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June 25, 2025

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

Re: In the matter of the application of **CONSUMERS ENERGY COMPANY** for authority to increase its rates for the distribution of natural gas and for other relief.

MPSC Case No. **U-21806**

Dear Ms. Felice:

Attached for filing in the above-referenced matter is MPSC Staff's Initial Brief, together with Proof of Service.

Subject to the Protective Order issued December 20, 2024, a Confidential version will be filed separately with the Executive Business Section of the MPSC.

Sincerely,

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Attachment

c: Parties of Record

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of
CONSUMERS ENERGY COMPANY
for authority to increase its rates for the
distribution of natural gas and for other
relief.

Case No. **U-21806**
(e-file paperless)

MICHIGAN PUBLIC SERVICE COMMISSION STAFF'S
INITIAL BRIEF

**MICHIGAN PUBLIC SERVICE
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DATED: June 25, 2025

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- Walk from Staff Initial Filing to Staff Initial Brief Rate Base

Appendix G – Summary of Staff Position:

- Walk from Consumers Energy Revenue Deficiency to Staff Initial Brief Revenue Deficiency

I. INTRODUCTION AND OVERVIEW

The Michigan Public Service Commission Staff (Staff) has calculated that Consumers Energy Company's (Consumers Energy's or the Company's) projected total gas revenue deficiency is \$169.609 million, a decrease of \$48.061 million from the Company's rebuttal projection revenue deficiency of \$217.670 million for the projected test year ending October 31, 2026. (Appendix A.) The difference between Staff's position and the Company's request is primarily attributable to Staff's adjustments to rate base, rate of return, operation, and maintenance expense (O&M), depreciation expense, and property tax. (Appendix G.)

Staff's projected total gas rate base is \$11.519 billion, a decrease of \$48.443 million from the Company's rebuttal projection of \$11.567 billion. (Appendix B.) This is predicated on a 2025/26 test year forecast of Consumer Energy's capital structure, adjusted for any known or anticipated changes in the test year. Staff's recommended overall rate of return on common equity (ROE) is 9.75% in contrast to the 10.25% ROE that Consumers Energy proposed.

When considering the disparity between Staff's recommendations and the Company's proposal, Staff urges the Michigan Public Service Commission (MPSC or Commission) to keep in mind the overall purpose of a utility's request for rate relief and the necessary balancing of the interests of the utility and its ratepayers. The Commissions' decision must be supported by competent, material, and substantial evidence on the record as a whole. Mich Const § art 6, § 28. There is a broad range of reasonableness within which the MPSC may operate. *In re MCI*

Telecommunications, Inc, 460 Mich 396, 425 (1999). The Michigan Supreme Court has declared that “the determination of the commission must be held to be final unless such determination in its application results in the establishment by ‘clear and convincing’ proof of a rate so low as to be confiscatory or so high as to be oppressive.” *Michigan Bell Telephone Company v Michigan Public Service Commission*, 332 Mich 7, 26 (1952). As stated by the Commission, “[t]he purpose of the Commission’s endeavor is to set just and reasonable rates that are fair to both ratepayers and the company.” MPSC Case No. U-15244, 12/23/08 Order, p 11.

Keeping in mind the needs of the utility and the interest of its ratepayers, Staff reviewed the Company’s Application, testimony and exhibits and proposes reasonable adjustments to Consumers Energy’s rate request. Staff’s adjustments follow the direction of the Commission’s past orders, allow Consumers Energy the opportunity to earn a fair rate of return, and afford ratepayers reasonable rates for safe and reliable energy. Given the complexity of this case, the Commission should not construe Staff’s silence on an issue as agreement with one or more of the parties on that issue.

In accordance with the schedule established for this case, Staff files the following initial brief on Consumers Energy’s application for authority to increase its rates for the distribution of natural gas and for other relief.

II. REVENUE DEFICIENCY

Staff witness Robert F. Nichols sponsored Exhibit S-1, Schedule A-1, which presented Staff’s initially filed projected revenue deficiency of \$177.351 million, a

revenue requirement decrease of \$70.657 million from the Company's originally filed \$248.008 million revenue deficiency. (4 TR 2492.) Mr. Nichols noted that Consumers Energy's SAP/4HANA implementation project O&M deferral was not reflected in the Staff's \$177.351 million revenue deficiency, and if approved, this is an additional incremental revenue deficiency reduction, which is a confidential amount found on Staff Exhibit S-13.

Due to subsequent changes to Staff's and the Company's positions, discussed in this brief, Staff now recommends a revenue deficiency of \$169.609 million, which is \$48.061 million less than the Company's rebuttal projection of \$217.670 million. (Appendix A, line 8.) A reconciliation of the Staff's position and the Company's position can be found in Appendix G.

The \$48.061 million difference between the Company's rebuttal revenue deficiency of \$217.670 million and Staff's proposed revenue deficiency of \$169.609 million is due to the following adjustments (in millions):

Rate base (revenue requirement impact)	\$ (3.732) ¹
Change in rate of return	\$ (40.428) ²
Revenue	\$ (0.000) ³
O&M adjustment	\$ (1.385) ⁴

¹ \$48.443 million reduction in rate base x Consumers Energy's Pre-Tax Weighted Average Cost of Capital (WACC) of 7.70%.

² \$11.519 billion rate base x -0.35% (7.35% Staff Pre-Tax WACC – 7.70% Consumers Energy Pre-Tax WACC).

³ Appendix C, line 18.

⁴ Appendix C, line 18.

Depreciation adjustment	\$ (1.816) ⁵
Property tax adjustment	<u>\$ (0.701)⁶</u>
Total Staff adjustments (rev. req. impact)	\$ (48.061)⁷

III. RATE BASE

“Rate Base consists of the capital invested in utility plant, less accumulated depreciation (i.e. net utility plant), plus the utility’s working capital requirement.” MPSC Case No. U-16472, 10/20/2011 Order, p 5. In this case, customers’ advances for construction and net unamortized manufactured gas plant (MGP) expenses are also included in rate base.

A. Net Utility Plant

1. Test Year Net Utility Plant

The first component of rate base is net utility plant (net plant). Net plant consists of total utility plant minus accumulated depreciation and amortization minus customer advances for construction. Staff recommends the Commission adopt a net utility plant of \$10.134 billion, which is \$48.443 million less than the Company’s rebuttal projection of \$10.182 billion. (Appendix B.)

⁵ Appendix C, line 18.

⁶ Appendix C, line 18.

⁷ Appendix A, line 8.

a. Staff recommends the Commission adopt a total utility plant of \$14.795 billion.

The first component of net plant is total utility plant. Staff's total utility plant is \$14.795 billion, which is \$50.083 million less than the Company's rebuttal projection of \$14.845 billion. (Appendix B.) The difference is attributable to Staff's reductions to the Company's compression and storage, information technology, and incentive compensation capital expenditures. Each of these proposed adjustments is set out in Section III. A.2 through 6 and Appendix E.

b. Staff recommends the Commission adopt a depreciation reserve of \$4.642 billion.

The second component of net plant is the accumulated depreciation reserve. Staff recommends the Commission adopt a depreciation reserve of \$4.642 billion, which is a \$1.640 million reduction from the Company's projected amount of \$4.644 billion. (Appendix B.) The difference is due to Staff's proposed \$55.460 million in capital expenditure disallowances, which reduce accumulated depreciation by \$1.640 million. (Appendix E.) All of the differences between the Company's and Staff's projection for depreciation reserve is simply related to the difference in projected capital expenditures. (See Section III.A.2 through 6 and Appendix E for these capital expenditure adjustments.)

c. Staff recommends the Commission adopt customer advances for construction of \$19.159 million.

The third component of net utility plant is customer advances for construction. Staff recommends the Commission adopt customer advances for construction of \$19.159 million, which is equal to the Company's projection.

(Appendix B.) Staff recommends several reductions to the Company’s capital expenditures in Section III.A.2 through 6, below.

As discussed above in Section III.A.1, Staff’s net utility plant is \$10.134 billion, which is \$48.443 million lower than the Company’s because Staff adjusted the Company’s compression and storage, information and technology, and incentive compensation capital expenditures. The following table shows the Staff capital expenditure adjustments:

(\$000)							
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
		Total	Test Year Impacts From Staff Adjustments to Cap Ex Projects				
Line	Adjustment Description	Cap Ex Adj.	Plant Adj.	Accum Depr.	Rate Base	Depreciation	Property Tax
1	Compression & Storage						
2	Storage - New Wells	(7,789)	(7,214)	(180)	(7,034)	(179)	(101)
3	Storage Pipeline Replacement	(16,032)	(15,031)	(338)	(14,693)	(373)	(210)
4	Storage - New Wells	(24,308)	(22,638)	(536)	(22,101)	(561)	(317)
5	Total	(48,129)	(44,882)	(1,054)	(43,828)	(1,113)	(628)
6	Information & Technology						
7	Customer - Click to Chat	(49)	(49)	(27)	(22)	(10)	(1)
8	Customer - Web Chat AI	(181)	(90)	(9)	(81)	(18)	(1)
9	Customer - LMI Customer Enhancements	(241)	(221)	(39)	(182)	(44)	(3)
10	Customer - Self Service Mobile App	(1,423)	(1,098)	(224)	(873)	(220)	(15)
11	Customer - Low moderate Income	(1,900)	(950)	(95)	(855)	(190)	(13)
12	IT/Digital Foundation - ARP - Field Device Asset Mgmt	(575)	(418)	(64)	(355)	(84)	(6)
13	IT/Digital Foundation - ARP - Workstation asset Mgmt	(575)	(418)	(64)	(355)	(84)	(6)
14	Total	(4,943)	(3,244)	(521)	(2,723)	(649)	(45)
15							
16	Incentive Compensation						
17	Leave It Better Award	(2,388)	(1,957)	(65)	(1,892)	(54)	(27)
18	TOTAL	(55,460)	(50,083)	(1,640)	(48,443)	(1,816)	(701)

Staff recommends the Commission adopt a \$55.460 million reduction to the Company’s projected capital expenditures, which reduces rate base by \$48.443 million. (Appendix E.) Staff explains each adjustment in detail below.

2. Staff Adopts Several Concessions from Consumers Energy's Rebuttal Testimony.

Staff adopted the following concessions from Consumers Energy's rebuttal testimony. (Exhibit A-149.) Therefore, there is no delta between Staff's and Consumer Energy's positions for the following:

- 2024 IT capital expenditures
- Project B-GL-00251
- Project B-GL-03042
- Compression & Storage 2024 Underspend
- Lansing Service Center
- Hastings Service Center
- Distribution Gas Ops - Comp & Controls
- Material Condition - ERIP
- New Business - Mains, Services, and Meter Stands
- New Business - Large New Business Projects
- Asset Relocation - Civic Improvement Projects
- Asset Relocation - Reimbursable Projects

3. Consumers Energy adopts several Staff adjustments in Consumers Energy's rebuttal testimony.

Consumers Energy adopted the following direct adjustments made by Staff in its rebuttal testimony. (Exhibit A-149.) Therefore, there is no delta between Staff's and Consumers Energy's positions on the following and Staff recommends the Commission adopt the adjustments as conceded by the Company.

a. The Commission should disallow \$33,023 in capital and \$1,991 in O&M expenditures for the Application Currency-Corporate-Capital Project

In Staff's direct testimony, it recommended the Commission disallow \$15,010 in the projected bridge period, \$18,013 for the projected test year of capital expenditures, and \$1,991 in the projected test year O&M for the Application Currency-Corporate-Capital project due to errors identified by the Company. (4 TR 2707-2708.) In a discovery response from the Company, it explained that projected costs were inadvertently included for the Hardware/Storage Upgrade within the larger project. (Exhibit S-19.2, p 2.) In the Company's rebuttal testimony, it agrees with Staff's adjustment for this project. (4 TR 751.) The Commission should disallow the total \$33,023 in capital expenditures and \$1,991 in O&M expenses for the Application Currency-Corporate-Capital Project.

b. The Commission should disallow \$42,121 in capital and \$7,962 in O&M expenditures for the Application Currency-Electric & Gas Shared-Capital Project

In Staff's direct testimony, it recommended the Commission disallow \$19,146 in the bridge period, \$22,975 in the projected test year of capital expenditures, a total of \$42,121, and \$7,962 for the projected test year O&M for the Application Currency-Electric & Gas Shared-Capital project due to errors identified by the Company. (4 TR 2709-2720.) In a discovery response from the Company, it explained that projected costs were inadvertently included for the Servers for App Currency upgrade within the larger project. (Exhibit S-19.2, p 1.) In the Company's rebuttal testimony, it agreed with Staff's adjustment for this project. (4

TR 753.) The Commission should disallow the \$42,121 in capital expenditures and \$7,962 in O&M expenses for the Application Currency-Electric & Gas Shared-Capital project.

c. The Commission should disallow \$13,234 in capital expenditures for the ARP-Collaboration Project.

In Staff's direct testimony, it recommended the Commission disallow \$6,015 in the bridge period and \$7,219 in the projected test year capital expenditures for the ARP-Collaboration project due to errors identified by the Company. (4 TR 2712.) In an audit response, the Company provided an up-to-date quote for the auditorium refresh which was lower than the quote included in the initial filing. (Exhibit S-19.1, pp 8-9.) In the Company's rebuttal testimony, it agreed with Staff's adjustment for this project. (4 TR 755.) The Commission should disallow the \$13,234 in capital expenditures for the ARP-Collaboration Project.

d. The Commission should disallow \$181,600 in capital expenditures for the ARP-Physical Security Project.

In Staff's direct testimony, it recommended the Commission disallow \$72,640 in the projected bridge period and \$108,960 for the projected test year of capital expenditures for the ARP-Physical Security project and \$7,219 in the projected test year capital expenditures for the ARP-Collaboration project due to errors identified by the Company. (4 TR 2717.) In an audit response from the Company, it explained that Allowance for Funds Used During Construction (AFUDC) and employee benefits were inadvertently applied to 2025 and the test year. (Exhibit

S-19.1, pp 1-2.) In the Company's rebuttal testimony, it agreed with Staff's adjustment for this project. (4 TR 756.) The Commission should disallow \$181,600 in capital expenditures for the ARP-Physical Security Project.

- e. **The Commission should disallow \$125,746 in capital and \$8,243 in O&M expenditures for the Next Generation electronic Shift Operations Management System (eSOMS) replacement project.**

In Staff's direct testimony, it recommended the Commission disallow \$125,746 in the projected test year capital expenditures and \$8,243 in the projected test year O&M for the Next Generation electronic Shift Operations Management System (eSOMS) replacement project due to errors identified by the Company. (4 TR 2711.) In an audit response from the Company, it explained that the current system in use can stay and does not need to be migrated, thus the Company's need for this project has changed. (Exhibit S-19.1, p 7.) In the Company's rebuttal testimony, it agreed with Staff's adjustment for this project. (4 TR 754.) The Commission should disallow the \$125,746 in capital expenditures and \$8,243 in O&M expenses for the eSOMS replacement project.

- f. **The Commission should adjust for the impacts of the termination of the agreement Riverside Storage Facility Utility Plant.**

Staff witness Nichols supported an adjustment for the Riverside Storage Field. (4 TR 2493-2494.) In Audit Responses U21806-SA-CE 412 to 415, provided by Staff as Exhibit S-10, the Company states that the buyer has terminated the

agreement and the Company provided the impacts on the instant case. The impacts of the termination of the agreement on the instant case are as follows:

Plant in Service	\$11,349,000 increase
Depreciation Reserve	\$2,293,000 increase
Depreciation Expense	\$237,000 increase
Property Tax Expense	\$159,000 increase
Working Capital	\$7,398,000 decrease
Amortization Expense	\$2,959,000 decrease

In rebuttal, Consumers Energy adopted the Staff's adjustments. Therefore, there is no delta between Staff's and Consumers Energy's positions. (4 TR 1599-1600.) Additionally, in Audit Response U21068-SA-CE 415, the Company proposed that if Riverside Storage Field is sold, it would use any amounts collected in rates related to the inclusion of the Riverside Storage Field as a reduction to the established regulatory asset until rates are reset to remove the Riverside Storage Field assets from rates. Staff supports this proposal. (*Id.*)

g. The Commission should reduce the costs for the Material Condition Non-Modeled program by \$7,554,000.

In its testimony, Staff recommended that capital expenditures for the Material Condition Non-Modeled (MCNM) program should be adjusted based on reduced capital expenditures for the Line 1010 project. Staff recommended a reduction in the Company's proposed MCNM expenditures of \$4,054,000 for the 10 months ending October 31, 2025, and \$3,500,000 for the test year 12 months ending October 31, 2026. (4 TR 2736-2738.) Staff's recommended adjustment was based on revised projected capital expenditures provided by the Company in response to audit requests. (Exhibits S-22.1 and S-22.2.) In its rebuttal, the Company

acknowledged that the Company provided updated project estimates and did not contest Staff's recommended adjustment. (3 TR 439.) The Commission should reduce the costs for the Material Condition Non-Modeled program by \$4,054,000 for the 10 months ending October 31, 2025, and \$3,500,000 for the test year 12 months ending October 31, 2026, for a total reduction of \$7,554,000 in line with Staff's testimony and by agreement of the Company.

h. The Commission should adopt Staff's adjustment to capital expenditures for the Compliance and Controls program of \$265,000.

In its testimony, Staff recommended that capital expenditures for the Compliance and Controls program should be adjusted based on reduced capital expenditures for the Advanced Methane Detection project. Staff recommends the Commission adopt a reduction in the Company's proposed Compliance and Controls expenditures of \$265,000 for a total cost of \$182,000 for the 10 months ending October 31, 2025. (4 TR 2738-2739.) Staff's recommended adjustment was based on revised projected capital expenditures provided by the Company in response to audit requests. (Exhibits S-22.3 and S-22.4.) In its rebuttal, the Company acknowledged that the Company provided updated project estimates and did not contest Staff's recommended adjustment. (3 TR 439-440.) The ALJ and Commission should reduce the costs for the Compliance and Controls program by \$265,000 in line with Staff's testimony and by agreement of the Company.

4. Compression and Storage Capital Expenditures

a. Storage – New Wells

Staff recommends the Commission adopt \$7.789 million in capital expenditure disallowances that reduce rate base by \$7.034 million. (Appendix E, Line 2.) As supported by Staff witness Kevin P. Spence, Staff recommends the Commission disallow the following with regard to the Company's ongoing Cranberry Lake Well Line Act 9 Application: \$968,000 for the 12 Months Ending December 31, 2024; \$5,671,000 for the 10 Months Ending October 31, 2025; and \$1,150,000 for the 12 Months Ending October 31, 2026. (4 TR 2686.)

In his direct testimony, Staff witness Spence provides that absent a Commission order granting approval for the Company's project, there is no guarantee that the project will be approved. If the Company were allowed to recover the full amount of the requested capital expenditures for the project in this case, and the Commission does not issue an order approving the construction and operation of the proposed pipeline, then the Company's rate payers would be unjustly funding a project of which they have not realized benefits. (4 TR 2686.)

Company witness Timothy K. Joyce rebuts the recommendation of Staff witness Spence regarding the Cranberry Lake Well Line Act 9 Application. Company witness Joyce argues that the gas rate case includes a forward-looking projection of expenses that are appropriate for inclusion in rates during the test year. While construction on this project cannot commence until after Act 9 approval, the Company will incur legitimate expenses for these projects even before

construction begins including engineering and procurement activities. He concludes that this project is well-positioned to receive a final Act 9 order before the final order in this rate case. (4 TR 1537.)

While Staff supports the inclusion of the Application Filing Expenses in this instant case, it is the Post Application Expenses that concern Staff absent a Commission order approving the application in MPSC Case No. U-21835. Staff's recommended disallowance corresponds to the Post Application Expenses for MPSC Case No. U-21835. (4 TR 2687.)

Staff maintains its position that should the Act 9 application in MPSC Case No. U-21835 receive approval through Commission order prior to the completion of this instant case, Staff may consider withdrawing its recommendation. (4 TR 2691.) However, as of the filing of this Initial Brief, the Commission has not granted Act 9 approval to the Company for the Cranberry Lake Well Line. As such, Staff maintains its position and recommends \$7.789 million in capital expenditure disallowances that reduce rate base by \$7.034 million.

b. Storage Pipeline Replacement

Staff recommends the Commission adopt \$16.032 million in capital expenditure adjustments that reduce rate base by \$14.693 million for storage pipeline replacement. (Appendix E, line 3.) As supported by Staff witness Spence, Staff recommends the Commission disallow the following with regard to the Company's ongoing Hessen Well Line Act 9 Application: \$279,000 for the 12 Months

Ending December 31, 2024; \$13,750,000 for the 10 Months Ending October 31, 2025; and \$2,003,000 for the 12 Months Ending October 31, 2026. (4 TR 2689.)

