I am appearing on behalf of the Association of Businesses Advocating Tariff Equity
10 (“ABATE”). ABATE consists of large usage customers that purchase substantial
11 amounts of natural gas and/or delivery service from DTE Gas Company (“DTE” or
12 “Company”).

1 **Q PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.**

2 A In my rebuttal testimony, I respond to the rate of return (“ROR”) recommendation put
3 forward by Michigan Public Service Commission Staff (“Staff”) witness Mr. Joseph
4 Ufolla. In particular, I respond to Mr. Ufolla’s recommended capital structure including
5 a common equity ratio of 51.0% and I comment on his recommended ROE of 9.80%.

6 My silence on any particular issue raised in the direct testimony of Staff or other
7 interveners should not be construed as tacit agreement.

8 **II. Response to Mr. Ufolla**

9 **Q WHAT OVERALL ROR IS STAFF PROPOSING DTE BE ALLOWED IN THIS**
10 **PROCEEDING?**

11 A Through the testimony of its witness, Mr. Ufolla, Staff recommends DTE be allowed an
12 overall ROR of 5.78%. Staff’s recommended ROR is headlined by an allowed ROE of
13 9.80% and an investor-supplied capital structure that includes a 51.0% common equity
14 ratio. Staff’s ROR is summarized in Table 1 below.

TABLE 1

Staff Overall Rate of Return

<u>Description</u>	<u>Amount</u>	<u>Permanent Weight</u>	<u>Ratemaking Weight</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Long-Term Debt	\$ 2,694,099	49.00%	38.80%	4.38%	1.70%
Preferred Stock	\$ -	0.00%	0.00%	0.00%	0.00%
Common Equity	\$ <u>2,804,062</u>	<u>51.00%</u>	40.38%	9.80%	3.96%
Total Permanent Capital	\$ 5,498,161	100.00%			
Short-Term Debt	\$ 184,380		2.66%	4.46%	0.12%
Deferred FIT	\$ <u>1,261,422</u>		<u>18.17%</u>	0.00%	<u>0.00%</u>
Total Capitalization	\$ 6,943,963		100.00%		5.78%

Staff Exhibit S-4, Schedule D-1

1 **Q DO YOU HAVE ANY CONCERNS WITH MR. UFOLLA'S ANALYSIS?**

2 A Yes. My primary concern with Mr. Ufolla's recommended ROR lies with his
3 recommendation that DTE be allowed to maintain its existing permanent common
4 equity ratio of 51.0% despite the explicit preference of this Commission that DTE's
5 common equity ratio move toward a balanced level of 50.0%. In addition, I have
6 concerns with the analyses supporting his recommended ROE of 9.80%.

7 **Q PLEASE SUMMARIZE MR. UFOLLA'S REASONING FOR MAINTAINING DTE'S**
8 **IMBALANCED COMMON EQUITY RATIO OF 51.0% IN THE INSTANT**
9 **PROCEEDING.**

10 A Generally, Mr. Ufolla defers the transition to a balanced capital structure to be
11 determined in a future rate case, despite acknowledging this Commission's stated

1 preference for DTE's common equity ratio make movement toward 50.0%. Specifically,
2 Mr. Ufolla states in his testimony that:

3 An equity ratio of 50.00%-51.00% is more appropriate. The
4 Company's currently approved equity ratio is 51%, thus Staff uses
5 51.00% for the development of exhibits in the instant case.
6 Additionally, an authorization of a 51.00% equity ratio in the instant
7 case would allow for a smoother transition to a balanced equity ratio
8 of 50% in a future case.¹

9 **Q WHAT CONCERNS DO YOU HAVE WITH MR. UFOLLA'S RECOMMENDED**
10 **EQUITY RATIO?**

11 A While Mr. Ufolla states that maintaining the Company's existing equity ratio of 51.0%
12 will allow for a "smoother transition to a balanced equity ratio of 50% in a future case,"
13 there is no transition taking place now at his recommendation of 51.0%. As I explained
14 in my direct testimony², this Commission has provided explicit directives for DTE to
15 move toward a capital structure consisting of 50% equity.³ Further, the Commission's
16 Order in U-20940 makes reference to additional instances where it explicitly stated a
17 preference for the Company to move toward a balanced capital structure in the August
18 20, 2020 Order in U-20642 as well as the September 13, 2018 Order in U-18999.⁴

19 Nevertheless, Mr. Ufolla ignores the Commission's stated preference and
20 recommends the status quo be maintained instead of transitioning to an equity ratio of
21 50.0%.

¹Direct testimony of Joseph Ufolla at 6.

²Direct testimony of Christopher Walters at 25-26.

³MPSC Case No. U-20940, Order at 77.

⁴*Id.* at 76.

1 **Q PLEASE SUMMARIZE THE ANALYTICAL METHODS MR. UFOLLA RELIES ON IN**
2 **SUPPORT OF HIS RECOMMENDED ROE.**

3 A Mr. Ufolla performed a DCF analysis and a traditional CAPM on a proxy group of eight
4 natural gas utility holding companies, and three iterations of a Risk Premium model.
5 He also observed the average authorized ROE for gas utilities in 2022 and 2023.
6 Based on these data, Mr. Ufolla opines that DTE's cost of equity is within a range of
7 9.30% to 10.30%. His recommended ROE of 9.80% is the midpoint of this range. The
8 high-end of Mr. Ufolla's recommended range appears to be based on the results of his
9 proxy group's average and median DCF results of 10.51% and 10.01%, respectively.
10 The low-end of his range appears to be supported by his Risk Premium model results,
11 which fall in the range of 8.97% to 9.34%. His CAPM results fall between his DCF and
12 Risk Premium results⁵.

