July 11, 2025

Ms. Lisa Felice
Executive Secretary
Michigan Public Service Commission
7109 W. Saginaw Hwy., 3rd Floor
Lansing, MI 48917

Re: MPSC Case No. U-21806 – 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.

Dear Ms. Felice:

Enclosed for electronic filing in the above-captioned case, please find the **Reply Brief of Consumers Energy Company**.

This is a paperless filing and is therefore being filed only in PDF. Also included is a Proof of Service showing electronic service upon the parties.

Sincerely,

Digitally signed by Anne M. Uitvlugt
Date: 2025.07.11 13:08:41 -04'00'

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cc: Parties to Attachment 1 to the Proof of Service

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

REPLY BRIEF OF CONSUMERS ENERGY COMPANY

July 11, 2025

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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

I. INTRODUCTION

A. Overview

Consumers Energy Company ("Consumers Energy" or the "Company") files this Reply Brief in accordance with the case schedule established in this matter. The Company's Initial Brief addressed the contested issues in this case through point-by-point responses to arguments offered by the Michigan Public Service Commission ("MPSC" or the "Commission") Staff ("Staff"), the Attorney General, and the other parties through the testimony of their witnesses. This Reply Brief does not include an exhaustive point-by-point discussion of the issues from the other parties' Initial Briefs because most have been thoroughly addressed in the Company' Initial Brief. This Reply Brief responds further to select issues where additional discussion is warranted. Otherwise, Consumers Energy relies on the arguments in its Initial Brief in response to the other parties' Initial Briefs.

Many of the recommendations made by the other parties in this proceeding understate the level of revenue that is reasonable and constitutionally required for the test year and, if adopted, would result in unreasonable and unlawful rates. See *General Telephone Co v Pub Serv Comm*, 341 Mich 620, 631; 67 NW2d 882 (1954), *Bluefield Waterworks and Improvement Co v Pub Serv Comm of W Va*, 262 US 679, 693; 43 S Ct 675; 67 L Ed 1176 (1923), *Fed Power Comm v Hope Natural Gas Co*, 320 US 591, 603; 64 S Ct 281; 88 L Ed 333 (1944); and *ABATE v Pub Serv*

Comm, 430 Mich 33, 39; 420 NW2d 81 (1988). The evidence presented by Consumers Energy shows that the methodologies used to develop these cost reductions significantly understate the reasonable and appropriate cost amounts, and as a result, understate the Company's necessary revenue requirement. Adopting the revenue requirement recommendations of other parties would also negatively impact the Company's ability to provide safe and reliable natural gas service to its customers. These unreasonable recommendations should be rejected.

Consumers Energy's Natural Gas Delivery Plan ("NGDP") provides the Company's plans for investing in its natural gas system over the course of the next decade to ensure customers continue to receive safe, reliable, and affordable natural gas while transforming the system to deliver cleaner fuels for a decarbonized future. See Exhibit A-42 (NPD-1). Significant natural gas investments to support the NGDP are comprised of several programs, which include Material Conditions, Compression and Storage, Well Rehabilitation, Asset Relocation, Regulatory Compliance, and New Business. The Company's investments will increase safety, reliability, affordability, and sustainability. Consistent with the Company's commitment to provide exceptional value and safe, reliable service to every customer, Consumers Energy requests revenue recovery for these infrastructure investments that will provide safety and reliability benefits.

While the Company continues to invest in its system, it also is cognizant of the impact its investments have on customers. While the Attorney General argues that the Company's proposed rate increase will have a substantial impact on customer bills (Attorney General's Initial Brief, page 18), Consumers Energy is aware of the impact its bills may have and is committed to a bill

growth rate at or below inflation and below the average rate of other gas utilities in the Midwest.[1] 4 TR 576. And despite the increase in rate base over the past 10 years, as discussed in the Attorney General's Initial Brief at page 16, customer bills have shown a continuous annual growth rate ("CAGR") of -0.60%, which shows bills have actually decreased over the same period. This is below the Consumer Price Index ("CPI") inflation rate of 2.8% over the same period. 4 TR 577. Moreover, the Company is committed to helping customers use available energy efficient solutions and helping low-income customers through a variety of assistance options including the Consumers Affordable Resource for Energy Program, a Residential Income Assistance credit, and a Low-Income Assistance Credit for qualifying customers.

B. Evidentiary Standard

The Attorney General and Michigan Environmental Council, Sierra Club, Citizens Utility Board of Michigan (collectively "MEC") generically discussed the legal standard in this proceeding, as well as the burden of proof. Attorney General's Initial Brief, pages 14-15; MEC's Initial Brief, pages 5-7. Consumers Energy submits that it has fully supported its proposals in this case with competent, material, and substantial evidence based on the record as a whole. The Company has met its burden of proof and supported its requested relief in this case.

While the Company has supported its rate request, when a party to this proceeding takes an affirmative position, that party is required to support its own position. The Company does not bear the burden of proving these affirmative arguments wrong. See *Kar v Hogan*, 399 Mich 529, 539; 251 NW2d 77 (1976) ("The party alleging a fact to be true should suffer the consequences of a failure to prove the truth of that allegation."); see also *Bunce v Secretary of State*, 239 Mich

[1] Over the past five years, the Company has maintained a monthly residential bill below the Midwest average by approximately 24%. Additionally, the rate of bill growth is also below the Midwest average. Specifically, over the past five years, the Company's residential bills grew 1.4% less than the Midwest average. 4 TR 577.

App 204, 216; 607 NW2d 372 (1999). As the Attorney General noted on page 15 of her Initial Brief, when the burden of proving a fact falls on one party, then the other party does not have the burden of proving the opposite fact. *S.C. Gary, Inc v Ford Motor Co*, 92 Mich App 789, 803 804; 286 NW2d 34 (1979).

A final order of the Commission must be authorized by law and be supported by competent, material, and substantial evidence on the whole record. Const 1963, art 6, § 28; *Attorney General v Pub Serv Comm*, 165 Mich App 230, 235; 418 NW2d 660 (1987). The statutory scope of the Commission's ratemaking authority is a question of law. *In re Complaint of Pelland Against Ameritech*, 254 Mich App 675, 682; 658 NW2d 849 (2003). Issues of constitutional and statutory construction are also questions of law. *City of Taylor v Detroit Edison Co*, 475 Mich 109, 115; 715 NW2d 28 (2006); see also *In re Application of Michigan Electric Transmission Co*, 309 Mich App 1, 10; 867 NW2d 911 (2014).

The rates approved in this proceeding must be lawful and reasonable. The term "unlawful" has been defined as an erroneous interpretation or application of the law, and the term "unreasonable" has been defined as unsupported by the evidence. *Associated Truck Lines, Inc v Pub Serv Comm*, 377 Mich 259, 279; 140 NW2d 515 (1966); *Attorney General v Pub Serv Comm*, 206 Mich App 290, 294–295; 520 NW2d 636 (1994). The MPSC can properly rely on the testimony of a qualified expert and that testimony constitutes competent evidence. *Attorney General v Pub Serv Comm*, 174 Mich App 161, 170; 435 NW2d 752 (1988). The Commission may weigh conflicting expert testimony of qualified experts to determine which evidence meets the preponderance of the evidence. *Aquilina v General Motors Corp*, 403 Mich 206, 211-212; 267 NW2d 923 (1978); *Great Lakes Steel Div of Nat'l Steel Corp v Pub Serv Comm*, 130 Mich App 470, 481; 344 NW2d 321 (1983).

In this case, Consumers Energy has presented eminently qualified expert testimony and exhibits which support its requested relief in this proceeding. Each part of the Company's case is supported by detailed testimony and exhibits of experts whose professions and daily work are focused on the substantive topics presented in their testimonies. Expert opinion testimony is considered "substantial" if offered by a qualified expert who has a rational basis for his or her views, whether or not other experts disagree. "To hold otherwise would thus neutralize all expert testimony in cases of conflict and the party with the burden of proof would automatically lose. Const 1963, art 6, § 28, intends no such absurd result." *Great Lakes Steel*, supra. The Company has met its burden of proof in this proceeding, and the Administrative Law Judge ("ALJ") and Commission should reject any suggestion to the contrary.

It is well-established that a utility is entitled to recover its reasonable cost of service and that rates must be just and reasonable. Rates must be sufficient to recover all reasonable costs of doing business. See, e.g., *General Telephone Co*, 341 Mich at 631. It is important that there be enough revenue for both operating expenses and capital costs of the business. *Bluefield Co*, 262 US at 693, *Fed Power Comm v Hope Natural Gas Co*, 320 US at 603. Additionally, public utilities are entitled to earn a reasonable rate of return on their investments. *ABATE v Pub Serv Comm*, 430 Mich at 39.

Many of the recommendations made in this proceeding understate the level of revenue that is reasonable and constitutionally required for the test year and, if adopted, would result in unreasonable and unlawful rates. The evidence presented by Consumers Energy shows that the methodologies used to develop these cost reductions significantly understated the reasonable and appropriate cost amounts, and as a result, understate the Company's necessary revenue requirement. These recommendations should be rejected as unreasonable.

II. TEST YEAR

The Association of Businesses Advocating Tariff Equity ("ABATE") argues against the use of a projected test year based on its incorrect argument that the Company's historical test year revenues routinely exceed the Company's authorized return and that the Company's projected costs are much higher than the Company has been incurring. ABATE's Initial Brief, pages 2-8. As discussed at pages 3 through 7 of the Company's Initial Brief, ABATE is wrong on both the law and the facts, and its proposal should be rejected.

First, as previously explained, ABATE is wrong on the law. MCL 460.6a(1) allows a utility to "use projected costs and revenues for a future consecutive 12-month period in developing its requested rates and charges." The Commission has recognized that MCL 460.6a(1) expressly authorizes a utility to have its rates based on a projected test year. See, e.g., MPSC Case No. U-15645, November 2, 2009 Order, page 8; MPSC Case No. U-21389, March 1, 2024 Order ("U-21389 Order"), page 6. As the Commission correctly determined, the "debate regarding the proper test year was decided by the Legislature" and the "use of a future test year [is] the proper measure of projected costs and revenues." MPSC Case No. U-15645, November 2, 2009 Order, page 8. And while ABATE contends that the Commission should reject the use of the projected test year due to "Consumers' consistent inability to accurately project costs and revenues" (ABATE's Initial Brief, page 5), this demonstrates a flawed understanding of the ratemaking process. Ratemaking is not a perfect process that results in perfect recovery of a utility's actual costs. See *In re Consumers Energy Co*, 322 Mich App 480, 487 (2017) ("The establishment of a reasonable utility rate is not subject to precise computation"). The goal of ratemaking is to reasonably approximate the costs that a utility is expected to incur when rates will be in effect while allowing the utility the opportunity to earn a reasonable return on its capital devoted to the public's use. *Fed Power Comm v Hope Natural Gas Co*, 320 US 591, 603.

Second, ABATE's factual assertion is misleading. While ABATE argues that the Company has experienced a revenue sufficiency in seven of the Company's last eight rate case filings (ABATE's Initial Brief, page 5)[2], ABATE fails to mention that six of the eight cases referenced were resolved via black box settlement agreements where the parties agreed to a certain level of rate relief. Moreover, while it may be true that rate requests would be different if the Company were required to rely on a historical test year for rate relief, it would not remove the need for rate relief but would only unreasonably delay it. 4 TR 1588. Additionally, while complaining about the use of the projected test year, ABATE has made no showing that Consumers Energy has not spent the amounts that were ultimately approved.

MEC also argues against the use of the Company's projected test year. MEC's Initial Brief, pages 11-14. MEC submits that the use of historic data, specifically the adoption of a two-year average for certain costs, is appropriate as it would incentivize the Company to focus on "providing safe, efficient, and reliable utility service." MEC's Initial Brief, page 11. MEC's argument to use a two-year average is factually unsupported and if adopted, would result which are insufficient to cover the test year costs of providing service. MEC's argument fails to recognize that the Company's day-to-day focus is to enhance and improve service to customers. This means supplying safe, reliable, and affordable energy to power businesses and warm homes. Customers expect the Company to quickly detect and diagnose at-risk distribution pipe, as well as replace any damaged or aged pipe utilizing risk-based approaches to maximize system reduction, and to ensure that the Company's natural gas system will continue to safely deliver gas to customers – now and in the future. The record in this proceeding details the investments being undertaken to provide

[2] MEC made a similar argument in its Initial Brief, pages 7-14.

safe and reliable service. The Commission should reject proposals against the adoption of a projected test year in that case as being inconsistent with the law and unsupported by the facts.

III. RATE BASE

By far, the most significant aspect of Consumers Energy's requested rate relief is the Company's investment in gas utility infrastructure to provide service to its 1.8 million gas customers in the state of Michigan. Over the last five years, the Company has invested over $24.7 billion in its gas system. These investments were reasonably undertaken for the purpose of improving safety, reliability, deliverability, system integrity, and customer service. 4 TR 469.

The Company developed its NGDP to provide a clear and transparent framework for the next decade of investments in the Company's natural gas assets, planning for natural gas supply and demand, and continuing to evolve how the Company operates in accordance with the Gas Pipeline industry standard API RP 1173 10 Pipeline Safety Management Systems framework. 4 TR 469. The NGDP documents the Company's analysis, with consultant input, and is built on four main objectives: safety, reliability, affordability, and clean. 4 TR 570-572. It also reflects the external drivers that impact the natural gas business such as safety, increasing regulation, changing supply and demand patterns, and environmental focus. 4 TR 570.

Consistent with the NGDP, the Company is undertaking a number of system upgrades that will improve the safety of the natural gas system. These ongoing investments are part of Consumers Energy's capital investment plan to maintain and improve utility infrastructure, enhance safety of aging distribution assets, and ensure that customers receive the service and value that they expect from the Company. While understanding that some level of expenditures is necessary to operate the Company's gas system, the Attorney General questions the Company's evidentiary support for its necessary investments. Specifically, the Attorney General claims that the Company should have provided in-depth engineering studies to support the work. Attorney

General's Initial Brief, page 18. It is unclear as to what type of study the Attorney General is requesting. The reduction of vintage materials is a critical component of the Company's Distribution Integrity Management Program ("DIMP"). See Exhibit A-42 (NPD-1), page 50. The DIMP contains the procedures to develop and implement an understanding of the Company's gas distribution system developed from reasonably available information, consider various categories of threats to each gas distribution pipeline, evaluate the risks associated with its distribution pipeline, and determine and implement measures designed to reduce the risks from failure of its gas distribution pipeline. 47 CFR 192.1007. As part of its DIMP, the Company is required to "consider the following categories of threats to each gas distribution pipeline: corrosion, natural forces, excavation damage, other outside force damage, material or welds, equipment failure, incorrect operations, and other concerns that could threaten the integrity of its pipeline. An operator must consider reasonably available information to identify existing and potential threats. Sources of data may include, but are not limited to, incident and leak history, corrosion control records, continuing surveillance records, patrolling records, maintenance history, and excavation damage experience." 47 CFR 192.1007(b).

Similarly, the Company has in place a Transmission Integrity Management Program ("TIMP"). 4 TR 1258. 49 CFR Part 192, Subpart O, specifies how pipeline operators must identify, prioritize, assess, evaluate, repair, and validate the integrity of gas transmission pipelines that could, in the event of a leak or failure, affect High Consequence Areas ("HCAs"), which are areas where pipeline releases could have greater consequences to health, safety, or the environment. 4 TR 1258. The Company's TIMP contains information related to how the Company identifies, prioritizes, assesses, evaluates, repairs, and validates the integrity of its gas transmission pipelines that could, in the event of a leak or failure, affect HCAs. To minimize

environmental and safety risks, Consumers Energy's TIMP identifies HCAs and threats to covered pipeline segments; establishes a baseline assessment plan, including criteria for establishing reassessment intervals, a direct assessment plan, and a communication plan; remediates conditions found during assessments; specifies continual evaluation and assessment of the overall TIMP plan; establishes a plan for confirmatory direct assessment; requires additional preventative and mitigative measures, recordkeeping, and change management; and establishes a Quality Assurance process. 4 TR 1259-1260. This plan has evolved over the years to include changes such as changes in inspection technology or clarifications received from the Pipeline and Hazardous Materials Safety Administration ("PHMSA").

Building off of the DIMP and TIMP, the Company's NGDP is based on work performed by industry experts. To create this long-term plan, the Company prioritized its capital investments and Operating and Maintenance ("O&M") spending for storage, compression, transmission, and distribution. While the Attorney General's Initial Brief at page 16 contends that the Company is investing in the gas system as an opportunity to accelerate rate base growth to increase earnings growth, this is inaccurate and ignores the purposes for the Company's planned investments, which were explained in detail by Company expert witnesses. The Company's investments and the focus of the NGDP are founded on the Company's commitment to providing a safe, reliable, affordable, and clean natural gas system for the people of Michigan. The capital investments are made by the Company to ensure safety and reliability for its natural gas customers. 4 TR 575-576.

A. Gas Transmission and Distribution Capital Expenditures

1. New Business Program

a. Mains Services & Meter Stands

Since the filing of this proceeding, the Company reasonably modified its requested approval amounts for the installation of new gas services to $52.271 million in 2024,

$43.882 million for the 10 months ending October 31, 2025, and $53.664 million for the projected test year. This modification is based on the recommendation of the Attorney General, which is in line with updated Michigan Home Builders Association ("HBA") data.

Even with the Company's cost adjustment, MEC requests that the Commission disallow $26,832,000 in New Business capital expenditures to reduce the amount of new customer attachment costs socialized to existing customers. MEC's Initial Brief, page 14-15. There is no support for this recommendation. MEC arbitrarily reduced the Company's projection by 50%. It has not been demonstrated that there will be a 50% reduction in new customers requesting service. MEC has not considered the impact that this modification will have on attaching customers nor the impact to homebuilding in the state. MEC does not consider that other Michigan utilities have similar customer attachment programs ("CAP") nor does MEC explain why it is reasonable for Consumers Energy customers to pay a higher upfront cost than customers of other utilities. Nor has MEC established a reason why the Commission should modify its customer attachment methodology. This is especially true when the Commission recently considered and rejected a similar request by MEC in DTE Gas Company's ("DTE Gas") recent rate case. See MPSC Case No. U-21291, November 7, 2024 Order, pages 81-86.

In its Initial Brief at pages 103 through 105, MEC discusses the alleged "market realities" of the Company's new service connections in support of its 50% reduction to New Business expenses. While arguing that historical trends show a reduction in gas connections, MEC twists the evidence to present its narrative. As a general matter, while MEC contends that "[t]he housing market in Michigan shifting towards electric heating and away from gas heating…." (MEC's Initial Brief, page 104), it presents no evidentiary support for this claim. While there is an increase in electric heating, MEC cannot show that these are customers that switched from natural gas to

electric heating or chose electric heating over gas heating. Moreover, the evidence does show continued growth in new residential gas customers as the Commission's MPSC Form P-522 Annual Reports show continued growth in natural gas residential customer counts from 2014 through 2023 for the main Michigan gas utilities (Consumers Energy, DTE Gas, SEMCO Energy Gas Company ("SEMCO"), and Michigan Gas Utilities ("MGU")). 2 TR 115.

While MEC points to a decline in customer connections over time to support its position, this was acknowledged by the Company. Consumers Energy recognizes there is a reduction in new customer connections from 11,542 in 2014 to 7,236 in 2020. While MEC argues that this happened in an environment of low mortgage rates and low interest rates (MEC's Initial Brief, page 103), this is unrelated to why the new customer connections are lower. As the Company explained, the CAP Program was actively being marketed, specifically to propane customers, during this time period. 2 TR 112. Company witness Lincoln D. Warriner explained that in 2014, 3,028 services were installed related to propane conversions. *Id*. Mr. Warriner also explained that in 2019, the Company completed the last proactively marketed CAP main installations. 2 TR 51. Mr. Warriner testified that "[r]educing the 2014 historical installations for these propane conversions results in a comparable service installation count of 8,515 service installations in 2014. Compared to the 2023 actual service installation count of 6,870 units, the actual annual average decline in service installations from 2014 to 2023 is 183 services per year." 2 TR 112. The Company also reasonably explained that 2020 through 2023, which is the time period of the Covid-19 pandemic and its aftermath, why new customer connections were lower indicating that during this period there was construction labor constraints, inflated lumber prices, shortages in electrical transformer supply, and increasing mortgage interest rates. Exhibit A-42 (NPD-1), page 60.

The Company discussed the reasonableness of its new service installations projections relying on various economic indicators. As explained in Exhibit A-42 (NPD-1), page 60, "During July 2022, the University of Michigan Research Seminar in Quantitative Economics published its long range economic and demographic projections for Michigan through 2050. Michigan experienced declines in population during 2020 and 2021 and was expected to decline again in 2022. Population levels are projected to grow through 2046, then begin declining each year through 2050. During the 2020 to 2050 period, the number of households in Michigan is forecasted to increase to 432,815 households, or 10.9%." Company witness Warrier further explained that it uses the projections of the Michigan Home Builders Association and the economic projections published by S&P Global when developing its new service connections forecast. The Company reviews these projections, at least annually, and in this case adopted the projections of the Attorney General as they were in line with current economic activity, including the National Association of Home Builders/Wells Fargo Housing Market Index for April 2025.[3]

In its Initial Brief, MEC continues its argument by alleging that the Company's line extension policies incentivize new customer connections by subsidizing much of the cost to connect. While MEC claims that new customers only pay "about new customers pay only about 10% of the costs of connecting them" (MEC's Initial Brief, page 18), this fails to consider that the costs of installing the necessary equipment for expansions are charged to new customers and are balanced by the revenue generated by the newly attached customers over a period of 20 years. 2 TR 208. The risk of subsidization only exists if the new service is retired prematurely, or the Company does not receive the forecasted revenue over the course of the next 20 years. However,

[3] The Company also reviews the Michigan Housing Starts forecast when developing its new service connection forecast. MEC points to Exhibit MEC-13, a report pulled in March of 2024, to undercut the Company's forecast. However, as previously discussed, the Company revised its forecast based on more recent information.

the volume of natural gas services is not declining, and the customers who moved in to utilize the attached services are stable. *Id*. This is thoroughly discussed in the Company's Initial Brief. Additionally, this argument fails to recognize that the Company's gas line extension policy (or CAP) was authorized by the Commission and established in a way that is consistent with other Michigan natural gas utilities. The Commission authorized the CAP in June 1995. This program, initiated by Aquila Networks, MGU, Consumers Energy, Michigan Consolidated Gas Company, and SEMCO, was later extended to Wisconsin Public Service Corporation in April 1998 and to Northern States Power. This was to ensure that consistent programs were in place across the state.