In his direct testimony, Staff witness Spence provides that absent a Commission order granting approval for the Company's project, there is no guarantee that the project will be approved. If the Company were allowed to recover the full amount of the requested capital expenditures for the project, and the Commission does not issue an order approving the construction and operation of the proposed pipelines, then the Company's rate payers would be unjustly funding a project of which they have not realized benefits. (4 TR 2688-2689.)

Company witness Joyce rebuts the recommendation of Staff witness Spence regarding the Hessen Well Line Act 9 Application. Company witness Joyce refers, in his rebuttal testimony, to his response regarding the Cranberry Lake and Winterfield Well Line Act 9 Applications. Specifically, Company witness Joyce states that the gas rate case includes a forward-looking projection of expenses that are appropriate for inclusion in rates during the test year. He provides that while construction on this project cannot commence until after Act 9 approval, the Company will incur legitimate expenses for these projects even before construction begins including engineering and procurement activities. Company witness Joyce again asserts that this project is well-positioned to receive a final Act 9 order before the final order in this rate case. (4 TR 1537.)

While Staff supports the inclusion of the Application Filing Expenses in this instant case, it is again the Post Application Expenses that concern Staff absent a

Commission order approving the application in MPSC Case No. U-21842. Staff's recommended disallowance corresponds to the Post Application Expenses for the application in MPSC Case No. U-21842. (4 TR 2689-2690.)

Staff maintains its position that should the Act 9 application in MPSC Case No. U-21842 receive a Commission order approving the application prior to the completion of this instant case, Staff may consider withdrawing the recommendation. (4 TR 2691.) However, as of the filing of this Initial Brief, the Commission has not granted Act 9 approval to the Company regarding the Hessen Well Line. As such, Staff maintains its position and recommends \$7.789 million in capital expenditure disallowances that reduce rate base by \$7.034 million.

c. Storage – New Wells

Staff recommends the Commission adopt \$24.308 million in capital expenditure adjustments that reduce rate base by \$22.101 million for new wells. (Appendix E, line 4.)

As supported by Staff witness Spence, Staff recommends the Commission disallow the following with regard to the Company's ongoing Winterfield Well Line Act 9 Application: \$1,699,000 for the 12 Months Ending December 31, 2024; \$19,268,000 for the 10 Months Ending October 31, 2025; and \$3,341,000 for the 12 Months Ending October 31, 2026. (4 TR 2686-2687.)

In his direct testimony, Staff witness Spence again provides that absent a Commission order granting approval for the Company's project, there is no guarantee that the project will be approved. If the Company were allowed to

recover the full amount of the requested capital expenditures for the project, and the Commission does not issue an order approving the construction and operation of the proposed pipelines, then the Company's rate payers would be unjustly funding a project of which they have not realized benefits. (4 TR 2686.)

Company witness Joyce rebuts the recommendation of Staff witness Spence regarding the Winterfield Well Line Act 9 Application. Company witness Joyce once again states in his rebuttal testimony that the gas rate case includes a forward-looking projection of expenses that are appropriate for inclusion in rates during the test year. While construction on the Winterfield Well Line cannot commence until after Act 9 approval, the Company will incur legitimate expenses for these projects even before construction begins including engineering and procurement activities. Company witness Joyce asserts that this project is well-positioned to receive a final Act 9 order before the final order in this rate case. (4 TR 1537.)

While Staff supports the inclusion of the Application Filing Expenses in this instant case, it is the Post Application Expenses that concern Staff absent a Commission order approving the application in MPSC Case No. U-21854. Staff's recommended disallowance corresponds to the Post Application Expenses for MPSC Case No. U-21854. (4 TR 2687.)

Staff maintains its position that should the Company receive a Commission order approving the Winterfield Well Line application prior to the completion of this instant case, Staff may consider withdrawing its recommendation. (4 TR 2691.)

However, as of the filing of this Initial Brief, the Commission has not granted Act 9 approval to the Company regarding MPSC Case No. U-21854. As such, Staff maintains its position and recommends \$24.308 million in capital expenditure adjustments that reduce rate base by \$22.101 million.

5. IT Capital Expenditures

a. Staff recommends the Commission adopt a \$49,000 disallowance in capital expenditure adjustment related to Click to Chat.

Staff recommends a \$49,000 disallowance in capital expenditure adjustment related to the Click to Chat project that results in a \$22,000 reduction in rate base. (Appendix E, line 7.)

The Commission should disallow \$48,641 in total capital costs, including \$45,683 for the historical year ended 12/31/2023 and \$2,958 in capital costs for the bridge year ended 12/31/2024, for the Click to Chat project. Staff does not support this project because it offers no technology or features that are new or innovative, nor does it offer any cost savings. The Company admitted in an audit response that there will be no cost savings from this project for the call center and the same agents who answer live calls will also be using Click to Chat to interact with customers. (4 TR 2619.)

Though the Company intends the Click to Chat channel as another contact channel, and Staff does understand that desire, Click to Chat is an option that is redundant to those already offered to customers. Because the same customer service representatives who answer calls will be responsible for using Click to Chat,

its availability for customers to actually interact with a live person will be restricted to the Company's Business Center hours, which are 8:00am-4:30pm, Monday-Friday. (4 TR 2619-2621.) Customers can use the Click to Chat to report outages 24/7, yet customers can already do so through other channels, including the Company's website, which has a page dedicated to this very purpose. (*Id.*) Many interactions that begin using Click to Chat will most likely be elevated to a phone call or email interaction, and Staff, therefore, does not find that Click to Chat will be useful beyond the most basic of inquiries and requests. Everything customers can do via Click to Chat they can already do on the Company's website. Staff cannot support a redundant option that will offer customers nothing new with costs that will be passed on to ratepayers. (*Id.*)

In its direct case, Staff noted concerns regarding usage of Click to Chat, believing the tool had been available for over three years and had just 314 interactions during that time. (*Id.*) In rebuttal testimony, the Company informed Staff that the implementation of Click to Chat was delayed until October 2023, which means it has now been available for closer to 18 months. (4 TR 1123.) Despite this corrected data, Staff still asserts that usage is relatively low, at approximately 17 interactions per month. The Company has not provided evidence that interactions which began with a customer using Click to Chat were able to be fully resolved using that tool, or if customer interactions needed to be escalated to a different channel such as a phone call. The Company admitted that it has not been

tracking how many of its customers' problems or issues were able to be fully resolved using Click to Chat. (4 TR 2620.)

In rebuttal testimony, the Company did not respond to Staff's concerns regarding some of the fundamental issues with Click to Chat mentioned previously, namely that the Company's customer service representatives are responsible for monitoring the tool and that it is therefore only available to customers during business hours. (4 TR 2619-2621.) By its very design and availability, Click to Chat was not planned in a customer-friendly way, and nothing in the Company's testimony provides sufficient evidence as to why the investment for Click to Chat is reasonable and prudent. Thus, the Commission should disallow costs for this project.

b. Staff recommends the Commission reduce capital expenditures related to the Customer – Web Chat AI by \$181,000.

Staff recommends reducing capital expenditures related to the Customer – Web Chat AI by \$181,000 which reduces rate base by \$81,000. (Appendix E, line 8.) Staff recommends that the Commission disallow the requested costs of \$180,565 in capital expenditures and \$14,929 in O&M costs for the test year ending 10/31/2026 for the Web Chat AI project. The Web Chat AI offers technology which is redundant to that already available to customers. Therefore, the benefits provided to customers are not commensurate with the program cost. The Web Chat is intended to simply aggregate information from the Company's own website to answer common/routine questions or concerns. (4 TR 2622.) Staff would prefer the

Company devote resources to updating its website, making any general, frequently-asked questions readily available to all customers.

The Company's website redesign, per the settlement entered in Case No. U-21224 and approved by the Commission, would offer user-friendly navigation and enhanced accessibility, both of which would ensure that navigation on the website is intuitive and that the site is accessible to all users. (4 TR 2623.) However, the website redesign is on hold yet again and there is no known timeline for that project. (4 TR 2622; Exhibit S-11.5.) As Staff points out in testimony, were the Company to continue with its website redesign, or barring that at the current time, to at least update its website with a comprehensive frequently asked questions page, it could make information that the Web Chat is intended to offer accessible at a substantially lower price. (4 TR 2623.)

In its rebuttal testimony, the Company states that because the Web Chat is another customer channel of choice, it should be "supported, maintained, and updated as necessary." (4 TR 1123-1124.) However, the Company has not demonstrated customer interest in such a feature and the Company already offers many other communication avenues for its customers. Staff agrees with the Company that "[n]ot every customer has an issue or question that rises to the level of calling a service center" but it is unclear why a tool such as the Web Chat AI is necessary when the information it provides is already available via the Company's website. (4 TR 1124.)

No costs savings are anticipated from the Web Chat AI project. (*Id.*) Staff struggles to see value in this project which seems to cost ratepayers money and offer them very little in return. Any information the Web Chat can offer may already be found on the Company's website—or by calling or otherwise contacting the Company through established channels. The costs for this project should be disallowed by the Commission.

c. Staff recommends the Commission reduce capital expenditures related to the Customer – LMI Customer Enhancements by \$241,000.

Staff recommends reducing capital expenditures related to the Customer – LMI Customer Enhancements by \$241,000 which reduces rate base by \$182,000. (Appendix E, line 9.) Staff recommends that the Commission and ALJ reduce costs related to the enhancements for the Low Moderate Income Customer Enhancements as Staff is also recommending full disallowance for the requested costs for this entire project. Therefore, it is proper to disallow any costs for enhancements related to this project. A more detailed discussion of Staff's rationale for disallowing the Low Moderate Income Customer Project may be found in part e of this brief section.

d. Staff recommends the Commission reduce capital expenditures related to the Customer – Self-Service Mobile App by \$1.423 million.

Staff recommends reducing capital expenditures related to the Customer – Self-Service Mobile App by \$1.423 million which reduces rate base by \$873

thousand. (Appendix E, line 10.) Consistent with prior recommendations, Staff recommends full disallowance of the costs requested for the Customer Self-Service Mobile Application (Mobile App or App). This represents a decrease of \$61,562 in historical capital costs for the year ended 12/31/2023, \$274,116 in capital costs for the year ended 12/31/2024, \$598,472 in capital costs for the year ending 12/31/2025, and \$550,025 in capital costs and \$6,510 in O&M costs for the projected test year ending 10/31/2026.

Beginning with Case No. U-20697, and in every subsequent rate case it has been presented in, Staff has recommended full disallowance of the costs requested for the Mobile App as it represent functionality that is duplicative of the Company's website. Staff asserts that over \$10 million in total costs should not be passed on to ratepayers. (4 TR 2624.) The App represents a functionality that is redundant to that offered by the Company's website and the Company has not proven the need for a mobile application. Staff argues against recovery of costs associated with the Mobile App because the Company has never demonstrated a need for such an application or customers' interest in it.

The Company has requested and received recovery for its website redesign in previous rate Case Nos. U-21308, U-21224, and U-21490 but as noted above, that redesign has been delayed. (4 TR 1126; 4 TR 766.) The Company's website redesign is a more prudent use of ratepayer money, as the App merely offers information that is already available on the website yet does not contain the entirety of the website's information. (*Id.*) In its rebuttal testimony, the Company

states that the App’s popularity is rising, as its current “share of digital traffic is 28%.” (4 TR 1125.) However, Staff would argue that this amount of usage is still relatively low, especially considering that the App has been available for several years at this point. Additionally, App usage at just 28% means other digital options – namely the website – account for 72% of digital transactions.

In addition, Staff is especially concerned that the requested costs for the App for 2025 and 2026 include unspecified costs that are defined as “emergent.” (4 TR 2626.) These emergent work expenses allow the Company to spend on projects without the ability for Staff to fully analyze and understand where those expenditures are being allocated to. Staff and intervenors do not have the opportunity to evaluate these emergent costs for reasonableness and prudence. Because it is critical that the Company does not recover more than it actually needs, and to prevent the Company from potentially over-earning – leading to higher costs for ratepayers – the Commission should disallow the requested emergent costs for those projects.

Two of the enhancements included for 2025 and 2026 – the App Support Center and the App Login Enhancements – also have cost estimates that are not yet completed. (*Id.*) Staff does not recommend recovery given the unknown nature of those costs. Like emergent costs, Staff must ensure that the requested costs are reasonable and prudent, which cannot be done when the costs are unknown. It should be noted that the Company did not address the costs for these emergent and unknown costs for the Mobile App in rebuttal testimony. Therefore, at a minimum,

Staff recommends the Commission disallow expenditures associated with these emergent and unknown cost requests for the Mobile App enhancements in the amount of \$598,472 for 2025 and \$550,025 in capital and \$6,510 in O&M costs for 2026. Staff strongly encourages the Commission to disallow all requested costs for the Mobile App, in line with Staff's previous recommendations in past rate cases.

e. Staff recommends the Commission reduce capital expenditures related to the Customer – Low Moderate Income by \$1.900 million.

Staff recommends reducing capital expenditures related to the Customer – Low Moderate Income by \$1.900 million which reduces rate base by \$855 thousand. (Appendix E, line 11.) Staff recommends that the Commission disallow the requested capital expenditures of \$1.9 million for the Low Moderate Income (LMI) Customer Support Enhancement project. Staff has reservations with this project and was unable, despite many rounds of audit questions and responses, to determine how this project functions. The Company claims that the LMI project will make interactions “more accessible, supportive, and efficient for low-to-moderate income (LMI) customers” and aims to support LMI customers in reducing their utility bills by “driving greater awareness and enrollment into eligible programs and services.” (4 TR 1095.) Staff has many concerns with this project. There are no projected overall costs savings at this point that will be associated with this project. (4 TR 2633.) The purported “benefits” of this project the Company posits as rationale for its funding are nebulous and do not justify its high costs. A project projected to cost over \$2 million should have more definitive

benefits than “better understanding of LMI customer needs, improved customer identification and targeting, increased program participation, and economies of scale with centralized enrollment.” (*Id.*)

As iterated above, Staff lacks a fundamental understanding of how the LMI project is meant to work and why an entirely separate project was needed to accomplish what seems to amount to updates to the Company’s website. (4 TR 2627.) The Company was asked to provide a “roadmap” to demonstrate how this project works, yet the tangible results remain unclear to Staff. Staff does not support this project because Staff ultimately does not believe this project will do anything to fix or prevent the root causes of customers either in or on the brink of crisis. The LMI project will not reduce customers’ energy burden, even if they are able to utilize a payment plan, select their due date, enroll in programs, etc; indeed, these solutions are mere band aids to the larger root problem of energy unaffordability. (4 TR 2632.)

A core function of the LMI project is Simplified Enrollment, at a cost of \$600,000. (4 TR 2628.) The Company is not creating new programs under this project but is attempting to make it clearer where customers can find programs and enroll in them. (*Id.*) Staff does not understand why the information regarding enrollment in relevant programs is not already available to customers and why the Company needs additional funds to make the information available. Staff asserts that updating the Company’s website is a better use of resources and would be beneficial to all customer classes.

As part of its rebuttal testimony filing, the Company provided a new exhibit, Exhibit A-129, titled the LMI Mindset Map. This exhibit is evidently meant to provide more clarity into the necessity of proactive communication methods. (4 TR 1116.) Though this exhibit provides more information about the supposed mindset of a customer who is eligible for offerings under the LMI project, Staff still fails to see why the expenditure of \$400,000 is necessary. To Staff, this is the crux of the issue with this project – Staff supports LMI customers being informed about the programs and offerings they are eligible for, as well as easy enrollment for customers in those programs, but does not understand how or why over \$2 million needs to be spent and what tangible results customers will gain from this project.

In the same vein, the Company has not addressed Staff's concerns regarding the \$700,000 to be spent on New and Improved LMI Offerings. (4 TR 1117.) Maintenance and annual updates are projected as part of this project and the scope for those updates has not yet been defined, nor have the new offerings for LMI customer been defined. (4 TR 2631.) Staff has no way to know what costs could also be requested for this project in the future. (*Id.*)

The Company proposes to spend \$200,000 on Continuous Improvement to establish performance metrics for the LMI project, an expense that Staff again feels is too costly. (*Id.*) Of that \$200,000, \$50,000 will be spent on “Customer Satisfaction,” another \$50,000 on “Responsive Adjustments,” and \$100,000 on “Data-Driven Enhancements.” (*Id.*) All of these proposed costs overlap and the Company did not justify their disparate cost requests. In rebuttal testimony, the

Company stated that they initiated primary and secondary research with LMI customers to better understand those customers. (4 TR 1118.) However, it was never explained why and how the large sum of money for this area was spent, nor why it was necessary. It is premature to request money to “improve” a program that is new and should not be predetermined to need improvement at its outset.

Staff would like to note that though it is appreciated that the Company is attempting to align itself with the MPSC’s Low-Income Energy Policy Board, Energy Affordability and Accessibility Collaborative (EAAC), and EWR Low-Income Workgroup, the LMI project does not seem the best way to accomplish the goals of those various groups. Further, the information that customers access by clicking on the LMI tool is already available on the Company’s website. (4 TR 2634.)

Finally, the Company posits that disallowing the LMI project will have “significant and immediate negative consequences, particularly for the Company’s most vulnerable customers.” (4 TR 1119.) Staff disagrees. This project offers no new information not already contained within the Company’s website. Staff is not convinced that “meaningful relief” will truly stem from this project. It is Staff’s responsibility is to ensure that proposed expenditures are reasonable and prudent. Staff does not support approval of project costs that do not provide a direct and tangible benefit to customers.

f. The Commission should disallow \$575,352 in capital expenditures for the ARP-FDAM Project.

Staff recommends reducing capital expenditures related to the IT / Digital foundation – ARP – field device asset management project by \$575 thousand which reduces rate base by \$355 thousand. (Appendix E, line 12.)

In Staff's direct testimony, it recommended a disallowance of \$831,046 for the 10-month bridge period ending 10/31/2025 and \$999,543 for the projected test year ending 10/31/2026 for all new field device purchases. (4 TR 2712-2713.) In the Company's rebuttal testimony, it indicated that Staff used the wrong projected costs for making this disallowance and stated the correct projected costs. (4 TR 758-759.) Staff's corrected disallowances include capital expenditures totaling \$261,198 for the 10-month bridge period ending 10/31/2025 and \$314,156 for the projected test year ending 10/31/2026. Staff recommended this disallowance because the Company failed to provide clear evidence to support the new purchase expenditures. The Company's testimony, exhibits, and audit responses had conflicting rationales for how the costs were projected and what the number of new device purchases for 2025 and 2026 were based on. (4 TR 2713.)

This project includes both replacements and new purchases of field devices. (4 TR 687.) According to Company witness Stacy H. Baker, new purchases "[a]re determined based on People and Culture hiring estimations and any known field device needs of a particular work group...." (4 TR 688.) Device and monitor types determine the unit costs. (*Id.*) In the Company's initial filing, they indicated the need for 200 new field devices in 2025, and 200 new field devices in 2026. The

Company also indicated that any variance in the projected number of new devices was due to the projections being based on “People and Culture” hiring estimates. (*Id.*) Additionally, it is clear from the tables presented in the Company’s testimony that historically the number of new device purchases has never been the same across any two consecutive years. (4 TR 689.)

Through audit, Staff inquired about the new device purchases. Specifically, Staff inquired as to why the projected number of new devices in 2025 and 2026 were the same, and if the “People and Culture” estimated hiring information used to project these numbers, were expected to be the same for both years. Through an audit response from the Company, Staff learned the projected costs were validated using historical cost. The Company failed to address whether the “People and Culture” estimated hiring data is the same for both years, which could explain why the projected number of new devices would also be the same for 2025 and 2026. The Company replied in audit, that it validated the total projected costs for this project using historical actuals. However, Staff was inquiring about the projected number of new field devices, not the methods used to project the overall cost. (Exhibit S-19.1, p 12.) Through audit, the Company failed to address why the number of new device purchases is projected to be the same for 2025 and 2026, and what it used to project this number. Instead, the Company stated it used historical costs to validate the total projected costs of new field device purchases. (4 TR 2713-2714.) Based on the conflicting information between the Company’s direct testimony and

its response via audit, Staff recommends a disallowance due to insufficient evidence supporting the new field device purchases.

