



September 25, 2024

Ms. Lisa Felice
Michigan Public Service Commission
7109 W. Saginaw Hwy.
Lansing, MI 48909

RE: MPSC Case No. U-21291

Dear Ms. Felice:

Attached please find the following document for e-filing:

- Exceptions to the Proposal for Decision by Michigan Environmental Council, Natural Resources Defense Council, Sierra Club, and Citizens Utility Board of Michigan; and
- Proof of Service.

Thank you for your assistance in this matter.

Sincerely,

Christopher M. Bzdok
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Cc: Parties to Case No. U-21291

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

**EXCEPTIONS TO THE PROPOSAL FOR DECISION BY
MICHIGAN ENVIRONMENTAL COUNCIL,
NATURAL RESOURCES DEFENSE COUNCIL, SIERRA CLUB,
AND CITIZENS UTILITY BOARD OF MICHIGAN**

September 25, 2024

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I. INTRODUCTION

The Michigan Environmental Council, Natural Resources Defense Council, Sierra Club, and the Citizens Utility Board of Michigan (MNSC) submit these limited exceptions to the Proposal for Decision (PFD) issued by Administrative Law Judge (ALJ) Jonathan F. Thoits on September 4, 2024. MNSC believes that overall, the PFD is detailed, thoughtful, and comprehensive. MNSC submits that only a few recommendations warrant reversal by the Commission – but those recommendations raise significant concerns impacting ratepayers.

In this rate case, DTE Gas Company (DTE Gas or DTE) claims a revised revenue deficiency of \$262.4 million for a test year of October 1, 2024 through September 30, 2025.¹ The company's claimed revenue deficiency includes rolling \$106 million of Infrastructure Recovery Mechanism (IRM) surcharges into base rates.² DTE seeks to increase revenues from residential customers by about 9%.³ The largest claimed drivers of the rate increase are capital expenditures and the resulting increase in rate base. DTE is also seeking a substantial increase in its authorized return on common equity. DTE also seeks to increase its spending on the IRM.

In addition to the customary ratemaking issues, for the first time in an MPSC case, the Commission will review evidence that the historic approach to the gas utility business is no longer sustainable.⁴ Prior assumptions that a) gas demand will stay steady or continue to increase and b) increasing the gas infrastructure footprint accrues rate benefits to customers long term, are no longer supported by facts on the ground. Indeed, MNSC and others demonstrate that gas sales are

¹ Proposal for Decision (PFD), Appendix A, line 8, column c.

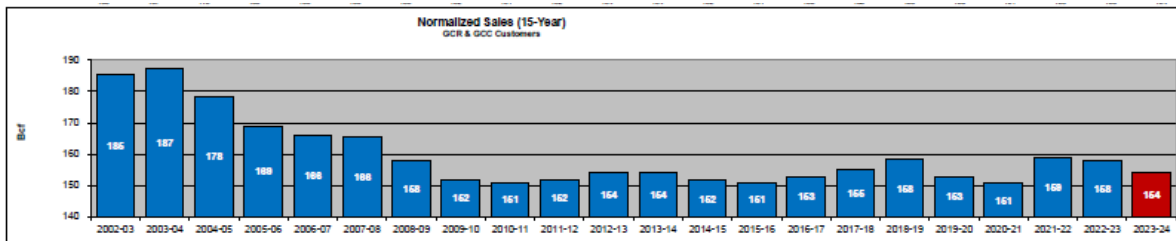
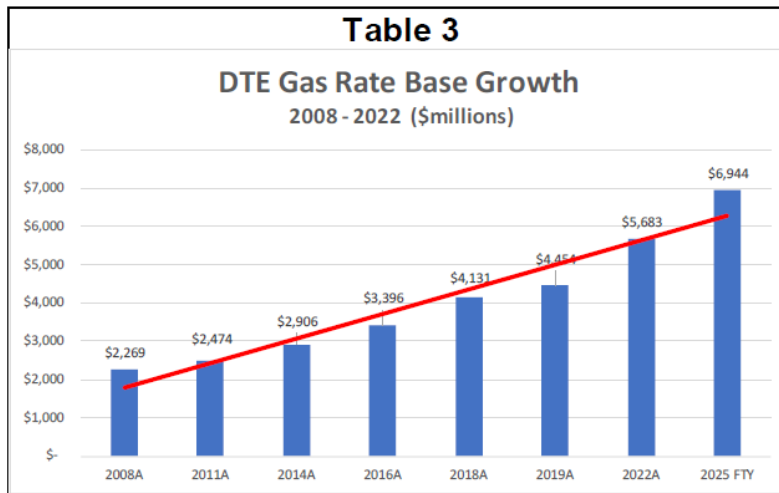
² Application, paragraph 6.

³ *Id.*, Attachment 2.

⁴ Parties submitted evidence on some of these issues in Consumers Energy's 2022 gas rate case, U-21148, but the parties resolved that case through settlement rather than adjudication by the Commission.

conclusively and consistently down because of warming weather, energy efficiency savings, and heating electrification. The pace of the decline is likely to accelerate as a result of climate policy, efficiency, continued warming, and forecasted growth of electrification. DTE’s own consulting firm, the Brattle Group, predicts that continuing the business-as-usual strategy of escalating investment in rate base in the face of declining sales “puts remaining customers at risk, a ‘death spiral’ trend pushing more customers to electrification.”⁵

Juxtaposing DTE’s rate base growth⁶ with its declining sales paints a stark picture:⁷



⁵ Ex MEC-6, The Brattle Group, *The Future of Gas Utilities Series: Transitioning Gas Utilities to a Decarbonized Future*, p. 12 (presentation p. 11).

⁶ Coppola direct, 4 Tr 1432, Table 3.

⁷ Ex A-28, Schedule R1. Here again, noting that weather-normalizing these sales with straight 15-year average masks the true decline in sales due to warming weather.

The evidence in this record shows that DTE has not begun to grapple with these looming issues. Instead, it is marching headfirst into the “death spiral,” increasing investments in and subsidizing potential stranded assets and pursuing expensive and unproven emissions reductions strategies that entrench the gas system in lieu of affordable and efficient electrification.

The PFD in this case admirably scrutinizes DTE’s approach and pushes back against a large requested increase in gas spending. The PFD case recommended a rate increase of \$98 million out of the \$262 million DTE requested. The PFD also recommended approval of a Return on Equity (ROE) of 9.4% after an examination of the ROE evidence that is remarkable in its depth, focus, and detail. The PFD also made key findings and recommendations regarding DTE’s Community Expansion Project (CEP) capital expenditures, Responsibly Sourced Gas expenses, demand response programs, and issues concerning the Future of Heat and the energy transition. However, certain other PFD recommendations are contrary to the weight of the evidence; and if adopted they will prolong DTE’s unsustainable business strategy. MNSC takes exception to those recommendations as follows:

(1) Customer Attachment Program (CAP): Several of the assumptions DTE Gas uses to calculate the required customer contributions to new market attachments are no longer reasonable or supported by substantial evidence. These unrealistic assumptions include that customer gas usage will stay the same for the next 20 years, and that 100% or more of the customers in the areas of new community expansion projects will sign up for DTE Gas service. The result of using these unrealistic assumptions to calculate the contributions required from new customers is that existing customers will continue to heavily subsidize facilities constructed to attach new customers. The situation is not reasonable, prudent, equitable, or consistent with cost causation principles of ratemaking. Given declining gas demand, MNSC requested that the

Commission require revisions in Rule C8, the tariff that governs new attachment projects, to phase down the amounts recovered from existing customers for the cost of new attachments and terminate the program by 2034. MNSC also requested that the Commission disallow a portion of the projected expenditures for two community expansion projects – Mesick-Buckley and Peach Ridge – because DTE has based new customer contributions for those projects on wholly unrealistic subscription levels. The PFD recommended that the Commission disallow the amounts for Mesick-Buckley and Peach Ridge; and found merit in much of the evidence MNSC submitted regarding DTE’s declining gas sales, the energy transition, and the future of heat. However, after making these findings and recommendations, the PFD inexplicably recommended against changing the CAP tariff. The Commission should reverse the PFD on that point and direct DTE to change the tariff in the ways recommended by MNSC.

(2) Natural Gas Balance Program: The PFD rejects proposed spending on the Responsibly Sourced Gas (“RSG”) program because of lack of industry standards surrounding verification and because RSG does not provide significant emissions reduction benefits.⁸ However, the PFD ignores testimony and the record demonstrating that the same issues are present in the Natural Gas Balance (NGB) program as well. Carbon offsets, which represent 95 percent of the product mix in the NGB,⁹ are even less verifiable than RSG and the third-party supplier that DTE Gas utilizes has been studied and shown to deliver no discernible emissions reductions from its forest projects.¹⁰ Furthermore, the record demonstrates that DTE Gas has been pursuing these

⁸ PFD, p. 375.

⁹ Ex MEC-26, Case No. U-20839, DTE Gas Company’s CleanVision Natural Gas Balance 2023 Annual Impact Report dated March 27, 2024 and DTE Gas Company’s CleanVision Natural Gas Balance Annual Report (2022) dated March 29, 2023.

¹⁰ Napoleon direct, 4 Tr 927.

unverifiable and expensive emissions reduction strategies in lieu of electrification because it is focused on strategies that utilize gas infrastructure. For the same reason that the PFD recommends disallowance of proposed RSG funding, the Commission should bar DTE Gas from collecting voluntary customer premiums to fund the NGB environmental offsets, until and unless DTE Gas proves their emissions reduction benefits.

(3) Future of Heat Proceeding: The PFD acknowledges that there is an energy transition underway in which gas demand may reduce and ratepayers face the risk of paying for stranded assets.¹¹ Yet the PFD does not grapple with DTE’s admissions that it does not consider potentially cost-effective non-pipeline alternatives and electrification emissions reduction strategies.¹² MNSC submits that the Gas Delivery Plan, as the PFD suggests, is not the place for DTE Gas to plan out the energy transition,¹³ as the Gas Delivery Plan is controlled by DTE Gas and does not have the stakeholder input and electric utility involvement necessary to force DTE Gas to consider non-pipeline alternatives, such as electrification. MNSC request that the Commission go a step further than the PFD and initiate a Future of Heat proceeding, as many state commissions have done in recent years, in order to assess the relative costs of heating and plan for a concurrent reduction in gas footprint along with reduced gas demand.

(4) Infrastructure Recovery Mechanism: The DTE Gas IRM has escalated from \$77.4 million per year in 2013 to \$347 million in 2023.¹⁴ In this case, DTE proposed to increase spending levels for the IRM yet again; and to add a new program – cathodic protection – to the IRM. MNSC

¹¹ PFD, p. 409.

¹² See Decker Cross, 2 Tr 170, 173.