As explained in the Company's Initial Brief, starting at page 12, when the Company receives a request for a new connection, it reviews the customer's location, requested load, and required delivery pressure. The Company's engineering staff then analyzes the existing system to determine the necessary steps to provide gas service to that customer. 2 TR 51. The customer is responsible for the cost of work required to make the connection, including main installation, service installation, permit costs, etc. The customer contribution determination will also consider projected revenue from the customer in accordance with the Customer Attachment tariffs, Rule C8 of the Company's Rate Book for Natural Gas Service.[4] *Id*. The Company's Gas Engineering Model is used to calculate gas line extensions and service contributions for new connecting customers in accordance with the tariff.

In support of MEC's proposed modification, it challenges the assumptions utilized in the Company's Gas Engineering Models (see MEC's Initial Brief, pages 20-23) claiming that the

[4] At pages 16 through 18 of its Initial Brief, MEC provides a discussion of how the Company's gas line extension policy operates. This description does not fully discuss how the tariff operates and suggests uncertainty in the tariff process. This is incorrect. An accurate description can be found at pages 2 TR 199-204 of the record or summarized in the Company's Initial Brief at pages 13 through 15.

Company did not support the reasonableness of these assumptions. This argument is flawed. To start, the Company attaches customers in accordance with its tariff, which has been approved by the Commission. The Company did not propose any changes to how the tariff operates and is not required to support the reasonableness of its previously approved tariff. MEC, however, does carry the burden of supporting its concerns. See *Kar v Hogan*, 399 Mich 529, 539; 251 NW2d 77 (1976) ("The party alleging a fact to be true should suffer the consequences of a failure to prove the truth of that allegation."). Irrespective of this fact, the Company also supported and discussed the reasonableness of its assumptions in its Initial Brief at pages 15 through 18.[5] Accordingly, MEC's arguments should be rejected.

b. Large New Business Projects

At pages 24 through 26 of her Initial Brief, the Attorney General discusses the Company's New Business Projects expenditures. The Company discussed these expenditures and its position thoroughly in its Initial Brief at pages 20 through 21. The Company recommends that the Commission accept the Attorney General's Large New Business projects, with the exception related to the Lansing Board of Water and Light ("LBWL") Delta Energy Park project. This would modify the Company's requested expenditures to $7.761 million in 2024, $2.517 million for the 10 months ending October 31, 2025; and $.143 million for the 12 months ending October 31, 2026.

2. Asset Relocation Program

a. Transmission Asset Relocation

At pages 26 and 27 of her Initial Brief, the Attorney General discusses the Company's Transmission Asset Relocation expenditures. The Company discussed these expenditures and its

[5] In its Initial Brief at page 28, MEC points to the Commission decision in a DTE Gas rate case proceeding where the Commission required the utility to better support the assumptions used in its CAP tariff. The Commission made that decision based on the facts in that case. Consumers Energy refuted MEC's contentions and supported the reasonableness of assumptions utilized thoroughly. See 2 TR 111-118; 197-209.

position thoroughly in its Initial Brief at pages 23 through 25. The Company continues to recommend approval of its requested expenditures in the amount of $17,389,000 in 2024, $19,138,000 for the 10 months ending October 31, 2025, and $24,726,000 for the 12 months ending October 31, 2026. Exhibit A-12 (MPG-2), Schedule B-5.5 Revised, line 1.

b. Distribution Asset Relocation

At pages 28 through 32 of her Initial Brief, the Attorney General discusses the Company's Distribution Asset Relocation expenditures. The Company discussed these expenditures and its position thoroughly in its Initial Brief at pages 25 through 28. The Company recommends that the Commission accept the Attorney General's Distribution Asset Relocation expenditures amount. To that extent, the Company requests approval of Asset Relocation – Civic Improvement expenditures in the amount of $64.148 million for 2024, $54.204 million for the 10-month period ending October 31, 2025, and $72.249 million for the projected test year. With respect to the Company's Asset Relocation – Reimbursable, the Company requests approval of capital expenditures in the amount of $22.690 million for 2024, $12.023 million for the 10-month period ending October 31, 2025, and $14.728 million for the projected test year.

i. 2023 Historical Projects

At pages 31 through 32 of its Initial Brief, ABATE recommends a $15.8 million historical disallowance claiming that the Company has not supported the cost variance related to three asset relocation projects. This is incorrect. As discussed on pages 29 and 30 of its Initial Brief, the Company supported its historical asset relocation projects and the reason behind the cost variance. ABATE's recommendation should be rejected.

3. Regulatory Compliance

a. Transmission Regulatory Compliance

i. Pipeline Integrity – Transmission Operated by Distribution

Under the Pipeline Integrity Transmission Operated by Distribution ("TOD") Program, the Company performs assessments of TOD pipelines. The Company requests approval of capital expenditures in the amount of $6,119,000 in 2024, $5,593,000 for the 10 months ending October 31, 2025, and $9,998,000 for the 12 months ending October 31, 2026. Exhibit A-60 (MPG-4), line 2. In her Initial Brief at pages 57 through 60, the Attorney General recommends removing the costs related to the Casing Assessment Program and Risk Mitigation. The Company addressed these arguments in its Initial Brief at pages 31 through 33. Accordingly, the Attorney General's proposed test year reduction related to casing assessments and the Risk Mitigation Program should be rejected.

ii. Maximum Allowable Operating Pressure Project Expenditures

As shown on Exhibit A-60 (MPG-4), line 4, capital expenditures for the Transmission Maximum Allowable Operating Pressure ("MAOP") Compliance Pipeline Capital Program are projected to be $51,000 in 2024, $2,409,000 for the 10 months ending October 31, 2025, and $3,016,000 for the 12 months ending October 31, 2026. These expenditures are related to the PHMSA rules that require MAOP verification and remediation of the Company's transmission pipelines, including TOD pipelines. In her Initial Brief, at pages 33 through 36, the Attorney General proposes removal of half of the Company's actual and forecasted expenditures. As explained in detail in the Company's Initial Brief at pages 33 through 35 and 37 through 45, this is unreasonable. In addition to ensuring compliance with state and federal pipeline records requirements, these projects provide customers with other benefits, which were discussed by

Company witness Michael P. Griffin and supported at 4 TR 1305-1306. Accordingly, the costs associated with these projects should be approved by the Commission.

b. Distribution Regulatory Compliance

i. MAOP Project - Distribution Expenditures

As shown on Exhibit A-103 (LDW-4), line 3, capital expenditures for the Distribution MAOP Project Program are projected to be $9,295,000 in 2024, $59,964,000 for the 10 months ending October 31, 2025, and $115,812,000 for the 12 months ending October 31, 2026. These expenditures are related to the PHMSA rules that require MAOP verification and remediation of the Company's distribution pipelines. In her Initial Brief, at pages 36 through 39, the Attorney General proposes removal of half of the Company's actual and forecasted expenditures. As explained in detail in the Company's Initial Brief at pages 37 through 45, this is unreasonable. In addition to ensuring compliance with state and federal pipeline records requirements, these projects provide customers with other benefits, which were discussed by Company witness Warriner and supported at 2 TR 79-90, 131-132. The costs associated with these projects should be approved by the Commission.

4. Material Condition Program

The Material Condition Program improves the natural gas distribution system integrity, which reduces methane emissions, improves system reliability, and enhances public safety. 3 TR 382. The Commission should approve the Company's requested funding for this program as discussed at pages 45 through 58 of Consumers Energy's Initial Brief.

a. Enhanced Infrastructure Replacement Program

The purpose of the Enhanced Infrastructure Replacement Program ("EIRP") is to replace all the Company's highest risk mains as classified by PHMSA with more reliable and lower maintenance mains, and includes the replacement of associated older metallic services. 3 TR 383.

The Company began the program in 2012 in response to a Department of Transportation and PHMSA recommendation that operators replace aging vintage materials. 3 TR 475. Some parties are recommending reductions in EIRP spending. See the Attorney General's Initial Brief, pages 40-45; MEC's Initial Brief, pages 32-44; and ABATE's Initial Brief, pages 28-30. These parties take the position that the Company should slow down the replacement of these highest risk mains. As discussed at pages 50 through 56 of Consumers Energy's Initial Brief, the Commission should reject these recommendations and should instead approve the Company's proposed expenditures to support the replacement of vintage material mains under the EIRP by 2035. Similarly, Staff states that it "generally supports the Company's level of capital expenditure based on the Company's initiative to remove identified high-risk materials by the year 2035," and that "the Company's systematic main replacement addresses public safety risks and mitigates the cost of emergent replacement projects." Staff's Initial Brief, pages 37-40.

Consumers Energy selects EIRP projects using a risk model that assesses the risks and threats of each pipe segment to prioritize system replacements and eliminate the highest risk distribution pipe first. 3 TR 384. MEC criticizes the Company's relative risk modeling used in the EIRP, stating that it "can certainly provide guidance on the sequence in which to do projects, but it provides no information about how many of those projects to do each year." MEC's Initial Brief, page 39. But the Company is proceeding pursuant to its proposed plan to complete the replacement of high-risk vintage mains by 2035, which enhances safety and reliability while also balancing affordability. 3 TR 385. The Company expects to have retired approximately 51% of vintage mains by 2025 and is planning to reduce vintage mains by another 5% annually through 2035. See 3 TR 385, Figure 1. So, while the Company does select the particular annual projects considering the available resources by region (see 3 TR 498-499), the overall Company plan is to

replace all vintage mains by 2035 at the pace of approximately 5% per year. See also Exhibit A-42 (NPD-1), page 51, Figure 24.

MEC notes differences in the risk rankings of projects shown in Exhibits A-141 (KAP-11) and A-142 (KAP-12) and characterizes them as "material discrepancies." MEC's Initial Brief, pages 40-41. First, it is also inaccurate to characterize the risk ranking differences MEC identified as "material." There are a total of 544,000 distribution main segments on the Company's system and 7,200 one-mile grids. See 3 TR 462, 487-488. Most of the risk rankings MEC identified are ranked at around 300 or below and do not represent significant differences when considering the total number of main segments and grids. Second, while Company witness Kristine A. Pascarello did not have the information available during cross examination to identify the reason for the differences, she suggested that possible reasons include the timing of risk ranking runs and the combination of risk rankings from different grids. See 3 TR 501, 503-504. But Ms. Pascarello also explained that she does not perform the risk ranking, that the information is used as part of a cross-functional planning process with subject matter experts and the engineering group, and that Company witness Brian M. Snyder would be the witness able to discuss details as to how risk ranking is performed. See 3 TR 490-492. MEC was free to cross-examine Mr. Snyder if it wanted additional insight as to the reason for the risk-ranking differences in the two exhibits.

It is important to remember the purpose of EIRP risk modeling, which is to "prioritize system replacements to eliminate the highest risk distribution pipe first." 3 TR 384. Vintage materials have been demonstrated to leak at a higher rate than modern facilities. For example, according to PHMSA data from 2005 through 2024, 38% of cast/wrought iron main incidents caused a fatality or injury compared to only 19% of incidents on other types of mains, and 33% of all fatalities and 15% of all injuries on gas distribution mains involved cast or wrought iron

pipelines. See Exhibit MEC-46, pages 2-3. Under the EIRP, the Company is eliminating all vintage mains to lower the public safety risks of leaks resulting from these materials.

MEC argues that the EIRP does not provide safety benefits because only 10 of the Company's 237 reportable safety incidents involved vintage pipe, only seven of those were caused by failures or leaks, and none of those failures or leaks in the past six years caused a fatality or injury. MEC's Initial Brief, page 41. MEC's suggestion appears to be that it would prefer to see data showing that the Company's vintage mains are causing fatalities and injuries before MEC would agree that the EIRP provides a safety benefit. Consumers Energy disagrees with this unreasonable and irresponsible position.

As discussed, under the EIRP, Consumers Energy is replacing all its highest risk vintage mains as identified by PHMSA. The Company should not wait for fatalities and injuries to continue performing these replacements and plans to proceed with replacing these vintage mains by 2035. The Company still has more than 1,400 miles of vintage mains, many of which were installed in the 1950s or earlier. 3 TR 443-444. These vintage mains are more susceptible to leaks, breaks, and other failures because of material degradation and outdated manufacturing practices. 3 TR 444. The Company's proposal to reduce vintage main by 5% per year mitigates risks associated with aging infrastructure, ensures compliance with modern safety standards, prevents hazardous incidents, and reduces maintenance costs. 3 TR 443. The Commission should reject the proposals of MEC, the Attorney General, and ABATE to replace this high-risk vintage pipe at a slower pace.

5. Capacity/Deliverability Program

a. Transmission Capacity/Deliverability Program

i. Deliverability Base Field Measurement Program

The Deliverability Base Field Measurement Program is essential to ensure accurate gas quality and measurement. 4 TR 1286. The capital expenditures were projected 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. Exhibit A-61 (MPG-5) Revised, line 3. At pages 51 through 55 of her Initial Brief, the Attorney General discusses the Company's Deliverability Base Field Measurement Program expenditures. The Company discussed these expenditures and its position thoroughly in its Initial Brief at pages 60 through 62. The Company recommends that the Commission approve the Company's Deliverability Base Field Measurement Program expenditures, with the exception of the costs related to the Williamston Transmission Meter Proving Station project.

ii. Deliverability Base Pipeline Program

The Deliverability Base Pipeline expenditures support maintaining operations in accordance with the Michigan Gas Safety Standards. The expenditures for the Deliverability Base Pipeline Program are projected to be $18,173,000 in 2024, $19,403,000 for the 10 months ending October 31, 2025, and $25,023,000 for the 12 months ending October 31, 2026. Exhibit A-61 (MPG-5) Revised, line 4. The Attorney General's Initial Brief, pages 55 through 57, discusses the Company's Deliverability Base Pipeline expenditures. The arguments raised in the Attorney General's Initial Brief were addressed in the Company's Initial Brief at pages 62 through 64. Accordingly, Consumers Energy requests approval of its Deliverability Base Pipeline expenditures.

iii. Transmission Enhancement for Deliverability and Integrity

The projects in the Transmission Enhancement for Deliverability and Integrity ("TED-I") Program are for the purpose of maintaining deliverability and integrity and improving the ability to control gas flows. 4 TR 1278. The TED-I Program also includes the installation of Remote Control Valves ("RCVs") and Pressure-Limiting Devices ("PLDs") to control pressure and flows during normal operations and in the event of abnormal operation. 4 TR 1279. The TED-I Program capital expenditures are projected to be $146,790,000 in 2024, $20,192,000 for the 10 months ending October 31, 2025, and $19,145,000 for the 12 months ending October 31, 2026. Exhibit A-61 (MPG-5) Revised, line 1. In her Initial Brief at pages 60 through 62, the Attorney General recommends that the Commission disallow $14,145,000 for the projected test year from the Company's forecasted capital expenditures. The Company addresses this recommendation in its Initial Brief at pages 65 and 66. The Attorney General's proposed reduction to the RCV Program should be rejected by the Commission.

6. Gas Operations Other Program

The Gas Operations Other Program includes expenditures for routine computer equipment, tools, certain land and right-of-way expenditures, compliance and control projects such as the Advanced Methane Detection ("AMD") project, and the Geospatial Inventory and Modeling Program. 3 TR 420-421. The Company responded to the parties' recommended reductions at pages 68 through 72 of Consumers Energy's Initial Brief. The Commission should approve the Company's projected expenditures as discussed in its Initial Brief.

7. Gas Compression and Storage Capital Expenditures

a. Lyon 29/24 (Northville Storage) Dehydration Project

The Attorney General argues in her Initial Brief that the Commission should disallow more than $39 million[6] of past and future capital investments to install a dehydration system at the Company's Lyon 29/34 storage fields which are part of the Northville storage fields. Attorney General's Brief, pages 71-72. Consumers Energy anticipated and addressed most of the Attorney General's arguments in the Company's Initial Brief. See Consumers Energy's Brief, pages 84-86. The Company responds further only to address a small number of arguments in the Attorney General's Initial Brief that attempt to build on the testimony of its witness and the discovery in this case.

On pages 69 and 70 of the Attorney General's Initial Brief, she argues that "no gas withdrawals may happen or may only occur on a very few select days" in future years and concludes that it is not "cost effective" to install the dehydration equipment "that will sit idle and not be utilized other than on rare occasions." The Attorney General fails to appreciate the operational situation at the Lyon 29/34 storage fields. It is undisputed that the Northville storage fields are peaking fields. By definition, that means the fields are not used unless they are needed under conditions of peak demand, i.e. typically those few very coldest days of the year. But, when the peaking fields are needed, it means that the Company's base storage fields do not have sufficient capacity to meet customer demand. It is vital that the Company can use its peaking fields to their full design specifications when that occurs. If the Company cannot, it enhances the risk that the Company would drop load precisely when customers need it most on the coldest days

[6] Note that the Company has only forecasted $37.4 million in total for the project and is asking only for a portion of that in this case. 4 TR 1533; Exhibit AG-77, page 3. The Attorney General's proposed disallowance exceeds the total cost of the project.

of the year. It is dangerously flippant to trivialize the need to properly invest in these storage fields merely because the Attorney General perceives that they aren't often used. Following that reasoning, it would not make sense to have the peaking fields at all. However, prudent utilities plan for and keep assets to address anticipated risks and known and expected extreme operating conditions. And prudent utilities make the investments necessary to utilize that equipment properly and effectively when it is needed.

Company witness Timothy K. Joyce has been clear throughout his testimony that, due to the current excess moisture problem at the Lyon 29/34 storage fields, the Company has not been able to utilize these fields to the fullest extent of their design specification. On peak days, the Northville site is an important additional source of natural gas supply to the metro Detroit area – a significant metro area within Consumers Energy's service territory. 4 TR 1511. To ensure safe and reliable service to customers in this important and densely populated region, the Company needs to be able to utilize the Northville storage fields when demand is high and having gas to heat people's homes is most urgent. However, due to the moisture issues, Mr. Joyce explained that, during the coldest winter conditions in recent years, there were multiple times that water content in the gas exceeded the regulatory threshold and forced the Company to shut-in withdrawal from the fields prematurely. 4 TR 1511-1512. To control the problem, the Company has been forced to operate the storage fields on a "last on, first off" basis, where the fields are limited in use and manually controlled to avoid excess moisture entering the Company's transmission and distribution systems. 4 TR 1534-1535.

The Attorney General claims that the Company's history of use at the storage field "belies" the Company's statements that the use of the field is limited by the moisture content. But, she never connects the dots on that claim by explaining how the history of the fields' use supposedly

undermine the Company's explanation. As the evidence discussed above clearly shows, the very infrequent use of the Lyon 29/34 storage fields in recent years is *because of* the moisture problem. 4 TR 1535. If the problem was fixed, the fields would be used more. Absent this investment, it is almost as if the Company does not have the Lyon 29/34 storage fields at all except in the most dire of circumstances. That is not acceptable. There is no merit to the Attorney General's vague, unexplained, and unsupported claim that the "history of the storage field" somehow tells a different story.

Mr. Joyce also noted in response to a discovery question that "the significant value peaking storage facilities offer to the Company's customers is not just their utilization in design cold weather conditions, regardless of the frequency, but the significant role they play in allowing the Company to minimize monthly purchases and maximize utilization of all the Company's storage assets per the Company's filed GCR [Gas Cost Recovery] Plans." Exhibit AG-77, page 5. Contrary to the Attorney General's claims, the investment in the Lyon 29/34 dehydration equipment provides significant value to customers.

On page 70 of her Initial Brief, the Attorney General tries to make an issue out of the fact that the Company "never mentioned any issues with the moisture level of the gas limiting its utilization" in the Company's Gas Cost Recovery ("GCR") cases. However, the Attorney General fails to explain why it would be necessary or appropriate to discuss that issue in a GCR case. GCR cases exist for the purpose of forecasting the anticipated volume of gas the Company will need to serve customers during the GCR plan year and detailing the utility's plans to acquire that gas at a reasonable price so that the Commission can determine the GCR ceiling factor the utility will be allowed to charge customers during the year. While it is clearly relevant to a GCR plan case how much gas the Company will need given the resources and infrastructure it has available and given

the operating condition of that equipment now, it is also clearly *irrelevant* to a GCR plan case how much gas it *might* have needed *if* its resources, infrastructure, and operating conditions were different than they actually are. For purposes of GCR proceedings, it is meaningless what operating conditions the Company wishes it could achieve. GCR cases are not a proper forum for seeking regulatory approval of investments needed to improve operating conditions. That is what general rate cases are for.

Finally, on page 71 of the Attorney General's Initial Brief, she claims that, in discovery, the Company stated that "it had not performed such an analysis [of the potential for gas blending] *because* it does not recognize gas blending as a competent means for ensuring gas quality." Emphasis added. That statement is not accurate. The Company never said it did not perform a specific analysis of gas blending "because" it does not recognize gas blending as a competent means for ensuring gas quality. That implies that the Company – without reason – concluded *a priori* that it does not recognize gas blending as a competent means of ensuring gas quality and then used that unfounded determination as a basis to refuse to perform such an analysis. The Company's actual response to the Attorney General's discovery question was: "While no formal analysis has been performed, my [i.e. Company witness Joyce's] direct testimony on pages 34, lines 11-16 and response to U21806-AG-CE-0507 outlines why the engineering teams have determined that gas blending is not a competent means for ensuring gas quality." Exhibit AG-77, page 4. As the response states, the Company (i) has reasons supporting its conclusion that gas blending would not be helpful to address the moisture problem at Northville, and (ii) has previously explained those reasons to the Attorney General.