In rebuttal testimony, the Company stated that historical costs were used as the basis for the projected new purchase spend costs and confirmed this in audit response U-21806-SA-CE-288. (Exhibit S-19.1, p 11.) However, this audit response is a follow-up question referring to information provided in a previous audit response from the Company regarding the ARP-WAM project (U-21806-SA-CE-188), not the ARP-FDAM project, as is referenced in the Company's response, where it provides costs for the ARP-WAM project. The Company stated in rebuttal that it confirmed "People and Culture" hiring estimates were not used for the ARP-FDAM project, and reference Exhibit S-19.1, page 11 when in fact this information confirming it did not use "People and Culture" hiring estimates was referring to the ARP-WAM project. (4 TR 757.) Furthermore, as stated in Staff's direct testimony, the Company still has failed to address, in audit and in rebuttal, if "People and Culture" hiring estimates were used to project the number of new device purchases. (4 TR 2713-2714.)

While the Company provided additional context in rebuttal testimony, around the need for this project, which was never in dispute, it did not offer sufficient justification for the number of new devices it plans to purchase. (4 TR 757-758.) The projected costs are based on the number of new devices, yet the Company failed to explain how that number was determined. Instead, where offering response and clarification, the Company focused on the overall

reasonableness of the final projected cost, without addressing the underlying method used to develop it. The failure to provide sufficient evidence regarding underlying methodology is the reason for Staff's recommended disallowance. (4 TR 757.) The Company's response failed to answer the central question as to why the same number of new device purchases were applied across both years and what specific data or basis was used to arrive at those projections. Without support for how the projected number of new device purchases was determined, the accuracy of the total projected costs is also unsupported, as it directly depends on that quantity.

The Company further contradicted how ARP project costs are projected in its rebuttal testimony addressing the ARP-LAN project. In rebuttal testimony, the Company disagreed with CUB witness Joshua W. Denzler's recommended adjustment to the ARP-LAN project and stated, "[t]he type of LAN switch that requires replacement determines the unit cost, and the Company's cost projections were based on these specific requirements." (4 TR 788.) As stated by the Company, the type of unit has an associated unit cost, which is then used to project the overall cost. This method is consistent with that which is provided in Exhibit A-22. However, the Company also stated, that the projected cost of new device purchases were based on historical costs, which appears inconsistent with its own claim that projected costs were based on actual LAN switch unit costs. (4 TR 757.)

The Company failed to provide valid information on how the number of new device purchases was determined, and why the projected number was the exact same for 2025 and 2026, and instead it focused on the overall cost and how this

number is in line with historical spend. (4 TR 2713-2714.) The Commission should disallow the requested recovery associated with the cost projections for new purchases in the ARP-FDAM project because the Company has not adequately supported this portion of the project with clear, consistent evidence and thus Staff is unable to verify the reasonableness and prudence of this cost.

g. The Commission should disallow \$575,497 in capital expenditures for the ARP-WAM Project.

Staff recommends reducing capital expenditures related to the IT / Digital foundation – ARP – workstation asset management by \$575 thousand which reduces rate base by \$355 thousand. (Appendix E, line 13.) In Staff's direct testimony, it recommended a disallowance of \$831,077 for the 10-month bridge period ending 10/31/2025 and \$997,292 for the projected test year ending 10/31/2026 for all new field device purchases for the ARP-WAM project. (4 TR 2714-2715.) In the Company's rebuttal testimony, the Company indicated that Staff used the wrong projected costs for making this disallowance and stated the correct projected costs. (4 TR 761.) Staff's correct disallowances include capital expenditures totaling \$261,197 for the 10-month bridge period ending 10/31/2025 and \$314,300 for the projected test year ending 10/31/2026. Staff recommended this disallowance because the Company failed to provide sufficient evidence to support the expenditures for new purchases for the ARP-FDAM project. In addition, the Company provided conflicting rational between information provided in Company witness Baker's direct testimony, and audit responses to Staff, regarding how new

purchase costs were projected. (Exhibit S-19.1, pp 10-11.) This project replaces old and outdated equipment with new versions. It also includes new purchases of equipment in anticipation of new employees hired in the future. The Company provided inconsistent and unsupported information regarding how it projected costs for new device purchases.

This project also includes both replacements and new purchases of PC devices and monitors. Company witness Baker stated that new purchases “[a]re determined based on People and Culture hiring estimations and any known PC device needs of a particular work group....” Device and monitor models determine the unit costs. (4 TR 695.) In the Company’s initial filing they indicated the need for 393 new PC devices and 400 new monitors in 2025 and 393 new PC devices and 400 new monitors in 2026, the reason for variance being the projection for 2025 and 2026 were based on “People and Culture” estimated hiring. (*Id.*) It is also clear from the tables presented in the Company’s testimony that historically the number of new device purchases has never been the same across any two consecutive years. (4 TR 697.) Through audit, Staff inquired about the new device purchases and why the projected number for these new devices in 2025 and 2026 were nearly the same. (Exhibit S-19.1, p 10.)

In the first audit response, the Company shared, consistent to what was presented in testimony, that “People and Culture” hiring estimates were used to project the number of new devices needed. (4 TR 695-697; Exhibit S-19.1, p 10.) In a follow-up audit question Staff asked the Company if the “People and Culture”

hiring estimations used to project these numbers were expected to be the same for both years. In the Company's response, it clarified that after further investigation, the "People and Culture" hiring estimates were not used to project the number of new PC and monitors needed for 2025 and 2026 in this project. It shared that historical actuals were used to validate these purchases and a table detailing these costs was provided. (Exhibit S-19.1, p 11.) Through audit, the Company failed to address why the number of new PC devices and monitors is projected to be the same for 2025 and 2026 and what it used to project these numbers. Instead, the Company stated it used historical costs to validate the total projected costs of new PC and monitor purchases. (4 TR 2715-2717.) Staff recommended a disallowance of the projected costs for the portion of new purchases for this project due to insufficient support of the projections.

In rebuttal testimony, Company witness Baker testified that historical costs were used as the basis for the new projected spend and confirmed "People and Culture" hiring estimates were not part of the projections. (4 TR 759-760.) The Company further argued that such an adjustment would negatively affect field employees' work. (4 TR 760-761.)

While the Company provided additional context to justify the need for this project, which was never in dispute, it did not offer sufficient justification for the projected costs of new devices. The projected costs are based on the number of new devices, yet the Company failed to provide new information on how that number was determined. Instead, it focused on the overall reasonableness of the final

projected cost, without addressing the underlying method used to develop it. (4 TR 759-760.) For Staff to evaluate the reasonableness and prudence of a cost, Staff must be provided information regarding the underlying methodology used to reach the end result for which the Company has requested. The response provided by the Company again failed to answer the central question of why the same number of new device purchases were applied across both years and what specific data or basis was used to arrive at those projections. Without support for how the projected number of new device purchases were determined, the accuracy of the total projected costs is also unsupported, as it directly depends on that quantity. Therefore, Staff recommends the Commission disallow the portion of the ARP-WAM project that is associated with new purchases.

h. Other Benefits – Incentive Compensation – Leave it Better Award (LIBA)

Staff recommends reducing capital expenditures related to the Incentive Compensation Leave It Better Award by \$2.388 million which reduces rate base by \$1.892 million. (Appendix E, line 17.) This capital disallowance corresponds with Staff's recommendation that the Commission reject the Leaving it Better Award (LIBA) program O&M expense of \$550,000. The justification for disallowing this expense in its entirety is addressed below in Section V.D.3. Staff recommends the Commission disallow a capital amount of \$2,387,500 for the test year ending October 31, 2026, for the Incentive Compensation—Leave It Better Award.

6. Enhanced Infrastructure Replacement Program.

- a. Staff recommends the Commission approve the Company's revised requested expenditure level for the Enhanced Infrastructure Replacement Program.**

Staff recommends that the Company's capital expenditure request for the Material Condition – Enhanced Infrastructure Replacement Program (EIRP), as revised in rebuttal testimony, should be approved. The Company proposes capital expenditures related to the EIRP of \$195,587,000 in 2024, \$204,611,703 in the 10 months ending October 31, 2025, and \$250,809,975 in the test year ending October 31, 2026. (3 TR 438-439.) Company witness Kristine A. Pascarello testifies to the EIRP's scope, progress, cost factors and initiatives, project selection methodology, and customer benefits. (3 TR 384-398.)

In its testimony, Staff generally supports the Company's level of capital expenditure based on the Company's initiative to remove identified high-risk vintage main materials by the year 2035 and the Company's efforts to reduce costs for installation of new plastic main under the EIRP. (4 TR 2734-2736.)

Attorney General witness Sebastian Coppola recommends a disallowance of the EIRP. The AG asserts that certain projects have not progressed enough in design and planning to be included in this rate case. The AG also argues that the Company is requesting a new peak level in capital expenditures for the EIRP and should be subject to a spending cap of \$197,000,000 to control costs borne by the ratepayers. (4 TR 1876-1883.)

In the direct testimony of Michigan Environmental Council and Sierra Club (MEC/SC) witness Dr. Sol deLeon, MEC/SC concludes that the Company's EIRP planning process is inadequate because it does not consider energy transition and climate objectives. MEC/SC also requests the Commission require the Company to use a probabilistic risk model for both EIRP and Vintage Services Program planning prior to allowing the Company to exceed 2024 capital expenditure levels of \$195,587,000 for the EIRP. MEC/SC further recommends that the Commission should open docket to address planning parameters that include the use of non-pipeline alternatives and other alternative approaches to address the Company's pipeline system. (4 TR 2312-2317.)

The Association of Businesses Advocating for Tariff Equity (ABATE) argues against the Company's proposed capital expenditure levels for the EIRP in direct testimony. ABATE witness Colin T. Fitzhenry asserts that the Company has not demonstrated safety risks based on the Company's declining leak rates. Based on the Company's relative risk scores for its top 25 risk segments, ABATE proposes that the Company could limit replacement for the 10 highest risk segments that are above the average risk for the top 25 segment list. (4 TR 2131-2138.) It is unclear what ABATE's basis is for this argument that replacing only the top 10 segments instead of the entire top 25 risk segments is in the best interest of risk abatement and public safety.

ABATE also responds to Staff's position on the EIRP in rebuttal testimony. ABATE witness Fitzhenry argues that Staff failed to address the Company's safety

and reliability metrics, cause of natural gas leaks, or segment risk and asserts that ABATE is not persuaded to support the Company's proposed expenditure level for the EIRP. ABATE alternatively recommends that the Company's capital expenditure level should be based on a five-year average of \$143,000,000. (4 TR 2156-2158.)

Company witness Pascarello offers rebuttal to multiple direct testimony witnesses. First, the Company addresses an adjustment to the proposed capital expenditures as filed. (3 TR 438-439.) Next, the Company addresses the AG's position. Company witness Pascarello reiterates that the Company's approach to replacing high-risk distribution mains is in support of its continuous efforts to improve safety and reliability. While the Company has systematically worked to remove the highest risk infrastructure in the 12 years since the inception of the EIRP, the remaining high-risk mains that were identified at the beginning of the program continue to age and pose ongoing safety and reliability risks. Company witness Pascarello also affirms that the projects characterized by AG witness Coppola as premature are in fact progressing through the design process. (3 TR 441-447.)

The Company argues that ABATE's position is invalid because it only reviewed relative risk ranking of 25 segments out of the Company's approximately 544,000 segments. The top 25 risk segments that are addressed in ABATE's argument account for 18% of the total risk when compared to the Company's distribution pipeline system in its entirety. (3 TR 462-465.)

Finally, the Company addresses MEC/SC's arguments. Company witness Pascarello points out that the Company does regularly provide risk rankings in EIRP filings as required by Commission orders. The Company also argues against the requirement to use probabilistic risk modeling for the EIRP. The Company plans to implement probabilistic risk models for distribution in 2027 but does agree that the EIRP capital expenditures should be capped until that is implemented. (3 TR 468-471.)

Staff agrees with the Company that a proactive approach to address leak-prone vintage mains is necessary to improve the safety and reliability of the Company's distribution system. These high-risk mains are actively deteriorating, and the Company's systematic main replacement addresses public safety risks and mitigates the cost of emergent replacement projects. Thus, Staff recommends that the Commission approve the Company's revised requested expenditure level for the EIRP.

7. Vintage Service Replacement Program

a. Staff recommends the Commission approve the Company's requested expenditure level for the Vintage Service Replacement Program.

Staff recommends that the Company's capital expenditure request for the Material Condition – Vintage Service Replacement Program (VSR) should be approved. The Company proposes capital expenditures related to the VSR of \$18,666,000 in 2024; \$25,885,000 in the 10 months ending October 31, 2025; and \$42,513,000 in the test year ending October 31, 2026. Company witness Pascarello

testifies that the VSR includes the replacement of copper and bare steel vintage service lines. The VSR includes the proactive replacement of vintage service lines that are not connected to a distribution main replacement project under other programs, such as the EIRP, Asset Relocation, or other programs. The Company proposes to complete 2,875 VSR units at a unit cost of \$6,493 in 2024, 4,194 VSR units at a unit cost of \$6,671 in 2025, and 5,913 VSR units at a unit cost of \$7,389 in 2026, where 5,827 VSR units are replaced at a unit cost of \$7,296 in the test year ending October 31, 2026. (3 TR 414-419; Exhibit A-82.)

Attorney General witness Coppola recommends a disallowance for the VSR. The AG find that the forecasted increase in VSR units to be replaced in 2025 and 2026 is excessive and does not align with the reduced replacement units observed from 2022 through 2024. The AG asserts the replacement level is not adequately supported by gas leak data. Alternatively, the AG supports the position that a VSR unit projection of 2,564 should be used for 2025 and 2026 based on the Company's actual VSR units replaced in 2024. The AG proposes no adjustments to the Company's projected VSR unit costs. The reduced VSR units supported by the AG result in a recommended reduction in capital expenditures of \$11,631,000 in the 10 months ending October 31, 2025, and \$18,638,000 for the test year ending October 31, 2026. (4 TR 1888-1890.)

In the direct testimony of Dr. deLeon, MEC/SC provided a review of the Company's VSR. Like recommendations for the EIRP as previously discussed in this brief, MEC/SC also requests the Commission require the Company to use a

probabilistic risk model for VSR planning prior to allowing the Company to exceed 2024 capital expenditure levels of \$18,666,000 for the VSR. (4 TR 2332-2352.)

Company witness Pascarello offers rebuttal to the direct testimony of the AG and MEC/SC. First, the Company addresses the AG's position regarding the increase in VSR units for 2025 and 2026 as compared to the number of VSR units completed in 2022 through 2024. Company witness Pascarello references her original testimony that the increase in vintage services proactively replaced through the VSR is directly related to a reduction of vintage services that are being replaced through the EIRP. Company witness Pascarello asserts that there is a correlation between the Company's VSR unit replacement projections and its transition away from EIRP grid projects. The proposed increase in VSR units is related to the Company's decrease in large grid projects that result in less vintage services being replaced through the EIRP program. The Company argues its projections for VSR units are consistent with replacement rates prior to 2022 when the EIRP program was more heavily weighted with smaller segment projects than grid projects. Thus, the Company maintains that the projected increase in units replaced through the VSR is appropriate based on the projected increase of smaller segment projects in the EIRP. (3 TR 453-454.) Next, the Company addresses the MEC/SC's position that the VSR capital expenditures should be capped until a probabilistic risk model is implemented for the VSR. Company witness Pascarello argues that the probabilistic risk model for the VSR is complex and time-consuming. Additionally, the Company implemented its Distribution Risk Analysis Model (DRAM) to its

distribution services beginning in 2025. The Company asserts that the DRAM is an effective risk assessment method and thus, the use of a probabilistic risk model is not necessary. The Company concludes that reducing the capital expenditure level for the VSR will result in the delay in replacement of leak-prone vintage services. (4 TR 471-472.)

As with the EIRP, Staff agrees with the Company that a proactive approach to address leaks on the Company's distribution system is necessary to improve the safety and reliability of the Company's distribution system. Thus, Staff recommends that the Commission approve the Company's revised requested expenditure level for the EIRP.

8. Accumulated Provision for Depreciation (Depreciation Reserve)

See Section III.A.1.b. above.

B. Working Capital

The second component of rate base is working capital. Staff's direct case projected working capital of \$ 1.368 billion. (Exhibit S-2, Schedule B-1.)

Staff adopts the following concessions from Consumers Energy's rebuttal testimony, as shown in Exhibit A-150, in this initial brief as follows:

- Correction of projected working capital S4/HANA cloud implementation adjustment (\$1.746 million)

- Correction of projected working capital prepaid cloud implementation adjustment (\$1.034 million)

Consumers Energy adopted the following direct adjustments made by Staff in its rebuttal testimony as shown in Exhibit A-150:

1. The Commission should adopt the adjustment made to cash, cash equivalents, and restricted cash working capital made by Staff and agreed to by the Company.

In its application, the Company projected its cash, cash equivalents, and restricted cash working capital in the amount of \$28,393,000. (Exhibit A-12, Schedule B-4, line 1, column (p).) Staff witness Justin J. Hecht recommends a \$5,263,000 reduction to cash, cash equivalents, and restricted cash. (4 TR 2503; Exhibit S-2, Schedule B-4.) In response to Staff's audit request, the Company confirmed it used incorrect data to calculate its cash balance and this amount should be removed from working capital. (Exhibit S-12.1.) The Company agreed to Staff's adjustment in its rebuttal testimony. (4 TR 860.) Based on the record evidence in this case, Staff recommends the Commission adopt the adjustment made to cash, cash equivalents, and restricted cash working capital made by Staff and agreed to by the Company and reduce the projected test year working capital by \$5,263,000.

2. Staff recommends the Commission adopt the adjustment made to Accrued taxes working capital by Staff and agreed to by the Company.

In its application, the Company projected its Accrued taxes working capital in the amount of \$12,398,727. (Exhibit A-12, Schedule B-4, line 14, column (p).) Staff witness Hecht recommends a \$127,805,000 increase to Accrued taxes (4 TR 2503; Exhibit S-2, Schedule B-4.) The Company, in response to the AG's Discovery, acknowledged the calculation of projected accrued taxes was incorrect as filed and confirmed the Accrued taxes balance should be \$127,805,000 higher. (Exhibit S-12.2.) The Company agreed to Staff's adjustment in rebuttal. (4 TR 1778.) The Attorney General agreed with Staff's adjustment to accrued taxes. (4 TR 1778.) No other party addressed this issue on the record.

Based on the record evidence in this case, Staff recommends the ALJ and the Commission adopt the adjustment made to Accrued taxes working capital by Staff and agreed to by the Company and reduce the projected test year working capital by \$127,805,000.

3. Staff recommends the Commission remove the Riverside Storage regulatory asset from working capital in the amount of \$7.398 million.

Staff witness Nichols supported an adjustment for the termination of the Riverside Storage Facility Utility Plant agreement as the sale will not be completed as anticipated. (4 TR 2493-2494.) The termination of the agreement has a \$7,398,000 impact on working capital as noted in Section III.A.3.f above.

4. Staff recommends the Commission remove non-utility accounts from working capital in the amount of \$233 thousand.

In its application, the Company projected its Deferred debits working capital in the amount of \$466,865,000. (Exhibit A-12, Schedule B-2, line 8, column (p).) Staff witness Hecht recommends a \$233,000 decrease to Deferred debits. (4 TR 2502; Exhibit S-2, Schedule B-4.) The Company, in response to Staff's audit request, confirmed it inadvertently included a non-utility account in its test year working capital for this case. (4 TR 2502; Exhibit S-12.0.) The Company agreed to Staff's adjustment in rebuttal. (4 TR 1779.) Based on record evidence in this case, Staff recommends the Commission adopt the adjustment made to Deferred debits working capital by Staff and agreed to by the Company and reduce the projected test year working capital by \$233,000.

With the above updates by Consumer Energy and Staff, Staff now projects working capital of \$1,364,902,000, which is equal to the Company's rebuttal projection. (Appendix B.) Staff recommends the Commission adopt \$1,364,902,000 for working capital for the projected test year.

C. Unamortized Manufactured Gas Plant Balance

The third component of rate base is net unamortized manufactured gas plant (MGP). Staff recommends a net unamortized gas plant balance of \$20.438 million, which is equal to the Company's rebuttal projection. (Exhibit A-147, line 4, column

(e.) Staff recommends the Commission adopt \$20.438 million for net unamortized MGP for the projected test year.

The Company, through its witness Heather M. Prentice, has requested recovery and approval of approximately \$997,000 for costs incurred for environmental response activities associated with their historic manufactured gas plant sites for the calendar year 2024. (4 TR 1725; Exhibit A-91, line 24.)

Through Staff's review and audit of the Company's response activities and costs it found that the Company included forecasted costs for the last few months in 2024. Staff asked that the Company update their costs using only actuals for the entire calendar year 2024.

