

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
REPLY BRIEF

**MICHIGAN PUBLIC SERVICE
COMMISSION STAFF**

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

I. INTRODUCTION AND OVERVIEW

In its initial brief, the Michigan Public Service Commission Staff (Staff) calculated that Consumers Energy Company (Consumers Energy or the Company) had a projected total gas revenue deficiency of \$169.609 million. This position amounted to a decrease of \$48.061 million from the Company's position after rebuttal testimony. After rebuttal testimony, the Company projected a revenue deficiency of \$217.670 million for the projected test year ending October 31, 2026.

In this reply brief, Staff has adopted Consumer Energy's adjustment for the Williamston Transmission Meter Proving Station concession as presented in its initial brief. (Appendix F, lines 35-36.) Staff now supports a revenue deficiency of \$169.126 million, which is \$48.046 million less than the Company's initial brief projection of \$217.171 million. (Appendix A, line 8.) Staff has prepared Appendices A through G which calculate the Staff's revenue deficiency. Appendix C details revenue and expense adjustments, while Appendix E details rate base adjustments. Appendix F reconciles Staff's direct testimony, initial brief, and reply brief positions for revenue deficiency and rate base. (Appendix F, lines 1-12, 14-37.) Appendix G reconciles the revenue deficiency in the Company's application to the Company's rebuttal filing and initial brief position, as well as the Company's initial brief position to the Staff's reply brief position. (Appendix G, line 1-26.)

In accordance with the schedule established for this case, Staff files the following reply brief in response to Consumers Energy's application for authority to increase its rates for the distribution of natural gas and for other relief. This brief

is intended to respond to the initial briefs of the Company and intervenors. Staff does not forgo any position asserted in initial brief and the Commission should not construe Staff's silence on an issue as agreement with one or more of the parties on that issue.

II. RATE BASE

A. Net Utility Plant

1. Gas Transmission and Distribution Capital Expenditures

a. The Commission should adopt the Company's concession for the Williamston Transmission Meter Proving Station.

In its application, the Company projected capital expenditures related to the Deliverability Base Field Measurement Program to be \$6,774,000 in 2024; \$10,255,000 for the 10 months ending October 31, 2025; and \$19,890,000 for the 12 months ending October 31, 2026. (4 TR 1286; Exhibit A-61 Revised, line 3.) In the Company's direct case, Company witness Michael P. Griffin provided that the Company planned to construct the Williamston Transmission Meter Proving, Testing, and Development station in the test year. (4 TR 1287.)

Attorney General (AG) witness Sebastian Coppola proposed removal of the capital expenditures for the 10 months ending October 2025 in the amount of \$226,000 and the \$7,994,000 in the projected test year related to the Williamston Transmission Meter Proving Station. (4 TR 1906-1907.) AG witness Coppola argued that "the Company has not performed a serious cost/benefit analysis to justify building and operating this new facility." (*Id.*)

In its initial brief, the Company reviewed the recommendations of the Attorney General and agreed to remove the costs associated with the Williamston Transmission Meter Provisioning Station from this case. (Consumers' Initial Brief, pp 60-61; Exhibit AG-76.)

As there is agreement between the Company and Attorney General as to this adjustment, the Staff recommends the Commission adopt a disallowance of the capital expenditures in the amount of \$226,000 for the 10 months ending October 2025 and \$7,994,000 in the projected test year related to the Williamston Transmission Meter Proving Station.

B. Working Capital

1. Staff has not taken a position on the Company's proposed 1% cash level.

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 recommended 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.)

In its initial brief, Staff recommended that the Commission adopt the adjustment to cash working capital made by Staff and agreed to by the Company

and reduce the projected test year working capital by \$5,263,000. In the Company's initial brief, Consumers Energy accepted the adjustment made by Staff witness Hecht to correct an error in the data used by the Company in its cash balance, thereby reducing the Company's projected cash balance by \$5,263,000 to \$23,130,000. (Consumers' Initial Brief, p 130.) The Company goes on to state that "[w]ith that adjustment, the Commission should approve a cash level that equates to approximately 1% of the Company's test year gas revenues as recommended by Staff, but reject the Attorney General's adjustment." (*Id.*) Staff clarifies in this reply brief that it is not recommending the Company's 1% projection of cash be approved. Staff has merely corrected the Company's calculation and has not taken a position on the use of 1% cash for working capital.