In the portion of his direct testimony cited in the discovery response, Mr. Joyce explained to the Attorney General that "[v]arious conditions can affect how and whether gases are mixed in

a pipe." 4 TR 1512. He further explained that "[d]ue to the integrated nature of Consumer Energy's gas system, its variable operating conditions, and the fact that the system is not designed to assure mixing of gas from different sources, it would be inaccurate to assume mixing occurs." 4 TR 1512. When Mr. Joyce refers to the "integrated nature of Consumers Energy's gas system," he is talking about the fact that the system is composed of a web of both high-pressure gas transmission pipelines and lower-pressure gas distribution mains that interconnect with one another at multiple points, allowing ingress and egress of gas at a wide variety of locations from the different segments of the system. When Mr. Joyce refers to "variable operating conditions," he is talking about the fact that gas could potentially be flowing at different rates of speed and under significantly different pressures on the various segments of the system at different times, and can even slow, stop, and change direction. It is not hard to understand that low pressure gas entering one part of a system and moving at slow speed over a short distance to enter mains that directly serve customers might seriously impede the blending of that gas with other gas present in the system. Mr. Coppola is not an engineer, so it is possible that he failed to appreciate what Mr. Joyce was trying to convey in this testimony.

There is support for that conclusion in the record because the Attorney General specifically asked the Company to explain why the system design and operating conditions present "insurmountable obstacles to gas blending." Exhibit AG-77, page 8. Company witness Joyce provided the following detailed response:

> Various conditions can affect how and whether gases are mixed in a pipe. The gas that enters the CE transmission system from the Lyon 29 and Lyon 34 storage fields is processed through gas separator vessels to remove free liquids down to a range 5-10 microns in size and often resulting in gas moisture content in the range of 20 lbs/MMSCF at the outlet of the separators. The tariff limit is for gas moisture is 7lbs/MMSCF which gas separation equipment alone, existing or new, can reliably obtain. Obtaining the tariff limit for gas

> moisture through mixing is complex and unreliable due the varying factors such as flow rate from both streams, pressure, temperature, and the varying moisture content in both streams. Installing the gas conditioning (dehydration) equipment downstream of gas separation equipment is the only reliable way to ensure effective utilization, dispatch, and cycling of the fields. [Exhibit AG-77, page 8.]

Nevertheless, the Attorney General persists to claim – with no engineering support – that blending can be "an effective strategy" "[i]n limited volumes." There is just no support for that claim in the record and it is not correct.

Finally, the Attorney General claims that DTE Gas successfully uses (or has used) blending temporarily to address moisture issues on its system. Attorney General witness Coppola provided no source for that claim in his testimony. Attorney General's Initial Brief, page 71. Mr. Joyce testified that Mr. Coppola's claim lacked any specific information about "which pipelines or storage fields DTE utilizes blending at [or] any analysis concerning the differences between the Company's system and the system operated by DTE." 4 TR 1535-1536. As discussed above, system design and operating characteristics matter when evaluating whether gas blending is potentially viable. Mr. Joyce explained in discovery:

> DTE Gas and Consumers Energy have different gas transmission and distribution systems. Even if DTE Gas is able to use gas blending to address moisture content on some parts of its system – which has not been established by anyone with engineering knowledge in this case – that does not mean that Consumers Energy would be able to use gas blending to address moisture associated with the Northville storage fields. [Exhibit AG-77, page 7.]

To the extent that the Attorney General means to insinuate that DTE Gas's ability to successfully blend gas proves that Consumers Energy could successfully blend gas, that conclusion is not accurate or warranted. Furthermore, Consumers Energy does not have a "temporary" moisture problem at the Lyon 29/34 storage fields, so it cannot be solved with "temporary" blending. The Company needs a permanent solution to the moisture problems at the Lyon 29/34 storage fields.

None of the Attorney General's arguments against the Company's installation of dehydration equipment at the Lyon 29/34 storage fields are valid. For the reasons stated in the Company's Initial Brief and this Reply Brief, the Commission should reject the Attorney General's proposed disallowance and approve the investments in its calculation of rates in this case.

b. Compression Station Capital Expenditures – Engineering Design Phase

On page 76 of her Initial Brief, the Attorney General recommends that the Commission disallow $786,000 in the bridge period and $29.3 million in the test year for 13 gas compression projects on the grounds that those projects are currently in the "engineering design" phase of development and expected to remain in that phase of development until late in the test year. Consumers Energy anticipated and addressed most of the Attorney General's arguments in the Company's Initial Brief. See Consumers Energy's Initial Brief, pages 87-88. The Company continues to rely on its Initial Brief, which effectively refutes the Attorney General's claims, as if fully repeated in this Reply Brief. The Company responds further only to address one new argument in the Attorney General's Initial Brief that lacks any support.

On page 75 of her Initial Brief, the Attorney General takes issue with one of Company witness Joyce's statements in his rebuttal testimony. Specifically, Mr. Joyce offered rebuttal to Attorney General witness Coppola's claim that the duration of the Company's "engineering design" phase was "very unusual for the moderate size of the projects being undertaken." See 4 TR 1539. Mr. Joyce identified several things that were wrong with Mr. Coppola's claim, but one of those was the fact that the duration of the Company's "engineering design" phase "reflects and includes an appropriate allotment of time to procure the equipment and materials needed to complete construction of the project." 4 TR 1539. In her Initial Brief, the Attorney General argues that this statement is "inconsistent with basic project development procedures." Attorney

General's Initial Brief, page 75. The Attorney General provides no citation for the source of this claim, and Consumers Energy can find no record evidence that supports it.

The Attorney General goes on to claim that "[t]he project design identifies the facilities that need to be built, dimensions, quantities of materials and equipment needed." Attorney General's Initial Brief, page 75. The Attorney General argues that "design must be completed or at least at a very mature point for the Company to identify what materials and equipment must be procured." Attorney General 's Initial Brief, page 75. Again, the Attorney General cites no record evidence to support these claims, and the Company is not aware of any that supports them. It is true that project designs identify information that would be needed in order to procure equipment and materials. But a project design need not be in its final and most advanced version to do that. A project design is not a single document. Rather it involves a series of iterations that may become more detailed and refined the further along in the process the design is. The process that the Attorney General supposes would be unnecessarily inefficient. If a utility waited to begin the process of procuring equipment and materials until the design was fully completed and ready for construction, then construction would have to be further delayed while procurement took place. Company witness Joyce testified that "[t]he amount of time needed to procure materials and equipment has increased in recent years, which has extended the engineering design phase for some of the Company's projects." 4 TR 1539. He further explained that the "longer duration appropriately reflects the state of the marketplace for procuring those materials and equipment." 4 TR 1539. There is nothing in the record to contradict Mr. Joyce's testimony and no basis for the Attorney General's arguments against it. More importantly, there is nothing that requires the kind of rigid sequencing of project activities in the way the Attorney General assumes.

There is no merit to the Attorney General's arguments about the duration of time that the Company's Compression Station projects are in "engineering design" phase. The Company also reiterates the point from Mr. Joyce's testimony and the Company's Initial Brief that the correct ratemaking procedure for addressing projects that are underway during the test year, but will not be completed with construction until sometime after the test year, is to include the project costs in rate base and then apply an Allowance for Funds Used During Construction ("AFUDC") offset to them. 4 TR 1540; Consumers Energy's Initial Brief, page 88. That is how the Company's filing in this case treats the 13 projects identified by the Attorney General for disallowance. As a result, those 13 projects have no impact on the revenue requirement in this case. Rejecting the Attorney General's unsupported disallowance allows these needed projects to advance toward completion while costing the Company's customers nothing in the test year. The Commission should reject the Attorney General's proposed disallowance.

8. Gas Operations Support Capital Expenditures

As discussed at pages 90 through 92 of the Company's Initial Brief, Consumers Energy stated that it would not oppose MEC's recommendation to remove projected expenditures for the Hastings Service Center and the Lansing Service Center based on the Commission's determination in Case No. U-21585, but asserted that 2024 actual expenditures should not be disallowed because those amounts were actually spent on the projects in 2024. MEC, unsatisfied with the Company's reasonable concession, argues that the Commission should also disallow the 2024 actual expenditures in this case, contending these actual costs can be reviewed as part of the full project in a future proceeding. MEC's Initial Brief, pages 68-69. MEC's recommendation is unreasonable and should be rejected.

In Case No. U-21585, the Commission removed Hastings Service Center bridge period projections due to the "slow pace" of the project and the "uncertainty of costs going forward."

MPSC Case No. U-21585, March 21, 2025 Order ("U-21585 Order"), page 176. Similarly, for the Lansing Service Center Project, the Commission removed bridge period and test year expenditures because of concerns with the Company's lack of progress. *Id*. at 173-174. In Case No. U-21585, the bridge period included all of 2024 and the first two months of 2025, and the record closed in that case prior to the end of 2024 and before 2024 actual spending was complete. See U-21585 Order, pages 3, 5. In this case, the Company provided 2024 actual spending, and there is no "uncertainty" surrounding those costs. Since the Company provided evidence in this case that the Company actually spent $1,817,000 in 2024 on the Lansing Service Center and $95,000 in 2024 on the Hastings Service Center, the Commission should approve those actual amounts.

MEC witness Joshua W. Denzler also originally argued that the Kalamazoo Service Center is being overbuilt by 40% and recommended a 40% disallowance of project costs. 4 TR 2479-2480. As discussed at page 91 of Consumers Energy's Initial Brief, the Company explained that the Company is renovating an existing facility at the Kalamazoo Service Center and is not adding space to the existing facility. While it would be possible to reduce the size of the facility by demolishing a portion of the building, that would only increase the cost of the project. 4 TR 1470.

In its Initial Brief, MEC appears to have abandoned its argument that there should be a 40% reduction in Kalamazoo Service Center costs, and now argues that the Commission should remove Kalamazoo Service Center costs for the same reason as Mr. Denzler recommended removing the Hastings Service Center and Lansing Service Center costs. MEC's Initial Brief, page 69.

MEC's recommendation to completely remove Kalamazoo Service Center costs is being made for the first time in MEC's Initial Brief, and must be rejected because it is not based on any

record evidence. See MCL 24.285. MEC's proposal made for the first time in its Initial Brief raises serious due process concerns because the Company did not have the opportunity to present evidence to address or challenge this recommendation. Even if the Commission agrees that there should be a reduction in Kalamazoo Service Center costs, which it should not, the 2024 projected capital expenditures of $3.358 million (see Exhibit A-69) should at a minimum be approved for the same reasons discussed above regarding Hastings Service Center and Lansing Service Center.

9. Fleet Capital Expenditures

As discussed at pages 92 through 95 of the Company's Initial Brief, the Commission should approve the Company's projected Fleet Services capital expenditures in order to fund the vehicles and equipment that allow Gas Operations to serve customers with safe, reliable, and affordable gas service, ensuring that the Company's Fleet assets are available to execute the work plan and respond to emergencies in an efficient, cost-effective, and safe manner.

MEC argues that the Company has not evaluated the accuracy of the Blended Factor used by the Company as a factor in determining vehicle replacements, that the Commission should require the Company to perform such an evaluation, and, in the meantime, reduce vehicle replacement projected expenditures by 20%. MEC's Initial Brief, page 60. As discussed in the Company's Initial Brief, the Commission should reject MEC's arbitrary 20% reduction in vehicle replacement expenditures. The Company has shown that it uses a thorough and thoughtful process that incorporates several tools, including the Blended Factor, to inform the plan for vehicle replacements. 4 TR 1425-1433.

In response to a discovery request from CUB, the Company indicated that it "has not, however, completed a full analysis of units that have failed prior to replacement as determined by the Blended Factor." See 4 TR 2466. But there is no reason that the lack of this type of analysis should lead to a 20% reduction of projected vehicle replacement expenditures. Identifying units

that have failed prior to the Blended Factor's indication that those vehicles are at or past their expected life would at most suggest that the Company should be identifying vehicles for replacement sooner, not reducing vehicle replacement capital expenditures. And again, the Blended Factor only provides a starting point each year in the selection of vehicles for replacement. See 4 TR 1423-1424.

MEC states that CUB witness Denzler "recommended the Commission require the Company to validate the accuracy of this component of its vehicle replacement methodology," and argues that the Commission "should adopt Denler's recommendations and require Consumers . . . to evaluate the Blended Factor's accuracy." MEC's Initial Brief, pages 60-61. MEC's argument mischaracterizes Mr. Denzler's testimony. Mr. Denzler never recommended that the Commission require the Company to "evaluate the Blended Factor's accuracy," but only recommended a 20% reduction to vehicle replacement plan expenditures based on his argument that the vehicle replacement projection should be considered "preliminary." See 4 TR 2466-2467. The only "analysis" mentioned in Mr. Denzler's testimony was the Company's response to CUB's discovery request noting that the Company has not undertaken an analysis of "units that have failed prior to replacement as determined by the Blended Factor." See 4 TR 2466. But as discussed, it is unclear how such an analysis would provide any value, and the request to require the Company to perform such an analysis, made for the first time in MEC's Initial Brief, should be rejected.

10. Information Technology and Security Capital Expenditures

a. Overview and Expenditures

The Company supported the Information Technology ("IT") Department's projected costs and responded to the parties' recommended reductions at pages 95 through 115 of Consumers Energy's Initial Brief. The Commission should approve the Company's projected expenditures as discussed in its Initial Brief.

b. Rough Order of Magnitude Estimates

IT investments begin with a Rough Order of Magnitude ("ROM") estimate, which is an initial estimate that includes research, analysis, and a business case. 4 TR 668. Based on concerns raised by Staff and the Commission in Case No. U-20963 regarding ROM estimates, the Company reduced projected capital expenditures in this case by 20% for projections that are based on a ROM. 4 TR 669. As discussed at pages 96 and 97 of Consumers Energy's Initial Brief, the Commission should reject MEC's proposal to add another 20% to this reduction.

In its Initial Brief, while MEC agrees with the Company's correction to MEC's proposed capital reduction amount that would represent a 40% reduction to capital projections that are based on a ROM, MEC argues that "Mr. Denzler's recommendation was not limited to capital spending – O&M spending based on ROM estimates should also be reduced by an incremental 20% over the Company." MEC's Initial Brief, pages 48-49. MEC's argument misrepresents the record. Mr. Denzler recommended that "the Commission disallow a total of 40% ROM projections for 2025 and 2026 – this is an incremental 20% over the Company's 20% reduction." 4 TR 2461. But the Company only included a 20% reduction to ROM capital projections, expecting that full project costs may be recovered in future rate cases. 4 TR 669. No similar reduction occurs with O&M because, absent a mechanism such as deferred accounting, those total costs would not be recoverable in a future rate case. Thus, Mr. Denzler's recommendation of a reduction that is "an incremental 20% over the Company's 20% reduction" could only apply to capital.

Mr. Denzler's testimony goes on to further contradict the position taken in MEC's Initial Brief. Mr. Denzler stated that his recommendation "results in an incremental disallowance of $8.21M (20% of $41.04M) in 2025 *capital* spend, and an incremental disallowance of $11.59M (20% of 57.46M) in 2026" (emphasis added). Thus, Mr. Denzler stated that his recommended reduction is to "capital" spend in 2025, and the $41.04 million and $57.46 million that Mr. Denzler

used in calculating a recommended reduction are capital expenditure projections provided by the Company. See 4 TR 669, lines 11-12. Thus, contrary to the argument in MEC's Initial Brief, Mr. Denzler's recommendation was "limited to capital spending." The Commission should reject any 20% reduction to O&M expenses associated with ROM estimates because the recommendation is being made for the first time in MEC's Initial Brief and is not supported by any record evidence.

But the Commission should also not approve any reduction to capital spending based on ROM projections. As discussed by Company witness Baker, business priorities and customer needs can evolve after the filing of a ROM estimate in a rate case, and IT projects may need to be reprioritized, or project scope may need to be adjusted. 4 TR 668, 783. MEC's evidence of actual expenditures that are less than ROM projections does not mean, as MEC argues, that "the Company's rate base is inflated." See MEC's Initial Brief, page 48. For example, costs may have been shifted within IT to other priority projects, or even shifted outside of IT to address other areas of the business with emergent priorities. MEC overstates the significance of Mr. Denzler's analysis – it does not show that the Company's rate base was "inflated" in those years where project actuals were less than the ROM projections. As such, the Commission should reject the proposed additional reduction in projected expenditures based on ROM projections.

c. Gas and Electric and Gas Shared IT Expenditures

i. Tracking and Traceability

The Attorney General recommends that the Commission remove the capital expenditures of $2,218,000 for the 10 months ending October 2025 and $5,295,000 from the projected test year, along with $509,000 from O&M expense related to the Tracking and Traceability project. See Attorney General's Initial Brief, page 79-80. This project is driven mainly by proposed regulatory rules that will require utilities to map new and replacement installations with tracking and

traceability data for plastic pipes, fittings, and fusions for the lifetime of the asset, and the Company does not currently have a Tracking and Traceability program that will meet PHMSA's proposed requirements. Consumers Energy addressed the reasonableness of this project and the Attorney General's arguments against it in its Initial Brief at pages 99 through 101. The Company expects to incur the Tracking and Traceability amounts projected in this case (2 TR 106), and the Commission should reject the Attorney General's proposed disallowance and approve the investments proposed by the Company for the Tracking and Traceability IT Project for inclusion in rates in this case.

d. Asset Refresh Program

The Company's Asset Refresh Program ("ARP") provides for the replacement of technology assets consistent with industry and Company life-cycle expectations to reduce security risks, avoid costs related to increasing hardware failures, avoid lost productivity due to downtime, receive continued operating system support as older versions are retired by the manufacturer, and ensure employees have hardware needed to support their work. 4 TR 679-680. Company witness Stacy H. Baker's direct testimony detailed the ARP projects and their projected costs and benefits. See 4 TR 679-698. Except as otherwise agreed to by the Company, the Commission should approve Consumers Energy's projected ARP expenditures to ensure the Company's employees have the necessary technology resources.

The ARP-Field Device Asset Management ("FDAM") project replaces field devices according to a four-year refresh cycle and includes new devices. 4 TR 687. Although Staff stated that the need for this project "was never in dispute," Staff argued that the Company did not justify the number of new devices that it plans to purchase in this program. Staff's Initial Brief, page 31. Staff stated that in explaining its method for projecting FDAM expenditures, the Company focused on the reasonableness of the total projected cost rather than the method to develop that cost. Staff's

Initial Brief, pages 31-32. Staff's position is that the Company did not support the number of new devices that it plans to purchase, and as such recommended that the Commission disallow the entire projected cost for new purchases of $575,352. Staff's Initial Brief, page 29. Staff makes a similar argument for the ARP-Workstation Asset Management ("WAM") project, which replaces and installs new desktops, laptops, and tablets and replaces monitors to support customer interactions and business operations. See Staff's Initial Brief, pages 33-36; 4 TR 693-695. For ARP-WAM, Staff is recommending a disallowance of the entire projected cost of new purchases in the amount of $575,497. As discussed at pages 108 through 110 of the Company's Initial Brief, the Commission should reject these proposed reductions.

Consumers Energy explained in rebuttal and in response to audit that the Company projected Total Company new purchases of about $1 million in 2025 and $1 million in 2026 for both ARP-FDAM and ARP-WAM based on historical spend. 4 TR 757. The four-year average spend for both ARP-FDAM and ARP-WAM was $2,594,368. *Id*. The Company's projected expenditures that are *less than* the four-year average amount are a reasonable projection of new technology purchases that are in line with historical purchases. Staff insists that the Company's projection is inadequate because the Company did not explain how it projected the number of units that led to the total projected costs. See Staff's Initial Brief, pages 32-33, 35-36. But for ARP-FDAM and the ARP-WAM new purchases, the Company's projection is an annual amount informed by total Company spend over the last four years, with the total annual amount informing the number of new purchases that will be expected in these areas (and not the other way around). See 4 TR 757. Staff's assumption that the ARP-FDAM and ARP-WAM projections for new purchases started with the number of units is not accurate.

Staff argues that the Company's method for projecting ARP-FDAM and ARP-WAM new purchases is inconsistent with how ARP-Local Area Network ("LAN") costs are projected. Staff's Initial Brief, page 32. But the projection methodologies are not "inconsistent." The ARP-LAN project involves updating the entire LAN, refreshing LAN equipment and software across all Company sites. 4 TR 683-684. The Company's projections account for the different types of switches that will be replaced and their specific requirements. 4 TR 788. The ARP-FDAM and ARP-WAM new purchases are not based on a discrete update project like the ARP-LAN, but reflect expected annual new purchases that are not replacements. See 4 TR 688, 695. The Company's projection for these new purchases is reasonable based on historical actual spending for these new purchases.

The Commission should approve the Company's proposed funding for new field devices and workstations, which is less than the historical average amount, to support the ability of Company co-workers to perform their work effectively, efficiently, and safely. 4 TR 757-758, 760-761. It would be unreasonable to deny all the funding for new devices – the evidence does not support a conclusion that the Company will not spend anything for new devices under the ARP-FDAM and ARP-WAM programs. Rather, the record supports that the Company's projected expenditures are reasonable based on historical spending and should be approved.

11. Customer Experience Capital Expenditures

a. The Commission Should Reject Staff's Disallowances for the Low Moderate Income Project and Enhancement

In the Staff's Initial Brief, Staff continues to argue that the Commission should disallow costs for the Company's proposed low moderate income ("LMI") project. The Company has already responded to most of Staff's arguments, but a couple arguments warrant elaboration.

First "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." Staff's Initial Brief, page 26. This is an untenable standard for project approval, the goal of the project is to increase access to programs that can provide financial assistance to customers. 4 TR 1095. The root causes that Staff references are connected to broader economic issues, but what the project will do is save customers time and money by making the process to enroll in financially helpful programs far more simple than it has been by evaluating eligibility and enrolling customers in a single connection point rather than having customers link to multiple web pages and go through programs one by one to determine their own eligibility.