Based on Staff's review of the actual costs for the calendar year 2024, Staff witness James E. LaPan recommends the Commission approve recovery \$1,539,724 as reasonably and prudently incurred costs for the 2024 calendar year. (4 TR 2600; Exhibit S-7.) No other parties have contested Staff's recommendation. As such, Staff recommends the Commission approve \$1,539,724 for costs incurred for environmental response activities associated with the Company's historic manufactured gas plant sites for the calendar year 2024.

D. Total Rate Base

Staff recommends a rate base of approximately \$11.519 billion, which is \$48.443 million less than the Company's rebuttal projection of \$11.567 billion. (Appendix B.) Staff's direct filing projected test year rate base was \$11.584 billion,

which Staff has updated for this brief to \$11,518,990,000. (Exhibit S-2, Schedule B-1; Appendix B.) The resulting \$64,871,000 decrease in Staff's rate base from its initial filing is detailed below (Appendix F):

Walk from Staff Initial Filing to Initial Brief Rate Base				(\$000,000)
Staff Initial Filing Rate Base	Exhibit S-2, Schedule B-1			\$ 11,583.861
2024 IT capital expenditures	CE Concession Adopted by Staff			(5.668)
Project B-GL-00251	CE Concession Adopted by Staff			(0.417)
Project B-GL-03042	CE Concession Adopted by Staff			(0.003)
Compression & Storage 2024 Underspend	CE Concession Adopted by Staff			(7.563)
Lansing Service Center	CE Concession Adopted by Staff			(16.720)
Hastings Service Center	CE Concession Adopted by Staff			(0.019)
Distribution Gas Ops - Comp & Controls	CE Concession Adopted by Staff			(0.380)
Material Condition - ERIP	CE Concession Adopted by Staff			(2.991)
New Business - Mains, Services, and Meter Stands	CE Concession Adopted by Staff			(12.790)
New Business - Large New Business Projects	CE Concession Adopted by Staff			(5.043)
Asset Relocation - Civic Improvement Projects	CE Concession Adopted by Staff			(14.365)
Asset Relocation - Reimbursable Projects	CE Concession Adopted by Staff			(1.163)
Correction of projected working capital S4/HANA cloud implementation adjust	CE Concession Adopted by Staff			(1.746)
Correction of projected working capital prepaid cloud implementation adjust	CE Concession Adopted by Staff			(1.034)
Accumulated Depreciation	WF adopt CE Concessions above			3.484
It/Digital Foundation - ARP Field Device Asset Management	Staff update at Initial Brief			0.913
It/Digital Foundation - ARP workstation Asset Management	Staff update at Initial Brief			0.911
Accumulated Depreciation	WF Staff updates			(0.277)
Rounding				(0.001)
Staff Initial Brief Rate Base	Appendix B, line 8			\$ 11,518.990

The \$48.433 million difference between Staff's rate base and the Company's rate base is due to a \$48.433 million reduction in net utility plant, no reduction to working capital, and no reduction to net unamortized MGP. (Appendix B.)

IV. CAPITAL STRUCTURE AND RATE OF RETURN

A. The Commission should adopt Staff's recommended 9.75% ROE and 50.00% equity layer in the ratemaking capital structure.

Staff recommends the Commission adopt its 9.75% ROE and 50.00% equity layer in the permanent capital structure. (4 TR 2529.) Staff's request is more

reasonable than the Company's elevated request for a 10.25% ROE and a 50.75% common equity ratio. (4 TR 801.) In rebuttal, Consumers Energy disputed Staff's common equity ratio, long-term debt cost rate, and ROE recommendation. (4 TR 839; 4 TR 965.) Staff stands behind its well-developed capital structure and ROE recommendation.

B. Capital Structure Component Balances

1. Staff recommends a \$12,875,255,000 common equity balance that equates to 50.00% of the permanent capital structure.

Staff recommends a common equity layer of \$12.875 billion, which represents a 50.00% equity ratio in the permanent capital structure. (4 TR 2537.) Staff adopted the Company's equity balance request of \$13.070 billion but then modified it to \$12.875 billion to reflect Staff's recommended 50/50 capital structure request. (4 TR 2537; Exhibit A-14, Schedule D-1a, line 6, column (g).) Staff's balance is in line with the 50.00% equity layer agreed to in the Company's previous settlement which was approved through Commission order in Case No. U-21490. Staff's recommendation in this case also aligns with the Commission's preference for a balanced capital structure.⁸ (4 TR 2538.) The Commission should adopt Staff's 50% equity layer request in this case.

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

2. Staff recommends a \$12,840,150,000 Long-Term Debt balance that equates to 49.86% of the permanent capital structure.

Staff recommends a \$12.840 billion Long-Term Debt (LT-debt) balance that is 49.86% of the permanent capital structure. (4 TR 2536.) Staff adopted the Company's LT-debt balance of \$12.645 billion as shown on Exhibit A-14, Schedule D-2 but then modified it by adding \$195 million to arrive at the recommended \$12.840 billion balance. The modification supports Staff's 50/50 capital structure standard.

3. Staff recommends a \$201,400,000 Short-Term Debt balance.

Staff recommends a \$201.4 million Short-Term Debt (ST-debt) balance. Staff's ST-debt balance coincides with the Company's recommended ST-debt balance. (4 TR 2536; Exhibit A-14, Schedule D-1, line 10, column (b).) As such, there is no remaining issues with this capital structure component to address.

4. Staff recommends a Deferred Federal Income Tax (FIT) balance of \$4,629,000,000.

Staff recommends a Deferred FIT balance of \$4.629 billion. (4 TR 2536.) Staff's Deferred FIT balance coincides with the Company's Deferred FIT balance. (Exhibit A-14, Schedule D-1, line 12, column (b).) As such, there is no remaining issues with this capital component to address.

5. Staff recommends a Preferred Stock balance of \$37,315,000 and a Job Development Investment Tax Credit (JDITC) balance of \$114,000,000.

Staff recommends a preferred stock balance of \$37.315 million and a JDITC balance of \$114 million. Staff's balances coincide with the balances presented by the Company in this case. As such, there is no outstanding issues with these components to address. (4 TR 2536.)

C. Capital Structure Component Cost Rates

1. Staff recommends a long-term debt (LT-debt) cost rate of 4.33%.

Staff recommends an LT-debt cost rate of 4.33%. (4 TR 2540.) The cost rate is two basis points less than the Company's requested 4.35% cost rate. (4 TR 828.) The difference stems primarily from lower cost rate projections attached to the Company's May and August 2025 new debt issuances, and May and August 2026 new debt issuances, along with a lower issuance credit spread. Staff adopted the Company's other long-term debt fees and expenses to arrive at its recommended cost rate. The Company rebutted Staff's long-term debt cost rate. (4 TR 1027-1028.)

2. Staff recommends a short-term debt (ST-debt) cost rate of 4.52%.

Staff recommends an ST-debt cost rate of 4.52%, which coincides with the Company's short-term debt cost rate. (4 TR 831; 4 TR 2540.) Therefore, there are no outstanding issues to address with the cost rate for this component.

3. Staff agrees with the Company’s cost rates for preferred stock, deferred income tax, and the blended cost rate methodology for JDITC.

Staff agrees with the Company’s preferred stock cost rate of 4.50%, the zero percent cost rate for deferred income taxes and the blended cost rate of the permanent capital structure with respect to JDITC. (4 TR 2540.) Staff did not agree to the Company’s 10.25% cost rate for common equity.

4. Staff recommends an ROE range of 9.25%-10.25% and an ROE of 9.75%

Staff recommends a 9.75% ROE, which is the midpoint of Staff’s 9.25% - 10.25% range for the Company in this case. (4 TR 2560.) Staff developed its ROE range and recommendation using traditional ROE methods such as the Discounted Cash Flow (DCF), Capital Asset Pricing Model (CAPM), and bond yield + risk premium models. Staff also considered other ROE recommendations rendered by other state commissions across the country for comparison purposes and experienced financial judgement. Staff’s recommended ROE is summarized below along with the ROE recommendations of the parties that either provided an ROE analysis in this case or suggested a ratemaking ROE for Consumers Energy’s Gas Division. The chart below also shows the average ROE of gas rate cases authorized by various commissions across the country from years 2022 - 2024.

<u>Organization</u>	<u>ROE Recommendation</u>
Consumers Energy Gas ⁹	10.25%

⁹ Consumers Energy Gas Division – (4 TR 896).

MPSC Staff	9.75%
Attorney General (AG) ¹⁰	9.75%
ABATE ¹¹	9.45%
Citizens Utility Board (CUB) ¹²	9.24%
Average Gas Authorized ROEs across U.S. in 2022- 2024 ¹³	9.63%

The summarized positions above show Staff’s ROE recommendation is higher than the 3-year U.S. national average of 9.63% and is in line with the AG’s recommendation. Staff’s ROE recommendation is noticeably higher than ABATE’s and CUB’s ROE recommendations, which suggests prudence in Staff’s results. Staff’s ROE is only 15 basis-points below the Company’s current authorized ROE of 9.90%, signifying that Staff’s ROE recommendation is not a radical departure from the Company’s current ROE but represents a reasonable landing spot. (4 TR 1963.) The Commission should reject the Company’s unreasonable 10.25% ROE request and adopt Staff’s fair 9.75% ROE recommendation.

D. Return on Common Equity and Development

1. Legal Guidelines and Proxy Group Development

In determining a reasonable ROE, Staff relied on the guidelines set forth by the Supreme Court’s decisions in the *Federal Power Comm v Hope Natural Case Co*,

¹⁰ Attorney General – (4 TR 1966.)

¹¹ ABATE – (4 TR 2164.)

¹² CUB – (4 TR 2423.)

¹³ Staff – (4 TR 2560.)

320 US 951 (1944) and *Bluefield Water Works & Improvement Co v Pub Serv Comm*, 262 US 679 (1923). (4 TR 2542.) Staff's ROE recommendation supports a return that is sufficient to assure confidence in the financial integrity of the enterprise while also allowing the enterprise to maintain its credit and attract capital. Staff's ROE is also commensurate with return on investments with enterprises having corresponding risks. Thus, considerable judgement is used, in conjunction with the results of the cost of equity models, when determining a fair and reasonable ROE. (4 TR 2542.)

Because Consumers Energy is not publicly traded, Staff used a group of eight publicly traded natural gas utility companies to help establish a reasonable cost of equity range for the Company. Staff developed its proxy group using six criteria: 1) net plant greater than \$3.0 billion but less than \$26 billion; 2) 50% or more of revenues from regulated utility operations; 3) investment grade credit rating within three-four notches of Consumers Energy's credit rating; 4) current dividend payment to shareholders; 5) followed by 2 or more analysts as noted by Yahoo's Financial website; and 6) not involved in mergers, major corporate buyouts or significant selloffs. (4 TR 2544.)

Staff discussed the differences between the Company's proxy group and its proxy group and explained why Staff's group was a good fit to arrive at a sensible ROE for Consumers Energy in this case. (4 TR 2544.) Staff used the proxy group to provide a reasonable approximation of the Company's required cost of equity through its DCF and CAPM analyses. Staff also reviewed the annual realized

return of Consumers Energy's Gas Division from 2020 through 2024. The Company's average return over that period was 10.10%, indicating that the Company earned well over its authorized ROE of 9.90%. (4 TR 2546.)

2. Cost Equity Model Analysis

a. Staff's DCF model produced an average ROE of 9.40%

The DCF model is described by the equation $[K = D_1/P + g]$ where the first part of the equation is the dividend yield, and the second part is the expected growth in dividends. (4 TR 2547.) Staff obtained the data for its DCF analysis using stock price, dividend and growth rate statistics from industry experts such as Value Line and Zack's. Staff's DCF analysis yielded an ROE estimate of 9.40%. (4 TR 2548.)

b. Staff's historical CAPM analysis produced an average 10.63% ROE. Staff projected CAPM analyses yielded average ROE estimates of 8.25% and 9.93%.

Staff provided three CAPM analyses, an historical CAPM analysis and two projected CAPM analyses. (4 TR 2550.) The CAPM equation is described by the formula $\{K = R_f + \beta*[E(R_m) - R_f]\}$ where the first part of the equation represents the risk-free return, and the second part is the return based on the riskiness of the security (reflected by beta β) as it relates to the overall market (called the market risk premium). To estimate a cost of equity using CAPM, one needs a risk-free rate, an estimate of beta for the proxy group, and a market return for a wide portfolio of

assets. (4 TR 2550.) Staff used 30-year U.S. Treasury bond yield forecasts as its risk-free rate¹⁴, the proxy group betas from Value Line and a historical market return from the Kroll 2023 SBBI Classic Yearbook and Damodaran Online Stock, Bonds, and Bills website. (4 TR 2551.) For the projected CAPM analysis, Staff used projected market risk premium (MRP) data provided by Professor Aswath Damodaran from his Damodaran Online Finance website.¹⁵ The historical model produced an average ROE estimate of 10.63% and the projected models produced average ROE estimates of 8.25% and 9.93%. (4 TR 2553.)

c. Staff's Bond Yield + Risk Premium Analysis produced ROE estimates of 9.46%-9.56%.

Staff provided two bond yield + risk premium analyses, a historical utility bond spread approach, and a historical Treasury-bond spread approach. (4 TR 2557.) Staff used a return period of 1954 through 2024 to obtain its historical gas market risk premium data and projected A-rated utility bond yield data from Value Line. Staff also incorporated an historical Treasury-Bond yield analysis roughly over the same period. The risk premium model produced an ROE estimate of 9.56% for the projected A-rated utility bond approach and a ROE estimate of 9.46% for the Treasury-Bond yield approach. (4 TR 2558.)

¹⁴ Staff used a 30% weight for the 2025 risk-free rate estimate and a 70% weight for the 2026 estimate.

¹⁵ Damodaran On-line Home Page (nyu.edu)

d. Other state commission authorized gas utility ROE decisions from 2022 through 2024.

Staff reviewed the authorized return on equity decisions for gas utilities established by other state commissions across the United States for the years 2022 through 2024. The average authorized ROE from those decisions was 9.53% for 2022; 9.64% for 2023, and 9.72% for 2024. (4 TR 2559.) The 3-year average ROE was 9.63%.

e. Summary of results and Staff's recommendation

<u>Method</u>	<u>Range</u>	<u>ROE Result</u>
DCF		9.40%
Historical CAPM		10.63%
Projected CAPM using Damodaran – Trailing 12-month cash yield ERP		8.25%
Projected CAPM using Damodaran - 10-yr cash yield (smoothed) ERP		9.93%
Historical Risk Premium (Projected A-Rated Utility Bond)		9.56%
Historical Treasury Bond + Risk Premium		9.46%
Average Gas Utility ROE Decisions Across the U.S. (2022 – 2024)		9.63%
ROE Recommendation	9.25% - 10.25%	9.75%

E. Consumers Energy’s rebuttal of Staff’s capital structure and LT-debt cost rate.

Company witness Marc R. Bleckman rebutted Staff’s common equity balance ratio and Staff’s LT-debt cost rate recommendation. (4 TR 839.) Staff disagrees with the Company’s conclusions and will address the equity layer rebuttal first.

1. The Commission should reject the Company’s erroneous arguments and adopt Staff’s recommended common equity ratio.

Company witness Bleckman argues that Staff’s 50.00% common equity balance recommendation is understated for the Company in several ways. Mr. Bleckman alleges that Staff developed its common equity balance by 1) failing to correctly interpret the Company’s credit rating and not considering new circumstances that require a deviation from a balanced capital structure; 2) not properly considering the market’s reaction to a lower equity ratio; and 3) not properly considering the average equity ratio of the Company’s peer group in the development of Staff equity ratio. (4 TR 839.) Staff disagrees and will briefly address each argument below.

a. The Commission should reject the Company’s request for a higher equity balance due to credit rating and degraded regulatory environment concerns.

The Company noted that Moody’s revised its credit rating down a notch in May 2021 and suggested that Staff did not properly consider the Company’s downgrade in its equity recommendation. The Company also noted that Staff’s

assessment of Michigan's regulatory environment was incomplete, and that Staff failed to consider the recent declines by S&P and other agencies in their rankings of the state's utility regulation. (4 TR 840-849.) However, the Company's arguments are unpersuasive.

As Staff pointed out, Moody's revision put the Company's credit rating more in line with the other two major ratings agencies credit rating. Additionally, both Moody's and S&P indicated that the Company's FFO-to-Debt ratio, one of the primary factors in the consideration of a potential ratings action, was expected to maintain ratios above the downgrade threshold in the foreseeable future. (4 TR 2534.) Nonetheless, on page 10 of Company witness Bleckman's rebuttal, he asserts that the ratings agencies' forecasts of the FFO-to-Debt ratio were just assumptions that can be disregarded because market changes do occur, and the ratings agencies had to provide a forecast. (4 TR 847.) The Commission should disregard the Company's pessimistic view of ratings agencies' assessment of the credit quality of Consumers Energy because, as Staff noted in its testimony, the ratings agencies have held Consumers Energy's credit rating steady much more often than they have altered it over the years.

Additionally, the Moody's 2024 report noted that Michigan's regulatory climate remains utility supportive, that Michigan's regulatory framework is viewed as more credit supportive than most other states, and that Michigan utilities benefit from numerous formulaic rate adjustment mechanisms that provide a high degree of cash flow stability and assurance of recovery. (4 TR 2531.) S&P noted

that Michigan's regulatory construct was above average compared to its peers and that Michigan had several constructive rate mechanisms in place that allowed it to earn its allowed ROE and reduce regulatory lag, including Consumers Energy's 25-year enhanced infrastructure replacement program. (4 TR 1927.) Despite S&P altering Michigan's regulatory environment from "Above Average" to "Average," the agencies assessment of Michigan's regulatory environment remains positive and constructive. (4 TR 2532.) The Commission should reject the Company's erroneous argument that either an increased ROE and/or an increased equity layer should be authorized due to potential regulatory environment or credit rating downgrade concerns.

b. The Commission should reject the Company's request for a higher equity layer due to supposed new circumstances and a potential reaction to a lower equity ratio.

The Company argues that a high degree of volatility and economic uncertainty has emerged in recent months due to revised U.S. trade policy, fears of an economic downturn, and elevated negative geopolitical events happening across the globe. (4 TR 850.) The Company notes that this increased volatility calls for an equity layer to be above 50 percent to account for this uncertainty. Again, the Company's arguments are unpersuasive.

Market uncertainty and increased economic adversity does not call for more financial burden to be placed on ratepayers but less. The Company currently has an authorized capital structure evenly split between debt and equity. The

Company's request for a higher equity layer in this case, even with potentially turbulent times ahead, will only add to household costs and increase their burden. The Commission should reject that notion in full. Consumers Energy should be authorized an equity layer of no more than 50% and any argument for a higher equity layer due to projected economic uncertainty should be soundly rejected.

- c. The Commission should reject the Company's notion that Staff erred in not considering the Company's peer group equity ratios in its capital structure analysis.**

The Company alleges that Staff did not consider its peer group's average equity ratio when determining a reasonable equity ratio for the Company.

(4 TR 854.) The Company calculated its peer group's average equity ratio at 54.05%, which they said was over 400 basis points higher than Staff's 50.00% equity ratio request and over 300 basis points higher than the Company's 50.75% request.

(4 TR 855.) The Company also noted that Staff's proxy group's average equity ratio at 53.62% was over 300 basis points higher than Staff's equity ratio recommendation and over 280 basis points higher than the Company's equity ratio recommendation. (4 TR 856.) The Company's arguments are not well taken.

Staff notes that the Company's peer group was not the Company's proxy group, so its analysis was not an apples-to-apples comparison. Additionally, the Attorney General provided substantial pushback against the Company's peer group equity ratio analysis. (4 TR 1936.) The AG noted that some of the equity layers shown in the chart on the Company's Exhibit A-32 were likely overstated because

short-term debt, as a fixture of permanent capital, was excluded in the Company's analysis. The AG also noted that several utilities used in the analysis were exceptionally small utilities, i.e. not remotely comparable to Consumers Energy, and thus were ill-suited as a comparison to Consumers Energy. (4 TR 1964.) Hence, there are several issues with the Company's peer group equity ratio analysis that suggests it is unsuitable for consideration as a reasonable comparison to Consumers Energy's equity layer requirement. Further, Staff did not include its proxy group's average equity ratio or ROE in its analysis. Thus, the Company's notion that Staff's proxy group's average equity layer should have been considered in its recommendation, only because it was above 50%, does not hold up to scrutiny. The Commission should dismiss the Company's myriad equity-layer comparison arguments and support Staff and the other intervenors 50/50 capital structure recommendations. The Commission has allowed plenty of time for the Company to reallocate its debt-to-equity ratio back to equilibrium and the Commission's adoption of a balanced capital structure in this case sends the message that equilibrium going forward, as it has been historically, is the preferred capital structure for the Company.