C. Total Rate Base

With the above adjustment, Staff recommends a rate base of approximately \$11.515 billion, which is \$48.443 million less than the Company's initial brief projection of \$11.563 billion. (Appendix B.)

III. CAPITAL STRUCTURE AND RATE OF RETURN

In its initial brief, Consumers Energy reiterated its request for a 50.75% ratemaking equity layer and a 10.25% return on equity (ROE). The Company asserted that Staff's recommended 50.0% equity layer was insufficient based on a number of unpersuasive arguments. (Consumers' Initial Brief, p 132.) The Company also asserted that Staff's 9.75% ROE recommendation was insufficient

based on many of the same erroneous capital structure, credit rating, and model analysis arguments the Company made in brief. (*Id.* at pp 181, 193.) Staff strongly supported its evenly-balanced capital structure and favorable 9.75% ROE recommendation in testimony and addressed many of the Company’s rebuttal arguments in its initial brief. Staff stands behind its comprehensive analysis and will address a few erroneous arguments the Company made in its initial brief below.

A. Staff’s Ratemaking Equity Layer corresponds with the Commission’s repeated directives for an equity-to-debt ratio of 50%.

In its initial brief, the Company stated that intervening parties “promote risky financial approaches, including repeated efforts to reduce the Company’s equity ratio and ROE.” (*Id.* at 134.) The Commission should find the Company’s argument unpersuasive. The intervenors in this case have not promoted efforts to reduce the Company’s equity ratio but have promoted the idea that the Company should abide by the Commission’s previous directives to employ a 50/50 ratemaking capital structure. That is the capital structure that Staff, the AG and the Association of Businesses Advocating Tariff Equity (ABATE) have submitted in this case and is the capital structure that corresponds with the capital structure authorized in the Company’s previous gas rate case, Case No. U-21490. The Commission has made clear through its orders that it expects the Company to recalibrate its capital structure to equilibrium, unless there is a compelling reason not to do so. The Company has not presented a compelling case in this proceeding

to deviate from a glidepath of equilibrium, despite its numerous arguments to the contrary. The Commission, in its most recent electric rate case order for Consumers Energy stated:

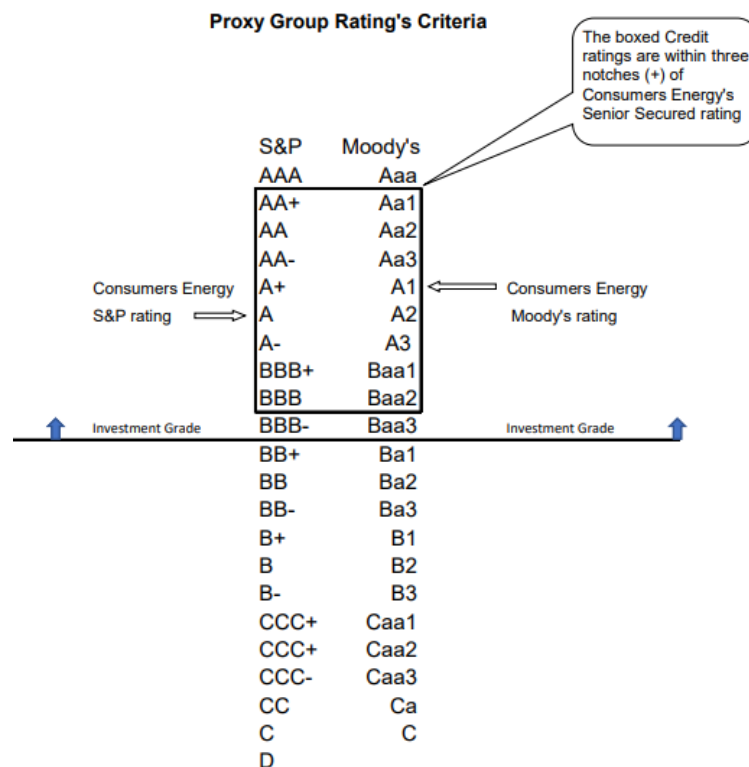
The company has not demonstrated significant changes in the economic circumstances to support a deviation from a balanced capital structure. The Commission finds that the balanced capital structure most appropriately balances the interest of the utility's investors and customers, consistent with the holdings in Bluefield and Hope. As such, the Commission adopts a balanced capital structure of 50% debt to 50% equity. [MPSC Case No. U-21585, 3/21/2025 Order, p 232-233.]