Staff further avers "this project offers no new information not already contained within the Company's website." Staff's Initial Brief, page 28. Staff fails to fully appreciate the difference between static information and a web application that allows customers to enter their information, have their information evaluated, and be enrolled into programs at a single point of entry. If someone were to approach a research librarian to assist with an inquiry, they would expect to explain their query to the librarian once and receive several sources of information – the goal of the librarian being to provide them multiple sources related to their query and minimize the time spent searching on their own. Staff's expectation of only having the information available through links is more like approaching the librarian, receiving one source – having to scan through it to sense if it's applicable, then asking the librarian for a different source, receiving another source and repeating the process until they eventually either run out of sources or are lucky and find a match. Having static links to programs is not bad but saving the customers time and not forcing customers to click through multiple links hoping they eventually find a match is much more

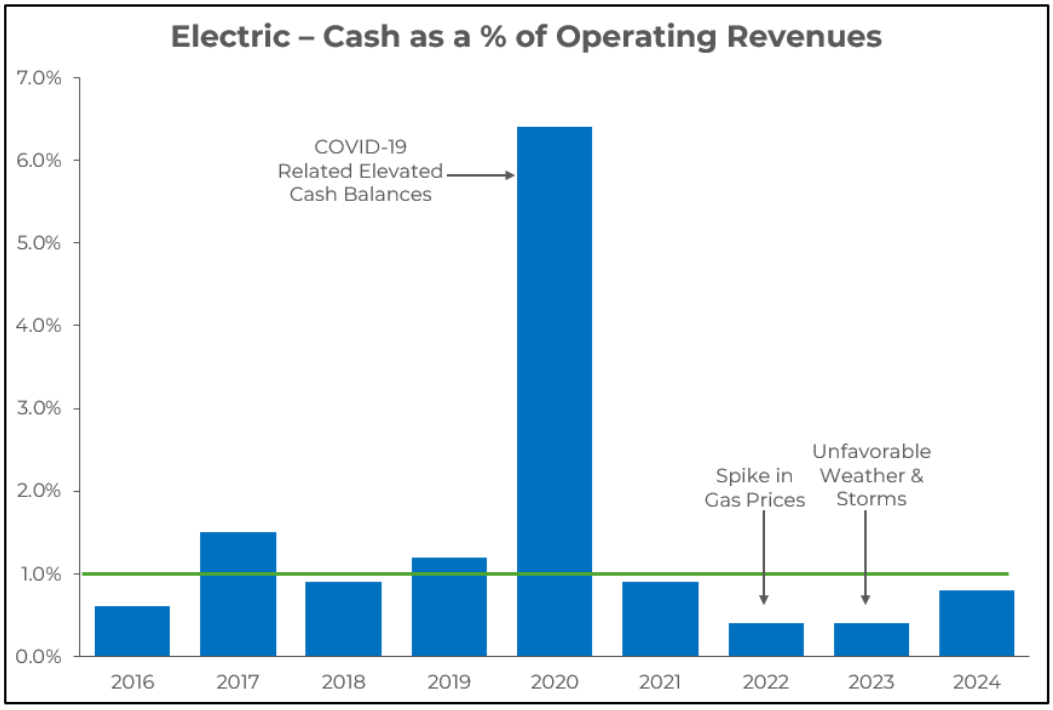
helpful. The LMI project functions as a virtual concierge to connect customers to a large catalogue of programs with ease, and it should be approved.

B. Working Capital

1. The Commission Should Approve the Company's Method of Projecting a Benchmark for its Cash Balance

On page 126 of its Initial Brief, the Company explained that it appropriately projects an adequate level of cash for the test year ending October 2026. The Company projected based on 1% of anticipated operating revenues. It makes sense to use a projection for the cash level needed in a forward-looking test year. If the Company were to use the Attorney General's recommended method to use historic revenues, the projection would be incorrect in this case. 4 TR 876. On page 98 of her Initial Brief, the Attorney General acknowledged that her method lowers the Company's cash balance.[7] That lower level is not adequate because typically the Company's actual cash balances have been approximately 1% of operating revenues. 4 TR 883. The recent exceptions are 2020, 2022, and 2023. 4 TR 883. On page 98 of her Initial Brief, the Attorney General argued for using "the 13-month average cash balances at the end of each year 2022, 2023, and 2024." Emphasis added. Her use of these exceptional years demonstrates that the Attorney General's projection is incorrect. The Company's actual cash balances over a longer period are shown below, taken from Company witness Marc R. Bleckman's testimony (4 TR 883):

[7] On page 98 of her Initial Brief, the Attorney General erroneously claimed that her "$12.3 million [result] is further supported by the Company's analysis." In the discovery response that was cited by the Attorney General, Consumers Energy merely listed the average cash balances by date. Exhibit AG-36 (Discovery Response AG-CE-0498). That does not constitute the Company's "analysis."



The Attorney General acknowledged that "every utility has different short-term borrowing facilities and different practices as to how they use them . . ." but then suggested that the Company could rely on short-term borrowing. Attorney General's Initial Brief, page 94. This statement does not properly reflect that Consumers Energy is a business (that provides essential public service) and relies on the experience and sound judgment of its Treasury Department and Financial Planning and Analysis Department. 4 TR 880. On a day-to-day basis, Consumers Energy must be able to rely on the judgment of its employees. The Attorney General pointed out that the Company raises cash when issuing bonds. Attorney General's Initial Brief, page 96. Mr. Bleckman made clear that the Company's cash balance will fluctuate month-to-month with debt issuances and retirements and also as a result of the seasonal nature of utility cash inflows and outflows. Exhibit AG-85, page 4 (Discovery Response AG-CE-1026). Mr. Bleckman highlighted the benefits of maintaining an adequate average level of cash on hand throughout the year, including providing the Company with flexibility as to the timing of its long-term debt

issuance, while continuing to be supportive of the Company's operating and capital investment activities. *Id*. If anything, the Company's consideration of these benefits shows sound judgment and careful planning in addition to demonstrating the simplicity of the method.

Finally, it is worth noting that the Attorney General did not acknowledge the benefits that cash provides to flexibility and liquidity, including securing favorable interest rates on long-term debt issuances, access to capital, and credit quality. 4 TR 881. The Company stands behind its method of projecting a benchmark for its cash balance. As seen on the table above, the Company's method is a good approximation for the Company's needed cash levels. The Company's method[8] is less risky than the Attorney General's suggested method in this case, especially given her witness's use of the atypical years, 2022 and 2023, in his calculation. 4 TR 42-43, see also pages 123-130 of the Company's Initial Brief. With the acceptance of Staff witness Justin J. Hecht's working capital adjustment to reduce the Company's projected cash balance by $5,263,000 to $23,130,000, the Company proposal equates to approximately 1% of test year gas revenues and results in a level that is needed, reasonable, and adequately minimizes financial risk to the Company and its customers. The Commission should therefore approve a projected cash balance of $23,130,000 in this case and acknowledge that the Company has used a prudent method to project this amount.

IV. RATE OF RETURN AND CAPITAL STRUCTURE

As discussed in the Company's Initial Brief, Consumers Energy requests that the Commission adopt Consumers Energy's proposed cost of capital of 6.22% with an authorized ROE

[8] Even the perceived flaws that the Attorney General pointed out from the 2016 electric rate case do not alternatively support Attorney General witness Coppola's methodology. That was a different case with different facts and circumstances from this proceeding. In any event, Mr. Bleckman rebutted the concerns: "While the peer companies' cash balances reflected in that analysis may or may not have included temporary cash investments, the peer average was 90 basis points higher than projected for the Company in the current case." See 4 TR 877-878.

of 10.25% and an equity ratio of 50.75%, given the risk profile for Consumers Energy's gas business, current market conditions, and the need to support credit and attract capital. The Attorney General, Staff, ABATE, and MEC (the "Intervening Parties") opposed the proposed equity ratio and return on equity ("ROE"). For the reasons discussed below, the positions of the Intervening Parties should be rejected.

A. Capital Attraction and Credit Maintenance

Utilities compete for capital with other investments of similar risk, including other gas utilities. 4 TR 898. Investors look at a utility's regulatory environment when assessing risk. 4 TR 900. In particular, authorized equity ratios and ROEs are very important considerations for a utility's creditworthiness and financial stability. *Id*. The Funds from Operations ("FFO")-to-Debt ratio is a key[9] financial metric used by rating agencies. 4 TR 809. A utility's authorized equity ratio and ROE are important inputs into its FFO-to-Debt ratio. *Id*. Credit agencies use an FFO-to-Debt ratio comparably to a bank's credit evaluation for a person requesting a loan. 4 TR 810. An authorized equity ratio multiplied by the ROE produces a "rate of return" that impacts the FFO-to-Debt ratio. 4 TR 810, 812.

The Company's rate of return has sharply declined as a result of recent rate cases. 4 TR 812. A reduction in rate of return lowers the Company's FFO-to-Debt ratio. *Id*. Currently, there are difficulties in the overall market and specifically the utility industry, which includes the Company. For example, there are "headwinds to credit quality" as observed by S&P, including increased cash flow deficits that are funded to a higher extent with debt versus equity, higher interest rates, and a narrowing spread between U.S. Treasuries and authorized ROEs. 4 TR 817-118; Exhibit A-107 (MRB-16). Fitch also noted higher interest rates being a headwind. 4 TR 818.

[9] Staff acknowledged that the FFO-to-Debt ratio is one of the primary factors that credit agencies consider. Staff's Initial Brief, page 59.

In addition, Trump policies coincide with volatility and uncertainty that is likely to continue through the test year. 4 TR 851-852.

In sum, the Commission should consider the Company's equity ratio with its ROE in the context of the current market conditions, including the utility industry, and the Company's regulatory environment.

1. The Intervening Parties Incorrectly Downplayed the Trends in the Company's FFO-to-Debt Ratio, Market Conditions, the Utility Industry, and the Regulatory Environment

a. Staff, the Attorney General, and ABATE Incorrectly Downplayed the Trends in the Company's FFO-To-Debt Ratio and Concerning Statements by the Credit Agencies Showing the Company's Credit Strength is at Risk

The Company clearly demonstrated the recent sharp decline in its rate of return and FFO-to-Debt ratios as calculated by Moody's and S&P. 4 TR 811-812.

In its Initial Brief, Staff concluded that the Company has an unnecessarily "pessimistic view of ratings agencies' assessment of the [Company's] credit quality" because "the ratings agencies have held Consumers Energy's credit rating steady much more often than they have altered it over the years." Staff's Initial Brief, page 59. However, investors look for financial stability all the time. They will not necessarily be satisfied investing in Consumers Energy if the Company's credit is only stable "much more often than" not . In fact, that objective would not satisfy the legal standard. As the Court noted in *Bluefield*, a proper rate of return not only assures "confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit [but also] enable[s] the utility] to raise the money necessary for the proper discharge of its public duties." *Bluefield*, supra, 262 US at 693. Additionally, Staff continued its claim that Moody's 2021 downgrade of the Company's credit rating put it "more in line with the other two major ratings agencies['] credit rating[s]," an

outcome which is also at odds with the necessary maintenance and support of the Company's credit.

For her part, the Attorney General recognized that the Company "provided basis point decreases for S&P and Moody's" but claimed that the Company did not demonstrate "that these specific declines would necessarily result in a downgrade." Attorney General's Initial Brief, page 108, emphasis added. The Attorney General quoted from an August 2024 S&P report. *Id*. at 109. The report gave the Company a "stable rating," but that rating was based on "management" being able to "reach constructive regulatory outcomes to avoid increasing business risk." Exhibit AG-51, page 19 (S&P Global report pages 1, 3). These statements are concerning because they are outcome dependent. S&P acknowledged that the Company's stable rating is (1) dependent on outcomes like this proceeding, and (2) on those outcomes being "constructive" in order to avoid increasing business risk. S&P therefore recognized that the Company is also facing increasing business risk. *Id*. The Attorney General also quoted from a May 2024 Moody's report that similarly based its "stable outlook" on "stable" financial metrics going forward. *Id*. at 46, 52 (Moody's report pages 2, 8). Moody's outlook was dependent on the Company's "prudent financial policies." ABATE also made similar arguments regarding the Company's "stable" ratings. ABATE's Initial Brief, pages 14-15. The Attorney General and ABATE's positions are inconsistent with credit agencies' actual statements and the fact that the Company's FFO-to-Debt ratios have been decreasing. 4 TR 812.

The Attorney General also incorrectly claimed that Moody's FFO-to-Debt ratio "is trending down below the low end of Moody's expected range" due to the impact from "short term" events, not affecting "the long-term health of the Company."[10] Attorney General's Initial Brief,

[10] Note that in her Initial Brief, the Attorney General mentions temporary natural gas prices in 2022, which is a year that the Attorney General inconsistently claims should be used to estimate the Company's projected cash balance.

page 110. Mr. Bleckman's explanation is more reasonable. The Company's declining FFO-to-Debt ratio has "coincided" with recent rate cases where the rate of return (ROE multiplied by equity ratio) has sharply declined, causing a negative result on credit metrics. 4 TR 864. Further, the "short term" events that the Attorney General described did happen and could happen again. *Id*. Mr. Bleckman's concerns regarding the trend are therefore valid. As further described below, the potential for negative events also demonstrates the importance of maintaining strong credit metrics in the face of difficult market conditions.

The Attorney General recommended a decrease to the Company's ROE paired with a constant equity ratio, which would further contribute to the reduction in the Company's FFO-to-Debt ratio. The Attorney General downplayed this risk stating, if "some decrease in the [FFO-to-Debt] ratio were to occur with a 50% equity ratio and 9.75% return on equity . . . the Company has ample room . . . before any downgrade would occur." Attorney General's Initial Brief, page 113. As support, the Attorney General then referenced its witness's 20.1% FFO-to-Debt ratio calculation. *Id*. But this is the same calculation that the Company roundly discredited in testimony and in its Initial Brief. 4 TR 865; Consumers Energy's Initial Brief, pages 174-175. A lower authorized ROE in the past would not have resulted in a higher FFO-to-Debt ratio. *Id*. The Attorney General (and similarly the other Intervening Parties) advanced an ROE and equity ratio that does not leave "the Company's cash flow ratios above the ratio levels where it could face a downgrade of its debt" as claimed. See *Id*.; Attorney General's Initial Brief, page 113. The Attorney General and ABATE paint an overly optimistic picture of the Company's future credit stability. Continued stability depends on the accuracy of the credit agencies' assumptions—their expectations. Therefore, if one or both of the major inputs (ROE and equity

ratio) of the Company's rate of return decrease from those expectations, the Company's credit rating could deteriorate. 4 TR 847-848.

Recall that in June 2019, Moody's issued a credit opinion for the Company very similar to the one cited by the Attorney General in this case. 4 TR 847. In May 2021, Moody's then downgraded Consumer's Energy's credit rating. *Id*. In this proceeding, the authorized ROE and equity ratio will be a key component of future rating agency evaluations. 4 TR 848.

The Commission should dismiss Staff, the Attorney General, and ABATE's attempt to downplay the very real risk the Company faces given the trend in its rate of return and calculated FFO-to-Debt ratios. Instead, the Commission should approve the Company's requested ROE of 10.25% and an equity ratio of 50.75%, which would put the Company more in line with the authorized weighted rate of return that the Company had prior to its most recent credit rating downgrade. 4 TR 819.

b. <u>The Intervening Parties Incorrectly Downplayed Market Conditions that Place the Company's Credit Strength at Risk</u>

In her testimony, Company witness Ann E. Bulkley pointed to core inflation and interest rates demonstrating a current and expected elevated cost of equity. 4 TR 901; 4 TR 973. Company witness Bleckman pointed to volatility and economic uncertainty under the Trump Presidency demonstrating the need for access to liquidity and resilience. 4 TR 851-851. In its Initial Brief, Staff rejected the Company's concerns about recent volatility and uncertainty due to unprecedented U.S. trade policy, fears of an economic downturn, and negative geopolitical events. Staff's Initial Brief, page 60. To reasonably address volatility and uncertainty, the Company's suggested modest deviation from a strictly balanced equity ratio in this case. Specifically, the Company seeks an authorized weighted rate of return at a level set prior to the Moody's downgrade <u>but in an elevated interest rate environment</u>. 4 TR 850-851. As explored in more detail below,

the Company demonstrated that peer authorized equity ratios are higher and trending up as opposed to the Company's stagnant equity ratio. 4 TR 806. In other states, commission authorized ROEs have also been trending up the last few years. 4 TR 981.

In response to the current market conditions, Staff pointed to concerns over customer affordability. Staff's Initial Brief, page 60. The Company shares concerns about customer affordability and recognized "modest effect on customer rates" may occur while addressing the very real and current market conditions. 4 TR 850. However, concerns over customers' individual affordability concerns will not be met if the Company is hampered in "rais[ing] the money necessary for the proper discharge of its public duties." *Bluefield*, supra, 262 US at 693. The Company has to focus on both the short term and the long term. The Company's ability to deliver on long-term investments to the infrastructure that provides safe, reliable, and clean energy relies on its ability to raise money from the capital markets. 4 TR 814. The financing rates for these investments are at least partially offset by lower financing rates that generally come with a higher credit rating. *Id*. That is not to say there are no costs associated with infrastructure investments, but that the customer savings from improved credit ratings and lower interest costs can at least offset some of that burden. *Id*. Staff did not analyze or quantify the increased cost to the Company and customers that would result from any further credit downgrades. 4 TR 852. While it may seem attractive for the benefit of customers in the near-term to downsize the Company's weighted rate of return, the potential resulting credit rating downgrade could lead to the Company's customers paying higher financing costs over the long term, and it could put at risk the Company's ability to execute on its critical investment plan on behalf of customers. 4 TR 853-854. The Commission should reject this undue risk.

The Attorney General and MEC made very similar assumptions and claimed that customers would save money in the event the Commission chose their respective recommended ROEs as opposed to the Company's. Attorney General's Initial Brief, page 146; MEC's Initial Brief, pages 72-73. They assumed no customer benefits, for example, ensuring that delivery on long-term investments occurs, reliability, etc., would be affected in the event the Commission sets the Company's ROE too low. See 4 TR 814. Their assumption is incorrect, unduly risky, and also does not properly account for the savings from a potentially lower interest cost as part of a properly balanced rate of return. *Id*.

ABATE also stressed customer affordability. ABATE's Initial Brief, page 13. Though, unlike Staff, ABATE did not analyze affordability in the context of the balancing required under *Bluefield*. ABATE made the dubious and circular argument that the Commission should lower the Company's ROE to address customer affordability concerns which, according to ABATE's interpretation of statements by Moody's, are largely the cause for the "Negative" outlook for regulated utilities. *Id*. Moody's contributed its negative outlook to "increasing challenging business and financial conditions stemming from higher natural gas prices, inflation and rising interest rates" that also raise "customer affordability issues," and these conditions and issues increase "the level of uncertainty with regard to the timely recovery of costs for fuel and purchase power, as well as for rate cases more broadly." 4 TR 2180-2181. Moody's was referring to the same market conditions that the Company raised. See ABATE's Initial Brief, pages 13-14. S&P and Fitch made similar statements. *Id*. ABATE witness Christopher C. Walters did not offer his references into the record in this case. However, assuming the references are accurate representations of the source material, from the context Moody's, S&P, and Fitch were likely referring to their concerns that because of affordability issues, commissions may potentially shift

the "balancing of the investor and consumer interests" under *Hope* (too much) in favor of the consumer, and that would potentially harm utilities' credit. Quoted language from *Hope*, supra, 320 US at 603. Potentially, this shift could be an example of "tightening in the regulatory climate" that concerned S&P. 4 R 842; Exhibit A-36 (MRB-14). The credit agencies were not suggesting that an attempt to make rates more affordable in the near term, by lowering utilities' ROEs, would improve the utilities' credit standings. If ABATE's implication were true, utilities would request a lower ROE to improve their credit ratings, which would have the opposite effect and is illogical. The Commission should reject ABATE's argument.

Mr. Bleckman raised the possibility that market conditions can include shocks to the financial markets. 4 TR 814. In their Initial Briefs, Staff and ABATE did not acknowledge that spikes in interest rates can cause an increase in the cost of capital or even inaccessibility to capital. 4 TR 814-815. Customers are not well served in the possible event that their utility has difficulty accessing capital. *Id*. Whether it is refinancing higher interest rate debt or preserving the Company's credit ratings to secure lower interest costs, the Company has to be mindful of market conditions in relation to the overall cost of capital included in customer rates. *Id*. A 50.75% equity ratio and 10.25% ROE balance goals for the Company, the outcomes for customers, and the current capital market conditions.

The Attorney General stated that "[r]ecent volatility in the capital markets should not be a concern in setting a fair ROE for the Company in this case." Attorney General's Initial Brief, page 145. Without a citation, she then claimed that "[t]he stock market has historically been very volatile." *Id*. And she cautioned against equating volatility with risk. *Id*. Ms. Bulkley more correctly explained that in a functional way volatility leads to increased perceptions of risk. 4 TR 976. Further, utilities are not "safe havens," given the industry trends discussed below.

The Attorney General pointed to a discovery response from Mr. Bleckman that refers to his testimony on market conditions. Attorney General's Initial Brief, page 112. Mr. Bleckman noted the high degree of volatility and economic uncertainty that has emerged in recent months with respect to financial markets, interest rates, and geopolitical tensions. Tariffs, a VIX peak on April 8, 2025 (the highest market volatility going back five years to the height of the pandemic), and recession fears are all material changes in the Company's risk environment since previous Commission orders. 4 TR 851-852. Mr. Bleckman stated that these changes will likely persist through the test year. 4 TR 852. The risks associated with these changes include access to necessary liquidity to withstand impacts of negative circumstances, including tight capital markets. *Id*. Likewise, Ms. Bulkley recognized that the ROE should be set based on a projection that incorporates high interest rates anticipated during the test year. 4 TR 894.

In her Initial Brief, the Attorney General also made various general statements about the market and risk. See Attorney General's Initial Brief, pages 128-129. However, there are no cites to the record accompanying her statements. As described in this section, Mr. Bleckman's testimony contradicts those unsupported claims.

The Intervening Parties did not properly acknowledge that long-term interest rates are expected to remain elevated during the period that the Company's rates will be in effect. 4 TR 980. ABATE made especially inaccurate claims in this respect. While acknowledging that "the market expects current capital costs to remain relatively flat to marginally increase[d]" ABATE compared the outlook "to 2020 and part of 2021, when actual interest rates were in the range of 1.4% to 2.1%." ABATE's Initial Brief, page 13. That comparison is inaccurate in light of the 4.3% to 4.6% 30-year Treasury bond yields cited by Ms. Bulkley. 4 TR 980; 4 TR 1019.