2. The Commission should reject the Company's rebuttal argument for a higher LT-debt cost rate.

In rebuttal, the Company rejected Staff's LT-debt cost rate of 4.33%, arguing that Staff's debt issuance credit spread was understated. (4 TR 858.) Staff does not agree. Staff stands behind its credit spread of 1.00%. The Company claims that

Staff's analysis of its credit spread was not an apples-to-apples comparison because Staff considered spreads of different debt maturities in its cost rate analysis. (4 TR 859.) However, Staff relied on credit spreads from the Company's Exhibit No. A-31, p 1. In that exhibit, the Company's 2024 average debt issuance credit spread was approximately 70 basis points for various debt maturities between 5-10-years. However, Consumers Energy's request for a 136 basis-point credit spread for the issuance of 30-year debt, suggests that an additional 66 basis points in financing spread is required. That level of spread increase is simply overblown and unreasonable. Staff's 100 basis-points credit spread is very sensible, and the Commission should adopt Staff's LT-debt cost rate of 4.33%.

3. Staff recommends the Commission reject portions of the Company's CAPM and Bond Yield + Risk Premium ROE model analysis, as outlined in Staff witness Megginson's direct testimony.

a. The Projected CAPM and Empirical CAPM (ECAPM) analysis.

Staff disagrees with aspects of the Company's Projected CAPM approach and the ECAPM approach in general. (4 TR 2554.) The Company's Projected CAPM analysis uses an over-inflated projected market risk premium (MRP) that renders the ROE estimate unreasonable. (4 TR 2544.) Staff indicated that the Company used an overall market return of 12.04% in its CAPM analysis. That return appears elevated because after subtracting out risk-free rates of 4.02%-4.30%, produces market risk premiums of 7.74%-8.02%. Staff noted that those MRPs were higher than the historical MRP of around 7.0% and substantially higher than

Professor Damodaran's MRPs of 4.2%-6.2%. (4 TR 2555.) Those high MRPs produce outlier CAPM ROE estimates that are unacceptable for consideration.

With respect to the ECAPM, Staff disagrees with the Company's ECAPM analysis in general. (4 TR 2555.) Staff maintains that the inputs used in the traditional CAPM analysis already account for most of the shortcomings that the ECAPM is purportedly designed to capture. Staff notes that the use of long-term risk-free rates and adjusted betas in its model, incorporates much of the desired effect of the ECAPM adjustment. (*Id.*) Staff provided a mathematical illustration highlighting the use of adjusted betas in the ECAPM equation that rendered the ECAPM approach unnecessary. (4 TR 2556.) Staff, the Company and intervenors all use long-term risk-free rates and adjusted betas in their ROE analyses. Thus, the traditional CAPM analysis provides a reasonable ROE estimate without the need for an ECAPM adjustment. The Commission should reject all ECAPM estimates.

b. The Bond Yield + Risk Premium (BYRP) approach.

Staff notes that the Company's BYRP approach is complicated and circular and should be given very limited weight by the Commission. The Company uses average authorized natural gas ROEs from 1980 through 2024 as an input into its BYRP analysis. Staff asserts that other authorized ROEs are reasonable to use in a comparison fashion, but to use them as an input into a cost of equity model is somewhat circular and unseemly. (4 TR 2559.) The Commission should give limited weight to the Company's BYRP approach.

F. The Commission should reject the Company's rebuttal arguments against Staff's ROE analysis and ROE recommendation.

The Company's ROE witness Ann E. Bulkley, rebutted Staff's 9.75% ROE recommendation in favor of the Company's over-inflated and unreliable 10.25% recommendation. (4 TR 965.) To summarize the Company's ROE rebuttal, Witness Bulkley provides an updated cost of equity analysis as of April 2025 that supposedly reinforces the Company's support of its over-inflated 10.25% ROE. Witness Bulkley's rebuttal then rehashes the Company's disagreement with Staff's and the other intervenors supposed non-consideration of current market and economic conditions in their analyses. The Company then rebuts portions of Staff's model analysis and emphasizes approval of the Company's unreliable inputs into its CAPM and Risk Premium analyses, as well as the Company's erroneous ECAPM approach. (4 TR 1000-1003.) Staff stands behind its analysis and finds the Company's rebuttal unconvincing.

With respect to the Company's updated economic and market conditions argument, Staff's favorable 9.75% ROE is above the 3-yr average nationwide ROE of 9.63%. Staff witness Megginson addresses these arguments in his direct testimony. (4 TR 2559.) With respect to the Company's rebuttal of Staff's ROE analysis, any potential data changes the Company suggests should be inputted into Staff's analysis, does not change Staff's recommendation. The bottom line is Staff's 9.75% ROE is very reasonable in this current economic environment, along with Staff's 50/50 capital structure. The Commission's previous approval of regulatory treatment of certain risk-reducing mechanisms and upgrade programs, as well as

surcharge authorization for the various programs, practically gives the Company 100% risk-free investment. This reduced risk calls for a more balanced ROE along the lines of Staff's recommendation. The Company's rebuttal of Staff's ROE analysis and recommendation is unpersuasive, and the Commission should adopt Staff's 50.00% equity-based capital structure and 9.75% ROE recommendations.

V. ADJUSTED NET OPERATING INCOME

In basic terms, adjusted net operating income (NOI) is the difference between a company's operating revenues and operating expenses for the projected test year.

MPSC Case No. U-16472, 10/20/2011 Order, p 41.

A. Operating Revenues

Staff recommends total revenues of \$2.314 billion, which is equal to the Company's rebuttal projection. (Appendix C.) Staff recommends the Commission adopt Consumers Energy's rebuttal projection of \$2,314,257,000. (Exhibit A-151, line 4, column (d).)

1. Staff recommends the Commission adopt a Sales Revenue of \$2.183 billion.

Staff recommends sales revenue of \$2.183 billion, which is equal to the Company's rebuttal projection. (Appendix C, column b; Exhibit A-151, line 1, column (d).)

a. Consumers Energy adopted Staff's \$1.119 million increase to sales revenue related to RIA Credit.

Staff recommended a \$1,119,000 increase to RIA credit projections, which Consumers Energy adopted in rebuttal. In the Company's direct testimony, it projected 87,000 monthly income assistance program customers in the test year based on a 12-month historical average but did not call out the RIA credit specifically. (2 TR 273.) However, on the Company's Exhibit A-16, Schedule F-3, page 1, the Company included recovery of 75,000 monthly RIA credit disbursements and 12,000 monthly Low Income Assistance Credit (LIAC) disbursements.

In the direct testimony of Staff witness Elaina M. Braunschweig, Staff expressed that it does not support the Company's projection nor its methods. (4 TR 2651.) Staff witness Braunschweig discussed hurdles to discerning what the Company's projection was and how it was developed, stating that it was unclear on which 12 months the income assistance program projection was based. (4 TR 2651.) The 87,000 projected customer counts were not incorporated in Exhibit A-15, Schedule E-8 in a way that was based on enrollment actuals, and the development of the 87,000 customer counts was a hard-coded value allegedly based on incomplete data that does not equal 87,000. This is visible in the file data in the "Inputs" tab of Company witness Mustafa Sherwani's Exhibits A-5 to A-16 when viewed in Microsoft Excel. (4 TR 2652-2653.) Staff expressed that these findings make Staff and intervenors' attempts to audit the Company's filing difficult, which has been an issue in two successive rate case filings. (4 TR 2652-2654.) Based on the evidence presented, Staff witness Braunschweig proposed the Commission order the

Company to work with Staff to improve its exhibits and testimony for its next rate case filing as it relates to this issue. (4 TR 2653-2654.) As for Staff's efforts to audit the Company's income assistance credits projection, Staff sent audit questions to the Company to seek clarification, to which the Company responded by confirming that the 87,000 income assistance credit projection was comprised of 75,000 monthly RIA recipients and 12,000 monthly LIAC recipients, which was based on 12 months of recent data that was not included in its initial filing, but that the Company provided in the audit response. (4 TR 2654.) The provided data included discrepancies with the corresponding data provided in Part III of the rate case filing requirements. The Company stated in response to audit that the audit response provided customer counts that received the credit, whereas Part III attachment 46 of the rate case filing reflects customers enrolled in the income assistance credit programs as of a point in time. (4 TR 2655.) Attachment 46 has been providing customer count data for years with Staff questioning the data most notably in the last rate case, yet this issue of data credibility has never been raised, nor has it been suggested that this issue may need reconciling in this case, despite the apparent discrepancies. (*Id.*) Staff witness Braunschweig proposed this issue be resolved outside the rate case. (*Id.*)

Staff witness Braunschweig sponsored Staff's proposed RIA credit projection by explaining the main qualifiers for the credit and their impact on credit disbursements in the test year. (4 TR 2656.) Customers are automatically enrolled in the RIA if they receive State Emergency Relief (SER), the Home Heating Credit

(HHC), or assistance from the Michigan Energy Assistance Program (MEAP). (4 TR 2655.) The former two are funded by the federal Low Income Home Energy Assistance Program, but MEAP is funded by the Low Income Energy Assistance Fund (LIEAF). (4 TR 2655.) Notably, LIHEAP funding has decreased in the absence of COVID-19- related funding and MEAP funding has been capped at \$50,000,000 annually for most statewide utilities' customers. (4 TR 2657.) In 2024, the MEAP legislation was revised to lift the funding cap and increase the current LIEAF surcharge on all participating utilities' electric meters from \$0.88 per retail electric billing meter to \$1.25, among other revisions. (*Id.*) Staff witness Braunschweig outlined the potential impacts of the revised MEAP legislation, with certain changes potentially increasing the RIA enrollment, including LIEAF funding increasing and SER no longer being required to receive MEAP. (4 TR 2658.) Certain changes could decrease RIA enrollment including MEAP income eligibility increasing to 60% of state median income, which now conflicts with RIA eligibility set at or below 150% of the federal poverty level. This means some customers covered by MEAP funds likely can no longer be automatically enrolled in RIA. LIEAF is also collected on electric billing meters and now opt-out utility customers can no longer receive electric nor heating service assistance from MEAP. (4 TR 2658-2659.) Finally, stagnation in RIA enrollment could be caused if the Michigan Department of Health and Human Services does not increase SER eligibility to 60% of state median income (SMI) to align with MEAP and MEAP grantees do not notify utilities if each customer is at or below 150% of the federal

poverty line. (4 TR 2660.) But even if SER eligibility were increased, funding is not projected to increase, which stagnates growth in customers served. (4 TR 2660-2661.) Additionally, increasing the LIEAF cap to 60% SMI could result in more customers being served above 150% of the federal poverty line. (4 TR 4660.) In summary, eligibility and funding changes may not change the number of customers eligible for the RIA credit and no longer allowing LIEAF opt-out utility customers access to MEAP could decrease RIA credit disbursements. (4 TR 2661.) Regardless of all of these potential impacts, RIA credit disbursements have been trending downward in the absence of Covid-19-related LIHEAP funding increases and there is cause for concern that LIHEAP funding could be eliminated entirely, since the U.S. Secretary of Health and Human Services fired all federal LIHEAP administrators as well as the office that determines the federal poverty guidelines that guide LIHEAP eligibility. (4 TR 2661-2664.) It is unclear if the U.S. Health and Human Services staff administering the program have been rehired since. Staff therefore proposed the Commission accept Staff's RIA credit disbursement projection of 68,782 monthly disbursements resulting in a \$1,119,240 increase to present revenue. (4 TR 2664-2665.) This projection is based on the three-year historical average of credit disbursements, consistent with the methods most recently accepted by the Commission in the Consumers Energy's electric rate case. (MPSC Case No. U-21585, 3/21/2025 Order, p. 268.) Staff witness Braunschweig reinforced Staff's position by stating that overestimating customer counts allows the Company to retain excess unused dollars, absent deferred accounting for differences

between projections and actuals used to set rates. Even with deferred accounting, it would still be appropriate to utilize the most accurate projection to set rates. (4 TR 2666.)

In the Company's rebuttal testimony, Company witness Mustafa A. Sherwani agreed to work with Staff to improve the Company's RIA credit-related filing and agreed to adopt Staff's RIA projection. (2 TR 277.)

Given the reasons stated above, Staff's RIA projection is the more reasonable projection and should therefore be accepted by the Commission along with a regulatory asset and liability for costs associated with the RIA and LIA credit enrollment above or below the amount recovered in rates, due to the multitude to unknowns in the test year. (4 TR 2667.) The Commission should accept Staff's proposed RIA projection and associated present revenue adjustment.

2. Transportation Revenue

Staff recommends transport revenue of \$102.396 million, which is equal to the Company's rebuttal projection. (Appendix C, column c.)

3. Miscellaneous Revenue

Staff recommends miscellaneous gas revenue of \$28.666 million, which is equal to the Company's rebuttal projection. (Appendix C, column d.)

B. Cost of Gas Sold

Staff recommends cost of gas sold of \$737.588 million, which is equal to the Company's rebuttal projection. (Appendix C, column f.)

C. Lost and Unaccounted For (LAUF) and Company Use Gas expenses

Staff recommends LAUF of \$12.709 million, which is equal to the Company's rebuttal projection. (Appendix C, column g.) Staff recommends Company Use gas expense of \$5.502 million, which is equal to the Company's rebuttal projection. (Appendix C, column h.)

D. Other O&M Expense

Staff recommends other O&M expense of \$297.004 million, which is \$1.385 million less than the Company's rebuttal projection of \$298.389 million. (Appendix C, column i.) Staff's adjustments are as follows:

Description	(\$000)
Customer Experience - Digital Customer Operations	(536)
IT – Product Family Enhancements	(23)
Other Benefits – LIBA	(550)
Other Benefits – Incentive Compensation	<u>(276)</u>
Total O&M Adjustments	(1,385)

1. Staff recommends the Commission adopt a \$536 thousand reduction to O&M expense related to customer experience – digital customer operations.

Staff recommends a \$536 thousand reduction to O&M expense related to customer experience – digital customer operations. (Appendix C, line 4.) In its direct testimony, the Attorney General recommended a reduction of the O&M expense related to the Customer Experience – Digital Customer Operations (DCO) area by at least 50% of the requested total, or \$536,000. The Attorney General’s recommendation is well-reasoned, as the Company was unable to adequately support the requested O&M expense relating to this area. In the Company’s direct testimony by witness Jessica R. Byrom, DCO was defined as being “responsible for the operation and continuous improvement of the Company’s customer-facing digital applications, including its website and mobile application.” (4 TR 1086.) The Company was asked in discovery by the Attorney General to provide the historical and forecasted number of employees and contractors in the DCO area, the number of work units and work activities, and the tasks and outcomes accomplished in the past two years and those projected for 2025 and 2026. (4 TR 2014.) The Company identified 28 total people working in DCO in 2024, 23 employees and five contractors, and that total is projected to increase to 29 in 2026. (*Id.*)

For work units, the Company identified four customer interactions in 2022, with the number falling to three in 2024 and remaining at three for the projected test year. (*Id.*) The discovery response did not make it clear what these customer

interactions entail, why there are so few of them, and why they have and are projected to decline from 2022 to 2026. (*Id.*)

Finally, the Company gave a broad overview of what the DCO does and the accomplishments achieved by identifying the major tasks performed in this area. It is unclear why an area whose functions are developed requires the same number of employees and contractors every year performing repeat work. In its rebuttal testimony, the Company again broadly described the work of the DCO area but never proved justification for why the number of staff and expenditures in this area are reasonable. (4 TR 1129.) Therefore, Staff agrees with and adopts the Attorney General's recommendation to reduce costs for the DCO area by at least 50% of the \$1,072,000 expense, or \$536,000, due to the Company's insufficient support and justification for those expenses.

2. Staff recommends the Commission adopt a disallowance of \$23 thousand related to the IT – product family enhancements O&M expense.

Staff recommends a disallowance of \$23 thousand related to the IT – product family enhancements O&M expense. (Appendix C, line 7.) Along with the aforementioned disallowances for capital expenditures for Web Chat AI and Customer Self-Service Mobile applications, both of which fall under the larger Product Family Enhancements, Staff recommends disallowance of requested O&M costs for those projects for the projected test year, resulting in a proposed disallowance of \$14,929 for the Web Chat AI and \$6,510 for the Mobile App.

3. Staff recommends the Commission reduce the Leave it Better Award O&M Expense by \$550,000.

Staff recommends reducing other benefits – LIBA O&M expense by \$550,000. (Appendix C, line 10.) Staff recommends the Commission reject the Leaving it Better Award (LIBA) program O&M expense of \$550,000 and capital amount of \$2,387,500 for the test year ending October 31, 2026. Company witness Kendra A. Grob provided testimony on the proposed introduction of an employee award program titled the "Leaving it Better Award (LIBA)." The program awards employees a lump sum of \$4,000 to further the "Company's goals, operational excellence, customer satisfaction, and corporate reputation." (4 TR 1365.) The expense is embedded in the total Other Benefits projection on Company Exhibit A-64, page 1, line 6. The Company provided an O&M expense of \$550,000, and a capital cost of \$861,000 in the projected test year. These amounts are presented by Staff in Exhibit S-20.2. (4 TR 2725.)

Staff witness Shannon Rueckert contested the Company's request for the LIBA program. Staff witness Rueckert argues that the program does not benefit the rate payer beyond its cost as promotability and salary increases are incentives for Company employees to achieve operational excellence and customer satisfaction as part of the employees' compensation package. *Id.* Company witness Amy M. Conrad testified that the "the Company's management believes Consumers Energy should pay a fair and reasonable salary, comparable to the market that is equitable to employees, consistent with Company values and strategies, and that supports the highest level of customer service at a reasonable cost." (4 TR 1149.) The Company's

Employee Incentive Compensation Program (EICP) already provides short-term incentive compensation for operational goals. Staff witness Rueckert asserted that furthering the Company's corporate reputation does not benefit the rate payer and should be funded by shareholders instead. (4 TR 2725.)

In rebuttal, Company witness Grob reasserted that these awards help the Company retain talent, increase morale, enforce behaviors that support company values and improve performance which, in turn, benefits customer service. (4 TR 1367-1368.)

Staff recommends the Commission reject the LIBA program O&M expense of \$550,000 as it does not provide additional benefit to the rate payer. Staff also recommends a corresponding disallowance of the capital portion of the LIBA program totaling \$2,388,000. As presented in Appendix E, line 17, this cost consists of \$824,000 for the bridge year ending December 31, 2024; \$702,500 for the 10 months ending October 31st, 2025; and \$861,000 for the test year ending October 31, 2026.

4. Staff recommends the Commission reduce the Incentive Compensation O&M Expense by \$276,300.

Staff witness Theresa McMillan-Sepkoski recommends reducing the Employee Incentive Compensation Program (EICP) O&M expense by \$276,300. (Appendix C, line 11.) In its application, the Company requested that the Commission approve approximately \$1.5 million for the incentive compensation O&M expense included in the revenue requirement. (4 TR 1169; Exhibit A-41, p. 2.)

Staff recommends disallowing the Company's projected EICP O&M expense for the projected test year in the amount paid to the top five officers. The Company

explains that its compensation target is the market median or fiftieth percentile. (4 TR 1158.) In Exhibit A-40, the Company gives examples of average salary versus the market for non-officer employees that receive incentive compensation. When Staff requested the average salary versus market information for the top five officers, the Company declined to provide this information stating that it is confidential, proprietary, and that the Company is contractually prohibited from sharing this information. (Exhibit S-8.2, p. 1.)

In rebuttal, Company witness Conrad maintained the decision to withhold the market median information for the top five officers. She provided Exhibit A-136 that shows non-confidential market data. This document was provided to Staff, but as Company witness Conrad states in rebuttal testimony, it is not a perfect representation of the compensation of the top five officers. (4 TR 1186.) The Commission has stated previously that it “expects a more thorough presentation of compensation levels and metrics for the company’s employee compensation plans.” MPSC Case No. U-18124, 7/31/2017 Order, pp 87-88.

The Company offered for Staff to review the Pay Governance report extracts under certain conditions. (Exhibit S-8.2, p 2.) The conditions were met and Staff agreed to review the extracts. These reports were anonymous to each executive and only disclosed how Pay Governance calculates market data. No financial presentation of compensation data was provided for review. Without necessary market information, Staff cannot conduct a proper analysis of the top five officers’ incentive compensation for inclusion in the revenue requirement.

The Attorney General's recommendation in direct testimony is that the Commission only approve \$1,020,000 for EICP related to the operational measures based on the Company only achieving 66% of the measures and disallow the remaining \$526,000 from the EICP O&M expense for the projected test year. (4 TR 2031.)