The Commission should again find that the Company has not demonstrated a significant enough change in the economy to support a deviation from a balanced capital structure in this case. The Commission should reaffirm its position that a 50/50 capital structure is the preferred capital structure.

B. The Commission should reject the Company's erroneous arguments concerning potential downgrades to its credit rating and credit quality.

In its initial brief, the Company headlines that Staff and the AG's equity layer recommendations would harm the Company's credit rating. Consumers Energy claims that "Staff inappropriately rejects the likelihood of another credit downgrade," and that "[t]he Attorney General ignores the possibility of another credit downgrade." (Consumers' Initial Brief, pp 156, 172.) The Company's assertions are exaggerated and overblown. The Company notes that the Commission should not adopt Staff's unduly optimistic outlook on the Company's credit quality and credit rating. (*Id.* at p 155.) However, the exact opposite is in order, and the Commission should not adopt the Company's unduly pessimistic

view on the Company's credit quality and credit rating. The Company would have the Commission believe that the credit rating agencies are waiting with bated breath to issue a downgrade to Consumers Energy's credit rating. However, the opposite has shown to be true. Rating agencies have been thorough and patient in their credit assessments for Consumers Energy over the years. Several rating agencies have asserted that, despite either a modest rebalancing of the Company's capital structure and/or a reduced ROE, the Company could experience credit improvement if Michigan's regulatory framework becomes more formulaic and/or additional cost recovery mechanisms are approved in future rate cases. (4 TR 2535.) Even more so, the Company's credit rating, as shown below, is squarely within investment grade ratings. The chart below is included as Exhibit S-4, Schedule D-5, page 3 and is provided here for convenience.



The Company's credit rating is not only within the investment grade category but has been for several years. As Staff noted in testimony, S&P has held the Company's credit rating steady for 10 years or more, Fitch, at 'A+' for over nine years, and despite the one-notch revision by Moody's in 2021, Moody's has held the Company's rating steady for over 4 years. (4 TR 2530.) This indicates that rating agencies are not rushing to alter a credit rating at the slightest deviation from forecast but are thorough, prudent, and patient in their credit assessments. Despite the Company's arguments to the contrary, Staff has relied on the opinion of rating agencies, especially with respect to the Company's Funds from Operations to Debt ratio (FFO-to-Debt). Staff relied on Moody's May 2024 credit opinion that the Company's FFO-to-Debt ratio will average around 20%-21% over the next 2-3 years, and S&P's August 2024 credit opinion noted that Consumers Energy's FFO-to-Debt ratio was expected to maintain between 17%-19% over the next few years. (4 TR 2534.) Thus, the Company's FFO-to-Debt ratio appears to be solidly above the downgrade threshold in the upcoming test year. However, the Company claims that Staff should ignore those projections by the ratings agencies because they may not be achieved by the Company. (4 TR 847.) Staff has shown that the Company's credit rating, as highlighted in Exhibit S-4, Schedule D-5, page 3, is very intact, stable and far removed from the Company's notion of unstable and problematic. Thus, the Company's numerous arguments regarding issues with its credit quality, its credit rating, and the notion of future credit diminishment, should be rejected by

the Commission. The Commission should adopt the Staff's, the AG's and ABATE's 50-50 capital structure recommendations.

C. Consumers Energy's disagreement with Staff's 9.75% ROE is without merit.

Consumers Energy argued that Staff's 9.75% ROE recommendation would cause harm by sending the wrong message to the investment community that the regulatory environment in Michigan was becoming less supportive, and that Staff's recommendation did not acknowledge the Company's significant capital expenditures program and failed to acknowledge the change in interest rates, amongst other ROE related arguments. (Consumers' Initial Brief, pp 181, 193.) The Company's characterization of Staff's ROE analysis and recommendation should be rejected by the Commission.