MEC commented on market conditions in the context of its belief that authorized ROEs have been consistently too high. In the business risk section of its Initial Brief, MEC attempted to distinguish between "financial stability" and "financial integrity" to claim that "a lower ROE does not necessarily preclude a utility from" attracting capital. MEC's Initial Brief, page 87. First, CUB witness Matthew Bandyk's distinction directly contradicts the U.S. Supreme Court's statement in its *Bluefield* decision that a utility's returns should be proper "to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." *Bluefield*, 262 U.S. 693. Regardless of Mr. Bandyk's opinion, two of the elements discussed in the *Bluefield* and *Hope* cases, adequate return to ensure the financial soundness of the business, and sufficient return to maintain credit and attract capital, are intertwined. Second, for both the Company and its customers, the Company's "financial stability"—a condition of its rate of return—is needed to support the attraction of capital at reasonable terms. 4 TR 967. As the Commission recognized in Case No. U-18322, "customers do not benefit from a lower ROE if it means the utility has difficulty accessing capital at attractive terms and in a timely manner." MPSC Case No. U-18322, February 28, 2018 Order ("U-18322 Order"), page 43. Second, Ms. Bulkley explained that she has a "fundamental disagreement" with Mr. Bandyk's claim that authorized ROEs nationally have exceeded the true cost of equity. 4 TR 984, 992-993. The Company also fundamentally disagrees with Mr. Bandyk's claim, as restated in MEC's Initial Brief stating, "if a lower ROE causes the stock price to drop, that lower price will attract new investors." No other witness in this proceeding claimed that a lower stock price is a good outcome. A lower stock price would represent a loss of expected value for investors who have already purchased the stock. Investors are not drawn to contribute new investment capital to a business where the existing investors are losing value. No witness has shown that a lower stock price for, does anything

positive to the Company's ability to attract capital "at attractive terms and in a timely manner." U-18322 Order, page 43.

The Commission should find the Company's view on current market conditions is more reasonable than the Intervening Parties' and provides adequate support and context for the Company's requested 50.75% equity ratio and 10.25% ROE.

c. The Intervening Parties Incorrectly Downplayed the Trends in the Utility Industry

Company witness Bleckman discussed the concerning trends in the utility industry that are applicable to Consumers Energy. 4 TR 867-868. S&P cites the high percentage of utilities with negative credit FFO-to-debt and the interrelationship between ROE, equity ratio, and credit metrics outlooks as reasons to expect a continuation of the recent trend that credit downgrades may outpace upgrades in the utility industry. 4 TR 817. Increased cash flow deficits that are funded to a higher extent with debt versus equity are also a concern. *Id*. The Intervening Parties incorrectly downplayed the trends in the utility industry. For example, ABATE understated state authorized common equity ratios by comparing to equity ratios calculated as a percentage of total capitalization – rather than as a percentage of permanent capital. 4 TR 884-885. Even with this error, ABATE witness Walters showed that from 2015 to 2024 there has been a 246 basis point increase in the average equity ratio to 52.25%. *Id*. However, the Commission has not and should not adopt that ABATE's incorrect analytical framework. To properly compare the Company's equity ratio to the equity ratios of other utilities, the Commission should only consider the other utilities' equity ratios as a share of permanent capital. If the Commission were to consider equity ratios as a percentage of total capitalization, the Company's equity ratio as a percentage of total capitalization is only 42.58%. 4 TR 885. That is 817 basis points lower than the 50.75% Consumers Energy recommended as a percentage of permanent capitalization and far below the

52.25% average equity ratio on a total capitalization basis that ABATE's data supports. 4 TR 885. Mr. Bleckman used commission-authorized equity ratios consistent with the Commission's Order in Case No. U-20963 to calculate a 54.05% peer group average equity ratio. 4 TR 886. Mr. Bleckman's analysis is more consistent with the industry's trends when comparing on a permanent capital basis.

Another industry trend is the rise of state commission authorized gas utility ROEs over the past three years. Staff pointed to an average of those ROEs to conclude that its ROE recommendation is reasonable. Staff's Initial Brief, page 57. There are two inaccuracies in the way that Staff developed its view of the underlying data. First, when compared with Company witness Bulkley's proxy development, Staff did not establish that the gas utilities making up its average are useful proxies for the Company. See 4 TR 993-1000. Second, because Staff also did not quantify any comparison between those gas utilities as proxies for the Company, its conclusion that the 9.63% average supports a 9.75% "landing spot" is unsupported. See Staff's Initial Brief, page 53. In other words, the data alone, or an average of the data, does not provide a useful comparison to a past, current, or future authorized ROE—too low, high, or just right. See 4 TR 981. However, the trend of the data is useful because it confirms the industry trends observed by Ms. Bulkley that authorized ROEs are increasing. *Id*. The more reasonable conclusion is that as the industry experiences an increase in authorized ROEs, the Company's ROE should in turn increase and certainly not decrease. That conclusion is a meaningful statement about the industry or the overall market, for example, that it is a period of elevated interest rates.[11] And borrowing

[11] Ms. Bulkley testified regarding the interest rate environment during the 2022, 2023, and 2024 time period utilized by Mr. Megginson for Staff and concluded he fails to appropriately consider the interest rate environment over the time period. 4 TR 981.

is more expensive with elevated expected interest rates, which in turn raises the cost of capital, and a higher return on equity. 4 TR 980.

Staff concluded its argument regarding economic and market conditions with a blanket statement that various Commission approvals "gives the Company 100% risk-free investment." Staff's Initial Brief, page 66. Staff did not quantify the impact of these approvals. Further, Ms. Bulkley rebutted this claim. 4 TR 1072. Utilities, including Consumers Energy, are certainly not a "risk-free investment."

The Attorney General criticized that industry trends may not be specifically applicable to Consumers Energy. Mr. Bleckman rebutted that assertion. 4 TR 867. As mentioned above, Mr. Bleckman pointed to cash flow deficits that are funded with debt more so than equity. 4 TR 867. This example is on point given that the Company's authorized equity ratio has decreased 205 basis points from 2019 to present, putting the Company's credit rating at risk. *Id*.

In its Initial Brief, ABATE referenced portions of Mr. Walter's testimony that showed a decrease in gas utility ROE over the last 10 years. ABATE's Initial Brief, page 11. Reference to the 10-year time horizon is misleading because, as mentioned above, recently ROEs have been trending up. As Ms. Bulkley observed, ABATE's witness did not sufficiently cover the increased uncertainty in the economy that impacts capital investments. 4 TR 975. ABATE made a misleading conclusion that gas utilities have outperformed the broader market in the recent period despite high interest rates, uncertainty, and other factors. *Id*. As addressed in Ms. Bulkley's rebuttal testimony and the Company's Initial Brief, the S&P 500 outperformed ABATE witness Walters' proxy group. *Id*. ABATE did not adequately consider uncertainty in the current market and therefore joins Staff in missing that increased uncertainty means increased risk, which increases the cost of equity. 4 TR 976.

The Commission should not be misdirected by MEC's claim that its witness, Mr. Bandyk, "expressly considered Consumers' previously authorized [ROE] of 9.90%." MEC's Initial Brief at 81. Mr. Bandyk discredited previously authorized ROEs due to his belief that commissions have been wrong on ROEs for decades. 4 TR 982-984. Mr. Bandyk's opinion on authorized ROEs is an extreme view, which was not shared by any other witness in this proceeding. 4 TR 982. MEC's witness actually stated that he considered the Company's current 9.90% ROE "[t]o account for modeling uncertainty and this principle of gradualism." 4 TR 2423. There is an inconsistency between Mr. Bandyk's statements and MEC's position as presented in its Initial Brief. The other parties in this proceeding have considered authorized ROEs in their analysis. MEC's recommendation is particularly low because it is based on the premise that regulators have consistently incorrectly authorized past ROEs. See 4 TR 983. Ms. Bulkley demonstrated that Mr. Bandyk's recommendation does not represent "gradualism." It is simply lower than the market-based cost of equity for the Company. *Id*. Next, MEC deferred an attempt to defend its cited sources[12] on this topic and instead drew from statements in a Proposal for Decision ("PFD") in support of a position that was not previously adopted by the Commission.[13]

In addition to ROE, fixed income investors have options within the industry; therefore, the Company must be able maintain supportive credit metrics relative to other utilities. 4 TR 933. In a forward-looking test year, that means considering industry trends and their potential impact on the Company and its peers.

[12] On page 85 of its Initial Brief, MEC quoted its presented Rode & Fischbeck article stating, "[a]n evaluation of whether these non-normative factors constitute a legitimate basis of rate of redetermination deserves separate study" but that quote actually supports Ms. Bulkley's concern that their "research does not necessarily imply that the rates of return authorized by regulators are too high . . ." 4 TR 989. Ms. Bulkley also pointed out the imitations of the Werner and Jarvis working paper. 4 TR 990. MEC does not defend its third source, an op-ed, which has limitations. 4 TR 992.

[13] The Company notes that the PFD reached its findings based off the record in that proceeding, not in the case at hand. Therefore, the PFD's conclusion was not a factual statement nor is it testimony from an expert in this proceeding.

d. Staff, the Attorney General, and MEC Incorrectly Downplayed the Trends in the Company's Regulatory Environment Showing the Company's Credit Strength is at Risk

There is a premise to the ratemaking process that in order for investors to commit capital needed to provide safe and reliable utility service, the utility must have the opportunity to recover the market-required return on invested capital. 4 TR 932. State commissions should therefore enable utilities to attract capital at reasonable terms to balance the long-term interests of investors and customers. *Id*. From the capital markets, the authorized return should facilitate cash flow necessary to meet financial obligations, make capital investments, and maintain adequate liquidity to cover unexpected events. 4 TR 933. From the equity markets, the authorized return should be adequate to provide a risk-comparable return on the equity portion of capital investments. *Id*. In particular, equity investors are concerned with utilities' regulatory environments because they are residual claimants on cash flows, i.e. subordinate to bondholders. *Id*. Therefore, credit agencies' (and investors') perception of a utility's regulatory environment can affect the utility's credit strength. *Id*.

Moody's considers regulatory framework and the ability to recover costs and earn a return for 50.00% of its weighting in the overall assessment of business and financial risk for utilities. 4 TR 934. S&P likewise considers the regulatory framework important. *Id*. It is clear that the regulatory environment affects a utility's access to capital and its cost of capital. *Id*.

As covered in the Company's Initial Brief, Mr. Bleckman and Ms. Bulkley raised concerns regarding the perception of the regulatory environment in Michigan. 4 TR 938; 4 TR 841-844; Company's Initial Brief, pages 153-154, 191-193. Staff cited language from Moody's and S&P's credit analyses to downplay concerns with trends in rating agencies' assessment of the regulatory environment in Michigan, even after acknowledging that S&P downranked Michigan's regulatory

environment. Staff's Initial Brief, pages 59-60. Specifically, in August 2024, S&P lowered its rankings of Michigan's regulatory environment. 4 TR 842. Staff fails to explain why it is reasonable to conclude that the regulatory environment "remains positive and constructive" in the face of express downgrades in rating agencies' assessment of the regulatory environment. In May of 2023, UBS also lowered its rankings of the regulatory environment in Michigan. *Id*.

MEC improperly focused on absolute terms in its ROE discussion. For example, on page 84 of its Initial Brief, MEC took issue with Ms. Bulkley's examples where capital attraction and willingness to invest have been hampered by perceptions of unsupportive regulatory jurisdictions in terms of credit. MEC's Initial Brief, page 84. Ms. Bulkley demonstrated that certain "regulatory decisions" were viewed as negative. 4 TR 985-986. Ms. Bulkley did not calculate a range of appropriate ROEs for those utilities. She showed that the outcomes in the respective regulatory decisions were not considered supportive in relation to expectations. See 4 TR 985-988. For a particular utility, if ROE and stock price decrease, the return that investors require increases as their perception of the utility's risk increases. 4 TR 992. While Ms. Bulkley utilized samples that had lower ROEs than the Company, Mr. Bandyk did not give any indication that the market would expect the Commission to set Consumers Energy's ROE anywhere near his 9.24% recommendation, which is the low end of the range that the parties have presented in this proceeding. MEC's Initial Brief, page 71.

B. Capital Structure

In this case, the Company proposed a capital structure with a 50.75% equity ratio, while Staff, the Attorney General, and ABATE recommended a 50.00% equity ratio. All of the Intervening Parties' adopted adjustments to the Company's proposed equity ratio tend toward one singular outcome – achieving an exactly "balanced" capital structure that has an equity ratio of 50%. As discussed below, the Company's proposed capital structure, with an equity ratio of

50.75%, is appropriate as it considers the Company's planned equity infusions and is consistent with its expected capital needs through the test year. Further, its proposal allows the Company the ability to access capital under reasonable terms.

1. Exactly Balanced Capital Structure

a. Reply to Staff, the Attorney General, and ABATE Regarding Maintaining a Balanced Capital Structure

The Company's current 50% equity ratio was a result of a settlement between the parties in Case No. U-21490. ABATE noted that the Company "settled for an equity ratio of 50.0% '[o]n a non-precedential basis' in its last gas rate case." ABATE's Initial Brief, page 16 (quoting the Commission's order in Case No. U-21490). The appropriate equity ratio for the Company should be based on the facts and circumstances presented in this proceeding and not predetermined based on the Commission's findings in previous orders from different proceedings. 4 TR 861. Conversely, all of the Intervening Parties took the 50.0% ratio as a given in this proceeding.

b. Reply To Staff, the Attorney General, and ABATE Regarding Peer Equity Ratios

In his direct testimony, Company witness Bleckman explained the basis for the selection of his equity ratio peer group. 4 TR 806. Mr. Bleckman explained that the Commission has previously stated that it disfavors analyses that combine regulatory and financial data, which are not properly comparable. 4 TR 808. Mr. Bleckman chose his peer group to ensure that he had access to actual regulatory authorized equity ratios. 4 TR 806-808. The purpose of the analysis was to show the Commission how other utility regulatory commissions view the required equity ratios for comparable utilities in their jurisdictions.

Mr. Bleckman calculated his peer group average to 54.05%. 4 TR 855. Staff did not consider an equity ratio peer group for purposes of comparison to equity ratios authorized by other commissions. As discussed above, Staff did compare the Company's authorized and projected

ROE with a peer group using commission authorized ROEs. Therefore, Staff must have had some reason to think that this type of comparison is useful for the record and therefore the Commission's consideration. Staff offered and entered into the record a 53.62% calculated equity ratio average for its ROE proxy group. Exhibit S-4, Schedule D-5, page 2. While Mr. Bleckman pointed out that this calculation is not a valid basis[14] for setting a permanent equity ratio, it does suggest the Company's current and proposed equity ratios are comparatively low. 4 TR 856. Because Staff did not present an equity ratio peer group, its understated ROE proxy group equity ratio is the only peer equity ratio average that Staff submitted into the record. It is therefore the only quantitative evidence that Staff provided regarding an appropriate equity ratio for the Company. Staff claimed its choice to exclude "its proxy group's average equity ratio or ROE in its analysis" means it does not need to be considered as part of Staff's recommendation. Staff's Initial Brief, page 62. But it is record evidence and available for the Commission's consideration. Additionally, the Commission must base its decisions on substantial evidence in the record, and Staff's proxy group average equity ratio provides a flawed but still relevant comparison.

Staff's argument that the Company's equity ratio peer group was different than the Company's ROE proxy group (see Staff's Initial Brief, page 61) is not a valid reason to disregard the Company's peer group analysis. There are valid reasons that the two comparison groups are different. As discussed above, the peer group for the equity ratio analysis needs to reflect the authorized equity ratios as a percent of permanent capital approved by the utility's regulatory commission. Company witness Bulkley explained the basis for the selection of her ROE proxy group in her direct testimony. 4 TR 907-909. Consumers Energy is not publicly traded, so it is

[14] Authorized equity ratios as a percentage of total capitalization can under-report a comparable equity ratio because additional capital components can be included. 4 TR 856.

necessary to establish a proxy group of companies that are publicly traded and comparable in business and financial respects to estimate the Company's cost of equity. 4 TR 908.

Staff also adopted several of the Attorney General's criticisms of the Company's equity ratio peer group analysis. The Company thoroughly rebutted these meritless arguments in its Initial Brief. Company's Initial Brief, pages 165-168; see also 4 TR 870-875; 4 TR 855. For the same reasons, Staff and the Attorney General's "pushback against the Company's peer group equity ratio analysis" is meritless. *Id*.; see Attorney General's Initial Brief, pages 121-123.

In the Attorney General's Initial Brief, she stated that "[i]t is critical to synchronize the capital structure of the Company to the peer group average as closely as possible to have consistency with the cost of equity capital derived from those peer group companies." Attorney General's Initial Brief, pages 120-121. The Attorney General presented a peer company group that was identical to her ROE peer group. Exhibit AG-44. In his rebuttal testimony, Mr. Bleckman explained why Attorney General witness Coppola's use of the same ROE peer group misrepresents the appropriate equity ratio in comparison to Mr. Bleckman's more correct average. 4 TR 870-875. In her Initial Brief, the Attorney General – like Staff –questioned the Company's peer group presentation, arguing that "more than half of the companies shown in the [A-32 (MRB-10)] exhibit are not in the Company's peer group . . .". Attorney General's Initial Brief, page 121. As discussed in response to Staff, the criticism is meritless. As described above, an equity ratio peer group is not an ROE proxy group. They serve different functions as demonstrated by the respective Company witnesses. Mr. Bleckman used a reasonable equity ratio peer group that was consistent with prior Commission direction. Staff and the Attorney General's criticisms are meritless.

ABATE used the Company's ROE proxy group to calculate an average equity ratio of 50.4% if excluding short-term debt (46.3% including short-term debt). ABATE's Initial Brief,

page 16. ABATE stated that the Company's "proposed equity ratio of 50.75% therefore exceeds that of the proxy group's comparable average equity ratio." *Id*. Another way of looking at it, ABATE's comparison, with its flaws, ultimately supports an increase in the Company's equity ratio above the strictly balanced recommendation of the Intervening Parties. In fact, using an apples-to-apples (excluding short-term debt) comparison, the Commission could find that all of the quantitative (peer group) analyses presented in this case support an increase in the Company's current and strictly balanced equity ratio.

As the Company covered in its Initial Brief and Mr. Bleckman's testimony, the average equity ratio shown in Mr. Walters' Table CCW-2 has increased 246 basis points to 52.25% from 2015 to 2024. 4 TR 884. The trend is upward, and the Company's recommended 50.75% is below industry averages for the past nine years and all years listed in the table. *Id*. This is despite Mr. Walters' table understating the average equity ratios due to the potential inclusion of items such as short-term debt and customer deposits. 4 TR 884-885. For comparison, if Staff, the Attorney General, and ABATE expressed the Company's proposed equity ratio as a percentage of total capitalization, it would drop to 42.58%. 4 TR 885. Mr. Bleckman calculated an average peer equity ratio for comparison purposes consistent with the Commission's Order in Case No. U-20963. The average for the peer groups was 54.05%. Having recognized that the peer group average provides a valuable comparison, Mr. Bleckman kept his 50.75% equity ratio recommendation to be consistent with a 6.22% proposed cost of capital (given the 10.25% authorized ROE recommendation from Ms. Bulkley).

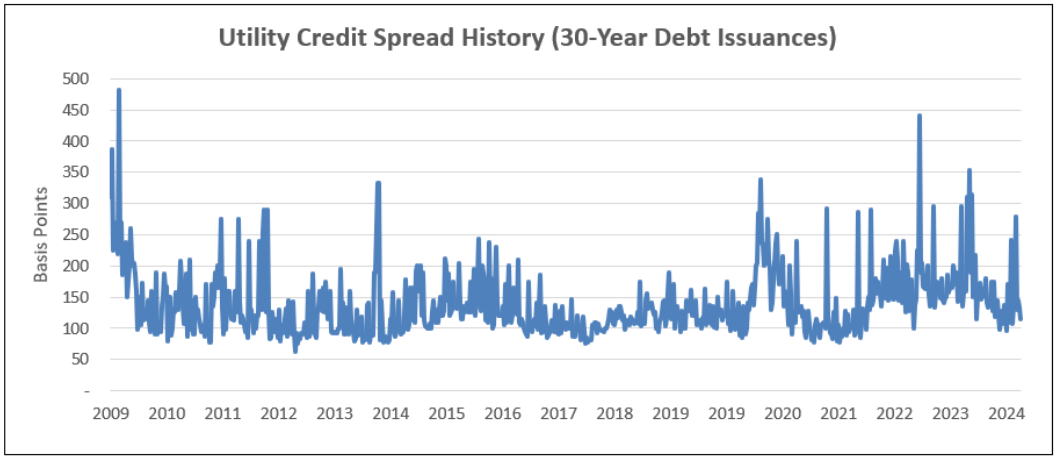
c. Response to the Attorney General Regarding the Relationship Between the Company and Its Parent Company

In her Initial Brief, the Attorney General argued that the timing and amounts of long-term debt and equity issued by CMS Energy have a bearing on the timing and amount of equity infusions

made into Consumers Energy. Attorney General's Initial Brief, page 114. As explained in testimony and the Company's Initial Brief, the Attorney General's claims are inaccurate and unsupported. 4 TR 868-869; Consumers Energy's Initial Brief, pages 170-171. Additionally, the Commission has adopted the finding that this argument from the Attorney General "has been considered and rejected by the Commission." 4 TR 869, citing MPSC Case No. U-18124, July 31, 2017 Order. Company witness Bulkley explained that the stand-alone ratemaking principle is a foundation of jurisdictional ratemaking. 4 TR 899. This principle ensures that "customers in each jurisdiction only pay for the costs of the service provided in that jurisdiction, which is *not influenced by the business operations in other operating companies*." 4 TR 899 (emphasis added). It would be improper and inaccurate to attribute business operations of CMS Energy to Consumers Energy. Consumers Energy must be considered a stand-alone entity.

d. Long Term Debt Rate

In its Initial Brief, Staff addressed one of the Company's concerns that Staff's "credit spread was not an apples-to-apples comparison because Staff considered spreads of different debt maturities in its cost rate analysis." Staff's Initial Brief, page 63. Staff used the Company's provided credit spread information that it claims shows an average debt issuance credit spread of "approximately 70 basis points for various debt maturities between 5-10 years." *Id*. Because the maturities are not for the same term, Staff did not refute the Company's concern. Instead, Staff merely concluded that the Company's credit spread difference "is simply overblown and unreasonable." *Id*. Mr. Bleckman provided a chart showing utility credit spread history. The spikes demonstrating the volatility averaged out to a 136 basis-point spread, which contradicts Staff's assertion that the Company's spread is overblown. Given the volatility, Staff witness Megginson's use of recent credit spreads on the Company's long-term debt is not representative of the historical spreads as reflected in the chart below (4 TR 830, 859):



In sum, Mr. Bleckman's recommendation is more reliable than Mr. Megginson's because his credit spread was taken from long-term data, avoided the extremes of volatile spreads, and accurately reflected credit spreads consistent with the maturity of the debt. Therefore, the Commission should accept Mr. Bleckman's 4.35% recommendation. See also, Consumers Energy's Initial Brief, pages 137-138. Note, the Attorney General also supports the Company's request. 4 TR 1966; Attorney General's Initial Brief, page 146.