¹³ See PFD, p. 409.

¹⁴ Case No. U-16999, , April 16, 2013, Order pp. 24-25; Napoleon direct, 4 Tr 901, Figure 1; Ex MEC-18, discovery response MNSCDG-5.12 and attachment (Exhibit A-12, Schedule B6.5 expanded).

and the Attorney General both requested that the Commission disallow the increased spending amounts and hold the IRM spends at recent historic levels. MNSC also requested that the Commission initiate a separate proceeding to consider changes to the IRM based on the learnings from 10 years of experience with the program. The PFD recommends against reducing the size of the IRM or convening a separate proceeding to reconsider it. However, the PFD did agree with arguments by the Attorney General and MNSC not to authorize the addition of cathodic protection to the IRM. MNSC take exception because DTE failed to support the need for the large spending increases with substantial evidence; and failed to rebut the need to review the IRM after a long history of escalating spending and the emergent questions about the sustainability of continued rapid growth of the gas rate base. The Commission should reverse the PFD on these points, limit IRM spending to 2020 levels or below, and initiate a 10-year review of the IRM in a separate proceeding.

II. EXCEPTIONS

A. Customer Attachment Program (CAP): The Commission should reverse the PFD and require changes to the CAP because several of the assumptions DTE Gas uses to calculate the required customer contributions to new market attachments are no longer reasonable or supported by substantial evidence.

1. Overview.

DTE projects to spend \$93,044,000 in the test year on new market attachments, and significant additional amounts in the bridge year.¹⁵ New market attachments are capital expenditures for the facilities necessary to add new customers or to expand service to existing

¹⁵ Ex A-12, Schedule B5.1, p.2. line 13, column (g).

customers.¹⁶ The facilities include new mains, service lines, pressure regulators, fittings, valves, and meters.¹⁷ DTE expects to spend about \$17 million more on new market attachments in 2023-2025 than the recent five-year average.¹⁸ For the period of 2023-2025, new market attachments will include two Community Expansion Projects, or CEPs: the Mesick-Buckley CEP and the Peach Ridge CEP.¹⁹

Under Rule C8 of the company's tariffs, the Customer Attachment Program or CAP, customers contribute to the cost of the new market attachments used to connect them to the system.²⁰ Their contributions are referred to in this record as Contributions in Aid of Construction, or CIAC.²¹ Customers pay their contributions as a lump sum payment or a fixed monthly surcharge levied over a period of up to ten years.²²

The required CIAC amounts are calculated using a net present value (NPV) analysis of the revenue deficiency anticipated from the attachment project.²³ DTE estimates incremental revenues for the NPV analysis using current rates and consumption levels, and a forecast of the number of customers who will attach to a project.²⁴ DTE applies the CAP model to individual customer attachments and expansions, attachment projects for small groups of customers, and CEPs.²⁵

¹⁶ Abona Direct, 3 Tr 333, 360.

¹⁷ *Id.* at 360.

¹⁸ *Id.* at 334.

¹⁹ *Id.* at 362.

²⁰ Ex MEC-32, p. 1, discovery response MNSCDG-1.1fi; Ex MEC-46, DTE Gas Current Rule C8.

²¹ Abona cross, 3 Tr 415-16.

²² Ex MEC-46, p. 4, section C8.6.

²³ Ex MEC-46, p. 4, section C8.6.; see also, Abona cross, 3 Tr 407-409.

²⁴ *Id.*, p. 5, section C8.9.

²⁵ Abona cross, 3 Tr 403-404.

The Commission approved the assumptions about customer gas usage, subscription levels, and revenues in a 1995 settlement agreement in a case brought by DTE Gas's predecessor, MichCon.²⁶ While DTE Gas has made changes to the C8 tariff from time to time, the company has never re-evaluated the assumptions.²⁷ Nor does the company track whether the actual revenues from new customer attachment projects meet the estimated revenues.²⁸ Rather, the company takes the position that it is not required to do so.²⁹

MNSC witness Asa Hopkins testified that if the surcharges are insufficient to cover the revenue deficiencies for all these projects, DTE's other customers cover the shortfalls through base rates.³⁰ When asked who bears the financial risk of lower CIAC revenues than estimated by the CAP model, DTE stated that shareholders initially cover the costs and then any differences are put into base rates in the company's next rate case.³¹

In this case, MNSC presented substantial evidence that the nearly 30-year-old assumptions DTE uses to calculate the CIAC amounts are outdated and unreasonable. Because the assumptions are unreasonable, new or expanding customers are unlikely to pay the full incremental revenue requirements of the facilities constructed to attach them to DTE's system (or expand their service) – leaving the rest of DTE's customers to cover the shortfall. Based on cost causation principles of ratemaking, MNSC recommended that the Commission should require DTE to revise Rule C8 to reflect more reasonable assumptions, shorten the time period over which CIAC revenue

²⁶ Abona cross, 3 Tr 430; Ex MEC-33, Commission Order Approving Settlement Agreement in Case No. U-10745.

²⁷ Ex MEC-32, discovery responses MNSCDG-1.1 fi-fiii.

²⁸ Ex MEC 32, p. 3, discovery response MNSCDG-1.1 fiii.

²⁹ *Id.*

³⁰ Hopkins direct, 4 Tr 857.

³¹ Abona Cross, 3 Tr 414-415.

requirements are estimated, and sunset the program on or before 2034. MNSC also recommended that the Commission disallow inclusion in rate base of a portion of the costs of the Mesick-Buckley and Peach Ridge CEPs, representing the shortfalls in CIAC revenue expected from those projects.

The ALJ found merit in MNSC's evidence regarding subscription levels and usage in various sections of the PFD. However, the PFD then declined to recommend changes to the CAP. The PFD accepted nebulous claims by DTE that changing the CAP could have negative effects on the housing market in Michigan. However, MNSC demonstrated at the hearing that those claims were unfounded. Further, those claims were not relevant even if they were well-founded, because DTE's position is contrary to cost causation principles.

This exception will discuss the unreasonable assumptions in the CAP tariff, then the PFD's recommendation and why the Commission should not adopt that recommendation.

2. The CAP tariff assumption that gas usage will remain the same for 20 years is unreasonable and contrary to the evidence.

The first unrealistic assumption is that gas usage per customer will remain the same for 20 years.³² DTE does not track whether that assumption is accurate for any of its new attachment projects.³³ All of the evidence in the record strongly suggests that it is not accurate. MNSC witness Hopkins testified that DTE's sales per customer declined 30 percent from 1997 to 2022.³⁴ DTE forecasting witness George Chapel argued that Dr. Hopkins should have cited weather-normalized sales rather than actual sales data, but Mr. Chapel acknowledged that weather-normalized sales per customer are also in decline.³⁵ On cross, Mr. Chapel agreed that normalized sales per customers

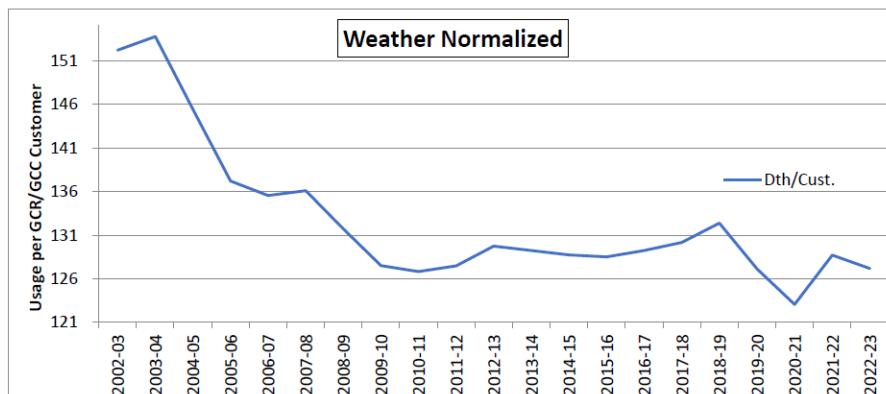
³² Hopkins direct, 4 Tr 857; Ex MEC-32, p. 2, discovery response MNSCDG-1.1fii.

³³ Ex MEC-34, discovery responses MNSCDG-1.6a-b.

³⁴ Hopkins direct, 4 Tr 858.

³⁵ Chapel rebuttal, 2 Tr 235.

have declined between 19 and 22 percent, depending on whether sales are measured in dekatherms or Mcf.³⁶ Even weather-normalized, the decline is obvious and substantial:³⁷



DTE witness Chapel also testified that normalized consumption per customer declined by 2.7% from just August 2023 to April 2024 on a dekatherm basis, and by 3.0% on an Mcf basis.³⁸ Based on those declines, he predicted that DTE’s annual sales will be down by 4 to 5 Bcf year-over-year.³⁹

Mr. Chapel further noted that customers’ response to high gas prices tends to be asymmetric, because high prices lead customers to make investments in high-efficiency equipment, insulation, and weather-sealing that are not reversed when prices go back down.⁴⁰ He anticipated that the high prices in 2022 could be producing this same effect – though to what extent he could not say.⁴¹

³⁶ Chapel cross, 2 Tr 287-88.

³⁷ Ex MEC-56, discovery response AGDG-4.60.

³⁸ Chapel rebuttal, 2 Tr 234.

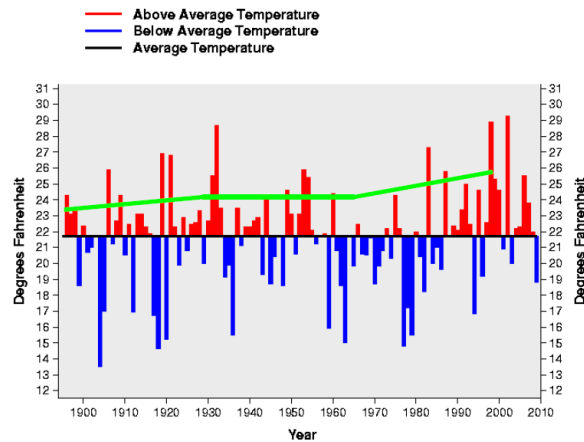
³⁹ *Id.*

⁴⁰ Chapel cross, 2 Tr 293-294; Ex MEC-57, discovery response AGDG-4.61. He noted that there is some increase in consumption per customer during good economic conditions, but not enough to offset the effect of the efficiency and building envelope improvements. Chapel cross, 2 Tr 294-295.

⁴¹ Chapel cross, 2 Tr 295.