Throughout its brief, the Company frequently intoned the language in the Supreme Court decisions of *Hope* and *Bluefield*. (See Consumers' Initial Brief, pp 200, 202, 234, 249, 251, 253.) Staff reasoned that its ROE recommendation, at 9.75%, not only accommodated the holdings in *Hope* and *Bluefield*, but could be viewed as favorable because the recommendation was substantially higher than other state commission's 3-yr average authorized ROE of 9.63%. (4 TR 2559.) Thus, Staff's ROE recommendation is almost 15 basis points higher than the 2022-2024 national average. This is important to mention because the Company claimed in its brief that "[t]he Staff and intervenor ROE recommendations are not adequate to ensure the financial soundness of the business and are not sufficient to maintain

credit and attract capital.” (Consumers’ Initial Brief, p 185.) However, Staff’s and the AG’s ROE recommendations are not only higher than other similarly situated utilities as clearly shown from the current RRA 3-yr average ROE of 9.63% but do not consider the myriad regulatory benefits associated with Michigan utility regulation. The Company has substantial risk mitigating measures currently in place and is requesting additional measures or the continuance and upgrade of current programs in this case that offer further risk reduction. This refutes the Company’s claims of unfair competition with competing utilities. By contrast, it shows, from an ROE standpoint, a markedly favorable advantage to other utilities. Thus, Staff’s ROE recommendation is favorable and should be adopted by the Commission.

Correspondingly, Staff’s proxy group was thoroughly explained and provides a fair return on equity for Consumers Energy. Additionally, the inputs used in Staff’s cost of equity models were sound, reasonable, analytical, and are widely used by cost of capital analysts in rate case proceedings across the country. The Company’s numerous arguments against certain aspects of Staff’s cost of equity analysis and data inputs are meritless and were effectively refuted in Staff’s initial brief. Staff stands behind and fully supports its comprehensive ROE analysis and urges the Commission to adopt its reasonable 9.75% ROE and reject the Company’s excessively high and unreasonable 10.25% ROE.

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

A. Test Year

1. **The Commission should reject the arguments regarding projected test years of the Company and MSC.**

The Company claims that “MCL 460.6a(1) expressly provides a utility the right to have its rates based on a projected test year,” further claiming that approving rates based on a historical test year would be “inconsistent with the Company’s right to use a projected test year for determining rates.” (Consumers’ Initial Brief, pp 4-5.) This is incorrect. Public Act 3 of 1939, as amended, states: “[a] utility **may** use projected costs and revenues for a future consecutive 12-month period in developing its requested rates and charges.” (MCL 460.6a(1) (emphasis added).) As is clear from a reading of the plain language of the statute, the utility is *allowed* to file using a future test year based on projections but creates no obligation on the part of the Commission to accept the same. The statute uses the words “utility” and “may” to allow the use of a projected test year by the utility in developing its proposals rather than using “Commission” and “must” as determinant of what the Commission must approve. The Commission is in no way required by the statute to set rates using a projected test year. The Company also claims rejecting the Company’s projected test year would be “contrary to . . . the Commission’s repeated explanation of the statutory requirement.” (Consumers’ Initial Brief, p 5.) This is also incorrect. The quotes used by the Company to justify this position merely state that the utility is allowed to propose a projected test year, consistent with the statute, not that the Commission is bound to approve it, as

discussed above. The Company's further attempts to obfuscate the issue by implying their proposal regarding the test year in their application for rate relief is somehow equivalent to "determining final rate relief" or "determining rates." This argument confuses the Company's right to request a rate increase (whether based on a projected test year or not) with the Commission's authority to determine what rates will actually be. (Consumers' Initial Brief, pp 4-5.) In other words, in spite of the Company's intimations to the contrary, it is the Commission that determines final rates in a manner consistent with its statutory authority, not the Company. For these reasons, the Commission's rejection of a projected test year would be both consistent with the governing statute and previous Commission decisions, and the Company's arguments to the contrary should be rejected.

In addition, MSC claims that "the Commission has interpreted the word 'may' in that statutory provision as meaning the utility has the choice of whether to use a projected test year – rather than the Commission having discretion to authorize that practice or not in a particular case." (MSC's Initial Brief, p 13.) Staff partially disagrees with this interpretation. Staff agrees that, as discussed above, the utility has the choice of whether to file using a projected test year; Staff, however, does not interpret any of the Commission's rulings or interpretations of the law to state or imply the Commission lacks discretion in approving (or denying) a projected test year.