C. ROE

Consumers Energy's currently authorized ratemaking ROE for its gas business is 9.90%. Consumers Energy is requesting that the authorized ROE be set at 10.25%. Ms. Bulkley's recommended 10.25% return is the low end of her range of 10.25% to 11.25%, despite the fact that the Company's significant infrastructure investment would justify an ROE potentially above the high end of this range.

In the current gas rate case, Staff filed testimony in which it recommended the ROE for Consumers Energy be set at 9.75%. The Attorney General's witness proposed a return of 9.75%. ABATE's witness proposed a return of 9.45%. MEC presented testimony and recommended a 9.24% return.

1. ROE Quantitative Analyses

Under principles set forth in the *Hope* and *Bluefield* decisions, it is necessary to determine a return that will reflect the investor-perceived risk of the utility being examined as compared with alternative investments and compensate investors for that risk. 4 TR 896. When the common stock of a public utility is not publicly traded, as with Consumers Energy, indirect or proxy approaches must be used to calculate an appropriate return on common equity. 4 TR 908. Since no one method of comparison perfectly simulates the operation of the market, multiple models combined with an assessment of the marketplace, are typically used in evaluating the market -required cost rate for common equity. 4 TR 910. The application of multiple methods, combined with overall qualitative assessment of the marketplace, which was described above, provides a more comprehensive evaluation of cost of capital and is most appropriate in evaluating the required cost rate for common equity capital. *Id*.

a. Staff, the Attorney General, and ABATE Improperly Considered Proxy Group Selection Affecting Their Analyses

Because Consumers Energy stock is not publicly traded, models are based on publicly traded companies to approximate a reasonable cost of equity for the Company. 4 TR 908. "An appropriate proxy group is necessary to determine a reasonable return by considering investments in other firms of comparable risk." ABATE's Initial Brief, page 17; 4 TR 2191. For the reasons stated in the Company's Initial Brief and Ms. Bulkley's testimony, the Company's proxy group provides the best comparison to the Company for purposes of establishing an ROE estimate. In particular, the Company's proxy group has operating and risk characteristics that are substantially comparable to Consumers Energy and therefore provides a reasonable basis to estimate the cost of equity for the Company. 4 TR 908. Finally, because ROE is a forward-looking concept (4 TR

894), it is important to consider the proxy group, along with the Company, subject to the current and projected market conditions (4 TR 901).

In Ms. Bulkley's testimony, and throughout Consumers Energy's Initial Brief, the Company walked through all of the problems with Staff, the Attorney Geneal, and ABATE's proxy groups. See 4 TR 993-1000. Therefore, in this Reply Brief, the Company limits its discussion to respond to comments in MEC's Initial Brief.

MEC took issue with Ms. Bulkley's testimony that considered "factors, including flotation costs, capital expenditures, and regulatory risks, on the Company's risk profile relative to the proxy group." MEC's Initial Brief, page 79. MEC first falsely claimed that Ms. Bulkley said a slightly higher capital expenditure ratio equates to a higher risk amongst the proxy group. *Id*.; 4 TR 2437-38. Instead, Ms. Bulkley testified that the Company's capital expenditures are "still" high, and it faces increased risk due to the potential for under-recovery or delayed recovery and the associated negative impact on credit metrics. 4 TR 929. Next, MEC claimed that Consumer Energy's risk is only slightly higher than the proxy group related to capital tracking mechanisms that the Company does not have, calculating 64% percent of the proxy group companies use a capital tracking mechanism versus Ms. Bulkley's 71%. MEC's Initial Brief, page 80. This is not a meaningful difference. In its Initial Brief, MEC did not address flotation costs or the regulatory risk faced by the Company as compared to the proxy group. Ms. Bulkley correctly concluded: (1) the average impact on the proxy group's discounted cash flow ("DCF") cost of equity would be a 14 basis point increase (4 TR 928); (2) the Company's capital expenditures are lower but "still" extensive in relation to the proxy group, and unlike a majority of the operating subsidiaries of the proxy group, the Company does not have a gas capital tracking mechanism, so in sum, the Company's capital spending requirements result in a "greater risk for the Company than the proxy group"

(4 TR 932); and, (3) "many of the companies in the proxy group have slightly more timely cost recovery between rate proceedings than Consumers Energy" (4 TR 938). MEC criticized the Company's risk factor comparisons but overlooked one of Ms. Bulkley's significant conclusions: "[w]hile I do not make specific adjustments to my ROE recommendation for these factors, I do consider them in the aggregate when determining where my recommended ROE falls within the range of analytical results." 4 TR 893. Ms. Bulkley concluded that a range of 10.25% to 11.25% is a reasonable range for the Company's ROE based on the analytic results of the models, capital market conditions, and the Company's regulatory, business, and financial risk in comparison to the proxy group. 4 TR 896. MEC's "Business Risks" section of its Initial Brief did not contradict Ms. Bulkley's conclusions, as demonstrated in her testimony. See 4 TR 924-938 compared to MEC's Initial Brief, pages 79-81. The Commission should disregard MEC's proxy group presentation and instead consider the Company's evidence as presented in the record.

b. Capital Asset Pricing Model and Empirical Capital Asset Pricing Model

The Capital Asset Pricing Model ("CAPM") is a risk premium approach that estimates the cost of equity as a function of a risk-free return plus a risk premium that covers the risk inherent in the overall market. 4 TR 916. In the CAPM there is a beta that represents the risk of the security relative to the general market. 4 TR 917.

The Empirical CAPM ("ECAPM") adjusts CAPM results to account for the tendency of the latter to underestimate the cost of equity for companies with beta coefficients less than one, like utilities. 4 TR 920. The ECAPM is not duplicative to the CAPM. 4 TR 1045. It accounts for CAPM's tendency by tempering the impact of the relationship between risk and return on the result. *Id*.

i. Use of ECAPM

Staff stated that the inputs of the CAPM "account for most of the shortcomings" addressed by the ECAPM. Staff's Initial Brief, page 64. Because Staff considered the CAPM sufficient, it went on to recommend that the "Commission should reject all ECAPM estimates." This outright rejection is unwarranted. Ms. Bulkley's testimony thoroughly reviewed the benefits of the ECAPM model. See 4 TR 1044-1052. At a minimum, it is an additional source of relevant evidence for the Commission's consideration. Because the ECAPM model accounts for a flatter risk/return relationship than predicted by the CAPM, which in this case skewed the CAPM model results downward, Ms. Bulkley's ECAPM calculated higher than her CAPM result. A higher result does not invalidate the ECAPM model in relation to the CAPM. Accordingly, there is a basis for the Commission to weigh Ms. Bulkley's ECAPM results for the reasons described in her rebuttal testimony. 4 TR 1044-1052.

The Attorney General restated her criticism of the ECAPM. Attorney General's Initial Brief, page 141. The Company rebutted these arguments in its Initial Brief and Ms. Bulkley's rebuttal testimony. In particular, the ECAPM is not duplicative of the CAPM because in addition to an adjusted beta, the CAPM still understates the return when the subject has a low beta. 4 TR 1046. Finally, the ECAPM was developed to be used with a long-term risk-free rate; therefore, the Attorney General is incorrect that the use of a long-term risk-free rate is a substitute for the ECAPM. 4 TR 1051.

ABATE expressed concern that the ECAPM "inflates a CAPM return for a company with a beta less than one" including the Company. ABATE's Initial Brief, page 27. However, application of the ECAPM analysis does not always have the effect of increasing CAPM's ROE estimate. As Ms. Bulkley pointed out, the supported theory behind the ECAPM model shows that the CAPM model would understate the results for stocks with betas less than 1.00 (and overstate

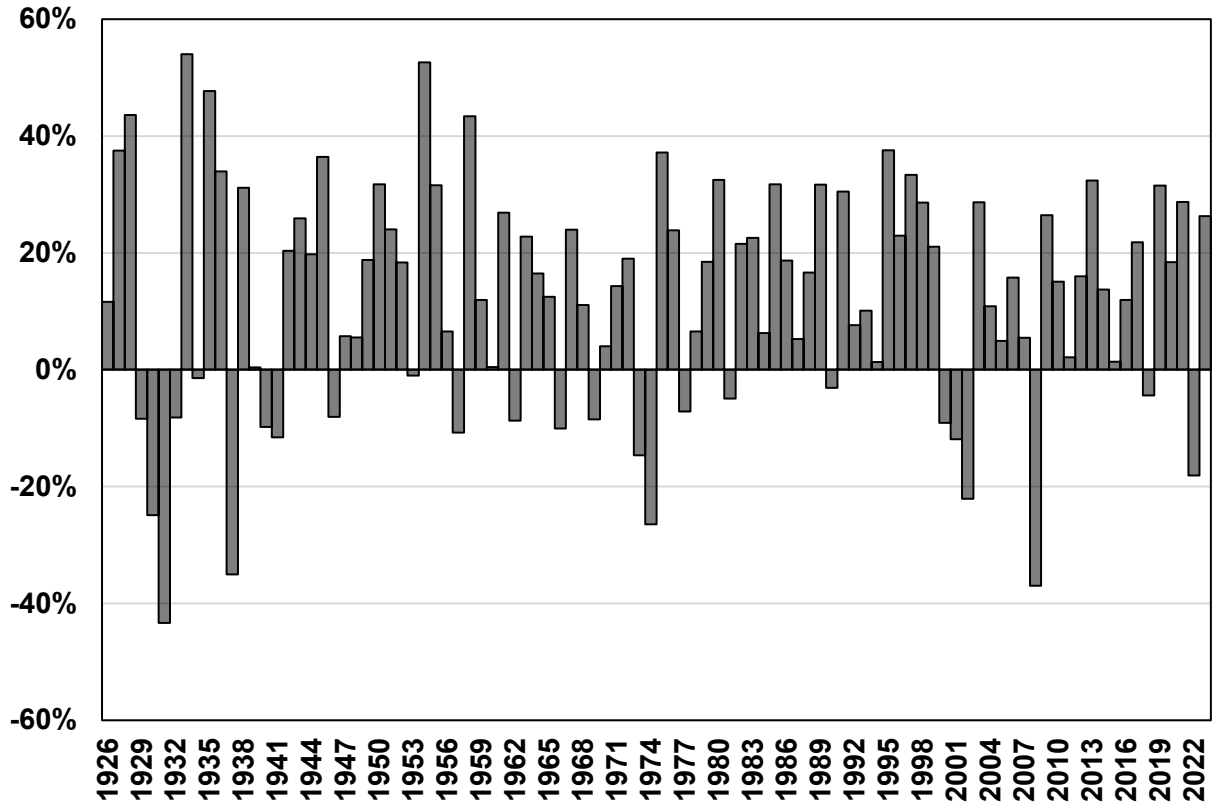
the results for stocks with betas greater than 1.00). Ag it is not a valid reason to dismiss the ECAPM results merely because they are higher than the CAPM results in this instance.

MEC's criticisms of the ECAPM were subjective. MEC deferred to Staff's choice to forgo the ECAPM. MEC's Initial Brief, page 78. Then, MEC pointed to statements from a PFD in Case No. U-21389 declining to adopt ECAPM results in that case. *Id*. However, the ALJ in that case reviewed a different record from the one at hand; therefore, the ALJ's assessment does not provide technical support in opposition of the ECAPM in this case. MEC did not provide substantial evidence in support of its claim. Finally, MEC also pointed out a lack of Commission citations to the ECAPM model. *Id*. Traditionally, the Commission has based its ROE decision in rate cases on the totality of the circumstances as reflected in the record before it. Therefore, it makes sense that prior Commission orders would not necessarily include an explicit reference endorsing every model presented by the parties in the case, especially if multiple parties choose not to present a particular model for direct comparison. The counter-point is also true. The Company is not aware of the Commission ever explicitly declining to consider a party's ECAPM analysis or holding that ECAPM is an inappropriate model. As it has in the past, the Commission should consider all relevant evidence. As Ms. Bulkley pointed out, it is important to use multiple models because the cost of equity is not directly observable. 4 TR 910. Both the CAPM and the ECAPM are valid.

ii. The Intervening Parties Misapplied the Market Risk Premium in Their Analyses of the CAPM Methodology

Company witness Bulkley initially concluded that an expected market return of 12.04% is reasonable in relation to the last century of observed annual equity returns. 4 TR 919. Her Figure 7 (4 TR 919) summarizing these returns is reproduced below.

Figure 1: Realized U.S. Equity Market Returns (1926–2023)



An authorized ROE should be a forward-looking estimate of the cost of equity. 4 TR 1036. By the time the Company filed its rebuttal testimony in this proceeding, the expected market return declined to 11.92%. 4 TR 1037. In her testimony, Ms. Bulkley thoroughly defended the underlying analysis for both numbers. See 4 TR 1036-1042. In particular, inflation remains well above the 2% target and is expected to remain elevated over the near term, and Ms. Bulkley demonstrated the market risk premium ("MPR") is higher during periods of increased inflation. 4 TR 1040.

The CAPM and ECAPM rely on interest rates as an assumption in the model and therefore may more directly reflect the market conditions expected at the time customer rates are in effect. 4 TR 911. In its presentation in this proceeding, the Company emphasized the importance of the inverse relationship between interest rates and the MRP. The Intervening Parties did not properly

incorporate this concept and consequently understated the MRP and their ROEs. Likewise, their criticisms of the Company's MRP are misplaced.

In its Initial Brief, Staff first subtracted the risk-free rates of 4.02%, 4.07%, and 4.30% from the Company's CAPM market return of 12.04% and compared the resulting 7.74%, 7.79%, and 8.02% MRP with Professor Damodaran's MRP between 4.2% and 6.2%. Staff's Initial Brief, pages 64-65. Based only on that and the historical MRP, Staff concluded that the Company's MRPs "are unacceptable for consideration." Staff's Initial Brief, page 64. This is not valid criticism.

The Attorney General and the Company largely agree that differences between their witnesses' respective quantitative ROE estimates come from the MRP utilized in the models. Attorney General's Initial Brief, page 138. As stated above, Company witness Bulkley properly accounted for the inverse relationship between the risk-free rate and the MRP. Attorney General witness Coppola did not. It is more reasonable to follow the established academic research. 4 TR 1020. Ms. Bulkley substantiated her results with the proper research findings. *Id*. Given that current interest rates on long-term government bonds are below the historical average interest rate of those same bonds, the MRP should be greater than the long-term historical average MRP. 4 TR 1022.

Broadly, MEC's discussion covered the disagreement between Mr. Bandyk and Ms. Bulkley's equity risk premium, risk-free rate, and betas. MEC's Initial Brief, page 74. MEC expressed concerns about the historic time period and potential survivorship bias in estimated risk premiums. *Id*. However, MEC witness Bandyk did not provide quantification of survivorship bias. Beyond citing to general concerns of Professor Aswath Damodaran, Mr. Bandyk gave no indication whether utilities have gone out of business in a way that would affect his analysis. More

importantly, MEC fails to explain why it would be useful to include MRPs of failed businesses. The Commission's mission is to establish an ROE in this case that will allow Consumers Energy to maintain a financially sound business, attract capital, and maintain its credit. It would be counterproductive – and completely contrary to the requirements of *Hope* and *Bluefield* – to establish an ROE intentionally modeled on failed businesses. In any event, his speculation as to the impact of survivorship bias are likely small relative to the inaccuracies caused by Mr. Bandyk's risk-free rate (4.41%) being lower than the historic average risk-free rate (4.85%), while using an MRP that is below the long-term average MRP. See 4 TR 1027, 1029. This is again due to the inverse relationship between interest rates and the MRP. 4 TR 1029. On page 91 of its Initial Brief, MEC claims a 7.31% historical average risk premium "is inflated because it is missing returns from the large number of companies that dropped out of the market between 1926 and 2024." If this is true, and even if it were appropriate to consider failed companies that dropped out of the market (which it is not), then the risk-free rate assumptions used in its CAPM analyses should be higher than the historical average risk-free rate. 4 TR 1029. MEC's analysis is inconsistent.

ABATE's analysis is also inconsistent with the inverse relationship between interest rates and the MRP. 4 TR 1029.

The Intervening Parties' CAPM analyses are largely understated due to the errors in their MRPs. The Commission should consider that Ms. Bulkley's CAPM and ECAPM, which account for the inverse relationship between interest rates and the MRP, are better approximations for the Company's authorized ROE in this case.

c. <u>DCF</u>

The Company presented a DCF model. Ms. Bulkley thoroughly supported her DCF analysis in comparison to the Intervening Parties' models. 4 TR 911-914; 4 TR 1000-1016.

ABATE and MEC claimed that "a utility's growth rate cannot exceed the growth rates of the economy. . ." ABATE's Initial Brief, page 19. Ms. Bulkley demonstrated that this is not true in practice. 4 TR 1010-1012. To summarize, even in the long-term, projected growth rates are not limited by investors' expectations of the growth of domestic economy. *Id*. Ms. Bulkley quoted Dr. Roger Morin on this topic. 4 TR 1012. While questioning multi-stage DCF applications, Dr. Morin stated that he is "not aware of any financial literature supporting the notion that utility earnings per share are expected to grow at the average growth of the economy, or GDP" and that "[t]he investment community does not look to GDP growth over the next several decades when evaluating an investment in utility stocks . . ." See *Id*., quoting Roger A. Morin, *Modern Regulatory Finance*, Public Utilities Reports, Inc., 2021, at 486. It makes sense that investors' views are not so limited to the growth rate of the US economy. No witness claimed that in practice investors are looking beyond "the next several decades." *Id*. Dr. Morin also recognized "the wealth of empirical and academic literature that supports the superiority of analyst's forecasts as a measure of investor expectations for the use of such forecasts in the DCF model, growth forecasts are the appropriate growth rates to use in a DCF analysis." *Id*. Note, Dr. Morin does not limit those forecasts to gross domestic product ("GDP"). *Id*.

Without citation to the record, MEC expressed concerns with the possible magnitude of subjectivity in models with fewer inputs. MEC's Initial Brief, page 88. MEC did not quantify this supposed bias. *Id*. More importantly, MEC did not substantiate that it exists with any record evidence or reference to academic literature. Ms. Bulkley's expert testimony remains unrebutted. *Id*. In particular, MEC did not show any bias in Ms. Bulkley's inputs. As discussed above, MEC also did not substantiate any survivorship bias that it referenced on page 89 of its Initial Brief.

Ms. Bulkley applied her DCF analysis to the S&P 500 to calculate a 12.04% expected market return. 4 TR 918. There is nothing exaggerated about this result. In 53% of observations, the market was at 12.04% or greater. 4 TR 919. Ms. Bulkley backed up her analysis with solid reasoning and extensive academic support. 4 TR 911-914; 4 TR 1000-1016. The Commission should find that the Company's DCF presentation is more reasonable than the Intervening Parties'.

d. Bond Yield Risk Premium

The Company summarized the basis for Ms. Bulkley's bond yield risk premium ("BYRP") analysis in its Initial Brief. Consumers Energy's Initial Brief, pages 204-205. Staff claimed that the Company's BYRP approach is complicated and questioned the Company's use of authorized ROE inputs. Staff's Initial Brief, page 64. The Attorney General claimed various flaws in Ms. Bulkley's BYRP analysis, including Staff's concern over the utilization of authorized ROEs. Attorney General's Initial Brief, page 136. The Attorney General also referenced declining interest rates during the review period and regulatory lag but did not cite to the record for those conclusions. Attorney General's Initial Brief, page 137. Regardless, Ms. Bulkley's regression analysis demonstrated a strong negative relationship between the risk premium and interest rates. 4 TR 932. She also defended her analysis from Attorney General witness Coppola's criticisms as presented in the record. 4 TR 1057-1053. Further, as explained in its Initial Brief, the Company's use of authorized natural gas ROEs in the BYRP reflects the type of analysis that an investor would use. 4 TR 1058. Investors are aware of authorized ROEs, and they affect stock prices. *Id*.

ABATE put forth two concerns with the Company's BYRP analysis. ABATE's Initial Brief, page 27. One was the continued erroneous claim that Ms. Bulkley's analysis relies on ROEs for electric utilities versus ROEs for gas utilities. But Ms. Bulkley used natural gas authorized ROEs in her BYRP analysis. 4 TR 921. The second was Ms. Bulkley's risk premium. ABATE's Initial Brief, page 27. The long-term average risk premium should reflect current market

conditions and bond yields. 4 TR 1063. As covered above, it is more reasonable that a currently lower treasury bond yield should result in a higher risk premium. 4 TR 1063. In fact, Ms. Bulkley's regression analysis shows this. 4 TR 923.

MEC was concerned with the BYRP based on Mr. Bandyk's fundamental belief that commissions set ROEs "generally higher than they should be" (despite the U.S. Supreme Court's holding that they should be balanced). MEC's Initial Brief, page 78. MEC also mentioned a finding by FERC in a particular case that stated there is redundancy between the BYRP and CAPM and concerns with the model because it relies on historical ROEs. *Id*. That is hardly a solid rebuke. Without relitigating that particular FERC case, there is no way of comparing the model or models presented in that case with Ms. Bulkley's BYRP analysis in this proceeding. In sum, the BYRP provides additional insight into considerations relevant to investors. 4 TR 922. The Commission should consider multiple models to approximate the Company's authorized ROE as accurately as possible. 4 TR 910.