13 **Q WHAT CONCERNS DO YOU HAVE WITH MR. UFOLLA'S ROE ANALYSIS?**

14 A My main concerns with Mr. Ufolla's ROE analyses are two-fold: (1) his proxy group
15 includes several inappropriate companies and (2) his failure to consider the results of
16 a multi-stage DCF analysis. Absent these flaws, the high-end of Mr. Ufolla's range
17 would be significantly lower than 10.3%.

18 **Q WHAT CONCERNS DO YOU HAVE WITH MR. UFOLLA'S PROXY GROUP?**

19 A Mr. Ufolla erroneously included Chesapeake Utilities, NiSource, and UGI Corporation.
20 Chesapeake Utilities should have been excluded for two reasons: (1) neither it, nor its
21 utility subsidiaries have credit ratings; and (2) it acquired Florida City Gas, a natural
22 gas utility in southern Florida, from NextEra Energy on November 30, 2023 for nearly

⁵Direct testimony of Joseph Ufolla at 23-24.

1 \$1 billion. This transaction represents approximately 40% of its post-acquisition market
2 capitalization and certainly affects its fundamental value. Similarly, NiSource was also
3 a party to a significant transaction involving the sale of a 20% stake in NIPSCO, a major
4 vertically integrated electric utility, for \$2.16 billion earlier this year during Mr. Ufolla's
5 study period. The divestiture represents approximately 20% of NiSource's market
6 capitalization, affecting its fundamental value. UGI Corporation should have been
7 excluded as it has significant foreign operations in Europe. Mr. Ufolla acknowledges
8 that Staff typically eliminates companies on the basis of not have credit ratings and/or
9 foreign investment, specifically Chesapeake Utilities and UGI. However, he states that
10 he included them in this case due to the limited number of proxy company candidates
11 at this time, even though the results for Chesapeake and UGI produced "nominally
12 higher outputs from the DCF and CAPM."⁶

13 **Q HAD MR. UFOLLA EXCLUDED THOSE THREE COMPANIES FROM HIS**
14 **ANALYSES, WHAT WOULD HIS PROXY GROUP'S DCF AND CAPM RESULTS**
15 **HAVE BEEN?**

16 **A** Excluding the results for these three companies would produce average and median
17 DCF results of 9.94% and 9.81%, respectively. These results are reductions of
18 57 basis points and 20 basis points from Mr. Ufolla's average and median results,
19 respectively. Similarly, his proxy group's average and median CAPM results would
20 have been 9.73% and 9.59%, respectively. The corrected CAPM average is 16 basis
21 points lower than the 9.88% average he estimated, while the median is unchanged.
22 Clearly, Mr. Ufolla's construction of a proxy group had a material impact on his model
23 results, recommended range, and ultimately his recommended ROE.

⁶Direct testimony of Joseph Ufolla at 13-14.

1 **Q WHAT OTHER CONCERNS DO YOU HAVE WITH MR. UFOLLA'S ROE**
2 **ANALYSIS?**

3 A I have concerns with Mr. Ufolla's DCF inputs and results. Specifically, Mr. Ufolla's
4 proxy group has an average growth rate of 6.06%.⁷ This level of growth cannot be
5 sustained in perpetuity as it is more than 46% higher than the expected long-term
6 growth rate of the US Economy of 4.14%. As I explained in detail in my direct
7 testimony, no company can feasibly grow faster than the economy it operates in
8 forever, which is the time period assumed in the constant growth DCF model.⁸ Had
9 Mr. Ufolla performed a multi-stage DCF model that gives consideration to GDP growth,
10 his DCF results would be significantly lower.

11 **Q DID ANY OTHER COST OF CAPITAL WITNESS PERFORM A MULTI-STAGE DCF**
12 **ANALYSIS?**

13 A Yes. Both Dr. Villadsen and I performed a multi-stage DCF analysis which gave
14 consideration to the long-term GDP growth forecast.

15 **Q WHAT RECOMMENDATION ARE YOU MAKING FOR THIS COMMISSION TO**
16 **CONSIDER?**

17 A I recommend that the Commission reject Mr. Ufolla's recommended ROR based on a
18 capital structure including a 51.0% permanent common equity ratio at an allowed ROE
19 of 9.80%. I reiterate my recommendation the Commission authorize (1) an ROE of
20 9.45%, which is the midpoint of my recommended range of 9.1% to 9.8%, and (2) a

⁷Ufolla Exhibit S-4, Schedule D-5.

⁸Walters Direct Testimony at 33, 37-38.

1 balanced capital structure including a permanent common equity ratio of 50.0% in-line
2 with its explicit preference over the past several rate cases.

3 **Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

4 **A Yes, it does.**

497309

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)
DTE GAS COMPANY for authority)
to increase its rates, amend its rate)
schedules and rules governing the)
distribution and supply of natural gas,)
and for miscellaneous accounting authority)
_____)

Case No. U-21291

ALJ Jonathan F. Thoits

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss
COUNTY OF WAYNE)

Stephen A. Campbell, being first duly sworn, deposes and says that on May 29, 2024, he did cause to be served the *Association of Businesses Advocating Tariff Equity's Rebuttal Testimony & Exhibit of Jessica York, Rebuttal Testimony of Christopher Walters*, as well as this *Proof of Service*, in the above docket, via electronic mail, to the persons identified on the attached service list.

Stephen A.
Campbell

Digitally signed by: Stephen A. Campbell
DN: CN = Stephen A. Campbell email =
SCampbell@clarkhill.com C = US O =
Clark Hill PLC
Date: 2024.05.29 14:22:48 -04'00'

Stephen A. Campbell

SERVICE LIST
MPSC Case No. U-21291

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