B. Cost of Service

1. The Commission should reject ABATE and MSU/LBWL's arguments surrounding the uncollectibles allocator.

ABATE and Michigan State University and the Lansing Board of Water & Light (collectively, MSU/LBWL) argued in initial brief that Staff's uncollectible allocator should not be adopted. (ABATE's Initial Brief, pp 69-73; MSU/LBWL's Initial Brief, pp 4-5.) MSU/LBWL quoted from the Commission's July 31, 2017 Order in Case No. U-18124 in support of its position. ABATE quoted from the same order, as well as the orders in Case Nos. U-17689, U-17990, and U-18014. (ABATE's Initial Brief, p 70.) However, more recent Commission decisions support a different outcome on this issue. In approving the allocation of uncollectibles as a general cost of service in DTE Gas Company's 2021 rate case, the Commission stated 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 the Commission stated that it "agrees 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.) These Commission orders from 2021 and 2022 reflect the more recent Commission position on the subject and the support from orders from 2015 through 2017 should be rejected as outdated. For

these reasons, and the reasons in Staff's testimony and initial brief, ABATE's and MSU/LBWL's position on the uncollectibles allocator should be rejected.

2. The Commission should reject the customer charge positions of the AG and MSC.

Staff addressed the customer charge in its initial brief. (See Staff's Initial Brief, p 91.) No new or novel arguments have been presented by other parties. For the reasons expressed in Staff's initial brief as well as direct testimony, the positions of the Company, AG, and Michigan Environmental Council, Sierra Club and Citizens Utility Board of Michigan (collectively, MSC) on the customer charge should be rejected.

3. The Commission should reject the Average and Excess (A&E) allocation advocated for by ABATE.

ABATE, in its initial brief, continues to advocate for the Average and Excess (A&E) allocation method. (ABATE's Initial Brief, pp 50-61.) Staff has addressed ABATE's arguments in its direct case and initial brief, however, two points are worth emphasizing here. First, as stated by Staff in its rebuttal testimony, the Commission has consistently selected the Average and Peak (A&P) method for many decades. (4 TR 2577.) Second, the A&E method does not appear in the NARUC Gas Rate Design manual. (4 TR 2575.) All of ABATE's other criticisms of the A&P method are adequately addressed in Staff initial brief, testimony and rebuttal testimony. (Staff's Initial Brief, p 92.) For these reasons, ABATE's position on the A&E allocator should be rejected.

4. The Commission should reject ABATE's proposed revenue apportionment method.

ABATE, in its initial brief, continues to advocate for its proposed revenue apportionment method. (ABATE's Initial Brief, pp 36-40, 58-66.) One particular item is worth reemphasizing. ABATE's proposed revenue apportionment is less equitable than Staff's as it results in subsidization of certain transportation customers by both sales and other transportation customers. (Staff's Initial Brief, p 96.) All of ABATE's arguments on its proposed revenue apportionment are adequately addressed in Staff's initial brief, and the testimony referenced therein. For the above reason, and the reasons in Staff's initial brief and testimony, ABATE's proposed revenue apportionment should be rejected. (*Id.* at pp. 95-96.)

V. REGULATORY DEFERRAL MECHANISMS

A. Staking and Locating Sub-Program

1. The Commission should direct the Company to use the equation from Staff witness Jacob Martus' Direct Testimony to calculate the Staking and Locating Subprogram deferral mechanism amount.

In its direct case, Staff recommended that the regulatory deferral mechanism amount for the Staking and Locating Sub-Program be contingent on the 2026-year actual staking volume. Staff presented a data table from Exhibit S-17.3 in its initial brief that should be interpolated to calculate the deferral mechanism amount based on fluctuations of annual staking volumes. (Staff's Initial Brief, pp 106-107.)

The Company stated in its initial brief that it accepts Staff Witness Martus' equation used to modify the Company's proposal.

The Company states in its initial brief that Staff proposed an equation to calculate the allowable deferral expense capped at \$2.3 million and (\$0.7 million) to calculate the regulatory deferral mechanism amount. (Consumers' Initial Brief, p 277.) Staff clarifies that the capped equation accepted by the Company is a linear interpolation of the presented data table where \$2.3 million and (\$0.7 million) caps are the defined bounds of the table, and hence, Staff recommends that the equation presented by Staff should be used to develop the regulatory deferral mechanism amount based on the actual staking volume.

VI. OTHER ISSUES

A. Sales Forecasting

- 1. The Commission should order the Company to include a forecast of yearly sales to each major customer class over the ten-year gas delivery planning horizon, along with the amount of throughput expected on a peak demand day.**

In initial brief, MSC highlights several issues with Company's load forecast. (MSC's Initial Brief, pp 93-100.) Staff agrees with MSC that in all future filings, the Commission should order the Company to include forecasted sales and peak gas demand for each of the ten years of the gas delivery plan. (*Id.* at p 100.)