2. Conclusion

Using a 10.25% ROE in the capital structure, in combination with the cost rates for the other components recommended by the Company at the conclusion of its rebuttal testimony, results in an after-tax cost of capital of 6.22%. The Company's proposal is more reasonable than the other parties' because its models are more accurate, and the proposal more appropriately fits the current market conditions and risks to the Company's credit strength. Consumers Energy requests the Commission adopt the capital structure and cost rates requested in this matter.

V. THROUGHPUT

A. MEC's Criticism of the Company's Gas Load Forecasting and Related Recommendation are Unreasonable and Should be Rejected

On page 100 of its Initial Brief, MEC recommends that the Commission "should reject the Company's load forecast and require the Company to contract an independent third party to create an accurate load forecast that incorporates both historical data and prospective assumptions on energy efficiency and electrification." Such a proposal is patently unlawful[15] and unreasonable and MEC's reasons for recommending it are invalid. The Commission must reject MEC's recommendation.

1. MEC's Primary Recommendation – Rejecting the Company's Load Forecast – is Unreasonable and Unworkable

MEC offers no explanation about what the Commission is supposed to do if it rejects the Company's load forecast in this case. The Commission cannot calculate a revenue requirement or rates without a load forecast. A load forecast is needed both to evaluate the revenue expected in the test year under current rates and as a basis for creating new rates designed to distribute the incremental costs approved by the Commission in this case. MEC did not provide an alternative load forecast. Staff agreed with Consumers Energy's load forecast as modified in the Company's rebuttal testimony. Staff's Initial Brief, page 66. The Commission's only other option, in theory, would be to use the Company's most recent complete historical load data, but that cannot be the solution MEC would agree with. The Company's load forecast reflects declining residential load during the test year of this case compared to historical loads (2 TR 297-298; Exhibit A-15 (MA-5), Schedule E-1); MEC argues that the load forecast is not declining enough. Since historical load

[15] *Union Carbide Corp v Pub Serv Comm'n*, 431 Mich 135, 159; 428 NW2d 322 (1988) (holding, inter alia, that the Commission does not have legal authority to require a utility to enter into a contract).

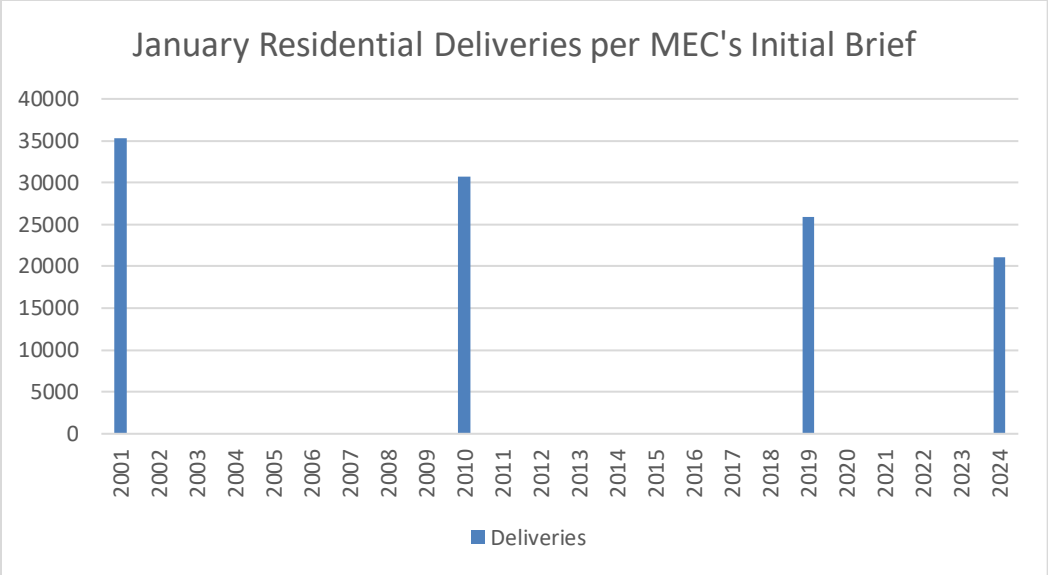
amounts are generally higher than the forecasted load that MEC objects to, it seems unlikely that MEC would prefer the use of historical data to determine a different load forecast. Using the Company's load forecast from its rebuttal testimony is the only reasonable and lawful option given the facts presented in this case.

2. The Reasons MEC Offers to Support Its Recommendation Are Invalid

There is no valid basis for MEC's recommendation even if it was workable. MEC claims that the Company's load forecasting is "inconsistent with historical trends, fails to account for the impacts of electrification, and is based on a model out of step with econometric conventions." MEC's Initial Brief, page 93. None of those three claims have a proper basis of support in the record.

a. MEC's Claim of a "Steady" Historical Trend of Declining Load is Misleading and the Historical Data is Not Sufficient Alone to be Predictive

First, MEC's claims regarding the "historical trend" are misleading. MEC claims that the Company "has seen significant and steady declines in residential gas consumption." MEC's Initial Brief, page 93. In alleged support of its claim about "steady" declines, MEC points to data on historical gas deliveries from January 2001 to March 2024 supplied by the Company in discovery. MEC's Initial Brief, pages 93-94. Specifically, MEC claims that Company witness Mustafa A. Sherwani "agreed that peak demand generally occurs in January" and then cites the gas demand in January of 2001, 2010, 2019, and 2024 (approximately 35,000 MMcf; 30,000 MMcf; 25,000 MMcf; and 21,000 MMcf, respectively). MEC's Initial Brief, page 94. A graph of the data that MEC's Initial Brief refers to looks like this:

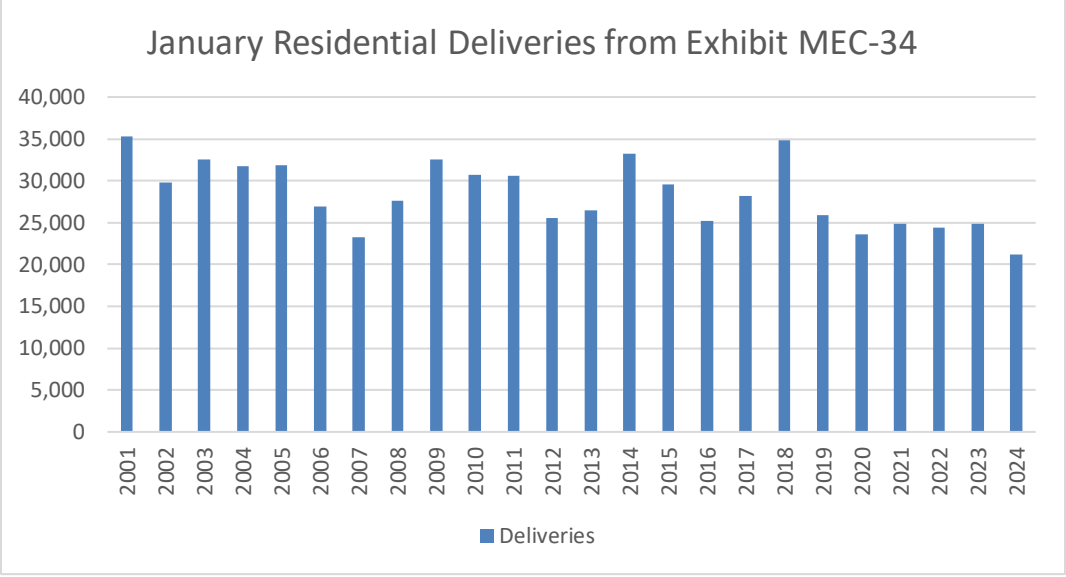


Presented in that way, the decline certainly *appears* "steady," but it begs the question: why was the data presented in that way? The range of years selected by MEC for purposes of its Initial Brief are unusual – representing a spread of nine years, nine years, and five years between four data points selected out of a total of 24 data points available (if focusing solely on the month of January each year in the available data).

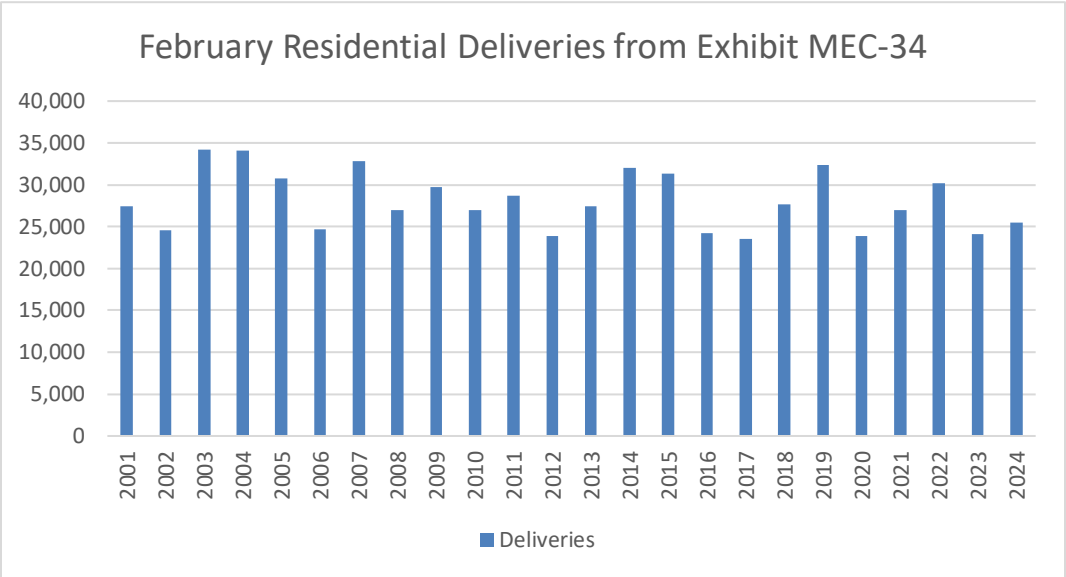
There are several misleading aspects of MEC's argument. For one, it was misleading to focus on the January data but not discuss the February data. Mr. Sherwani did not agree that January (alone) was generally representative of the Company's peak demand as MEC claimed in its Initial Brief. Mr. Sherwani agreed that "January and February" generally reflect the Company's peak demand. 2 TR 297, 304. In fact, the data provided in Exhibit MEC-34 shows that residential customers had a higher demand in February than in January during 10 of the 24 years shown (i.e. 2003, 2004, 2007, 2013, 2015, 2019, 2020, 2021, 2022, and 2024). February historically set the peak for the year approximately 42% of the time from 2001 to 2024. However, MEC ignores the February data. Using MEC's four chosen years (2001, 2010, 2019, and 2024), February residential gas demand was 27,382 MMcf; 27,029 MMcf; 32,329 MMcf; and 25,514 MMcf,

respectively. Exhibit MEC-34. While focusing on January deliveries in those four years (as MEC did) creates the illusion of a "steady" decline in residential load, focusing on February deliveries shows that there is no "steady" decline in residential load. Moreover, it is appropriate that February data should have been considered alongside January data when discussing those four specific years because February set the annual peak in two of the four years.

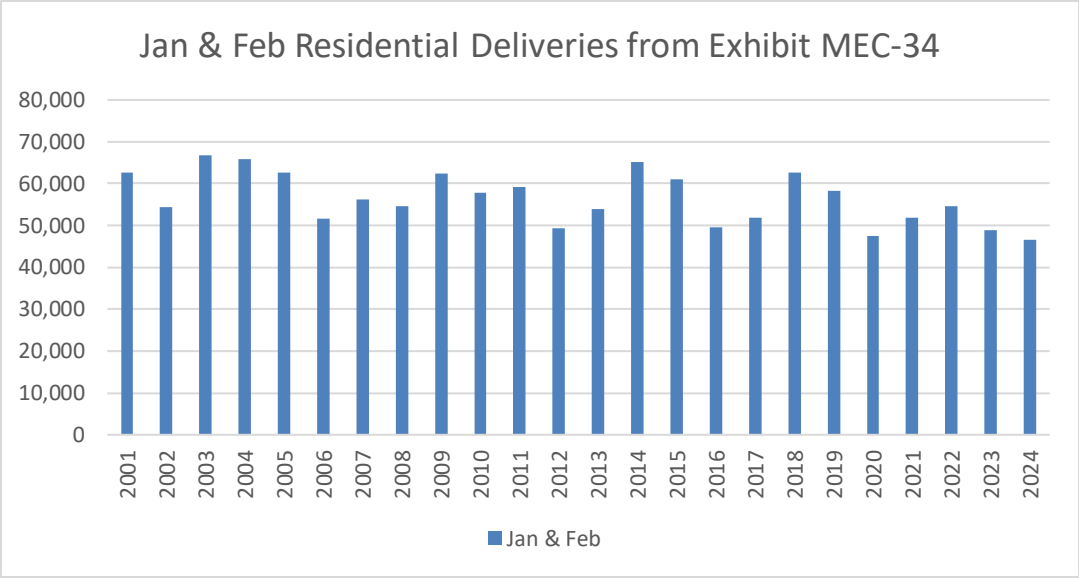
It was also misleading that MEC chose to discuss only four seemingly random years in the data set and excluded any analysis or discussion of the full set of available data. When all of the data is considered, it paints a very different picture of the historical pattern than MEC tells in its Initial Brief. The historical change in residential load is better characterized as "volatile" from one year to the next – with some years higher than earlier years and some years lower – rather than presenting any "steady" decline. When graphed, all of the January residential data included in Exhibit MEC-34 looks like this:



This graph is strikingly different than the graph (above) of the four years selectively discussed in MEC's Initial Brief. Similarly, the February residential deliveries from Exhibit MEC-34 look like this when graphed:



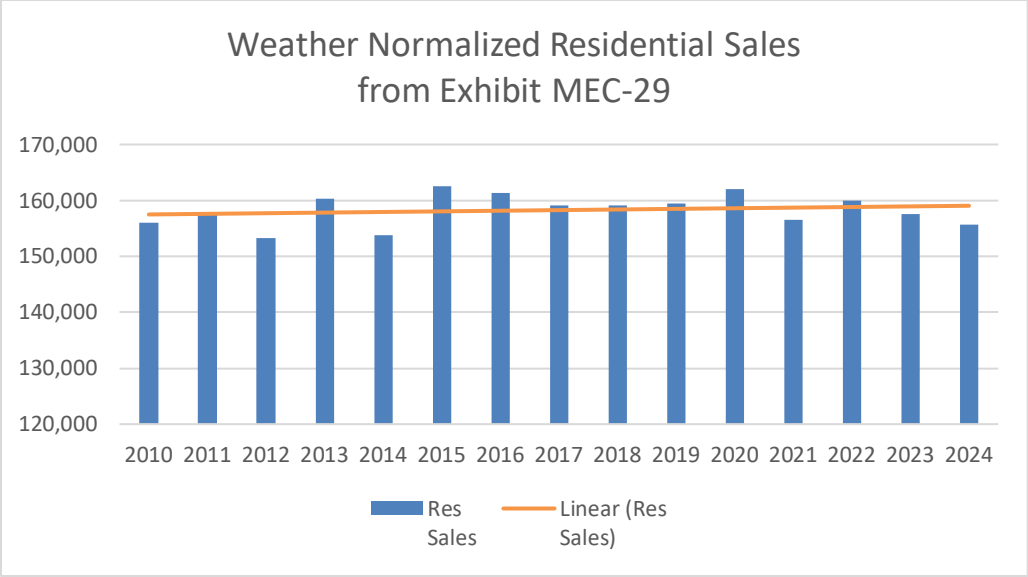
If the January and February residential deliveries data from Exhibit MEC-34 is combined and graphed, the graph looks like this:



Notably, looking at the last ten years of data in these graphs (and in Exhibit MEC-34), the January residential load *increased* over the prior year in four of the ten years (40% of the time), and the

February residential load *increased* over the prior year in five of the ten years (50% of the time). For January and February combined, there was again an *increase* in residential load in four of the last ten years (40% of the time). While these graphs do appear to show some declining trend in actual historical gas demand overall, particularly in the last five years, they do not support MEC's claim of a "steady" 4% decline annually. Instead, they show that it has been common for residential gas load to fluctuate up and down year-over-year. Recall that Consumers Energy's load forecast predicted a decline in residential load over the next several years, but a much smaller decline than MEC claims. When the data is viewed more honestly, it does not support MEC's claim that Consumers Energy's forecast is somehow "inconsistent with historical trends."

Finally, it was misleading for MEC to ignore the fact that the data presented in Exhibit MEC-34 is not weather-normalized or controlled for economics. MEC's claim of a "steady" historical declining trend fails to account for the impact of weather on the variations in residential use from one year to the next. Natural gas use, particularly among residential customers, is highly variable depending on the weather, which is why weather is one of two main classes of independent variables considered as part of the Company's regression analysis. See 2 TR 270. Merely observing a decline in usage in one January compared to the prior January is not sufficient to conclude that there is a true trend toward declining residential load. If the former January had normal weather and the latter January is warmer than normal, the difference might not indicate a real or sustained future decline in customer use at all. Exhibit MEC-29 included the Company's weather normalized historical residential sales by year dating back to 2010. When graphed, that weather normalized data looks like this:



The weather normalized residential sales data is less volatile than the non-weather normalized data that MEC focused on in its Initial Brief. Furthermore, including a trendline in the graph makes it clear that, on a weather-normalized basis, the Company's historical residential gas sales have actually trended slightly upward since 2010. Exhibit MEC-34 also does not include any information by which the parties or the Commission can evaluate the impact of economic factors on the historical data. Recent past historical trends may not continue into the future if they are caused by economic factors that will not persist into the future. MEC's argument suggests that the Commission should assume the historical data is predictive, but absent an analysis of these impacts, that claim cannot be substantiated and is therefore misleading.

In contrast, Consumers Energy uses a regression model that has been continuously accepted by the Commission for many years for forecasting gas load in rate cases. 2 TR 268, 270. Consumers Energy's regression model uses the most recent 11 years of historical data (all of it), but it also uses weather data and econometric data. 2 TR 268, 284. This ensures that the resulting forecast accounts for all of the factors that are likely to contribute to the variability in natural gas use from one year to the next. This approach is superior to solely looking at historical usage

patterns on the unjustified assumption that they – alone – are sufficiently predictive. It is certainly superior to an approach that uses only a selective subset of historical usage data and assumes the incomplete data will be sufficiently predictive.

MEC attempted to expand on its argument from historical data by also pointing to the Company's projections for gas usage per customer. MEC's Initial Brief, pages 95-96. Here, MEC claimed that "[t]he Company agreed that recent history saw residential gas consumption on a per customer basis decline over the past five years." MEC's Initial Brief, page 95. However, that claim too is misleading.

As alleged support for this argument, MEC pointed to Exhibit MEC-37, which included monthly data from September 2019 to September 2024, and again focused on the January-only residential use per customer shown in the exhibit. MEC's Initial Brief, page 95. Specifically, MEC cites a decline in residential use per customer of 17 Mcf in 2020, 16 Mcf in 2021, 15 Mcf in 2022, and 15 Mcf in 2024. MEC's Initial Brief, page 95. During cross exam, MEC's attorney asked Company witness Sherwani to confirm that those specific numbers represent a "recent . . . reduction in gas use per customer." 2 TR 308. Mr. Sherwani agreed that he saw the decline "for these historic[al] numbers," i.e. for the specific numbers MEC's attorney asked him to look at. 2 TR 308. It is misleading to claim, as MEC does, that Mr. Sherwani agreed that those specific data points show residential use per customer was declining as a general proposition. Mr. Sherwani clearly qualified his response.

Importantly, MEC's attorney skipped only one year out of the last five years when asking Mr. Sherwani about the trend in the data. MEC's attorney did not ask Mr. Sherwani to look at the residential use per customer in January 2023, which *increased* from the previous year from 15 Mcf to 16 Mcf, thus disrupting the supposed downward trend. Furthermore, as discussed above,

February – not January – actually set the peak residential load in 2020, 2021, 2022, and 2024 (but ironically not in 2023), i.e. February was the actual peak in every one of the years that MEC's attorney asked Mr. Sherwani about. The *February* residential use per customer values from 2020, 2021, 2022, and 2024, respectively, were 17 Mcf, 16 Mcf, 17 Mcf, and 17 Mcf. Exhibit MEC-37. This data demonstrates that there is no historical declining trend in residential use per customer over the last five years. Rather than supporting MEC's claims, Exhibit MEC-37 soundly refutes it. MEC later claims in its Initial Brief that the Company's forecast includes an "inexplicable jump" in gas usage per customer "back up to 17 Mcf per customer." MEC Brief, page 96. However, the data shows that the Company's peak winter gas usage per customer never actually drifted below 17 Mcf per customer. There is nothing "inexplicable" about the Company's forecast given the amazing consistency in the use-per-customer data in the record. On a use-per-customer basis, the historical data is actually very consistent.

This point was also confirmed later in MEC's cross examination of Mr. Sherwani, when MEC questioned him about Exhibit MEC-29, which includes historical data on residential use per customer on an annual basis from 2010 to 2024. MEC's attorney tried to get Mr. Sherwani to agree that this data represented a decline as well. 2 TR 328. Mr. Sherwani responded, "Looks pretty steady. Slight decline, but pretty steady." 2 TR 329.