Mr. Chapel also testified that weather is “one of key components in forecasting consumption,” such that “the greater the HDDs, the greater the heating demand.”⁴² Evidence was introduced that winter temperatures in Michigan have risen substantially from the 1970s through the 2000s, when DTE Gas predecessor MichCon analyzed them in Case No. U-15895:⁴³

Michigan Winter Temperature History



The warming winter temperatures correlate with a decrease in HDDs.⁴⁴ On cross in this case, Mr. Chapel testified that HDDs have continued to decrease since Case No. U-15895, with the exception of the polar vortex winter of 2014.⁴⁵ Beyond these actual declines, DTE forecasts that declines in usage and sales will continue in the future.⁴⁶ Yet DTE is not evaluating the impact of warming temperatures on its assumptions about future sales.⁴⁷

⁴² Chapel direct, 2 Tr 206-207; Chapel cross, 2 Tr 252.

⁴³ Ex MEC-60, Case No. U-15895 Testimony of Robert Livezey, exhibit p. 23, transcript p. 147.

⁴⁴ Chapel cross, 2 Tr 270; Ex MEC-59, Case No. U-15895 Chapel testimony, exhibit p. 11, transcript p. 834.

⁴⁵ Chapel direct, 2 Tr 274-76.

⁴⁶ Chapel direct, 2 Tr 210; Ex A-15, Schedule E2, line 18.

⁴⁷ Ex MEC-54, p. 1, discovery responses MNSCDG-2.9a-b, -6.2b, and -10.13a.

MNSC witness Asa Hopkins testified that declines in gas usage are likely to be steeper than DTE’s forecast, given recent policy changes and market trends.⁴⁸ The Inflation Reduction Act provides numerous consumer incentives for electric heat pumps and the Defense Production Act speeds up domestic production of them.⁴⁹ One study estimates that the number of homes with electric space heating will exceed the number of homes with gas space heating by 2032.⁵⁰ Census data shows that the number of Michigan households with electric space heating increased by 53 percent from 2013 to 2022, compared to a 3 percent increase in households heating with natural gas.⁵¹ DTE witness Henry Decker testified on cross that he believes “electrification in certain areas and for certain customers will increase over the next couple of decades;” and that “electrification and the increased penetration of it could reduce the overall usage of natural gas...”⁵²

The Brattle Group, a prestigious consulting firm for utilities,⁵³ notes that “[n]ationally, electric heating is outpacing gas heating adoption.”⁵⁴ Brattle predicts that “cost declines related to innovation, as well as federal, state, and municipal support policy, will increase electrification.”⁵⁵

⁴⁸ Hopkins direct, 4 Tr 849-50.

⁴⁹ *Id.* at 840-841.

⁵⁰ *Id.* at 841.

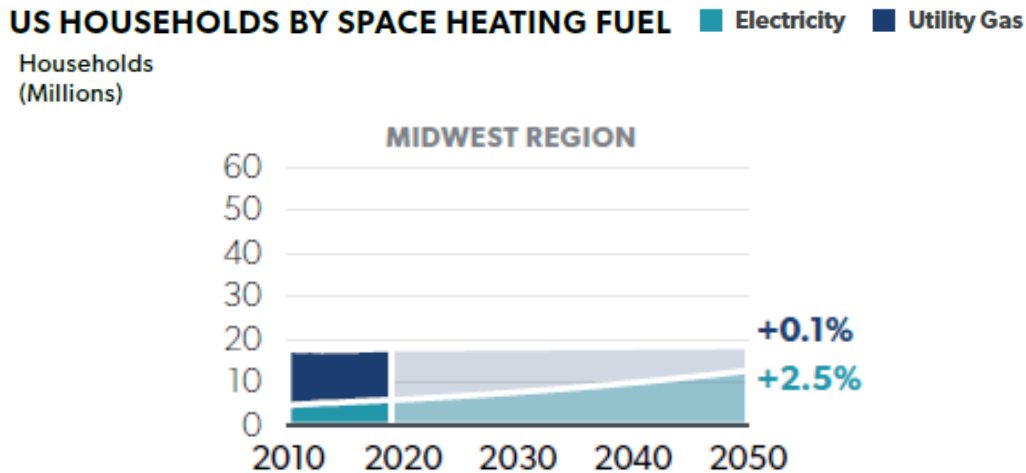
⁵¹ *Id.* at 851.

⁵² Decker cross, 2 Tr 170-171.

⁵³ DTE’s Cost of Capital witness in this case, Dr. Bente Villadsen, is a principal with the Brattle Group.

⁵⁴ Ex MEC-6, The Brattle Group, *The Future of Gas Utilities Series: Transitioning Gas Utilities to a Decarbonized Future*, p. 11.

⁵⁵ *Id.*, p. 2. Chart excerpted from charts on p. 17.



Brattle advises that “[u]tilities will need to consider how to recover their costs from a shrinking customer base, which could lead to higher rates and create a vicious cycle.”⁵⁶

In light of these trends and projections, the CAP model’s assumption that gas usage will hold steady for the next 20 years is wholly implausible. By ignoring evidence of declining usage, DTE overestimates the revenues that new attachment projects will generate and underestimates the revenue requirement that should be collected via the CAP surcharges – resulting in a revenue shortfall. DTE, and not its customers, should bear the risk of this shortfall resulting from the unreasonable assumption and the company’s inattention to whether actual revenues meet expectations.

3. DTE uses unrealistic customer participation numbers.

In addition to customer usage, another key assumption in estimating revenues for any new CAP project is how many customers will sign up. MNSC witness Hopkins testified that DTE consistently assumes that more customers will sign up for service in a CEP than actually do.⁵⁷ On

⁵⁶ *Id.*, p. 2.

⁵⁷ Hopkins direct, 4 Tr 868-69.

average, DTE overestimates customer connections by about 50 percent.⁵⁸ Overestimating customer connections, in turn, overestimates the revenues that new attachment projects will generate and underestimates the revenue requirement that should be collected via the CAP surcharges – resulting in a revenue shortfall. As with the usage assumption, DTE states that shareholders will bear the cost of the shortfall initially – but then existing customers will cover it starting with the next rate case.⁵⁹ Dr. Hopkins recommended that the Commission require DTE to use average realized subscription levels when calculating the surcharges necessary to cover the incremental costs of the CEPs.⁶⁰

On rebuttal, DTE witness Abona took issue with MNSC witness Hopkins’ list of CEPs as unrepresentative. Mr. Abona testified that “[o]nly 4 of the 15 projects have been evaluated over a 5-year duration, which is the time frame we use for our attachment rate model;” and therefore, “it is not possible to precisely ascertain the correct shortfall, subscription level, or typical attachment rate.”⁶¹ If true, that is a problem for DTE, because the company bears the burden of proving that its CAP and CEP programs are reasonable, prudent, and supported by the evidence.⁶²

Further, the record demonstrates that DTE’s assumed subscription levels are substantially unrealistic, even if the actual subscription levels cannot yet be determined with perfect precision. Discovery entered during cross exam showed that of the 96 CEPs DTE has undertaken since 2016, only six have met their target customer count.⁶³ And of the 30 CEPs undertaken during or before

⁵⁸ *Id.* at 869.

⁵⁹ Hopkins direct, 4 Tr 866.

⁶⁰ *Id.* at 878.

⁶¹ Abona rebuttal, 3 Tr 399; see also, 3 Tr 401.

⁶² *In re Michigan Gas Utilities Co*, MPSC Case No. U-7484, Opinion dated 8-30-83, Order, p. 10, and *In re Detroit Edison Co*, MPSC Case No. U-8030-R, Opinion dated 7-9-87, Order, pp. 16-17.

⁶³ Abona cross, 3 Tr 415, 443- 446.

2019 (five years or almost five years), only two have met their target customer count.⁶⁴ Thus, even evaluating projects that have been underway for five years – as DTE advocates – the record demonstrates that the company’s subscription estimates are unrealistic. That flaw overestimates revenue and underestimates the needed customer contributions from CEPs as well as smaller CAP projects with multiple customers.

4. DTE uses unrealistic IRM revenue expectations.

The third flaw in the CAP model is that it assumes IRM surcharge revenues will not decline for the next 20 years. That assumption that is contrary to DTE’s expressed plans for the IRM programs.

On cross, DTE witness Abona testified that IRM revenues from new customers in a CEP are included in the calculation of incremental revenue that is used to set the CIAC surcharges.⁶⁵ Mr. Abona confirmed that DTE assumes that IRM surcharges will remain at least at current levels for the next 20 years.⁶⁶ When asked whether the CEPs would incur a revenue shortfall if IRM surcharges decreased in the next 20 years, Mr. Abona demurred – saying he was not an expert witness on the IRM.⁶⁷

DTE’s witness on the IRM, Eric Janness, testified that the Gas Renewal Program (GRP) of the IRM “is on pace to conclude in 2035 upon elimination of all legacy mains and the moving outside of all feasibly possible inside meters.”⁶⁸ GRP spending represents over 90 percent of the

⁶⁴ *Id.*

⁶⁵ Abona cross, 3 Tr 451-452.

⁶⁶ *Id.* at 453.

⁶⁷ *Id.*

⁶⁸ Janness direct, 4 Tr 589.

IRM in the years 2025 through 2029.⁶⁹ In cross, Mr. Janness was asked what will happen to the IRM in 2035 when the program that constitutes 90 percent of its spending is completed, and he said he did not know.⁷⁰

Given that the program comprising 90 percent of IRM spending is scheduled to end in 2035, and given that neither Mr. Abona nor Mr. Janness could say what happens to the IRM after that, the record does not support the CAP model assumption that IRM surcharges will remain at least at current levels for the next 20 years. Any reduction in the IRM surcharges over that time period will be another source of shortfall – the risk of which DTE is imposing on existing customers. This is yet another unreasonable and imprudent assumption in the CAP tariff, and is contrary to cost causation principles of ratemaking.

5. MNSC's recommended changes to the CAP.

In order to address the flaws described above, MNSC advocated several changes to the CAP tariff:

First, the Commission should direct DTE to revise Rule C8.8 to use expected incremental revenues from the date of attachment until 2034. MNSC witness Hopkins explained that by shortening this period, “DTE can increase the likelihood that new customers will in fact pay off the revenue deficiency before decarbonizing, accelerate the timeframe in which new customers contribute to shared utility system costs, and reduce the likelihood of stranded costs.”⁷¹ The recommendation offers some ratepayer protection against the assumption that usage will remain level for 20 years – thereby reducing the subsidy existing customers pay for new ones. Dr. Hopkins

⁶⁹ Ex A-12, Schedule B6.5, lines 19 and 22, columns g-k. (\$321,545,000 of GRP spending in the 2025 test year, out of \$354,205,000 in total IRM spending.)

⁷⁰ Janness cross, 4 Tr 696.