Staff continues to support the adjustment of \$276,300 to EICP O&M expense for the cost of the incentive compensation paid to the top five officers. In Staff's testimony, it is stated that Staff supports the request for operational measures EICP in the amount of \$1,546,000. (4 TR 2608.) This amount was provided in error. The amount supported should have stated \$1,269,700. The adjustment on Appendix C is correct.

There is no evidence presented in the record to support the position that incentives for the Company's top five officers should be borne by the ratepayers. Therefore, Staff recommends that the ALJ and Commission disallow the Company's request to include the EICP O&M expense for the top five officers.

For the reasons presented above, Staff recommends the ALJ and Commission approve \$1,269,700 in EICP expense in the revenue requirement and disallow the \$276,300 EICP expense for the top five officers.

5. Staff adopted one concession from Consumers Energy's rebuttal testimony.

Staff adopted the following concession from Consumers Energy's rebuttal testimony. Therefore, there is no delta between Staff's and Consumers Energy's positions for the following:

- Distribution Gas Ops - Comp & Controls (\$634 thousand increase)

6. Consumers Energy adopted several direct adjustments made by Staff in its rebuttal testimony.

Consumers Energy adopted several direct adjustments made by Staff in its rebuttal testimony. (Exhibit A-152.) Therefore, there is no delta between Staff's and Consumers Energy's positions for the following:

a. The Commission should disallow the \$1,991 in O&M expense associated with the Application Currency-Corporate Capital Project.

As addressed in Section III.A.3.a, the Commission should disallow the O&M expense associated with the Application Currency-Corporate-Capital project because the Company identified an error through discovery. Through a discovery response from the Company, Staff learned that projected costs for a line-item project were inadvertently included in the larger project cost. (Exhibit S-19.2, p 2.) In the Company's rebuttal testimony, it agreed with Staff's adjustment for this project. (4 TR 751.) The Commission should disallow the investment O&M expense of \$1,991 that is associated with the Application Currency-Corporate-Capital project.

b. The Commission should disallow \$20,119 in O&M expenditures for the HR Support Pack and Business Software Inc. Upgrade 2025 Project.

In Staff's direct testimony, it recommended the Commission should disallow \$20,119 in the projected test year O&M for the HR Support Pack and Business

Software Inc Upgrade 2025 project due to errors identified by the Company. (4 TR 2708.) In an audit response from the Company, it explained that costs were inadvertently overstated, and did not account for optimization in contractor costs. (Exhibit S-19.1, pp 3-4.) In the Company's rebuttal testimony, it agreed with Staff's adjustment for this project. (4 TR 751.) The Commission should disallow the \$20,119 in O&M expenses.

c. The Commission should disallow \$40,454 in O&M expenditures for the HR Support Pack and Business Software Upgrade 2026 Project.

In Staff's direct testimony, it recommended the Commission disallow \$40,454 in the projected test year O&M for the HR Support Pack and Business Software Inc Upgrade 2026 project due to errors identified by the Company. (4 TR 2708-2709.) In an audit response from the Company, it explained that costs were inadvertently overstated, and did not account for optimization in contractor costs. (Exhibit S-19.1, p 4.) In the Company's rebuttal testimony, it agrees with Staff's adjustment for this project. (4 TR 752.) The Commission should disallow the \$40,454 in O&M expenses.

d. The Commission should disallow \$7,962 in O&M expense associated with the Application Currency Electric Shared-Capital Project.

As addressed in Section III.A.3.b, the Commission should disallow \$7,962 of investment O&M in the projected test year for the Application Currency-Electric & Gas Shared-Capital project because the Company identified an error through

discovery. (4 TR 2709-2710.) Through a discovery response from the Company, Staff learned that projected costs for a line-item project were inadvertently included in the larger project cost. (Exhibit S-19.2, p 1.) In rebuttal filed by the Company, it agreed with Staff's adjustment for this project. (4 TR 753.) The Commission should disallow the \$7,962 in investment O&M expenses associated with the Application Currency-Electric & Gas Shared-Capital project.

e. The Commission should disallow \$70,665 in O&M expenditures for the Standard Work Plan Project.

In Staff's direct testimony, it recommended the Commission disallow \$70,665 in the projected test year O&M for the Standard Work Plan project due to errors identified by the Company. (4 TR 2710-2711.) In an audit response from the Company, it explained that ongoing support costs were inadvertently added. (Exhibit S-19.1, pp 5-6.) In the Company's rebuttal testimony, it agreed with Staff's adjustment for this project. (4 TR 753-754.) The Commission should disallow the \$70,665 in O&M expenses for the Standard Work Plan project.

f. The Commission should disallow \$8,243 in O&M expenditures for the Next Generation electronic Shift Operations Management System (eSOMS) replacement Project.

As addressed in Section III.A.3.e, the Commission should disallow \$8,243 of investment O&M in the projected test year for the Next Generation electronic Shift Operations Management System (eSOMS) project because of an error identified by the Company through audit. (4 TR 2711.) Staff learned through audit that the

Company no longer needs to migrate to a new system, so the need for the project has changed. (Exhibit S-19.1, p 7.) In the Company's rebuttal testimony, it agrees with Staff's adjustment for this project. (4 TR 754.) The Commission should disallow \$8,243 in investment O&M associated with the Next Generation electronic Shift Operations Management System (eSOMS) project.

E. Staff recommends the Commission adopt a depreciation expense of \$361,001,000.

Staff recommends depreciation expense of \$361.001 million, which is \$1.816 million less than the Company's rebuttal projection of \$362.817 million. (Appendix C, column j.)

Consumers Energy adopted Staff's adjustment to correct a Depreciation Expense error in its rebuttal testimony. Therefore, there is no delta for this line item between Staff's and Consumers Energy's position. In its application, the Company projected its Depreciation Expense in the amount of \$374.164 million. (Exhibit A-13, Schedule C-1.) In rebuttal the Company updated its projected Depreciation Expense to be \$368.817 million. (Exhibit A-151, Line 9.) Staff witness Timothy G. Witt recommended a reduction to the Company's initial projected Depreciation Expense in the amount of \$11.005 million from three adjustments. (4 TR 2514-2515.)

- \$2.386 million reduction related to Staff capital expenditure adjustments

- \$8.856 million reduction related to the Company inadvertently using incorrect depreciation rates
- \$0.237 million increase related to Riverside Storage Field adjustment

In rebuttal the Company agreed with Staff witness Witt's adjustment made for the Company inadvertently using incorrect depreciation rates (4 TR 1780) and updated its projected depreciation expense by removing \$8.856 million. (Exhibit A-149.) Additionally, in rebuttal, the Company adopted the Staff's adjustment for the Riverside Storage Field (4 TR 1778) and increased its projected depreciation expense by \$0.237 million. (Exhibit A-149.) Based on the record evidence in this case, Staff recommends the ALJ and the Commission adopt these two adjustments made by the Staff and adopted by the Company.

The \$1.816 million difference between the Company and Staff's projected depreciation expense is from the impact of Staff's capital expenditure adjustments on depreciation expense. Therefore, Staff recommends that the Commission adopt Staff's depreciation expense of \$361.001 million.

Staff also recommends that depreciation expense be updated to include the corresponding impact of any decisions the Commission makes that affect the Company's projected capital expenditures.

- F. Staff recommends the Commission adopt an amortization expense, including manufactured gas plant amortization expense, of \$7,334,000.**

Staff recommends amortization expense of \$7.334 million, which is equal to the Company's rebuttal projection. (Appendix C, column k.) In its application, the Company projected its Amortization Expense in the amount of \$10.239 million. (Exhibit A-13, Schedule C-1.) In rebuttal the Company updated its projected Amortization Expense to \$7.334 million. (Exhibit A-151, Schedule C-1.)

Staff recommended a \$54 thousand increase to MGP amortization, which Consumers Energy adopted in its rebuttal testimony. (Appendix C, column k.) In direct testimony, Staff witness LaPan recommended an update to the Company's Net Unamortized MGP. (4 TR 2600.) As a result, a corresponding adjustment to MGP Amortization Expense was needed. In direct testimony, Staff witness Hecht supports the corresponding adjustment being an increase of \$54 thousand. (4 TR 2504-2505.) In rebuttal the Company adopted this adjustment. (Exhibit A-152.) Based on the record evidence in this case, Staff recommends the ALJ and the Commission adopt the adjustment to MGP Amortization Expense proposed by Staff and adopted by the Company.

Staff recommended a \$2.959 decrease to the amortization expense related to Riverside Storage Filed amortization, which Consumers Energy adopted in its rebuttal testimony. (Appendix C, column k.) Staff witness Nichols supported an adjustment for the termination of the Riverside Storage Facility Utility Plant agreement as the sale will not be completed as anticipated. (4 TR 2493-2494.) The termination of the agreement has a \$2,959,000 impact on the amortization expense as noted in Section III.A.3.f above.

G. Taxes

1. Staff recommends the Commission approve a property tax amount of \$199.630 million.

Staff recommends property taxes of \$199.630 million, which is \$701 thousand less than the Company's rebuttal projection of \$200.331 million. (Appendix C, column l; Appendix E.) This is due to the difference in capital expenditures supported by Staff and the Company and their impact on property taxes. Staff recommends the Commission approve a projected property tax expense amount for the test year of \$199.630 million. Staff also recommends that property tax expense be updated to include the corresponding impact of any decisions the Commission makes that affect the Company's projected capital expenditures.

2. Staff recommends the Commission approve an other general tax amount of \$19,325,000.

Staff recommends other general taxes of \$19.325 million, which is equal to the Company's rebuttal projection. (Appendix C, column m.)

Consumers Energy adopted two of Staff's adjustments in rebuttal testimony. Therefore, there is no delta between Staff's and Consumers Energy's positions for the following:

a. Staff recommends the Commission approve a payroll tax expense of \$60,000.

Staff proposed in direct testimony that the Company's projected payroll tax expense be reduced by \$60,000 as the historic payroll tax expense should only be inflated to the end of the test-year, 10/31/2026. (4 TR 2644.) On rebuttal, the Company agreed to Staff's proposed adjustment. (4 TR 1779.) No other party has addressed this issue. Therefore, Staff recommends the ALJ and Commission adopt Staff's \$60,000 adjustment to the Company's payroll tax expense.

b. Staff recommends the Commission adopt a reduction to sales and use tax of \$400 thousand.

Staff proposed in direct testimony that the Company's projected sales & use tax be reduced by \$400,000 to remove amounts predating 2023 from the historic total. (4 TR 2644.) On rebuttal, the Company agreed to Staff's proposed adjustment. (4 TR 1779.) No other party has addressed this issue. Therefore, Staff recommends the ALJ and Commission adopt Staff's \$400,000 adjustment to the Company's sales and use tax expense.

3. Staff recommends the Commission approve an other (or local) tax expenditure of \$873,000.

Staff recommends other (or local) taxes of \$873,000, which is \$4,000 greater than the Company's rebuttal projection of \$869,000. (Appendix C, column n.) The difference between Staff's and the Company's other (or local) income tax expense is the result of various Staff adjustments to the Company's projected revenues and expenses.

4. Staff recommends the Commission approve an expenditure for State income taxes of \$26.422 million.

Staff recommends state income taxes of \$26.422 million, which is \$141 thousand greater than the Company's rebuttal projection of \$26.281 million. (Appendix C, column o.) The difference between Staff's and the Company's state income tax expense is the result of various Staff adjustments to the Company's projected revenues and expenses.

5. Staff recommends the Commission approve an expenditure for Federal income taxes of \$88.180 million.

Staff recommends federal income taxes of \$88.180 million, which is \$534 thousand greater than the Company's rebuttal projection of \$87.646 million. (Appendix C, column p.) The difference between Staff's and the Company's federal income tax expense is the result of various Staff adjustments to the Company's projected revenues and expenses.

H. Funds Used During Construction.

Staff recommends operating income adjustments of \$1.298 million for allowance for funds used during construction, which is equal to the Company's rebuttal projection. (Appendix C, column s.)

I. Net Operating Income

Staff recommends a projected net operating income of \$559.986 million, which is \$3.223 million greater than the Company's rebuttal projection of \$556.763

million. (Appendix C, column t.) Differences between the Staff's and the Company's total adjusted NOI are due to Staff adjustments to various Company revenue and expense projections as detailed above. Staff witness Nichols sponsored Exhibit S-3, Schedule C-1.1, which presented Staff's initially filed projected net operating income of \$558.066 million, an increase of \$12.574 million from the Company's originally filed net operating income of \$545.492. (4 TR 2493.) Due to subsequent changes to the Staff and Company positions, Staff now recommends a projected net operating income of \$559.986 million, which is \$3.223 million greater than the Company's rebuttal projection of \$556.763 million. (Appendix C, column t.)

Staff also recommends that adjusted net operating income be updated to include the corresponding impact of any decisions the Commission makes.

VI. COST OF SERVICE, RATE DESIGN, AND TARIFF ISSUES

A. Commercial Transportation Volume and Revenue Adjustment

- 1. The Commission should include any approved sales volume adjustments in all COSS and rate calculations to determine the appropriate revenue, expense, rate designs, and COSS adjustments.**

In direct testimony, Attorney General witness Coppola proposed adjustments to gas sales revenue in Exhibit No. AG-54. (4 TR 1995.) AG witness Coppola's calculation of the sales revenue adjustment is based on the multiplication of proposed incremental gas deliveries for commercial customers (as allocated to the

rate schedules) by the current distribution charges for each rate schedule. (4 TR 1995-1996.)

In rebuttal, Staff witness Nancy C. Rademacher did not take a position regarding the gas sales/delivery volume adjustment. (4 TR 2590.) However, Staff witness Rademacher argued that the method witness Coppola used failed to appropriately adjust inputs to the Cost-of Service Study (COSS) or incorporate changes to revenue and expenses associated with gas supply and therefore should not be used directly, but rather those changes and adjustments should be made if the Commission accepts the sales forecast adjustment. (4 TR 2590-2591.)

As the discussed adjustments are necessary to properly incorporate the sales adjustment. If the Commission adopts the sales volume adjustments proposed by the AG, the Commission should use Staff's method of having all sales volume adjustments be included in all COSS and rate calculations to determine the appropriate revenue, expense, rate design, and COSS adjustments.

B. Cost of Service

1. The Commission should approve Staff's recommended uncollectibles allocator.

In direct testimony, Staff witness Kevin Krause argued that the uncollectible allocator should be changed from the current allocator to an allocator properly reflecting the nature of uncollectibles as a general cost of doing business, proposing total revenue due to the association of uncollectibles with billed amounts. (4 TR 2569-2570.) In rebuttal, ABATE, through witness Jessica A. York, opposed Staff's proposal, relying on arguments based on claims about the recent history of

uncollectibles that ignore more recent history, as discussed further below. (4 TR 2113-2116.) Lansing Board of Water & Light and Michigan State University (LBWL/MSU collectively) witness Timothy S. Lyons also opposed Staff's proposal, also relying on historical claims. (4 TR 2262.) Both ABATE and MSU/BWL preferred to maintain the current allocation of uncollectibles. The Company, through the rebuttal of witness Samuel M. Geller, agreed with Staff's proposed allocation method. (4 TR 1241.) CUB witness Rick Bunch also generally agreed with Staff. (4 TR 2382-2383.)

In a recent DTE Gas rate case, the Commission stated, in reference to Staff's similar proposal, that "[w]hile the Commission recognizes that this is a departure from the currently-approved methodology, the Commission finds that the allocation of uncollectibles as a general cost of doing business more accurately reflects both cost of service principles and, as the ALJ noted, the approach used by most other companies." MPSC Case No. U-20940, 12/9/2021 Order, p 189. Additionally, in a previous DTE Electric rate case, "[t]he Commission agree[d] with the Staff that allocation on a general basis, such as total revenue, is most appropriate and aligns best with ratemaking principles." MPSC Case No. U-20836, 11/18/2022 Order, p 385.

Staff recommends that uncollectibles be allocated on total revenue, as it accomplishes the goal of properly reflecting uncollectibles as a general cost of doing business and is consistent with recent approvals by the Commission in DTE Electric and DTE Gas rate cases.

2. The Commission should accept Staff's calculation of customer charges.

Company witness S. Austin Smith proposed a residential customer charge of \$20.00 and a customer charge for GS-1 of \$24. (4 TR 1790-1791.) AG witness Coppola proposed that both the residential and GS -1 charges stay the same. (4 TR 2035.) CUB witness Joshua W. Denzler also supports keeping the current residential customer charge. (4 TR 2480-2483.) Staff, through the direct testimony of Kevin Krause, recommended a residential customer charge of \$19.00 and acceptance of the Company's GS-1 recommendation. (4 TR 2571-2572.) This recommendation is based on the mismatch between the way projected costs are allocated for the purposes of the Company's rate relief request and what categories increased expenses will be if incurred. (4 TR 2571.) Company witness Smith supports rejecting the AG's proposal, CUB's proposal, and Staff's proposal. (4 TR 1804-1808.) Staff states in direct testimony that the Company's forecasted method is problematic and that it is better to rely on Staff's historical method. (4 TR 2571.) Staff recognizes that this is a rather large movement in the residential customer charge but also points out that the recent settlements have resulted in the residential customer charge drifting away from the cost-of-service. (4 TR 2572.) For these reasons the Commission should accept Staff's proposed customer charges.

3. The Commission should reaffirm that the Average and Peak (A&P) allocator is the allocator that best reflects cost causation of mains and therefore remains the most appropriate allocator.

ABATE witness York recommends replacing the A&P method with an Average and Excess (A&E) method, claiming the A&P method double counts the average gas used on the peak day. (4 TR 2093-2101.) ABATE witness York also points out the use of A&E in other jurisdictions. (4 TR 2097-2098.) Staff witness Krause responded with rebuttal supporting the appropriateness of the A&P method, stating generally that the method appropriately reflects the different use of the system by different classes, also balancing the interests of those classes. (4 TR 2574-2578.) The alleged double counting could be remedied by removing the peak day from the average calculation with very little change in the allocator itself. (4 TR 2574-2575.) Staff witness Krause also points out that other jurisdictions are notable for their reasoning, but not for the outcomes, and should not be considered supportive of ABATE's requested relief. (4 TR 2578.) The Commission also recognizes that good reasons existed, and still exist, that make allocating some portion of demand-related costs on throughput appropriate. (4 TR 2577.) The A&P method appropriately follows cost causation principles, unlike the method proposed by ABATE, as the system is planned to be used every day, even as it may be planned to enable operation on peak days. (4 TR 2577-2578.) Staff recommends that the Commission reaffirm the use of the A&P allocator for cost causation of mains and reject ABATE's proposal for use of the A&E method.

4. The Commission should find Design Day Demand does not best reflect how distribution mains costs are caused.

ABATE witness York claims that Design Day Demand allocation best reflects cost-causation of distribution mains, as mains are designed with a capacity capable of serving all ratepayers' demand at all times. (4 TR 2092.) While Staff acknowledges that "the way customers cause costs on gas mains does depend on designing the system to meet peak day demand, in part, it also depends on usage." (4 TR 2761.) How precisely costs vary with demand has also not been demonstrated. A number of costs associated with designing and constructing the system may vary little with demand (trenching, boring, etc.) or vary more based on geography (length of main, etc.). (4 TR 2761-2762.) As discussed above, the A&P method better reflects the cost-causative elements for distribution mains, and for that reason and those given above, design day demand does not best reflect cost causation and requested relief reliant on this claim should be rejected.

5. The Commission should find that the A&P allocation method does not double count average usage on peak day and better reflects usage of the system than the A&E method.

ABATE witness York claims the A&P allocator double-counts average usage on the peak day, and that the A&E method does not, making the A&E allocator more appropriate. (4 TR 2093.) These claims are both incorrect. ABATE witness York proposes use of the Company-provided A&E allocator, which determines the design peak day share of the allocation using monthly non-coincident peaks (NCP) by class. (4 TR 2094.) However, no support is provided for why NCP should be

considered cost-causative (other than it does not result in equivalence to a peak demand allocator) and therefore the allocation method should be rejected as speculative and unsupported. (4 TR 2762.) In addition, the A&E method fails to recognize how classes use the system, and thereby cause costs, with the added failure of an unproven measure of cost causation. (*Id.*) In addition, no support is provided for continuing to use the system load factor to weight between the two factors in the allocator when one of the factors (contribution to peak day usage) is no longer used in its calculation, severing the link between the aspects of cost-causation the A&P method recognizes. (*Id.*) The argument regarding double-counting also fails to reflect the reality that the average amount of usage has different costs on the peak day than an average day and does not recognize that average usage represent throughput in the allocation equation, resulting in an overcorrection to a problem that does not exist. (4 TR 2763.) A change to ABATE witness York's proposed A&E (or a peak day) method is not justified for these reasons, as even if the double counting did exist it would be on a single day out of an entire year's worth of throughput, rendering it immaterial. (*Id.*) ABATE witness York also claims that the A&E method allocating more costs to weather sensitive classes makes it "more reflective of cost-causation." (4 TR 2093.) First, this claim relies on the presumed superiority of the A&E over the A&P method, a superiority which was shown above and elsewhere in this brief to be illusory. (4 TR 2763.) Second, the argument relies on assuming that customers should pay for the system as if it is only constructed to serve their load shape, even though the system is built

to serve the needs of all customers at every point in the year and may not even exist under the assumed conditions. (*Id.*) In fact, “[b]y using both design peak and throughput by class, weighted by load factor, the A&P allocator does a better job than the A&E method reflecting the variability in load between classes.” (4 TR 2763.) For these reasons, any A&E allocator is inappropriate and should be rejected by the Commission, and the A&P allocator is superior and should be reaffirmed by the Commission, as discussed further elsewhere in this brief.