2. More attention should be given to increased electrification and energy efficiency in future cases where a gas load forecast is required.

Staff agrees with the MSC that the impacts on gas demand attributable to increasing building electrification be considered in future cases before the Commission that require long-term forecasts. (*Id.* at p. 94.) All energy efficiency and electrification inputs to the load forecast should stem from a consistent set of data, whether that be from other cases before the Commission (i.e. EWR cases, beneficial electrification cases) or other reliable independent sources that are able to be viewed and analyzed by all intervenors in the case where a load forecast is used as a determinant. While Staff recommends the impact of electrification on gas demand be considered in future cases, Staff maintains that the proper venue for changes to Efficient Electrification programming is an Energy Optimization Plan proceeding. (Staff's Initial Brief, pp 111-112.)

VII. CONCLUSION

Staff recommends that the Commission find that Consumers Energy's gas revenue deficiency will be \$169.126 million in the projected test year. As stated in Staff's initial brief, Consumers Energy's SAP/4HANA implementation project O&M deferral is not reflected in the Staff's \$169.126 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 as outlined in its initial brief. Staff also recommends the Commission adopt the additional disallowance for the Williamston Transmission Meter Proving Station as agreed to by the Company and Attorney General.

Respectfully submitted,

**MICHIGAN PUBLIC SERVICE
COMMISSION STAFF**

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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 Reply Brief
 Appendix A

Line No	(a) Description	(b) Source	(c) (Initial Brief) Applicant Projection	(d) Staff Adjustment	(e) Staff Projection
1	Rate base	Exhibit No.: A-12 (HLR-31)	11,563,068	(48,443)	11,514,626
2	Adjusted net operating income	Exhibit No.: A-13 (HLR-36)	556,865	3,223	560,087
3	Overall rate of return	Line 2 / Line 1	<u>4.82%</u>	<u>0.05%</u>	<u>4.86%</u>
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	719,166	(32,684)	686,482
6	Income deficiency (sufficiency)	Line 5 - Line 2	<u>162,300</u>	<u>(35,906)</u>	<u>126,394</u>
7	Revenue conversion factor	Exhibit No.: A-13 (HLR-38)	1.3381	-	1.3381
8	Revenue deficiency (sufficiency)	Line 6 * Line 7	<u><u>217,171</u></u>	<u><u>(48,046)</u></u>	<u><u>169,126</u></u>

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 Reply Brief

Appendix B

Line No	(a) Description	(b) Source	(c) (Initial Brief) Applicant Projection	(d) Staff Adjustment	(e) Staff Projection
1	Total utility plant	Exhibit No.: A-12 (HLR-32)	14,840,747	(50,083)	14,790,664
2	Depreciation reserve	Exhibit No.: A-12 (HLR-33)	(4,643,859)	1,640	(4,642,218)
3	Customer advances for construction	WP-HLR-22	(19,159)	-	(19,159)
4	Net utility plant	Sum of Lines 1 through 3	<u>10,177,729</u>	<u>(48,443)</u>	<u>10,129,286</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>10,198,167</u>	<u>(48,443)</u>	<u>10,149,724</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>11,563,068</u></u>	<u><u>(48,443)</u></u>	<u><u>11,514,626</u></u>

Appendix C

MICHIGAN PUBLIC SERVICE COMMISSION

Consumers Energy Company

Development of Adjusted Net Operating Income
for the Projected 12-Month Period Ending October 31, 2026
(\$000)

Line No.	(a) Description (Witness)	Revenue				Expenses												NOI		
		(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	-	-	-	-	-	-	-	-	-	-	(461)	-	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 A	-	-	-	-	-	-	-	-	-	-	-	-	0	1	3	4	(4)	-	(4)
	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
	Depreciation	-	-	-	-	-	-	-	-	(101)	-	-	-	0	5	20	(76)	76	-	76
	Property Tax Expense	-	-	-	-	-	-	-	-	-	-	(62)	-	0	3	12	(46)	46	-	46
	Income Tax Effect of Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Interest Synchronization Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	4	16	20	(20)	-	(20)
	Rounding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1)
1	Operating Income (Initial Brief)	2,183,194	102,396	28,666	2,314,257	737,588	12,709	5,502	298,389	362,716	7,334	200,269	19,325	869	26,294	87,694	1,758,689	555,568	1,298	556,865
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 (B)	-	-	-	-	-	-	-	-	-	-	-	-	(0)	(0)	(0)	(0)	0	-	0
18	Total Adjustment	-	-	-	-	-	-	-	(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	360,900	7,334	199,568	19,325	874	26,435	88,228	1,755,466	558,791	1,298	560,087