⁷¹ Hopkins direct, 4 Tr 859.

explained that 10 years is a reasonable transition period equal to about half the life of a gas furnace and the average life of a gas water heater.⁷² And “gradually removing subsidies year by year” will “avoid market shocks while transitioning to a future in which existing customers are not subsidizing new customers to construct potential future stranded assets.”⁷³ Dr. Hopkins discussed examples of three jurisdictions that have recently moved to “reduce or eliminate utility contributions toward the cost of new customer additions.”⁷⁴

Second, the Commission should require DTE to use customer adoption rates for the CEPs based on historical experience when calculating new attachment surcharges.⁷⁵ Doing so is fair because it is “based on real-world experience of customer attachments...”⁷⁶

Third, the Commission should disallow inclusion in rate base of \$838,000 in new market capital expenditures Mesick-Buckley and \$912,000 for Peach Ridge. Those amounts represent the difference between project revenues estimated using DTE’s unrealistic projected subscription levels of 100% (more for Mesick-Buckley) and revenues estimated using actual subscription levels from other projects.

6. PFD findings and recommendation, and MNSC response.

In other sections of the PFD, the ALJ agreed that “our society is undergoing a fundamental energy transition in which society is shifting away from fossil fuels and towards renewable forms of energy.”⁷⁷ The PFD found that “this energy transition may result substantial reductions in the

⁷² *Id.*

⁷³ *Id.*

⁷⁴ *Id.* at 860-861.

⁷⁵ *Id.* at 878.

⁷⁶ *Id.* at 878-79.

⁷⁷ PFD, p. 409.

amount of gas delivered.”⁷⁸ And the PFD found that “DTE has not made much if any assessment or study of how any energy transition will be accomplished and at what costs.”⁷⁹ Finally, the PFD found “DTE’s projections for these new market attachments are unrealistic and thus unreasonable.”⁸⁰ Therefore, the PFD recommended disallowing inclusion in rate base of \$838,000 in new market capital expenditures Mesick-Buckley and \$912,000 for Peach Ridge.⁸¹

Despite these findings and recommendations, however, the PFD did not recommend making any changes to the CAP program. While it acknowledged the weight of the evidence MNSC submitted regarding the problems with the program, the PFD recommended against making changes at this time due to claims DTE made about impacts on the housing market:

This PFD agrees with DTE that imposing a ten-year period at this time is unreasonable. While MNSC’s concerns about the transition in the utility industry potentially leading to a future in which existing customers are subsidizing new customers to construct potential future stranded assets are well taken – see discussion, *supra* – making the fundamental change that MNSC proposes without significant evidence supporting what the future holds for the housing market (whether and how much new customer additions may fall) and how the proposed changes may affect that market (whether and how much housing affordability may be impacted) is unreasonable. Thus, this PFD recommends that the Commission reject MNSC’s proposal.⁸²

MNSC appreciates the PFD’s detailed review of the evidence regarding CAP program usage assumptions and the seriousness with which the ALJ approached these issues. That said, MNSC respectfully disagrees with the PFD finding any merit in the claims DTE made about

⁷⁸ *Id.*

⁷⁹ *Id.*

⁸⁰ PFD, pp. 101 and 418.

⁸¹ *Id.* at 101.

⁸² PFD, pp. 418-419.

impacts to the housing market from changing the CAP tariff. The evidence in the record showed that DTE's claims are unfounded and should not have been given any weight.

In his rebuttal testimony, DTE witness Abona argued that calculating CIAC surcharges based on estimated revenues over a period of 10 years rather than 20 years would "would place additional financial burden on homeowners, thereby impacting housing affordability in Michigan."⁸³ In support, he sponsored a study by the National Association of Homebuilders (NAHB).⁸⁴ Mr. Abona testified that the NAHB study "indicates that in Michigan, a \$1,000 rise in the median new home price (valued at \$375,352) would push an extra 4,521 households out of the market."⁸⁵ However, on cross, Mr. Abona agreed that:

- The NAHB report addresses only newly-constructed homes, not the purchase of existing homes.⁸⁶
- The household income needed to afford a median-priced new home in Michigan is almost \$120,000 per year.⁸⁷
- Median household income in Michigan is lower than that.⁸⁸
- Out of over 4.1 million households in Michigan, almost 3.1 million already cannot afford a median-priced new home in Michigan.⁸⁹
- Only about 25% of households in Michigan can afford a median-priced new home.⁹⁰

⁸³ Abona rebuttal, 3 Tr 397-398.

⁸⁴ Ex A-30, Schedule T2.

⁸⁵ Abona rebuttal, 3 Tr 397.

⁸⁶ Abona cross, 3 Tr 438.

⁸⁷ *Id.* at 437.

⁸⁸ *Id.*

⁸⁹ Abona cross, 3 Tr 437; Ex A-30, Schedule T2, p. 7.

⁹⁰ Abona cross, 3 Tr 438.

- The 4,521 households that would supposedly be pushed out of the market represent less than one percent of households in Michigan.⁹¹ (It is actually closer to one-tenth of one percent, and the 4,521 figure assumes that all 4.1 million households are looking for a newly-constructed house at any given time – which cannot possibly be true.)
- In the Midwest, a newly-constructed house heated by natural gas is 11% more expensive than a house without natural gas.⁹² Assuming a median newly-constructed home price is \$375,000, that is a difference of over \$40,000.

On these facts, there is no evidence that using more realistic assumptions in the CAP model would push a significant or even measurable number of Michigan households out of the market for newly-constructed houses – and certainly not the housing market in general.

Further, DTE’s claims of an impact to the market for newly-built houses are not relevant to the Commission’s consideration of these issues – even if those claims were well-founded. The Commission approves rates and tariffs and allocates costs based on cost causation.⁹³ With narrow exceptions that do not apply here, the Commission does not require one group of customers to subsidize another group in order to promote a policy goal.⁹⁴ The Commission should not require existing customers to subsidize the cost of attaching new customers based on concerns about nebulous effects on the housing market, even if those concerns were supported by substantial evidence – which they are not.

⁹¹ *Id.* at 439.

⁹² Abona cross, 3 Tr 438; Ex A-30, Schedule T1, p. 5.

⁹³ See for example, Case No. U-16794, June 7, 2012, Order, pp. 107-108 (“The Commission continues to review cost allocation in accordance with cost causation principles.”); Case No. U-20322, September 26, 2019, Order, p. 130 (allocating gas storage adjustment based on Staff’s proposal “better reflects the costs customers choose to bear.”).

⁹⁴ The obvious exception is low-income and senior rates, which are specifically authorized and required by statute.

Moreover, requiring existing customers to subsidize the purchase of newly-constructed homes via the CAP tariff would be inequitable. Vast numbers of DTE Gas customers live in rented housing or older housing (or both).⁹⁵ Requiring them to pay higher gas bills to cover the revenue shortfall from new attachments in order to promote the purchase of \$400,000 newly-constructed homes by middle- and high-income new customers is just untenable.

Finally, the PFD did not address the evidence regarding the CAP tariff's wholly unrealistic assumption that IRM surcharge revenues will remain at the same level for the next 20 years.

In sum, the PFD correctly found that the CAP program assumptions are not reasonable or supported by substantial evidence. And the PFD appropriately recommended disallowances for the two CEP projects for which DTE seeks cost recovery in this case. However, the PFD declined to recommend changes in the CAP tariff – which is severely out-of-date and causing the problem of current customers being at risk of subsidizing new customers. The PFD recommended no changes to the CAP tariff based on DTE's claims about the housing market, but those claims are not supported by substantial evidence. The Commission should reject the PFD's recommendation to leave the CAP tariff unchanged. Instead, the Commission should adopt MNSC's recommendations as outlined above:

- (1) Use 10 years of sales for estimating revenues in the CAP model, or revenues until 2034 – whichever is sooner;
- (2) Use a realistic forecast of declining gas usage per customer in estimating revenues in the CAP model;
- (3) Assume a subscription level of 50 percent for CEPs and other multi-customer CAP projects; and

⁹⁵ See for example, Direct Testimony of Sergio Cira-Reyes, 4 Tr 1164-1167.

(4) Sunset the CAP tariff in 2034.

The following proposed changes to Rule C8 reflect these recommendations:

C8.6 Fixed Monthly Surcharge

A Fixed Monthly Surcharge (Surcharge) will be calculated for each Customer Attachment Project (Project). The Surcharge will recover the Revenue Deficiency anticipated from the proposed Project. The Surcharge is calculated such that the present value of the anticipated Surcharges collected from the Project will equal the net present value Revenue Deficiency. The Surcharge will be recoverable over a predetermined time period, which the Company may determine but which shall in no event terminate later than December 31, 2034~~not to exceed ten years. The Company will be responsible for determining the appropriate Surcharge time period.~~ The Surcharge will be a fixed dollar amount for all customers within the Project and will expire on the same date for all customers within the Project, regardless of when the Surcharge was initially assessed to the customer. The Surcharge will not be subject to adjustment, reconciliation or refund. A customer who attaches to a Project after the Surcharge period has expired or a customer whose proposed attachment was beyond the scope of the original Project, will be treated as a separate Project.

[...]

C8.8 Revenue Deficiency

A discounted cost of service model (Model) will be used to calculate the net present value (NPV) Revenue Deficiency anticipated from a Project. The Model will use the expected incremental revenues and incremental costs associated with the Project for each year of a ~~twenty year~~ period which shall terminate no later than December 31, 2034. From this information an annual net revenue excess or deficiency will be calculated. The annual net revenue excess or deficiency will be discounted and summed to determine the NPV Revenue Deficiency of the Project. If the NPV Revenue Deficiency is negative, the discounted revenues exceed the discounted costs, then a NPV Revenue Deficiency of zero will be used.

C8.9 Model Assumptions

A. Incremental Revenues

The incremental revenues will be calculated based on current rates and a forecast of the timing and number of Customer attachments as well as Customers' annual

consumption levels. The forecast of the number of Customer attachments shall be based on the historic average number of Customers who attached to similar Projects, with similarity determined by DTE Gas.

B. Natural Gas Balance (NGB) Program: The Commission should bar DTE from using customer premiums to fund the NGB unless and until purported emissions reductions benefits are supported by substantial evidence.

1. Overview

The NGB is a DTE emissions reduction program that is funded by a voluntary tariff. Enrolled customers pay a surcharge on their monthly bill to fund the NGB. This surcharge funds “Renewable Natural Gas” (RNG) attributes and carbon offsets, in addition to marketing and administrative expenses associated with the NGB.⁹⁶ The NGB was launched in January 2021 as a three-year pilot and includes over 10,000 enrolled customers, each of which pays a premium for purported emissions reduction benefits.⁹⁷ 95 percent of the NGB’s alleged emissions reductions come from carbon offsets, which are purchased by DTE on behalf of participants on the American Carbon Registry.⁹⁸ DTE customers could purchase these same offsets through the same third-party supplier but pay DTE to do so on their behalf while also paying a premium for the NGB’s administrative and marketing costs.⁹⁹ DTE Witness Decker conceded that DTE could “potentially” be “effectively up-charging customers for an offset they could have purchased themselves.”¹⁰⁰

⁹⁶ Ex MEC-26, Case No. U-20839, DTE Gas Company’s CleanVision Natural Gas Balance 2023 Annual Impact Report dated March 27, 2024 and DTE Gas Company’s CleanVision Natural Gas Balance Annual Report (2022) dated March 29, 2023; Decker cross, 2 Tr 164.