6. The Commission should reject ABATE’s proposed class revenue responsibility allocation.

ABATE witness York claims that the Company’s proposed revenue apportionment increases the revenue requirement for most of the transportation classes compared to the results of the COSS. (4 TR 2081.) As discussed elsewhere in this brief, the difference in the Company’s target revenue (or revenue apportionment) is largely due to allocating the XXLT storage adjustment and low-income credits, and minimally due to shifting money between transportation rate schedules (and not at all related to shifting money between sales and transportation classes). (4 TR 2764.) ABATE witness York claims that the resulting rate design targets are insufficiently equitable, instead recommending a revenue apportionment that “makes a gradual but meaningful movement toward cost of service” and limiting rate schedule increases to 1.6 times the average increase while considering the results of COSSs using both the A&P and A&E cost allocation methods. (4 TR 2083.) ABATE witness York fails to explain why the proposed

revenue apportionment is more equitable; Staff's position is that an equitable revenue apportionment "is one that properly reflects the allocation of costs" which ABATE witness York's proposal fails to do. (4 TR 2764-2765.) One way the proposal fails to do so is in relying on the A&E method, which has been shown elsewhere in this brief to be inappropriate. (4 TR 2765.) Another way the proposal fails to reflect an equitable revenue apportionment is "by arbitrarily lowering the increase to the transportation class and shifting revenue responsibility to the sales class (and amongst the transportation rate schedules)." (*Id.*) Another way the proposal fails the objective is the apparent arbitrary determination of "whether the results of the A&P or A&E COS was more appropriate on which to base the recommended revenue for any given class or schedule given the lack of justification given for these decisions." (*Id.*) ABATE witness York claims that the Commission's decision in the most recently decided DTE Gas case supports the proposed revenue apportionment. (4 TR 2084.) Staff disagrees. The decision in the referenced case was based on a result that moved "classes toward a more rational revenue allocation based on a more accurate measure of class cost of service," whereas ABATE witness York's proposal "relies on an incorrect COS that does not reflect cost-causation, and then ignores even that when it benefits the transportation customers at the expense of sales customers." (*Id.*; 4 TR 2765.) This is an inequitable approach and result and fails to accomplish the goals the Commission stated in the referenced case which supports rejection of the proposal.

C. Rate Design

1. **The Commission should accept Staff's proposal and adopt rate stability targets that closer reflect the results of the COSS.**

Staff witness Rademacher's proposed rate design recovers Staff's proposed revenue requirement as allocated by Staff's cost-of-service study (COSS), maintains breakeven points, contains reasonable cost-based rates, and should be approved by the Commission. (4 TR 2585-2586.) Staff initially utilized the COSS results (appropriately modified for the allocation of the XXL storage adjustment and low-income credits) as rate stability targets but then decreased the stability target for GS-1 and GS-3 and increased the stability target for GS-2 until a reasonable rate design was attained. (4 TR 2586.) The Company's rate design, however, incorporated different rate design targets for rate increases across general service and transportation rate schedules. (4 TR 1792-1793.) ABATE's proposed rate design used the Company's filed A&E COSS to set the principal customer charges for the transportation rate schedules, the distribution charges were then used to recover the remaining portion of ABATE's proposed class revenue requirements as shown in table JAY-4, which were based on a number of inputs. (4 TR 2105.)

In rebuttal, ABATE witness Jessica A. York claimed Staff had failed to explain how Staff's recommendations are reasonable while setting rate stability targets or why the Company's rate stability targets were unreasonable. (4 TR 2121.) In rebuttal, Staff witness Rademacher stated that Staff's transportation rate design was developed without a shift in revenue between the Transportation rate

schedules and maintains existing breakevens, and the Company shifted a minimal amount of revenue to maintain existing breakevens for the transportation rate schedules. (4 TR 2591.) Staff witness Rademacher also noted that there are two other adjustments, one for Low-Income Credits and one for the reallocation of storage from XXL T to other transportation customers, that occur during rate design rather than in the cost of service that are both larger than the breakeven adjustments made by the Company or Staff. (4 TR 2591-2592.) In rebuttal, Company witness S. Austin Smith stated that ABATE witness York relied on revenue apportionment when setting rates, which essentially shifted revenue between classes without supporting cost basis. (4 TR 1808.) Company witness Smith agreed that Staff witness Rademacher's proposed adjusted rate stability targets were reasonable. (4 TR 1802.)

The Commission should not adopt the ABATE's rate design, as it less accurately reflects the COSS, and therefore less accurately reflects cost-based rates. The Commission should instead adopt Staff's proposed method for determining the appropriate revenue targets and resulting rate design.

D. Rate Design Special Issues

- 1. The Commission should approve Staff's recommended allocations of FERC account 378 and the Company's proposed allocation of the remaining "other distribution" FERC accounts.**

Company witness Samuel M. Geller proposed splitting the previous "other distribution" category of cost into FERC accounts and allocating those accounts

separately. (4 TR 1231-1233.) Company witness Geller proposes to allocate FERC accounts 374, 375, 377, and 378 using allocator 104, transmission average and peak (A&P) including high-pressure (HP) bypass. (4 TR 1232-1233.)

The Company also analyzed the costs in FERC account 378, identifying the cost of measuring and regulating stations at different pressure levels. (4 TR 1235-1237.) Staff agrees with the Company's use of allocator 104 for the "All Other Costs" portions of the account, "as no evidence has been provided showing those costs are associated with any given pressure level directly." (4 TR 2756.) Staff witness Nicholas M. Revere proposed to utilize the referenced analysis to create a composite allocator to be applied to the measuring and regulating station costs in FERC account 378. (*Id.*) The proposed composite allocator was calculated as percentage of the total for the costs associated with each pressure level multiplied by each class's portion of the allocator associated with that pressure level; this calculation was presented as Exhibit S-21.0. (4 TR 2756-2757.) As stated by Staff witness Revere, "[s]imilar to how allocation is done for distribution mains based on pressure level and electric distribution costs based on voltage level, only allocating the costs associated with a given pressure level based on determinants served at that pressure level best reflects the cost causative relationship." (4 TR 2757.) Staff witness Revere also noted that weighting the allocators by the percentage of cost is appropriate as it recognizes that the costs to serve the different pressure levels differs, properly reflecting cost-causation, and that weighting by the relative number or percentage shares of stations at each pressure level would fail to do so.

(*Id.*) The proposed composite allocator was provided to Staff witness Kevin S. Krause to be applied to FERC account 378 in Staff's proposed COSS, and resulted "in a shift of approximately \$22.6 million of plant balance from transportation customers to sales customers," though the "revenue requirement impact of the shift will be substantially less, as the revenue requirement change will be the plant change net of the accumulated depreciation change multiplied by the overall rate of return plus the depreciation change." (*Id.*) In his rebuttal testimony, Company witness Geller agreed with the use of Staff's proposed composite allocator, stating that it "better reflects the cost causative relationship than the Company's current method." (4 TR 1243.)

LBWL/MSU witness Lyons proposed different treatment of "other distribution" FERC accounts 374-378 in direct testimony, proposing to "functionalize" the costs in all of the accounts using a Company workpaper based on mains costs at each pressure level. (4 TR 2254-2257; 4 TR 2760.) As Staff's understanding is that there are no records on which pressure level associations can be determined for FERC accounts 374-377, and no evidence was presented supporting that costs in FERC accounts 374-377 are related to the costs of mains at each pressure level, the proposal should be rejected as unsupported for these accounts. (4 TR 2760-2761.) As the Company supplied more detailed information on FERC account 378, even if the proposed functionalization were appropriate, it would be unnecessary as the proportion of costs at each pressure level can be more directly determined. (4 TR 2761.) This is what Staff's proposed composite allocator

(discussed previously) does, “which results in a more accurate match of costs to their causation.” (*Id.*) LBWL/MSU witness Lyons agrees with the use of Staff’s composite allocator for account 378 on rebuttal, stating “the proposed composite allocator best reflects how costs in FERC Account 378 should be allocated based on information provided by Consumers Energy about which costs are associated with each pressure level” and therefore “better reflects cost causation.” (4 TR 2261-2262.)

For the reasons given above, the Company’s proposed allocation of accounts 374-377 and Staff’s proposed allocation of account 378 should be approved.

2. The Commission should accept Staff’s proposal to increase the excess peak demand usage threshold from 45 Mcf to 92 Mcf for Rate A-1 customers.

Staff witness Rademacher discovered through audit that the Company’s proposed change to the excess peak demand usage threshold from 45 Mcf to 76 Mcf was an error and that the Company instead supports a change in the excess peak demand threshold to 92 Mcf. (4 TR 2584.)

In rebuttal, Company witness Smith stated the Company agrees to updating the Excess Peak Demand threshold from 45 Mcf to 92 Mcf. (4 TR 1802.) Due to the uncontested nature of this issue, as well as the reasons described above, the Commission should adopt Staff’s proposal, and the tariff sheet should be updated to reflect this change.

3. The Commission should accept Staff's proposal for one rate for all customers serviced under the Transmission Only Transportation Service rate.

Staff witness Rademacher argued in direct testimony that the Transmission Only Transportation Service rates calculated by the Company do not reflect breakeven points for the associated rate schedules so it should not be approved. (4 TR 2585.) Staff argued that service provided to the Transmission Only Transportation Service customers has not been shown to differ in a way that supports separate rates for the breakeven-based classes, therefore Staff calculated a single volumetric rate for all customers served under this rate. (4 TR 2585.)

In rebuttal, Company witness Smith stated that the Transmission-Only Transportation Service rate design has a rate design with breakeven points that are now consistent with how rates are designed for end-use transportation customers. (4 TR 1803.) Company witness Smith stated that the Transmission-Only Service Rate design with the breakeven methodology aligns with the methodology used for other transportation classes but failed to show how service provided to these customers differed in a way that supports separate rates for the breakeven-based classes. (4 TR 1803.)

The Commission should not adopt separate rate classes for the Transmission-Only Transportation Service rate design as it has not been shown how or if service under this rate differs in a way to support separate rate classes. The Commission should adopt Staff's proposal for one rate for all customers serviced under the Transmission Only Transportation Service rate, maintaining the method currently in place.

a. The Commission should reject ABATE's claims regarding the appropriate rate design for the transportation class.

ABATE witness York claims the reason for the currently utilized rate design method for the transportation class is rate shifting. (4 TR 2103-2104.) Staff disagrees with the premise and the conclusion that follows from the faulty premise. Breakeven points do not exist merely to minimize rate shifting, though maintaining them does achieve that. (4 TR 2766.) The breakeven points, in fact, define the schedules within the transportation class, though they are effectively arbitrary as they are not based on differences in the way customers on the schedules use the system as they tend to be for electric rates. (4 TR 2766-2767.) In addition, customer charges for transportation schedules other than ST, XXLTL (as it is only available to customers using 4,000,000 Mcf), and contiguous charges have traditionally been set mainly to maintain the breakevens. *Id.* Outside of XXLTL, customers can move to whichever rate schedule provides them with the lowest bill based on their usage, and such movement requires recalculating billing determinants, COSS allocators, and rate design to account for that movement. (*Id.*) Also, as stated by Staff witness Revere, “[l]ocking the breakevens in place and not allowing customer movement would also effectively undermine the schedule definitions which are based on those very breakevens, rendering the schedules’ arbitrariness fixed without reason.” (4 TR 2767.) No change to the transportation schedules to reflect different use of the system rather than the breakeven-based schedule definitions was proposed in the instant case, and therefore Staff continues to use the traditional method of calculating rates for breakeven-based schedules.

Id. ABATE witness York's proposal does not appropriately reflect shifts in determinants from changing the breakevens or justify locking the breakevens in place, and no evidence has been provided showing that the current schedule definitions related to how customers on each schedule use the system differently, and should therefore be rejected. *Id.* ABATE witness York claims that minimal historical rate switching is supportive of the claims. (4 TR 2104-2105.) As stated by Staff witness Revere, "[w]hat ABATE witness York fails to acknowledge is that this minimal rate switching is mainly a result of past rate designs *being done in such a way so as to minimize rate switching.*" (4 TR 2767, emphasis in original.) Staff witness Revere further states "[u]sing the fact that such considerations have been successful in minimizing rate switching should not be considered as evidence that such considerations are unnecessary; in fact, it is evidence that they should continue to be utilized." (*Id.*) For these reasons, as well as those given elsewhere in this brief, the rate design method used by Staff and the Company should be approved by the Commission.

4. The Commission should accept Staff's proposal for rates and tariffs attached to the order in this case to go into effect fourteen calendar days from the date of the order.

Staff witness Rademacher proposed the Commission make rates effective fourteen calendar days after the final order, arguing that this would allow all parties to have more time to ensure the accuracy of the rates and tariffs approved by the Commission and notify the Commission of any errors. (4 TR 2587.) If errors exist, corrections could be filed in the docket prior to implementation and if not,

rates would still be effective fourteen calendar days after the final order. (*Id.*) Due to the uncontested nature of this issue, as well as the reasons described above, the Commission should adopt Staff's proposal.

VII. REGULATORY DEFERRAL MECHANISMS

A. Leak Detection and Repair Program.

Per the Direct Testimony of Company witnesses James P. Pnacek and witness Kristine A. Pascarello, the Company anticipates a new regulation to be published by the Pipeline and Hazardous Materials Safety Administration (PHMSA) in January 2025 that would introduce new Leak Detection and Repair (LDAR) requirements. To recover expenses for complying with the new LDAR requirements, the Company requests a regulatory deferral mechanism. (4 TR 1610-1612; 3 TR 412-414.)

Staff witness Jacob G. Martus asserts that the anticipated regulation has not been published as of April 2025, and a Federal Executive Order has introduced new and significant considerations towards the publishing of new regulatory rules in January 2025. Therefore, Staff's opinion is that the rule is highly unlikely to come into effect for the period the regulatory deferral mechanism is requested and thus, the regulatory deferral mechanism should be disallowed. (4 TR 2700.)

Per the rebuttal testimony of Company witness Pnacek, "[t]he Company agrees with the recommendations of MPSC Staff ("Staff") witness Jacob G. Martus

that the LDAR deferral mechanism should not be approved in this current rate case.” (4 TR 1700.)

As of the submission of this brief in June 2025, the new PHMSA rule has still not been published. Thus, Staff maintains its recommendation of disallowing the regulatory deferral mechanism for the LDAR program due to the unlikelihood of the new rule coming into effect during this rate case’s recovery period.

B. Staking and Locating Sub-Program

Per the direct testimony of Company witness Pnacek, large, externally driven fiber optic and other infrastructure work introduces potential for the experienced 2026-year staking volume to deviate from the projected volume. Hence, the Company requested a regulatory deferral mechanism for the Staking and Locating Sub-program to refund or recover any O&M expenses below or above amounts included in rates for the test year. (4 TR 1648-1649.)

Staff supports the use of a regulatory deferral mechanism for the Staking and Locating Sub-program. However, to ensure the regulatory deferral mechanism is applied to cost changes associated with staking volume fluctuations, Staff recommends for the mechanism to be contingent on the 2026-year experienced staking volume. Staff witness Martus sponsored Exhibit S-17.3 which contains the table below showing various possible 2026-year staking volume fluctuations and the corresponding change in cost. Staff recommends for the experienced 2026-year staking volume to be used to interpolate the corresponding cost change from the

table and apply that as the recover or refund amount for the regulatory deferral mechanism for the 2026-year. (4 TR 2702.)

Ticket volume increase scenarios: If 2025 and 2026 annual volumes where to increase x% for each year	Resulting % increase from 2024 to 2026	Total projected 2026 Volumes	2026 Projected Staking Volume change	Estimated Cost change relative to the 2026 Rate Case request
2%	4.0%	466,468	(15,912)	\$ (726,724)
3%	6.1%	475,659	(6,721)	\$ (306,959)
Current Rate Case	7.6%	482,380	-	\$ -
4%	8.2%	484,940	2,560	\$ 116,901
5%	10.3%	494,310	11,930	\$ 544,856
6%	12.4%	503,771	21,391	\$ 976,907
7%	14.5%	513,320	30,940	\$ 1,413,052
8%	16.6%	522,960	40,580	\$ 1,853,293
9%	18.8%	532,689	50,309	\$ 2,297,630

Per the direct testimony of AG witness Coppola, the regulatory deferral mechanism for the Staking and Locating Sub-program should be disallowed due to the lack of compelling evidence of staking volume volatility causing significant expense variations from year to year. (4 TR 2033.)

Company witness Pnacek rebuts the AG’s arguments, stating that the anticipated fiber optic and infrastructure work from the Realizing Opportunities with Broadband Infrastructure Networks Program and Broadband Equity, Access, and Deployment Program have the potential to significantly increase staking volume above the forecasted levels. The Company then asserts, regarding the Staking and Locating Sub-program’s requested regulatory deferral mechanism, that AG witness Coppola’s recommendation should be rejected by the Commission and the recommendation from Staff witness Martus should be approved. (4 TR 1713.)

Staff agrees with the Company that the anticipated fiber optic projects can introduce large variance in staking volume, and therefore, Staff maintains its

recommendation of approving a regulatory deferral mechanism for the Staking and Locating Sup-program contingent on the 2026-year experience staking volume.

C. S/4HANA Implementation Project O&M Deferral

Staff witness Nichols supported Consumers Energy's requested accounting treatment to defer ██████████ SAP S/4HANA Implementation Project O&M expense. (4 TR 2495.) Staff has recalculated the revenue deficiency impact by applying the Staff's recommended cost of capital and calculates a revenue deficiency reduction of ██████████ as found on Confidential Exhibit S-13. Staff recommends that if the Commission approves the deferral, that it recalculates the revenue deficiency impact based on its final decisions. If approved, Staff notes that this is an additional incremental revenue deficiency reduction that is not reflected in the Staff's direct testimony or initial brief revenue deficiency.

1. The Commission should direct the Company to meet with staff and track project expenses for the SAP S/4HANA Implementation project.

The SAP S/4 HANA project involves the migration of the current SAP ERP database to the newest version, S/4 HANA. This project will updated software to the latest version, transfer existing data, connect other systems to S/4 HANA, and set up user access. The Company also plans to update reports and analytics, by migrating current ones over or using new built-in options. (4 TR 727-728.)

In Staff's direct testimony, it recommended that the Commission direct the Company to meet with Staff quarterly to provide progress updates on the SAP S/4

HANA migration. (4 TR 2718.) Additionally, Staff recommends the Company keep record of costs for this project and report any over or under spend, relevant to the 80% base ROM projection, and include this in future rate cases until implantation is completed. (4 TR 2718.)

In its rebuttal, the Company agreed with Staff on the two recommendations presented above. (4 TR 762.) Staff recommends the ALJ and Commission adopt these recommendations.

VIII. OTHER ISSUES

A. Sales Forecasting

- 1. The Company should include all of the data it uses to forecast natural gas deliveries in all future general rate cases.**

Staff witness Paul R. Ausum recommended the Company, in all future rate cases, include all data and inputs it uses to construct the deliveries and customer count forecasting models. (4 TR 2746, Exhibit S-23.) Inclusion of this data on a going forward basis will aid in Staff's analysis of a crucial rate determinant. (4 TR 2747.)

In rebuttal testimony, Company witness Mustafa Sherwani agreed with Staff regarding the provision of the data in future cases. (2 TR 277.) Because the Company did not contest Staff's request, the Commission should order that the Company include all of the data it used to construct its forecasting models in all future rate cases.

2. Out-of-sample testing is a useful tool in determining the suitability of a forecasting model

MEC witness Alice Napoleon recommended the Company utilize more out of sample data to test its regression models. (4 TR 2296.) In rebuttal testimony, Company witness Sherwani contended that the use out-of-sample data would not be useful for to test a model's usefulness for future periods, as it would involve the use of data from more than ten years ago to test the validity of the model in forecasting the future. (2 TR 281.)