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 Reply Brief

Appendix D

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
		<u>Capital Structure</u>				<u>Weighted Cost</u>			
Line No	Description	Amount	Percent Permanent Capital	Percent of Total Capital	Cost Rate %	Permanent Capital	Total Cost %	Conversion Factor	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

MPSC Staff Reply Brief

Appendix E

Line	Adjustment Description	(a)	(b)	(c)	(d)	(e)	(f)	(g)
			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

MPSC Staff Reply 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	Initial Brief, Appendix A, line 8			169,609
9	Rate Base (Impact on Revenue Deficiency)	See rate base updates below	(4.364)	7.35%	(0.321)
10	Depreciation	Waterfall Impact			(0.101)
11	Property Taxes	Waterfall Impact			(0.062)
12	Rounding				0.002
13	Staff Reply Brief - Revenue Deficiency	Appendix A, line 8			169,126
Walk from Staff Initial Filing to Initial Brief Rate Base					(\$000,000)
14	Staff Initial Filing Rate Base	Exhibit S-2, Schedule B-1			\$ 11,583,861
15	2024 IT capital expenditures	CE Concession Adopted by Staff			(5.668)
16	Project B-GL-00251	CE Concession Adopted by Staff			(0.417)
17	Project B-GL-03042	CE Concession Adopted by Staff			(0.003)
18	Compression & Storage 2024 Underspend	CE Concession Adopted by Staff			(7.563)
19	Lansing Service Center	CE Concession Adopted by Staff			(16.720)
20	Hastings Service Center	CE Concession Adopted by Staff			(0.019)
21	Distribution Gas Ops - Comp & Controls	CE Concession Adopted by Staff			(0.380)
22	Material Condition - ERIP	CE Concession Adopted by Staff			(2.991)
23	New Business - Mains, Services, and Meter Stands	CE Concession Adopted by Staff			(12.790)
24	New Business - Large New Business Projects	CE Concession Adopted by Staff			(5.043)
25	Asset Relocation - Civic Improvement Projects	CE Concession Adopted by Staff			(14.365)
26	Asset Relocation - Reimbursable Projects	CE Concession Adopted by Staff			(1.163)
27	Correction of projected working capital S4/HANA cloud implementation	CE Concession Adopted by Staff			(1.746)
28	Correction of projected working capital prepaid cloud implementation	CE Concession Adopted by Staff			(1.034)
29	Accumulated Depreciation	WF adopt CE Concessions above			3.484
30	It/Digital Foundation - ARP Field Device Asset Management	Staff update at Initial Brief			0.913
31	It/Digital Foundation - ARP workstation Asset Management	Staff update at Initial Brief			0.911
32	Accumulated Depreciation	WF Staff updates			(0.277)
33	Rounding				(0.001)
34	Staff Initial Brief Rate Base	Appendix B, line 8			\$ 11,518,990
35	Williamston Transmission Meter Proving Station	CE Concession Adopted by Staff			(4.423)
36	Accumulated Depreciation				0.059
37	Staff Reply Brief Rate Base	Appendix B, line 8			\$ 11,514,626

Appendix G

MICHIGAN PUBLIC SERVICE COMMISSION

Case No.: U-21806

Consumers Energy Company

MPSC Staff Reply Brief

Summary of Staff Position

Appendix G

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

	(a)	(b)	(c)	(d)	(e)
Walk from Consumers Revenue Deficiency to Staff Initial Brief Revenue Deficiency					
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
	Rate Base (Cap Ex Adj)		(4.364)	7.70%	(0.336)
	Depreciation & Amortization (Cap Ex Adj)				(0.101)
	Property Taxes (Cap Ex Adj)				(0.062)
	Company Revenue Deficiency (Initial Brief)	Consumers Initial Brief, Appendix A			217.171
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)	11,515	-0.35%	(40.412)
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			(48.046)
25	Rounding				0.001
26	Staff Reply Brief - Revenue Deficiency	Appendix A, line 8			169.126

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 **July 11, 2025**, she served a true copy of **Michigan Public Service Commission Staff's Reply Brief** upon the parties on the attached Service List **via email only**:

Erin Fielder-Attia

Subscribed and sworn to before me
this **11th** day of **July, 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

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