⁹⁷ *Id.*

⁹⁸ *Id.*

⁹⁹ *Id.* at 164-5.

¹⁰⁰ *Id.* at 165.

The NGB is salient here because this rate case shone a light on how DTE's emissions reduction strategies do not provide actual benefits to ratepayers.

2. The PFD appropriately rejects DTE's proposed RSG spending and for the same reasons should discontinue ratepayer funding of the NGB program

MNSC, Staff, the Attorney General, CEO, and FLO all requested that DTE's proposed spending on Responsibly Sourced Gas be disallowed.¹⁰¹ MNSC witness Napoleon presented evidence that emissions reductions from RSG a) cannot be verified, b) are largely canceled out by federal methane regulations c) are not cost effective compared to other emissions strategies, and d) entrench dependence on the gas system, among other issues.¹⁰² DTE witness Decker confirmed that the upstream emissions that RSG targets represent just five percent of DTE's life cycle emissions and that RSG is not guaranteed to reduce emissions even within that small segment.¹⁰³ DTE did little to counter substantial evidence in the record that RSG does not provide valid emissions reductions and therefore provides no discernible benefits to customers. The PFD in turn appropriately rejects DTE's RSG proposal, finding it "premature," noting "lack of industry standards for all participants to adhere to as part of routine business operations" and its lack of additional to recent federal regulations on upstream methane emissions.¹⁰⁴ The PFD notes correctly that DTE does not support the assertion that "RSG will make a significant contribution to DTE's total greenhouse gas reduction goals."¹⁰⁵

¹⁰¹ PFD, p. 379.

¹⁰² Napoleon direct, 4 Tr 919.

¹⁰³ Decker cross, 2 Tr 153.

¹⁰⁴ PFD, pp. 379-80.

¹⁰⁵ *Id.* at 379.

The PFD, however, declines to address evidence presented by MNSC – and unrebutted by DTE – that demonstrates the same flaws with the NGB program that the PFD found with RSG. These issues are summarized below:

i. Lack of Industry Standards

Much like RSG, emissions reductions from carbon offsets do not withstand scrutiny. In order to provide emissions reductions, projects have to be permanent, additional, verifiable, enforceable, and real.¹⁰⁶ Simply protecting a forest does not provide actual emissions reduction benefits. A project has to be “additional” in order to provide those benefits, meaning it halted an action that would have created emissions or eliminated a carbon sink. For example, protecting a forest from deforestation could result in “additional” emissions benefits, but only if there were plans to cut down that forest, *and* only if those plans are not displaced to another location or another time.¹⁰⁷ There is no way for DTE to ensure this “additionality” and confirm emissions reductions from the NGB, as there is no independent authority or regulatory of “industry standards” that verifies emissions reductions from carbon offsets.¹⁰⁸

ii. Significant Contribution to DTE’s Total Greenhouse Gas Reduction Goals

Carbon offset projects are even harder to verify than RSG sources, as they are usually in other countries and require long-term monitoring in order realize their stated benefits.¹⁰⁹ Furthermore, witness Napoleon put forth evidence showing that carbon offsets have been widely

¹⁰⁶ Napoleon direct, 4 Tr 926.

¹⁰⁷ *Id.*

¹⁰⁸ *See* Decker cross, 2 Tr 164-5.

¹⁰⁹ Napoleon direct, 4 Tr 925-6.

discredited. One analysis of a carbon offset program found that 75 percent of offset credits likely did not represent any emissions reductions at all.¹¹⁰ And the third-party offset supplier utilized by the NGB, the American Carbon Registry, has no transparency as to the validity of its credits. Worse yet, a 2022 satellite analysis of American Carbon Registry projects found no real climate benefits from 10 years of forest carbon offsets.¹¹¹

On the other hand, DTE witnesses admit that DTE has not considered the most straightforward method reducing emissions from gas consumption: beneficial electrification.¹¹² DTE only considers emissions reduction strategies that entrench the gas system: witness Decker stated “our decarbonization technologies and pathways are for existing customers, existing infrastructure.”¹¹³ Electrification requires no verification, is a proven emissions reduction strategy, targets the bulk of emissions by eliminating emissions within the home, and relies on commercially available and efficient technology, i.e. electric heat pumps and electric heat pump water heaters.¹¹⁴

Not only does the NGB program not provide a significant contribution to DTE’s total greenhouse gas reduction goals, like the proposed RSG spending, it also crowds out legitimate emissions reductions strategies such as electrification that could provide benefits to customers.

iii. Benefits to customers

The record in this case reveals that DTE’s emission reductions spending provides no benefits to its customers. If the NGB program provides any benefits at all, it is in service of DTE’s

¹¹⁰ *Id.* at 927.

¹¹¹ *Id.*

¹¹² Decker cross, 2 Tr 173.

¹¹³ *Id.*

¹¹⁴ *See* Hopkins direct, 4 Tr 832-4.

corporate emissions reduction goal.¹¹⁵ Ratemaking principles dictate that benefits to a utility's image should be paid for by the shareholders, rather than ratepayers. MNSC urges the Commission to halt customer funding of the NGB for the same reasons the PFD rejects RSG spending: there are no proven benefits to customers. We acknowledge that DTE is not specifically seeking costs in this case for the NGB program, but once again highlight that the record in this case calls for a shift away from DTE's expensive and unproven emissions reduction strategies. Unless and until DTE demonstrates that the NGB program provides benefits to customers, through proven and cost-effective emissions reductions, ratepayer funding of the NGB, voluntary or otherwise, is neither just nor reasonable.

C. Future of Heat: The Commission should initiate a Future of Heat docket where the customers can be protected against stranded assets in the energy transition

The record in this case reveals a structural issue with DTE Gas rate cases during an energy transition. DTE Gas admits that it neither evaluates electrification as a non-pipeline alternative to expensive and long-term investments in gas infrastructure, nor as an emissions reduction strategy.¹¹⁶ DTE Gas cannot say that electrification would not save customers from the risk of stranded assets because in the context of gas rates cases, it does not evaluate the cost-effectiveness of investments that do not benefit its business. MNSC understands the structural reasons behind DTE Gas' dedication to growing the gas system. However, it is irresponsible to ask ratepayers to pay for expanding gas infrastructure when gas demand is already declining and when the Commission, PFD, DTE, and other parties acknowledge that the energy transition will lead to

¹¹⁵ See Decker cross, 2 Tr 168.

¹¹⁶ Decker cross, 2 Tr 173; *see also* Napoleon direct, 4 Tr 928; Ex. MEC-26.

lower gas sales and accelerated electrification.¹¹⁷ Indeed, the evidence discussed earlier in these exceptions demonstrates that these changes have already begun.

For that reason, MNSC recommended that the Commission initiate a “Future of Heat” docket, as has been done in many states around the country, in order to ensure that gas *and* electric customers are ensured least-cost heating through the energy transition. The record in this case reveals the need for such a docket. DTE Gas customers can only benefit from evaluation of non-pipeline alternatives and investments in electrification where cheaper.¹¹⁸ And customers who remain on the gas system while gas demand decreases can only be protected from having to pay increasing rates for stranded assets if there is a proceeding, such as a Future of Heat docket, where electric and gas system heating costs can be systematically evaluated.¹¹⁹

MNSC applauds the PFD for acknowledging that “our society is undergoing a fundamental energy transition in which society is shifting away from fossil fuels and towards renewable forms of energy” and that “this energy transition may result in substantial reductions in the amount of gas delivered.”¹²⁰ The PFD also appropriately observes that “DTE has not made much if any assessment or study of how any energy transition will be accomplished and at what costs.”¹²¹ However, the PFD is misguided in recommending that the Commission direct DTE Gas to update its Gas Delivery Plan to assess the energy transition.¹²² DTE Gas has demonstrated that it is not an honest arbiter of gas demand and is unwilling to consider non-pipeline alternatives. Any

¹¹⁷ DTE witness Henry Decker testified on cross that he believes “electrification in certain areas and for certain customers will increase over the next couple of decades;” and that “electrification and the increased penetration of it could reduce the overall usage of natural gas...” Decker cross, 2 TR 170-1.

¹¹⁸ Hopkins direct, 4 Tr 883.

¹¹⁹ Hopkins direct, 4 Tr 859.

¹²⁰ PFD, p. 409.

¹²¹ *Id.*

¹²² *Id.*

assessment of the costs of the energy transition needs stakeholder participation and the involvement of the electric utilities. Many other states have initiated new proceedings to evaluate the future of gas or the future of heat for this very reason: proactive planning is needed to ensure that gas and electric system costs are synchronized to provide the least-cost reliable heating service for customers.

D. Infrastructure Recovery Mechanism (IRM): The Commission should reverse the PFD; limit IRM spending to 2020 levels or below; and initiate a 10-year review of the IRM in a separate proceeding.

The IRM is a ratemaking mechanism in which the revenue requirements for certain capital expenditures are recovered via a surcharge in years that include the projected test year and may also include time periods beyond the projected test year.¹²³ The Commission first approved an IRM for DTE Gas predecessor MichCon in 2013 in Case No. U-16999.¹²⁴ The original IRM funded the 10-year Main Renewal Program (MRP) and Meter Move Out (MMO) program that the Commission had already approved in other dockets in 2011.¹²⁵ The Commission also approved including a Pipeline Integrity (PI) program in the IRM, based on a finding that the program was “required under federal and state safety standards and is an integral part of the company’s overall effort to improve the safety and reliability of its system.”¹²⁶

In this case, DTE proposed to extend the IRM for a time period of 2025 through 2029.¹²⁷ DTE also proposed to consolidate the MRP and MMO programs into a single Gas Renewal

¹²³ Janness cross, 4 Tr 654.

¹²⁴ Case No. U-16999, April 16, 2013 Order.

¹²⁵ Case No. U-16999, April 16, 2013, Order, p. 2, citing Case No. U-16451, September 13, 2011, Order and November 10, 2011, Order and Case No. U-16407, September 13, 2011 Order.

¹²⁶ Case No. U-16999, April 16, 2013, Order, p. 22.

¹²⁷ Telang Direct, 4 Tr 1859.

Program (GRP). DTE also proposed to expand the scope of the IRM to include Cathodic Protection for the first time; and to phase out the Meter Assembly Check (MAC) portion of the MMO program.¹²⁸ Finally, DTE proposed to increase spending in the IRM – which has increased every year since the IRM started.