As it relates to forecasting, Staff defined out-of-sample data as any data that is not used to estimate the coefficients in a regression model. This could be data that occurred prior to any observations used in building the model, or data that has occurred after any of the observations used to build the model, or any set of data points in between. In the instant case, the Company used the most recent eleven years of sales data to estimate the regression model. (2 TR 280.) If the Company omitted the last full years' worth of data from the sample, it would have had a benchmark to test the accuracy of the model's outputs with. The model that produces accurate predictions over a large array of out-of-sample data is usually a good predictor of future values of that data. In direct testimony, Company witness Sherwani included a chart that showed forecast accuracy from 2016 to 2023, but only in cross examination, was it revealed that the weather-adjusted actuals used to assess model accuracy occurred outside of the regression model data. (2 TR 272; 2 TR 322.) In future cases, a similar level of analysis should be performed for each of the class level forecasts sponsored by the Company.

Out-of-sample testing would prove useful in determining the reasonableness of not only the Company's forecast, but also the adjustments of other intervenors, such as the adjustment to Commercial Transportation deliveries sponsored by AG witness Coppola. (4 TR 1992-1995.) If both the Company's and the AG's adjustment were computed using historical data and then compared to a set of recently occurred data that was not used in said computation, this would aid the Commission in determining which methodology is more likely to predict future values. The Commission should order the Company to utilize more out-of-sample data to test the predictions made by its models.

B. Energy Waste Reduction (EWR) and Efficient Electrification Measures (EFEL).

1. Staff recommends the Commission address EWR and EFEL program design through Energy Optimization Plan proceedings.

Staff witness Fawzon B. Tiwana filed rebuttal testimony to address recommendations made by MEC/SC witness Alice Napoleon regarding modifications to the Company's Energy Waste Reduction (EWR) and Efficient Electrification (EFEL) programming. While Mr. Tiwana did not file direct testimony, his rebuttal addresses witness Napoleon's proposed changes.

Staff disagrees with MEC/SC witness Napoleon's position that proposed changes to the Company's EWR and EFEL programs should be addressed in the present rate case. Changes to EWR and FEEL programming are legislatively governed by Public Act 295 of 2008, as amended by Public Act 229 of 2023, and are

more appropriately addressed through Energy Optimization (EO) Plan proceedings. Energy Optimization Plans are specifically structured to assess and implement program design, evaluation, and performance within a consistent regulatory framework and avoid overlap with unrelated cases.

Staff recommends the Commission reject any recommendations to modify EWR or EFEL program design in this rate case proceeding. Staff maintains that proposed changes to those programs should be addressed solely through EO Plan proceedings.

Staff does not oppose a robust and transparent evaluation of EWR and EFEL initiatives; however, the appropriate venue must be maintained. This ensures the integrity of rate case proceedings and protects the procedural structure established by statute and Commission practice. The Commission should find that any EWR or EFEL program modifications proposed by MEC/SC are outside the scope of the present case and should be considered, if appropriate, in future Energy Optimization proceedings.

IX. CONCLUSION

Staff recommends that the Commission find that Consumers Energy's gas revenue deficiency will be \$169.609 million in the projected test year. Consumers Energy's SAP/4HANA implementation project O&M deferral is not reflected in the Staff's \$169.609 million revenue deficiency, and if approved, this is an additional incremental revenue deficiency reduction, which is a confidential amount found on

Staff Exhibit S-13. Staff recommends that the Commission adopt Staff's lower rate base, rate of return, and operating expenses, as well as Staff's proposed cost of service, rate design, and tariff revisions. Staff's recommendations strike the right balance between Consumers Energy's interests and its ratepayers' interests.

Respectfully submitted,

**MICHIGAN PUBLIC SERVICE
COMMISSION STAFF**

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Dated: June 25, 2025

Appendix A

MICHIGAN PUBLIC SERVICE COMMISSION
Consumers Energy Company
 Revenue Deficiency (Sufficiency)
 For the Projected 12-Month Period Ending October 31, 2026
 (\$000)

Case No.: U-21806
 MPSC Staff Brief
 Appendix A

Line No	(a) Description	(b) Source	(c) Applicant Projection	(d) Staff Adjustment	(e) Staff Projection
1	Rate base	Exhibit No.: A-12 (HLR-31)	11,567,433	(48,443)	11,518,990
2	Adjusted net operating income	Exhibit No.: A-13 (HLR-36)	556,763	3,223	559,986
3	Overall rate of return	Line 2 / Line 1	4.81%	0.05%	4.86%
4	Required rate of return	Source: Exhibit No.: A-14 (MRB-1)	6.22%	-0.26%	5.96%
5	Income requirement	Line 1 * Line 4	719,437	(32,695)	686,742
6	Income deficiency (sufficiency)	Line 5 - Line 2	162,674	(35,918)	126,755
7	Revenue conversion factor	Exhibit No.: A-13 (HLR-38)	1.3381	-	1.3381
8	Revenue deficiency (sufficiency)	Line 6 * Line 7	217,670	(48,061)	169,609

Appendix B

MICHIGAN PUBLIC SERVICE COMMISSION

Consumers Energy Company

Rate Base

For the Projected 12-Month Period Ending October 31, 2026

(\$000)

Case No.: U-21806

MPSC Staff Brief

Appendix B

Line No	(a) Description	(b) Source	(c) Applicant Projection	(d) Staff Adjustment	(e) Staff Projection
1	Total utility plant	Exhibit No.: A-12 (HLR-32)	14,845,170	(50,083)	14,795,087
2	Depreciation reserve	Exhibit No.: A-12 (HLR-33)	(4,643,918)	1,640	(4,642,278)
3	Customer advances for construction	WP-HLR-22	(19,159)	-	(19,159)
4	Net utility plant	Sum of Lines 1 through 3	<u>10,182,093</u>	<u>(48,443)</u>	<u>10,133,650</u>
5	Net unamortized MGP	Exhibit No.: A-47 (MJF-5), p.2, Line 43	20,438	-	20,438
6	Utility plant rate base	Line 4 + Line 5	<u>10,202,531</u>	<u>(48,443)</u>	<u>10,154,088</u>
7	Working capital	Exhibit No.: A-12 (HLR-34)	1,364,902	-	1,364,902
8	Total rate base	Sum of Lines 6 through 7	<u><u>11,567,433</u></u>	<u><u>(48,443)</u></u>	<u><u>11,518,990</u></u>

Appendix C

MICHIGAN PUBLIC SERVICE COMMISSION

Case No.: U-21806

Consumers Energy Company

MPSC Staff Brief

Development of Adjusted Net Operating Income

Appendix C

for the Projected 12-Month Period Ending October 31, 2026

(\$000)

Line No.	Description (Witness)	Revenue				Expenses												NOI			
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)
		Sales Revenue	Transport Revenue	Other Revenues	Total	Cost of Gas Sold	LAUF	Company Use	Other O&M	Depreciation	Amortization	Property Tax	General Taxes	Other (Local) Taxes	State Income Tax	FIT	Total	NOI	AFUDC	Adjusted NOI	
Company Filed																					
	Operating Income (Direct)	2,182,075	102,396	28,666	2,313,137	737,588	12,709	5,502	297,904	374,164	10,239	201,200	19,785	838	25,256	83,757	1,768,943	544,194	1,298	545,492	
	RIA credit projections	1,119			1,119									2	59	222	283	836		836	
	2024 IT Capital Expenditures Underspend				-				(2)					0	0	0	(1)	1		1	
	HR Support Pack & Business Software Upgrade 2025				-				(20)					0	1	4	(15)	15		15	
	HR Support Pack & Business Software Upgrade 2026				-				(40)					0	2	8	(30)	30		30	
	Application Currency Project - Electric & Gas Shared				-				(8)					0	0	2	(6)	6		6	
	Standard Work Plan Program				-				(71)					0	4	14	(53)	53		53	
	Next Generation eSOMS				-				(8)					0	0	2	(6)	6		6	
	Distribution Gas Ops - Comp & Controls				-				634					(1)	(33)	(126)	474	(474)		(474)	
	Depreciation				-					(11,347)				18	595	2,254	(8,480)	8,480		8,480	
	MPG Amortization				-						54			(0)	(3)	(11)	40	(40)		(40)	
	Riverside Storage Field Amortization				-						(2,959)			5	155	588	(2,211)	2,211		2,211	
	General Taxes				-									1	24	92	(344)	344		344	
	Property Tax Expense				-								(869)	1	46	173	(650)	650		650	
	Income Tax Effect of Interest				-									5	175	664	844	(844)		(844)	
	Interest Synchronization /				-									0	1	3	4	(4)		(4)	
1	Operating Income (Rebuttal)	2,183,194	102,396	28,666	2,314,257	737,588	12,709	5,502	298,389	362,817	7,334	200,331	19,325	869	26,281	87,646	1,758,791	555,466	1,298	556,763	
Staff Adjustments																					
2					-									-	-	-	-	-		-	
3	Customer Experience & Operations				-									-	-	-	-	-		-	
4	Digital Customer Operations (Klocke)				-				(536)					1	28	106	(401)	401		401	
5					-									-	-	-	-	-		-	
6	Information Technology & Security - Investments				-									-	-	-	-	-		-	
7	Product Family Enhancements-Customer-Capital* (Klocke)				-				(23)					0	1	5	(17)	17		17	
8					-									-	-	-	-	-		-	
9	Other Benefits				-									-	-	-	-	-		-	
10	Leaving It Better Award (Rueckert)				-				(550)					1	29	109	(411)	411		411	
11	Incentive Compensation (McMillan-Sepkoski)				-				(276)					0	14	55	(206)	206		206	
12					-									-	-	-	-	-		-	
13					-									-	-	-	-	-		-	
14	Impact of Cap Ex. Adj. on Depr., Prop. Tax, and AFUDC (Witt)				-					(1,816)		(701)		4	132	500	(1,881)	1,881		1,881	
15					-									-	-	-	-	-		-	
16	Proforma Interest (Nichols)				-									(2)	(64)	(241)	(306)	306		306	
17	Interest Synchronization /				-									(0)	(0)	(0)	(0)	0		0	
18	Total Adjustmen				-				(1,385)	(1,816)		(701)		4	141	534	(3,223)	3,223		3,223	
19	Staff NOI - Test Year	2,183,194	102,396	28,666	2,314,257	737,588	12,709	5,502	297,004	361,001	7,334	199,630	19,325	873	26,422	88,180	1,755,568	558,689	1,298	559,986	

Appendix D

MICHIGAN PUBLIC SERVICE COMMISSION
Consumers Energy Company
 Capital Structure and Rate of Return Summary
 For the Projected 12-Month Period Ending October 31, 2026
 (\$000)

Case No.: U-21806
 MPSC Staff Brief
 Appendix D

Line No	(a) Description	Capital Structure			Weighted Cost				
		(b) Amount	(c) Percent Permanent Capital	(d) Percent of Total Capital	(e) Cost Rate %	(f) Permanent Capital	(g) Total Cost %	(h) Conversion Factor	(i) Pre-Tax Return
1	Long term debt	12,840,150	49.86%	41.83%	4.33%	2.16%	1.81%		1.81%
2	Preferred stock	37,315	0.14%	0.12%	4.50%	0.01%	0.01%	1.3381	0.01%
3	Common equity	12,875,255	50.00%	41.94%	9.75%	4.87%	4.09%	1.3381	5.47%
4	Permanent Capital	<u>25,752,720</u>							
5	Short term debt	201,385		0.66%	4.52%		0.03%		0.03%
6	Deferred income taxes	4,629,270		15.08%	0.00%		0.00%		0.00%
7	Deferred JDITC - long term debt	56,840		0.19%	4.33%		0.01%		0.01%
8	Deferred JDITC - preferred stock	165		0.00%	4.50%		0.00%	1.3381	0.00%
9	Deferred JDITC - common equity	56,995		0.19%	9.75%		0.02%	1.3381	0.02%
10	Total	<u><u>30,697,375</u></u>					<u><u>5.96%</u></u>		<u><u>7.35%</u></u>

Appendix E

MICHIGAN PUBLIC SERVICE COMMISSION

Consumers Energy Company

Capital Expenditure and Rate Base Adjustments

For the Projected 12-Month Period Ending October 31, 2026

(\$000)

Case No.: U-21806

Staff Initial Brief

Appendix E

Line	Adjustment Description	(a)	(b)	(c)	(d)	(e)	(f)	(g)
		Total Cap Ex Adj.	Test Year Impacts From Staff Adjustments to Cap Ex Projects					
		Cap Ex Adj.	Plant Adj.	Accum Depr.	Rate Base	Depreciation	Property Tax	
1	<u>Compression & Storage</u>							
2	Storage - New Wells	(7,789)	(7,214)	(180)	(7,034)	(179)	(101)	
3	Storage Pipeline Replacement	(16,032)	(15,031)	(338)	(14,693)	(373)	(210)	
4	Storage - New Wells	<u>(24,308)</u>	<u>(22,638)</u>	<u>(536)</u>	<u>(22,101)</u>	<u>(561)</u>	<u>(317)</u>	
5	Total	(48,129)	(44,882)	(1,054)	(43,828)	(1,113)	(628)	
6	<u>Information & Technology</u>							
7	Customer - Click to Chat	(49)	(49)	(27)	(22)	(10)	(1)	
8	Customer - Web Chat AI	(181)	(90)	(9)	(81)	(18)	(1)	
9	Customer - LMI Customer Enhancements	(241)	(221)	(39)	(182)	(44)	(3)	
10	Customer - Self Service Mobile App	(1,423)	(1,098)	(224)	(873)	(220)	(15)	
11	Customer - Low moderate Income	(1,900)	(950)	(95)	(855)	(190)	(13)	
12	IT/Digital Foundation - ARP - Field Device Asset Mgmt	(575)	(418)	(64)	(355)	(84)	(6)	
13	IT/Digital Foundation - ARP - Workstation asset Mgmt	<u>(575)</u>	<u>(418)</u>	<u>(64)</u>	<u>(355)</u>	<u>(84)</u>	<u>(6)</u>	
14	Total	(4,943)	(3,244)	(521)	(2,723)	(649)	(45)	
15								
16	<u>Incentive Compensation</u>							
17	Leave It Better Award	<u>(2,388)</u>	<u>(1,957)</u>	<u>(65)</u>	<u>(1,892)</u>	<u>(54)</u>	<u>(27)</u>	
18	TOTAL	(55,460)	(50,083)	(1,640)	(48,443)	(1,816)	(701)	
19	<u>WORKING CAPITAL ADJUSTMENTS</u>							
20	none					-		
21	TOTAL RATE BASE ADJUSTMENTS				(48,443)			

Appendix F

MICHIGAN PUBLIC SERVICE COMMISSION

Case No.: U-21806

Consumers Energy Company

Staff Initial Brief

Summary of Staff Position

Appendix F

For the Projected 12-Month Period Ending October 31, 2026

	(a)	(b)	(c)	(d)	(e)
Walk from Staff Initial Filing to Initial Brief Revenue Deficiency					(million \$)
1	Staff Initial Filing - Revenue Deficiency	Exhibit S-1, Schedule A-1			177.354
2	Rate Base (Impact on Revenue Deficiency)	See rate base updates below	(64.871)	7.35%	(4.770)
3	Depreciation	Waterfall Impact			(2.159)
4	Property Taxes	Waterfall Impact			(0.914)
5	Distribution Gas Ops - Comp & Controls	CE concessions adopted by Staff			0.634
6	Digital Customer Operations	Staff update at Initial Brief			(0.536)
7	Rounding				(0.001)
8	Staff Initial Brief - Revenue Deficiency	Appendix A, line 8			169.609

					((\$000,000))
Walk from Staff Initial Filing to Initial Brief Rate Base					
9	Staff Initial Filing Rate Base	Exhibit S-2, Schedule B-1			\$ 11,583.861
10	2024 IT capital expenditures	CE Concession Adopted by Staff			(5.668)
11	Project B-GL-00251	CE Concession Adopted by Staff			(0.417)
12	Project B-GL-03042	CE Concession Adopted by Staff			(0.003)
13	Compression & Storage 2024 Underspend	CE Concession Adopted by Staff			(7.563)
14	Lansing Service Center	CE Concession Adopted by Staff			(16.720)
15	Hastings Service Center	CE Concession Adopted by Staff			(0.019)
16	Distribution Gas Ops - Comp & Controls	CE Concession Adopted by Staff			(0.380)
17	Material Condition - ERIP	CE Concession Adopted by Staff			(2.991)
18	New Business - Mains, Services, and Meter Stands	CE Concession Adopted by Staff			(12.790)
19	New Business - Large New Business Projects	CE Concession Adopted by Staff			(5.043)
20	Asset Relocation - Civic Improvement Projects	CE Concession Adopted by Staff			(14.365)
21	Asset Relocation - Reimbursable Projects	CE Concession Adopted by Staff			(1.163)
22	Correction of projected working capital S4/HANA cloud implementation	CE Concession Adopted by Staff			(1.746)
23	Correction of projected working capital prepaid cloud implementation	CE Concession Adopted by Staff			(1.034)
24	Accumulated Depreciation	WF adopt CE Concessions above			3.484
25	It/Digital Foundation - ARP Field Device Asset Management	Staff update at Initial Brief			0.913
26	It/Digital Foundation - ARP workstation Asset Management	Staff update at Initial Brief			0.911
27	Accumulated Depreciation	WF Staff updates			(0.277)
28	Rounding				(0.001)
29	Staff Initial Brief Rate Base	Appendix B, line 8			\$ 11,518.990

Appendix G

MICHIGAN PUBLIC SERVICE COMMISSION

Case No.: U-21806

Consumers Energy Company

Staff Initial Brief

Summary of Staff Position

Appendix G

For the Projected 12-Month Period Ending October 31, 2026

	(a)	(b)	(c)	(d)	(e)
<u>Walk from Consumers Revenue Deficiency to Staff Initial Brief Revenue Deficiency</u>					
Line	Description	Source	Rate Base	Pre-Tax	Revenue Requirement Impact (million \$)
1	Company Revenue Deficiency (Initial Filing)	CE Initial Filing, Exhibit A-11, Schedule A1			248.008
2	Rate Base (Cap Ex Adj)		(183.308)	7.70%	(14.121)
3	Depreciation & Amortization (Cap Ex Adj)				(14.252)
4	Property Taxes (Cap Ex Adj)				(0.869)
5	Cost of Capital		-	0.00%	-
6	RIA credit projections				(1.119)
7	2024 IT Capital Expenditures Underspend				(0.002)
8	HR Support Pack & Business Software Upgrade 2025				(0.020)
9	HR Support Pack & Business Software Upgrade 2026				(0.040)
10	Application Currency Project - Electric & Gas Shared				(0.008)
11	Standard Work Plan Program				(0.071)
12	Next Generation eSOMS				(0.008)
13	Distribution Gas Ops - Comp & Controls				0.634
14	General Taxes				(0.461)
15	Rounding				-
16	Company Revenue Deficiency (Rebuttal Filing)	Consumers Rebuttal, Exhibit A-146 (HLR-52)			217.670
17	Change in Rate base	Appendix E * Exhibit A-14 (MRB-1)	(48,443)	7.70%	(3.732)
18	Change in rate of return	Appendix A * (App D less Exh A-14)	11,519	-0.35%	(40.428)
19	Revenue	Appendix C, line 18			-
20	O&M adjustment	Appendix C, line 18			(1.385)
21	Depreciation adjustment	Appendix C, line 18			(1.816)
22	Property Tax adjustment	Appendix C, line 18			(0.701)
23	Rounding				-
24	Total Adjustments (rev. req. impact)	Appendix A, line 8			(48.061)
25	Rounding				-
26	Staff Initial Brief - Revenue Deficiency	Appendix A, line 8			169.609

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of
Consumers Energy Company for
authority to increase its rates for the
distribution of natural gas and for
other relief.

Case No. **U-21806**
(e-file paperless)

_____ /

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss
COUNTY OF EATON)

Erin Fielder-Attia, being first duly sworn, deposes and says that on **June 25, 2025**, she served a true copy of **Michigan Public Service Commission Staff's Initial Brief** upon the parties on the attached Service List **via email only**:

Erin Fielder-Attia

Subscribed and sworn to before me
this **25th** day of **June, 2025**.

Cherie A. R. Shea, Notary Public
State of Michigan, County of Eaton
Acting in the County of Eaton
My Commission Expires: 04-13-31

Case No. U-21806
Service List

ADMINISTRATIVE LAW JUDGE

Hon. James M. Varchetti
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