The Attorney General and MNSC both opposed the increases in IRM spending and recommended that spending be held to recent historic levels, because DTE’s claims of higher costs for the programs withered under evidentiary scrutiny. The Attorney General and MNSC also opposed expanding the IRM’s scope to include cathodic protection because DTE failed to demonstrate that such expansion was necessary. MNSC also recommended that the Commission initiate a 10-year review of the IRM in a separate proceeding – to examine the costs, effectiveness, and prudence of the IRM in light of its escalating costs and DTE’s declining gas sales. The PFD rejected the Attorney General and MNSC’s recommendation to restrain IRM spending increases; adopted their recommendation to disapprove the addition of cathodic protection to the IRM; and rejected MNSC’s request for a 10-year review proceeding.

MNSC recognizes that the Commission has approved the IRM and re-approved it in several cases. Consequently, MNSC does not seek to repeal the IRM in its entirety in this case. However, 10 years of experience with the IRM reveals major problems with its implementation that must be addressed. Most prominently, the costs of the IRM have escalated at a remarkable and largely uncontrolled rate. DTE seeks approval in this case to increase spending on the IRM even further – claiming that underlying costs have escalated. Yet scrutiny of DTE’s evidence showed that many of the company’s claims were exaggerated or unsupported.

¹²⁸ *Id.* If Cathodic Protection capital expenditures are not included in the IRM, DTE requests to include them in routine distribution capital expenditures. *Id.* at 1860.

The PFD did not acknowledge or address most of this evidence, and so these exceptions discuss that evidence in some detail below. The Commission should reverse the PFD's recommendation to allow the spending increases because DTE failed to support its claims of higher costs with substantial evidence. The Commission should also adopt MNSC's recommendation to initiate a 10-year review of the IRM because the endless escalation of IRM spending and rate base growth is no longer in the best interest of customers given DTE's declining gas sales and other issues discussed below.

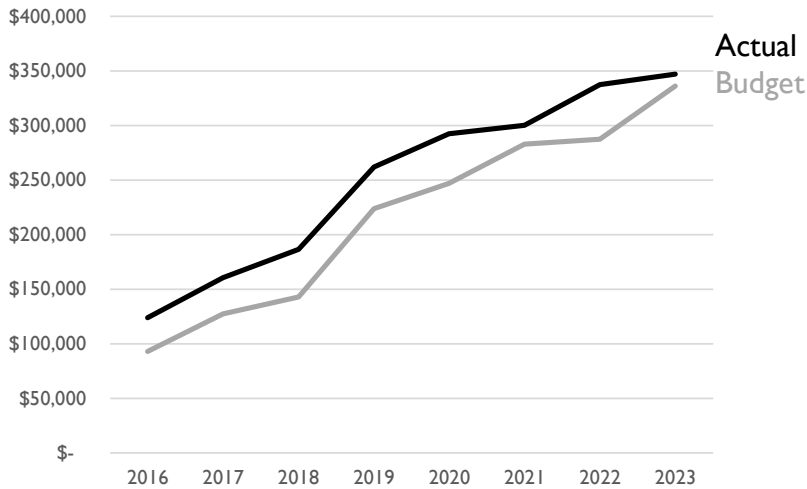
1. The Commission should not approve further increases in IRM expenditures relative to historic spending.

The growth in DTE's IRM spending has been remarkable. In 2013, the Commission originally approved \$46.9 million per year for the MRP, \$22.7 million per year for the MMO program, and \$7.8 million per year for the PI program – for a total of \$77.4 million per year.¹²⁹ Since then, DTE's spending on the IRM programs increased by large amounts every year, reaching almost \$347 million by 2023.¹³⁰

¹²⁹ Case No. U-16999, April 16, 2013, Order, pp. 24-25.

¹³⁰ Napoleon direct, 4 Tr 901, Figure 1; Ex MEC-18, discovery response MNSCDG-5.12 and attachment (Exhibit A-12, Schedule B6.5 expanded).

IRM Expenditure, 2016–2023 (\$M)



In total, DTE has added **\$2.3 billion** to its rate base through the IRM programs since 2012, without traditional rate case oversight of spending.¹³¹

Attorney General witness Sebastian Coppola agreed that “what began as a modest program of \$17.4 million to replace cast iron mains and other unprotected and deteriorating gas mains has now mushroomed into a monstrous program of more than \$350 million annually.”¹³²

DTE markets the IRM to investors as a profit center for the company. In a recent investor presentation, DTE indicated that it is “[d]elivering premium shareholder returns” through “[i]ncreased 5-year utility capital investment.”¹³³ To this end, DTE Gas highlights the “[s]ignificant investment recovered through Infrastructure Recovery Mechanism (IRM) to support main renewal.”¹³⁴

¹³¹ Ex MEC-18, discovery response MNSCDG-5.12 and attachment, sum of line 22, columns 2012 through 2023.

¹³² Coppola direct, 4 Tr 1454.

¹³³ Ex MEC-21, DTE 2023 Year-end Earnings Conference Call (February 8, 2024), p. 4.

¹³⁴ *Id.*, p. 6.

As in every case since it was first approved, DTE is asking for increased funding for the IRM, which will result in higher IRM surcharges.¹³⁵ DTE proposes to increase spending on the IRM in 2024 and 2025, followed by modest decreases in 2026 through 2029.¹³⁶

Table 1. Total IRM Proposed Capital Expenditures through 2029

Year	Proposed Spend (\$ Millions)
2023	\$336.1
2024	\$349.1
2025	\$354.2
2026-2027	\$344.5
2028-2029	\$311.4

DTE proposes to spend \$354.2 million on the IRM in 2025 – an increase of \$61.7 million, or 21%, over 2020 spending.¹³⁷

What is more, cross exam of DTE witness Eric Janness revealed that even the modest decreases for 2026-2029 may be illusory, and future spending is likely to be higher. The vast majority of costs for any year are in the MRP, and the IRM capital exhibit projects that MRP costs will decrease from 2024 to 2025 and then remain level at \$274 million from 2025 through 2029.¹³⁸ Mr. Janness agreed that it was fair to predict that in reality, those main renewal costs are likely to increase rather than stay level.¹³⁹ He agreed that if that happens, the total spends for the IRM may be higher than what DTE depicts in its testimony and exhibits.¹⁴⁰ He also acknowledged an error in Table 2 of his testimony that compared IRM spend amounts projected in DTE’s last rate case,

¹³⁵ Janness Direct, p. EDJ-6.

¹³⁶ Janness Direct, 4 Tr 592; see also, Napoleon direct, 4 Tr 903.

¹³⁷ Ex MEC-18, line 22 columns b and g.

¹³⁸ Ex MEC-18, discovery response MNSCDG-5.12 and attachment, line 6; Janness cross, 4 Tr 661.

¹³⁹ Janness cross, 4 Tr 662.

¹⁴⁰ *Id.*

U-20940, to the amounts projected in this case.¹⁴¹ That table shows MMO amounts zeroed out in 2024 and 2025-2027 – while Exhibit A-12, Schedule B6.5 shows MMO spends continue at \$51.6 million in 2024 and \$47.545 million in 2025-2027.¹⁴² Mr. Janness agreed that as a result of this error, the true net increases in his Table 2 from U-20940 to this case should have been larger than what is presented in the table.¹⁴³

The PFD did not address the evidence that DTE is actually understating the level of likely increase in IRM spending. Instead, the PFD rejected limiting IRM spending increases in a discussion of Attorney General witness Coppola’s testimony:

This PFD agrees with DTE. While Mr. Coppola’s concerns about affordability are well-taken, his proposed broad, top-down approach to cap costs regardless of consideration of the reasonableness of the specific expenditures or the context within which the expenditures were requested and made is itself an unreasonable approach. Moreover, DTE’s proposed expenditures are consistent with the policy considerations previously emphasized by the Commission. Thus, this PFD recommends that the Attorney General’s proposed disallowance be rejected.¹⁴⁴

The problem with the PFD’s finding is that MNSC submitted voluminous and compelling evidence of the unreasonableness of specific IRM expenditures – but the PFD never addressed that evidence at all. That evidence showed that DTE’s projected increases in IRM spending are not supported by substantial evidence but, rather, are exaggerated and unsupported.

Most of this evidence concerned the largest spending program: the GRP. DTE witness Janness projected increases in GRP spending of \$40.6 million in 2022, \$57.6 million in 2023, and

¹⁴¹ Janness direct, 4 Tr 663.

¹⁴² Ex A-12, Schedule B6.5, line 13.

¹⁴³ Janness cross, 4 Tr 665-667.

¹⁴⁴ PFD, p. 85 (emphasis added).

\$74 million in 2024 compared to the spending levels from Case No. U-20940.¹⁴⁵ The increase in 2024 GRP spending is almost 27% more than the spending level from U-20940. The projected increase in cost is for the same number of main renewal units and a decreasing number of meter move-outs.¹⁴⁶

Mr. Janness claimed there are three primary drivers of the increase in GRP spending: (1) increasing contractor and material costs; (2) stricter municipal permit requirements; and (3) a change in the scale and scope of projects as identified by the company's Probabilistic Risk Assessment.¹⁴⁷ However, DTE failed to meet its burden to support these cost increases.

To start, DTE was not able to provide a breakdown of the overall increase in costs among the three claimed cost drivers.¹⁴⁸ Nor was DTE able to provide reliable and specific supporting information for each of the claimed drivers. Most troubling, close examination of the evidence showed that DTE significantly exaggerated its claims.

i. Claims of increasing contractor costs.

DTE witness Janness stated that inflation has increased the cost of underground construction and related services.¹⁴⁹ He testified that "PowerAdvocate, a third-party provider of industry market and cost intelligence, estimates that market prices have increased 25% from 2020 levels for gas distribution construction work."¹⁵⁰ However, when asked in discovery for the information from PowerAdvocate that DTE relied on, the company initially did not provide it.¹⁵¹

¹⁴⁵ Janness direct, 4 Tr 593, Table 2.

¹⁴⁶ *Id.* at 597.

¹⁴⁷ Janness direct, 4 Tr 593.

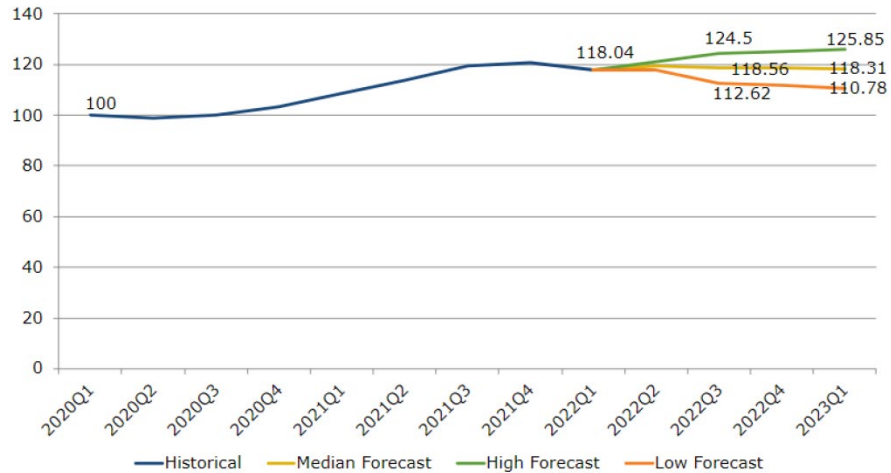
¹⁴⁸ Ex MEC-86, discovery response MNSCDG-5.17.

¹⁴⁹ Janness direct, 4 Tr 594.

¹⁵⁰ *Id.*

¹⁵¹ Ex MEC-87, discovery response MNSCDG-5.18a.

When asked a second time, DTE provided PowerAdvocate data that shows a low forecast increase of around 11%; a median forecast increase of around 18%; and a *high* forecast of around 25%:



On cross, Mr. Janness acknowledged that the 25% figure he cited in his direct testimony was the *high-case* estimate from PowerAdvocate.¹⁵² Mr. Janness did not disclose in his testimony that PowerAdvocate provided two other estimates that were lower and never explained why DTE believed that only the high-case estimate should be relied on.

Mr. Janness also testified that the GRP is experiencing construction contractor cost increases of approximately 10 to 15%, resulting in total increases of \$25 million in 2024 and \$35 million from 2025 through 2029.¹⁵³ When asked for the sources and documentation for these figures, DTE produced a confidential spreadsheet.¹⁵⁴ But the total increases documented in the spreadsheet are not nearly as large as the \$25 to \$35 million that Mr. Janness claimed in his testimony.¹⁵⁵

¹⁵² Janness cross, 3 Tr 676.

¹⁵³ Janness direct, 3 Tr 594.

¹⁵⁴ Ex MEC-88, discovery response MNSCDG-5.18b and Ex MEC-89C, CONFIDENTIAL attachment MNSCDG-5.18b Contractor Costs.

¹⁵⁵ Janness confidential cross, 4 Tr 686-687.

When asked to reconcile the claimed increase in contractor costs with the spreadsheet, DTE admitted that “from a base spend at 2020 levels to the new 2024 spend, construction contractor costs have had an incremental increase of only \$9M by 2024.”¹⁵⁶ The company claimed that the discrepancy between Mr. Janness’s testimony claiming \$25 to \$25 million of contractor cost increases and the actual increase of \$9 million “was due to rigorous contract negotiations that did not finalize until after we filed testimony in this case proceeding.”¹⁵⁷ However, DTE never revised Mr. Janness’s testimony to correct the inaccurate statements about \$25 to \$35 million increases.¹⁵⁸

The Commission has been clear to DTE that it expects the company to update its evidence when costs decrease during the pendency of a rate case. For example, in Case No. U-18014, the Commission disallowed inclusion in rate base of capital expenditures on the River Rouge plant because DTE Electric failed to disclose that it shut down unit 2 at the plant. The Commission held: “despite the fact that DTE Electric decided to permanently shut down River Rouge Unit 2, some months before the record in this proceeding opened, let alone closed, the company nevertheless failed to update its case to show the reduction in costs associated with Unit 2’s retirement.”¹⁵⁹ More recently, in I&M’s just-concluded rate case, the Commission held that when projected costs decrease during the pendency of a rate case, the utility’s rate base must be adjusted to account for the decreases.¹⁶⁰

Here, DTE’s claimed increase in construction contractor costs is the largest identified cost increase for what is by far the largest IRM spending program. Yet, when examined closely, the

¹⁵⁶ Ex MEC-98, discovery response MNSCDG-10.5a-b.

¹⁵⁷ *Id.*

¹⁵⁸ Janness cross, 4 Tr 690-691.

¹⁵⁹ Case No. U-18014, January 31, 2017, Order, p. 17.

¹⁶⁰ Case No. U-21461, July 2, 2024, Order, p. 22, citing Mich Const 1963, art 6, § 28.

evidence reveals that DTE’s claims are not accurate. While a utility “may rely on forecasted revenues and costs in developing its test year projection, if certain items within this projection are not adequately supported, other parties may use alternative means, including historical data, to arrive at a reasonable result.”¹⁶¹ One ALJ recently recognized that “[i]n accordance with this holding, the Commission has often rejected the company’s projections and instead adopted historical amounts as the basis for specific cost items.”¹⁶²

The PFD in this case found that the Attorney General recommended limiting IRM spending “regardless of consideration of the reasonableness of the specific expenditures...”¹⁶³ And the PFD did not directly address MNSC’s recommendation to limit IRM spending at all – or the evidence MNSC relied on for this recommendation. Yet clearly, MNSC brought forth specific and detailed evidence showing that DTE exaggerated its claimed cost increases in the GRP. Therefore, the Commission should reject the PFD’s recommendation and limit IRM spending consistent with the recommendations below.

Further, in addition to exaggerated the contractor cost increases, DTE also failed to support its other claimed drivers of GRP cost increases with substantial evidence – as explained next.

ii. Claimed cost increases due to municipal permit requirements.

DTE witness Janness also testified that some municipalities have adopted stricter requirements for underground construction permit activities, and that these requirements are the second factor driving increased costs.¹⁶⁴ However, DTE did not provide any estimates for

¹⁶¹ Case No. U-20963, December 22, 2021, Order, pp. 9-10, quoting Case No. U-18322, March 29, 2018, Order, p. 6.

¹⁶² Case No. U-21389, PFD December 21, 2023, Order, p. 28, adopted by the Commission, March 1, 2024, Order pp. 5-6.

¹⁶³ PFD, p. 85.

¹⁶⁴ Janness direct, 4 Tr 594-595, pp. 11-12.

increased costs associated with any of the requirements that the company claims are new or any other details supporting this component of the projected GRP cost increase. When asked for sources and documentation of incremental costs resulting from the changes in municipal permit requirements, DTE provided only a cursory description of activities the company claims are affected and a copy of a City of Detroit permit with certain directives highlighted.¹⁶⁵ When asked if it had any other information to support its claims about increased costs due to stricter municipal requirements, DTE stated that it had none.¹⁶⁶

iii. Claimed cost increases due to new risk assessment.

Mr. Janness testified that the third driver of increased GRP spending is 20 to 30% higher costs associated with construction on 40 miles of gas mains “identified by the Probabilistic Risk Assessment (PRA) as a pilot to understand the cost implications of increased risk mitigation.”¹⁶⁷ He said that the higher costs are due to population density, hardscape in the right of way, larger mains, and the presence of main thoroughfares in the construction areas. However, when asked in discovery for sources and documentation for the claimed increase in costs, DTE was not able to provide any – stating only that “PRA resulted in more expensive work being done sooner rather than in later years.”¹⁶⁸

iv. Recommended disallowances of IRM spending.

As explained above, DTE failed to support its projected cost increases for the IRM programs with competent, material, and substantial evidence. Therefore, the Commission should

¹⁶⁵ Ex MEC-90, discovery response MNSCDG-5.19 and attachment MNSCDG-5.19 Detroit City Permit.

¹⁶⁶ Ex MEC-99, discovery response MNSCDG-10.6. See also, Janness cross, 4 Tr 692-93.

¹⁶⁷ Janness direct, 4 Tr 595.

¹⁶⁸ Ex MEC-91, discovery response MNSCDG-5.20. See also, Ex MEC-100, discovery response MNSCDG-10.7. See also, Janness cross, 4 Tr 694-95.

find that DTE has failed to meet its burdens of proof and persuasion for the increases in IRM costs. The Commission should disallow inclusion in the IRM or base rates the claimed cost increases in GRP of \$74 million for 2024 and \$70.5 million for 2025 through 2027 found in Table 2 of DTE witness Janness’s testimony:¹⁶⁹

Table 2. Comparison of Proposed GRP & MAC MMO Expenditures & Units to U-20940 Levels

	2022	2023	2024	2025-2027	2028-2029
GRP	\$ 255.1	\$ 255.1	\$ 255.1	\$ 255.1	Surcharge not supported beyond 2025
MAC MMO	\$ 21.0	\$ 21.0	\$ 21.0	\$ 21.0	
GRP U-20940 (\$M)	\$ 276.1	\$ 276.1	\$ 276.1	\$ 276.1	
GRP	\$ 272.5	\$ 290.3	\$ 329.1	\$ 321.5	\$ 290.7
MAC MMO	\$ 23.2	\$ 22.4	\$ -	\$ -	\$ -
GRP U-21291 (\$M)	\$ 295.7	\$ 312.7	\$ 329.1	\$ 321.5	\$ 290.7
Addl. Expenditures	\$ 40.6	\$ 57.6	\$ 74.0	\$ 70.5	\$ 298.4
Reduced MMO Units				\$ (4.1)	\$ (7.7)
Net Increase	\$ 40.6	\$ 57.6	\$ 74.0	\$ 66.4	\$ 290.7
Legacy Main Miles remediated	222	206	206	206	206
Main Miles Installed	258	260	264	261	261
MMO's	22,918	22,790	22,790	20,500	8,500

Alternatively, the Commission should adopt Attorney General witness Sebastian Coppola’s recommendation to approve a maximum capital spending level of \$240 million for the main replacement component of the GRP instead of the \$274 million proposed by DTE.¹⁷⁰

As a third option, and at a minimum, the Commission should disallow \$16 million for 2024 and \$26 million per year for 2025 through 2029, representing the difference between DTE’s

¹⁶⁹ Janness direct, 4 Tr 593 (see highlighted values). The Commission could also set the IRM spending amounts at the U-20940 levels plus the approved inflation rate for this case.

¹⁷⁰ Coppola direct, 4 Tr 1458.

claimed construction contractor cost increases and the actual cost increases documented in discovery and cross examination.

2. The Commission should open a separate proceeding to consider changes to the IRM.

Beyond the unjustified increases in cost and scope, MNSC witness Alice Napoleon described five other problems with the IRM from a regulatory, policy, and consumer protection standpoint – each of which contravenes ratemaking principles.

First, the IRM fails to provide adequate incentives for the utility to minimize costs. Ms. Napoleon explained that “IRM surcharges are set based on the previous year’s expenditure,” which “disincentivizes DTE from minimizing annual costs, because reducing annual costs could limit future IRM budgets.”¹⁷¹ She also noted that “DTE appears unable to control the costs of the IRM programs from year to year. The proposed annual program budgets exceed annual budgeted expenditures for each of the past seven years, 2016 through 2022.”¹⁷² DTE’s actual cost per unit has been higher than projected most years from 2016 to 2022.¹⁷³ While “[t]here may be reasonable explanations for each exceedance...the overall pattern gives rise to concerns that DTE’s spending on investments not subject to normal rate case review has been high and that there is a lack of oversight of its spending.”¹⁷⁴

¹⁷¹ Napoleon direct, 4 Tr 905.

¹⁷² *Id.* at 903.

¹⁷³ *Id.* at Tr 906.

¹⁷⁴ *Id.* at Tr 907.

AG witness Coppola similarly testified that DTE “overspent the [planned main renewal capex] by nearly \$60 million in 2023, or 21%. More alarming is the fact that the Company overspent in each year since 2016 mostly by double digit percentage[s] as high as 33%.”¹⁷⁵

Relatedly, “DTE has not conducted a benefit-cost analysis to determine the cost-effectiveness” of the IRM programs.¹⁷⁶ “To the extent there are alternatives to these programs, such as emissions monitoring and pipe repair, an assessment of the cost-effectiveness of these programs relative to the alternatives is a necessary step to understanding and minimizing costs. However, this step is not incorporated into the IRM process.”¹⁷⁷

Second, IRM process lacks meaningful external review and opportunity for contesting IRM expenditures. While DTE does file an annual reconciliation, there is no opportunity for stakeholders to participate in review of the reconciliation filing such as through a hearing or other processes.¹⁷⁸ Further, there is little threat that the Commission will disallow IRM expenditures. The Commission has never disallowed IRM expenditures based on the annual reconciliation filing.¹⁷⁹

Third, the criteria for what types of projects qualify for the IRM are unclear, and the utility has incentives to include routine projects in the IRM.¹⁸⁰ This concern is discussed in more detail in the section on cathodic protection, above.

¹⁷⁵ Coppola direct, 4 Tr 1457; see also, Ex AG-12.

¹⁷⁶ Napoleon direct, 4 Tr 905-906.

¹⁷⁷ *Id.* at 906.

¹⁷⁸ Case No. U-16999 March 20, 2013, Order, p. 10.

¹⁷⁹ Ex MEC-19, Response to Discovery, MNSCDG-5.3a.

¹⁸⁰ Napoleon direct, 4 Tr 908.

Fourth, the IRM does not include any consideration of alternatives such as non-pipeline alternatives (NPAs), which could reduce investments and impacts on rates.¹⁸¹ DTE currently replaces 15 miles of high-risk legacy main annually, selected using a risk-ranking at the segment level.¹⁸² The company is switching to a grid-level risk-ranking that considers population density and building occupancy in addition to other risk factors.¹⁸³ Assessing pipe replacement at the grid-level would be a good opportunity for DTE to consider the cost-effectiveness of implementing NPAs instead of replacing pipe, but DTE does not even evaluate NPAs when it makes pipe replacement decisions.¹⁸⁴ Nor has the company identified assets or types of assets are the least likely to remain used and useful in the event of widespread electrification.¹⁸⁵ By contrast, witness Napoleon described examples of other jurisdictions that are requiring utilities to consider NPAs in order to reduce emissions and save ratepayer dollars.¹⁸⁶

Fifth, the IRM creates risks of stranded and underutilized assets. Witness Napoleon explained that IRM assets – especially the main replacements – “have very long physical engineering lifetimes.”¹⁸⁷ As discussed above, sales are decreasing and future market and policy developments are likely accelerate that decline. As discussed in the introduction to these exceptions, DTE plans to continue recovering the revenue requirements of its still growing rate base from fewer units sold, driving up rates.¹⁸⁸

¹⁸¹ *Id.* at 910.

¹⁸² Napoleon direct, 4 Tr 910.

¹⁸³ *Id.*

¹⁸⁴ *Id.* at 911.

¹⁸⁵ Ex MEC-22, discovery response MNSCDG-5.10a.

¹⁸⁶ *Id.* at 912-914.

¹⁸⁷ *Id.* at 914.

¹⁸⁸ *Id.* See the introduction section of these Exceptions for more information and graphic support.

As both Ms. Napoleon and Brattle Group observed, the reductions in load and customer defection from the gas system will escalate costs for remaining customers.¹⁸⁹ This effect “may cause some gas assets to become underutilized or no longer serve customers and become stranded.”¹⁹⁰ The results are “particularly concerning for disproportionately vulnerable or disadvantaged customers, who generally face greater challenges with switching off of gas to more affordable options. Existing affordability problems for these customers are likely to compound.”¹⁹¹

Based on all five of these concerns, witness Napoleon recommended that “the Commission should initiate an open, collaborative proceeding to consider and revise the purpose, requirements, process, and structure of the IRM.”¹⁹²

The PFD recommends rejecting “most of Ms. Napoleon’s recommendations for the reasons offered by DTE.”¹⁹³ That recommendation minimizes or disregards the important evidence just discussed, and further, DTE actually provided little or no evidence to counter Ms. Napoleon’s recommendations.

First, the PFD cites DTE witness Janness’s testimony that more stringent guidelines for the IRM are not needed because the investments in the IRM are strategic capital improvements.¹⁹⁴ However, that category of investments is so broad as to be meaningless when used as a guideline for what expenditures should be included in the IRM. Further, the PFD’s correct recommendation

¹⁸⁹ Napoleon direct, 4 Tr 914; Ex MEC-6, Brattle Group presentation.

¹⁹⁰ Napoleon direct, 4 Tr 914.

¹⁹¹ *Id.*

¹⁹² Napoleon direct, 4 Tr 915; see also, *Id.* at 897.

¹⁹³ PFD, p. 92.

¹⁹⁴ PFD, p. 91.

to reject DTE's request to add cathodic protection to the IRM underscores the lack of clearly defined parameters for which expenditure categories to include in the IRM.

Next, the PFD cites Mr. Janness's testimony that rate cases already provide open collaborative proceedings to consider and revise purpose, requirements, process, and structure of the IRM.¹⁹⁵ While that is true to a point, it is also true that the Commission has often opened separate proceedings to further evaluate complex issues outside the compressed framework of a 10-month rate case.¹⁹⁶

Further, the voluminous evidence discussed above warrants taking a fresh look at the IRM based on the accumulated experience of the past 10 years. This is the first case in which evidence has been introduced about the actual track record of the IRM. While the Commission plainly had well-defined objectives when it first approved the IRM, until now evidence has not been put before the Commission regarding the spiraling costs of the IRM, the lack of cost control, and the inaccuracy of claimed increases in IRM costs. These issues alone justify another look in an orderly and deliberative proceeding.

If more cause was needed, there are the stranded cost and equity risks associated with continuing to automatically add rate base through the IRM against long-term declines in sales and customer usage; warming weather; changes in the market; growing recognition of the value of NPAs; future decarbonization; and the Brattle Group's prediction of a looming death spiral for gas utilities. After ten years of experience with the IRM and billions of dollars spent, it is worth taking

¹⁹⁵ PFD, p. 91, citing Janness rebuttal, 4 Tr 644.

¹⁹⁶ See for example, Case No. U-18014, January 31, 2017, Order, pp. 40-41 (requiring distribution grid plans); Case No. U-17990, February 28, 2017, Order, pp. 18-19 (same); Case No. U-20836, November 18, 2022, Order pp. 110-11 (requiring technical conferences to evaluate 4.8kV hardening and alternatives).

a fresh look at whether this program is benefiting ratepayers in a manner commensurate with its costs.

The PFD also cited Mr. Janness's testimony that the cost per mile of legacy mains retired has remained within 7% of the 2020 cost.¹⁹⁷ While that may have been true on a backward look, as discussed above, DTE projects much higher cost increases for the projected test year and forward years of the IRM. If the Commission is going to rely on the 7% figure in declining to initiate a proceeding to examine the IRM, then at least it should limit the increase in IRM spending on the GRP to 7% above 2020 levels.

The PFD also cited Mr. Janness's testimony that IRM expenditures should not be evaluated against NPAs because DTE is committed to providing cost-effective options for customers to manage their own fuel use, and the goal of the GRP is to replace leak prone pipe.¹⁹⁸ While both of those points are true, they ignore the details of the recommendation to consider NPAs – which come down to whether every element of the system must be replaced at the same or greater capacity.

In sum, gas usage by DTE customers is decreasing, electrification is already cutting into new gas demand, and state and federal policies are pushing for accelerated electrification. It is untenable to continue escalating rate base through an 11-year-old program that is now five times its original size with minimal evaluation and no end in sight. The Commission should guard against a future in which expensive pipeline replacements and upgrades are made through the IRM while gas demand continues to decline and customers leave the system through electrification. This likely scenario would leave a small group of remaining customers responsible for funding bloated and

¹⁹⁷ PFD, p. 91, citing Janness rebuttal, 4 Tr 645.

¹⁹⁸ PFD, p. 92, citing Janness rebuttal, 4 Tr 646.

obsolete gas infrastructure. Without funding shoehorned into an IRM, the Commission and parties can appropriately assess whether pipeline replacement spending should be approved, and whether NPAs should be considered in appropriate cases.

Initiating a separate proceeding to consider these issues outside the constraints of a 10-month rate case will provide an opportunity for a careful and deliberate look at these issues. The Commission should reject the PFD's recommendation and initiate such a proceeding.

III. CONCLUSION

For the reasons discussed above, MNSC respectfully requests that the Commission:

A. Require revisions in Rule C8, the tariff that governs new attachment projects, that use expected incremental revenues from the date of attachment until 2034 for the NPV revenue requirements model used to calculate the surcharges; require customers to pay off their incremental cost of attachment by no later than 2034; and require DTE to use historical averages to forecast the numbers of customers who will subscribe to a project for the model.

B. Disapprove DTE's requests to increase IRM spending.

C. Initiate a separate proceeding to consider changes to the IRM based on the learnings from 10 years of experience under this program.

D. Prohibit DTE from using voluntary customer premiums to fund the NGB program and direct that shareholders shoulder the burden of paying for green marketing programs such as RSG, carbon offset, and RNG purchases.

E. Initiate a "Future of Heat" proceeding where DTE Gas is required to assess pipeline investments against non-pipeline alternatives such as electrification and where the Commission may coordinate an energy transition that avoids stranded assets on the gas system and manages decline in gas demand without ballooning gas rates.

MNSC reserve the right to request other relief in replies to exceptions by other parties.

Respectfully Submitted,

Dated: September 25, 2024

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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.

U-21291

PROOF OF SERVICE

On the date below, an electronic copy of **Exceptions to the Proposal for Decision by Michigan Environmental Council, Natural Resources Defense Council, Sierra Club, and Citizens Utility Board of Michigan** was served on the following:

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The statements above are true to the best of my knowledge, information, and belief.

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