Again, MEC has selectively presented the historical data in a way that is misleading. Once the data is considered more honestly, there is no support for MEC's claim that Consumers Energy's load forecasting is "inconsistent with historical trends." The Commission should reject MEC's first reason for rejecting the Company's load forecast because MEC's reasoning is misleading.

b. MEC's Claim that Consumers Energy "Failed" to Account for Electrification is Not Supported by the Record

MEC's second reason for rejecting the Company's load forecast, i.e. that the Company allegedly "fails to account for the impacts of electrification," is also invalid. In its Initial Brief, MEC argues that the Company "concedes" that electrification has the potential to decrease natural gas demand over time and that the Company anticipates increased electrification in the future. MEC's Initial Brief, page 94. These "concessions" are not ground-breaking. *If* a customer – *someday* – chooses to replace a gas appliance with an electric appliance, then, all else being equal, that would tend to reduce gas demand. However, MEC offered no data demonstrating that any customers in Michigan actually have replaced gas appliances with electric appliances or that they plan to do so between now and the end of the test year in this case. MEC touts data from the U.S. Census Bureau's American Community Survey showing that, between 2014 and 2023 in Michigan, there was a 53% increase in homes using electricity for heating compared to a 3% increase in homes using utility gas for heating. 4 TR 2303, Table 5; see discussion at MEC's Initial Brief, page 95. But that same data shows that the total number of homes in Michigan increased by 273,235 during that 10-year period and the total increase in the number of homes heated with electricity was only 180,784. 4 TR 2303, Table 5. Given that data, it is possible that every new home heated with electricity was a new home in general, meaning it is possible that none of them were existing homes that switched from gas to electricity. There is simply insufficient data to show that the electric home heating replaced (and hence decreased) any gas existing load. Nevertheless, MEC claims in its Initial Brief that "Michigan's gas demand is already

facing the impacts of electrification and there are no signs pointing to electrification slowing down." That claim is clearly not supported by MEC's data or by any other evidence in the case.[16]

MEC urges the viewpoint that a massive amount of electrification activity is imminent due to the enactment of Public Act 229 of 2023 ("Act 229"). MEC's Initial Brief, page 95. Act 229 creates a framework for electric utilities to encourage electrification by adopting an electrification program but does not mandate utilities to have an electrification program. MEC submitted no evidence in this case to show that any utility in the state of Michigan has yet applied for Commission approval of an electrification program under Act 229. To the Company's knowledge, no utility has. Mr. Sherwani explained in his rebuttal testimony that the Company had "no information available at the time of this rate case to indicate that Act 229 has had any impact on customer electrification behavior or that it will have any measurable impact during the test year of this case." 2 TR 279. In its Initial Brief, MEC claims that Act 229 is "likely to accelerate electrification," but cites no evidence to support that claim. MEC's Initial Brief, page 95. Company witness Sherwani testified that Consumers Energy's strategy team assessed whether the Company would expect to experience meaningful impacts from electrification during the test year of the case and determined that it would not. 2 TR 300-301.

In its Initial Brief, MEC makes much of the fact that Mr. Sherwani was unable to explain why the strategy team reached that conclusion. See MEC's Initial Brief, page 95. However, that analysis was not performed by Mr. Sherwani, so he has no reason to know how the analysis was

[16] This is also another example of MEC's improper reliance on historical data to support claims about future expectations. It is entirely possible that the population of homeowners interested in electric heating is similar to the population of automobile owners interested in electric vehicles. That population was enthusiastic to adopt electric vehicle technology quickly when it initially became available and reasonably affordable, but it was also a limited percentage of the overall population. The briefly hot market for electric vehicles tapered off dramatically after an earlier surge. Just like electric vehicle adoption, which quickly plateaued far below the level of full popular adoption, the same could be true of electric home heating. MEC is too eager to claim a predictive "trend" from historical data that does not (and cannot) support MEC's predictions for the future without additional information showing that the same drivers of the historical trend will continue into the future.

performed or why it reached the conclusions that it reached. MEC cross-examined Company witness Neal P. Dreisig, the Company's Executive Director of Gas Strategy, after finishing its cross of Mr. Sherwani. 4 TR 587-618. MEC could have asked Mr. Dreisig about how his team performed the analysis and why they concluded that there would be no meaningful impact from electrification during the test year. MEC chose not to ask. MEC cannot now imply that the absence of an explanation should somehow support the assumption that there was no good explanation. MEC itself chose to ask the wrong witness and did not avail itself of the opportunity to ask the right one. The uncontradicted testimony on the record shows that the Company *did* perform an analysis and that the analysis supported the conclusion that it would be premature to include any impacts from electrification during the test year of this rate case. 2 TR 279-280. Furthermore, during Mr. Dreisig's cross-examination, he testified that, what the Company has learned from customers during its research "is that those non-pipe alternatives [including electrification] would increase their cost, which is why part of the Natural Gas Delivery Plan is based on serving customers to fulfill their needs." 4 TR 603. He also testified that he is "not aware of any place in [Consumers Energy's] service territory where [electrification] would be cost competitive." 4 TR 604.

Given the testimony, there is ample support for Mr. Sherwani's decision not to include any impacts from electrification as part of his gas load forecast. Contrary to MEC's claim, Consumers Energy did not "fail" to include the impacts of electrification in its forecast because there was no data to support the conclusion that there *are*, or *will be*, any impacts of electrification during the test year of this case. The Commission should reject MEC's second reason for rejecting the Company's load forecast because MEC's claim lacks any valid factual basis in the record.

c. MEC's Claim that the Company's Regression Analysis Has Not Been Sufficiently Tested for Accuracy is Inaccurate, Improperly Relies on Non-Record Evidence, and is Misleading

MEC's third reason for rejecting the Company's load forecast, i.e. that the Company's regression model is allegedly "out of step with econometric conventions," also lacks merit. MEC claims that the Company failed to test the accuracy of its regression model using out-of-sample data. MEC's Initial Brief, pages 99-100. MEC argues that, without an out-of-sample test, the Company's assessment of the performance of the regression model is "unusable" and the Company's gas load projections are "unreasonable." There are numerous problems with MEC's argument.

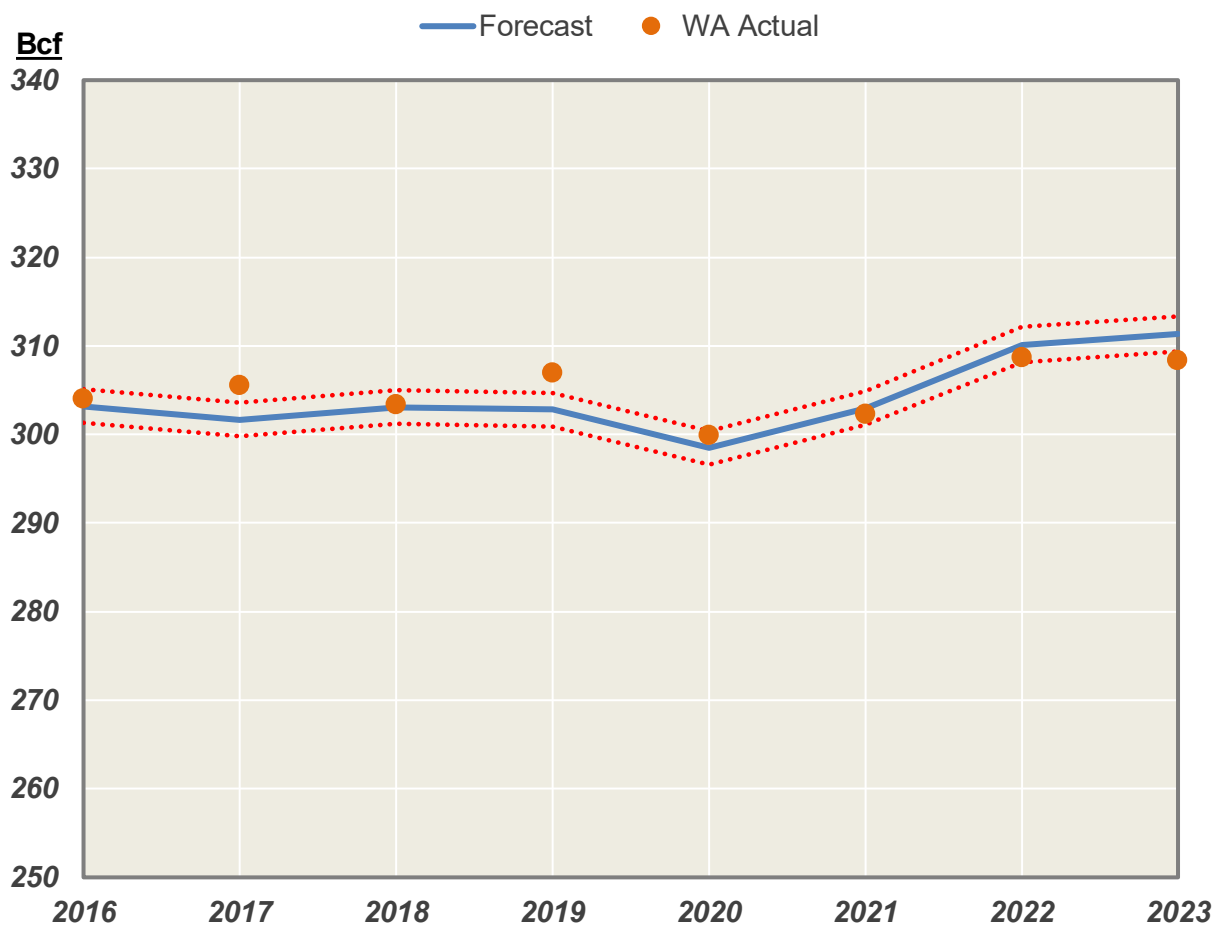
First, it assumes – without support – that the Company cannot validate the accuracy of its regression model without testing it against out-of-sample data. However, even MEC's witness – who made the recommendation to test using out-of-sample data – did not say that was the only means of testing the accuracy of the model. MEC witness Alice Napoleon simply testified that she "believe[s] that the Company should incorporate estimates of out-of-sample historical data when constructing its regression model" and that doing so would allow the Company to see how the regression model performs on data not included in the regression periods. 4 TR 2298. She never testified that failing to use out-of-sample data to test the model is "out of step with econometric conventions" as MEC claims in its Initial Brief, nor did she claim its use is a *sine qua non* for validating model accuracy.[17]

[17] Staff's Initial Brief takes the position that out-of-sample testing is "useful" to validate the accuracy of the Company's regression analysis, but did not claim that it was necessary. Staff's Initial Brief, pages 110-111. Staff recognized that the graph of the Company's rate case forecasts compared to actual results in Mr. Sherwani's direct testimony (2 TR 272; discussed in more depth below) is already a form of out-of-sample testing. Staff's Initial Brief, page 110. Staff opined that the Company should consider performing a similar analysis, but at a class level. Staff's Initial Brief, page 110. Given the discussion in the next section of this Reply Brief, it is not clear to the Company that there is any added value from doing so, but the Company will consider it. More importantly, Staff opined that it could be useful to

Second, it assumes – again with no support – that a regression model will necessarily produce incorrect (or at least "unreasonable") results if the model has not been tested. There is no reason to believe that assumption is correct. In fact, it is an illogical claim. If the model is well designed, it will produce accurate, and therefore "reasonable," results even if the model's accuracy has never been tested. Testing the accuracy of a model does not make the model more accurate. It only reveals whether the model was already accurate even before the test took place.

Third, MEC fails to recognize that Consumers Energy did, in fact, perform a version of an out-of-sample test, even though it was incidental to the Company's use of a different method to evaluate the regression model's accuracy. Company witness Sherwani provided a graph in his direct testimony that visually showed the Company's actual weather-adjusted deliveries to gas customers over the last eight years compared to the Company's forecasts for those years. Both the Company and MEC reproduced the graph in their respective Initial Briefs. Consumers Energy's Initial Brief, page 259; MEC's Initial Brief, page 98. Because it is important to this discussion, the Company reproduces the graph again below:

subject intervenor alternative forecasts to some form of accuracy testing using historical data for a comparison with the Company's methodology. Staff's Initial Brief, page 111. Consumers Energy whole-heartedly supports the Commission establishing an expectation that intervenors should perform and disclose the results of some test of the reliability and accuracy of their alternative sales, deliveries, and customer count forecasts in order for their recommendations to garner serious consideration in future cases.



During cross examination, Mr. Sherwani explained that the blue "Forecast" line on the graph represents the Company's forecast of natural gas deliveries using its regression model based on several years of data that predate the forecast year. 2 TR 322-323. The orange dots represent the actual weather adjusted load the Company experienced. 2 TR 322-323. As the Company explained in its Initial Brief, this is essentially a one-year-at-a-time out-of-sample model test. Staff also acknowledged that the graph is a form of out-of-sample test in its Initial Brief. Staff wrote: "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." Staff's Initial Brief, page 110 (emphasis added).

Rather than acknowledge that Mr. Sherwani's graph effectively supplies a version of the out-of-sample test that MEC's witness recommended, MEC attempts to discredit Mr. Sherwani's graph and his testimony explaining it. MEC argues – with no proper basis or support – that Mr. Sherwani's testimony under cross examination about the "Forecast" line on the graph is simply untrue. MEC's Initial Brief, page 98. MEC points to exhibits from three prior Consumers Energy gas rate cases – none of which were admitted as evidence in this case – to claim that those exhibits prove that Mr. Sherwani's testimony about the data used to produce the "Forecast" line was not from data that predated the forecast year. MEC's Initial Brief, pages 98-99. Specifically, MEC cites an exhibit entitled "Market Outlook: 5-Year Annual Calendar Gas Forecast by Class" (hereafter the "Market Outlook Exhibit") which the Company includes in each of its gas rate cases. MEC's Initial Brief, page 99, notes 425, 426, and 427. MEC compares data from the Market Outlook Exhibits from three cases (Case Nos. U-17643, U-18424, and U-20650) to the graph and concludes that "these data points do not correspond to any points [on the blue "Forecast" line] in the chart." MEC's Initial Brief, page 99. That conclusion is provably incorrect.

Even if the information MEC used to make that conclusion was properly admitted evidence in this case (which it is not), MEC inexplicably chose the wrong cases to pull the data from. MEC relied on the Market Outlook Exhibit from Case No. U-17643 to obtain a forecasted load value for 2016 and 2017. However, Case No. U-17643 was the Company's gas rate case filed on July 1, 2014 with a test year of January to December 2015. The Market Outlook Exhibit from Case No. U-17643 was never used to support rate case load forecasts for 2016 or 2017. The Market Outlook Exhibit provides a five-year projection, but because the econometric data used to calculate the projection becomes more uncertain the farther into the future it goes, the Company has never relied on a two- or three-year-old forecast to set rates in a rate case. The Company refreshes its load

forecast annually (which supports both the Company's rate cases and internal budget). Therefore, the load forecast from Case No. U-17643 did not represent the Company's "Forecast" value in Mr. Sherwani's graph for either of the years that MEC purports to use it for. MEC had no basis to assume that it would. MEC misused the data, and simply used the wrong data, to make its comparison. The same is true of MEC's use of the Market Outlook Exhibit from Case No. U-20650 (filed December 16, 2019 with an October 2020 to September 2021 test year) to obtain 2022 forecasted load.

There are other problems with MEC's non-record comparison to the Market Outlook Exhibits. The Market Outlook Exhibits are presented on a calendar basis, but the Company's load forecasts used to produce the "Forecast" line on Mr. Sherwani's graph are on a cycle-billed basis. Therefore, an adjustment would be required for the numbers to perfectly match because the calendar-basis numbers include a forecast of net unbilled values. Starting in 2019, the Company began adjusting out the forecasted net unbilled value in the Market Outlook Exhibits so that there would not be an artificial discrepancy between the exhibit and the Company's cycle-billed forecast. Therefore, after 2019, the Market Outlook Exhibit perfectly matches the cycle-billed forecast and the blue "Forecast" line on Mr. Sherwani's graph. Also, the Company's regression analysis does not forecast lost and unaccounted for gas ("LAUF") volumes. It only forecasts expected customer consumption. There is a separate Commission-approved methodology for forecasting LAUF volumes outside of the regression analysis. See 4 TR 1500-1503; Exhibit A-73 (TKJ-2). Nevertheless, in making its non-record comparison between the Market Outlook Exhibits and the "Forecast" line in Mr. Sherwani's graph, MEC uses the "Sendout" volume in column (i) of the exhibits, which includes LAUF volumes. It is incorrect to compare the "Forecast" line in

Mr. Sherwani's graph to the "Sendout" column in Market Outlook Exhibit. The correct comparison would be to the "Total" column (column (f)) in the Market Outlook Exhibits.

Below is the actual data used to produce Mr. Sherwani's graph, with the data for the "Forecast" line highlighted:

	Total Company				
	Sigma (2016-2023)	6.543877925			
	StdDev (2016-2023)	2.558100452			
	MAPE (2016-2023)	0.6%			
Year	Variance (Bcf)	Absolute Error	WA Actual	Budget	H/(L)
2016	0.62	0.00260	303,997	303,209	788
2017	14.79	0.01275	305,525	301,679	3,846
2018	0.06	0.00082	303,340	303,093	248
2019	17.30	0.01373	306,967	302,808	4,159
2020	1.87	0.00458	299,860	298,492	1,368
2021	0.47	0.00227	302,284	302,972	-688
2022	2.02	0.00458	308,722	310,144	-1,422
2023	8.67	0.00946	308,405	311,350	-2,945

Using the Market Outlook Exhibits from the correctly synchronized rate cases (instead of the misaligned cases chosen by MEC), it becomes clear that the values in the "Forecast" line of Mr. Sherwani's graph correspond very closely with those rate case exhibits in the first three years, with the small deviation attributable to the net unbilled volumes that are included in the calendar-basis data versus the cycle-billed data. In every year after 2019, they correspond exactly. The table below shows the comparison side by side (the Company also includes the Market Outlook Exhibit from each of the cases listed below as Attachment A to this Reply Brief[18]):

[18] Although these exhibits are not record evidence in this case, they are needed to refute MEC's improper, invalid, and misleading use of non-record evidence in its Initial Brief. To the extent the Commission considers MEC's arguments based on this non-record information, it must in fairness also consider this additional information from the Company. Legally, the Commission should just disregard MEC's improper reference to non-record information and all arguments derived from it. See MCL 24.276 ("Evidence in a contested case, including records and documents in possession of an agency of which it desires to avail itself, shall be offered and made a part of the record. Other factual information or evidence **shall not be considered** in determination of the case . . . ." Emphasis added.).

Forecast Year	Rate Case	Test Year	Calendar-Basis Forecast from Market Outlook Exhibit	Cycle-Billed Budget Forecast from Sherwani Graph
2016	U-17882	Jan-Dec 2016	301,300	303,209
2017	U-18124	Jan-Dec 2017	301,431	301,679
2018	U-18424	Jul 2018-Jun 2019	301,946	303,093
2019	U-20322	Oct 2019-Sep 2020	302,808	302,808
2020	U-20650	Oct 2020-Sep 2021	298,492	298,492
2021	N/A	N/A	N/A	302,972
2022	U-21148	Oct 2022-Sep 2023	310,144	310,144
2023	U-21308	Oct 2023-Sep 2024	311,350	311,350

This data unequivocally disproves MEC's claim that the blue "Forecast" line from Mr. Sherwani's graph "is simply a fit line, produced in 2025, to reflect actual delivery data from 2016 to 2023" and that Mr. Sherwani "incorrectly asserted that the points of the blue line represented prior forecasts." See MEC's Initial Brief, page 99. Contrary to MEC's claim, the Company is not "passing off a simple fit chart as an indicator of past forecast accuracy." See MEC's Initial Brief, page 99. Mr. Sherwani's graph actually is an indicator of past forecast accuracy – exactly as he testified. It is outrageous that MEC accuses Mr. Sherwani of "misdirection" (MEC's Initial Brief, page 99), when it is MEC that – once again – presented misleading information, this time as the result of its own improper use of non-record data.

Fourth, aside from its blatantly false claims attempting to discredit Mr. Sherwani's graph, MEC's argument that the Company should have used out-of-sample testing also ignores that the Company employed several other tests – other than the use of out-of-sample testing – to evaluate the accuracy of its regression model. The Company evaluated its regression model based on the

adjusted coefficient of multiple determination (R_a^2) and Mean Absolute Percent Error ("MAPE"). 2 TR 270. Mr. Sherwani testified that "[b]oth of these statistical tests are used to evaluate how well the models fit the historical data, and also provide a good indication of how well the models will perform in the forecast period." 2 TR 270. The Company's regression model performed well under both of these tests. The R_a^2 measures the ability of the models to explain variations in the historical data. 2 TR 270. Mr. Sherwani explained that an R_a^2 of unity suggests that a model explains all of the variations in the data; whereas, an R_a^2 of zero suggests it explains none of the variations. 2 TR 270. He further explained that, if regression models have R_a^2 values above 0.9, this suggests that at least 90% of the variation in the data is explained by the models. 2 TR 270-271. Mr. Sherwani testified that, "[i]n most cases, the models used in the Company's forecasting process have values in excess of 0.95." 2 TR 271. The MAPE is used to measure the model errors in which smaller values suggest better model performance. Mr. Sherwani explained that MAPE values between 5% and 10% are generally considered ideal, although higher values may also be deemed acceptable based on other considerations, such as the R_a^2. 2 TR 271. Mr. Sherwani testified that "[t]he regression models used in the Company's forecasting process generally have MAPE values below 10%." 2 TR 271. MEC offered no response explaining why these additional measures of regression model accuracy were insufficient to support the reasonableness of the Company's regression model.

There is no valid support for MEC's arguments that the Company's gas load forecast regression modeling has not been sufficiently shown to be accurate. The Commission should reject MEC's third reason for rejecting the Company's load forecast because MEC's claim is not supported by its own witness's testimony and MEC's attempt to discredit a key indicator of the Company's regression model accuracy uses false, misleading, and non-record evidence.

3. MEC's Secondary Recommendation – Requiring the Company to Contract a Third-Party to Perform a Load Forecast – is Beyond the Commission's Legal Authority and Unnecessary

Finally, MEC's secondary recommendation – that the Commission require the Company to contract an independent third party to perform a load forecast according to MEC's specifications – must be rejected because it is not within the Commission's legal authority to order Consumers Energy to contract an independent third party to perform this type of work. *Union Carbide Corp v Pub Serv Comm'n*, 431 Mich 135, 159; 428 NW2d 322 (1988) (holding, inter alia, that the Commission does not have legal authority to require a utility to enter into a contract). Furthermore, as discussed at length above, there is no merit to any of MEC's claims against the gas load forecast performed by the Company in this case. The Company uses regression analysis that combines 11 years of historical data with weather and econometric data to forecast its test year gas sales, deliveries, and customer counts. The results of this approach have been accepted and approved as part of the Company's rate cases for many years. The results are accurate. Consumers Energy does not need a third-party contractor to create an "accurate" forecast because the Company already does that. Furthermore, contrary to MEC's recommendation, third-party action is not required to create a load forecast that incorporates both historical data and prospective assumptions on energy efficiency and electrification. Consumers Energy's load forecast already uses historical data and already takes account of all appropriate and reasonable assumptions regarding energy efficiency and electrification.

There is no merit to MEC's recommendations regarding the Company's natural gas load forecasting process or results. The Commission should reject MEC's recommendations and utilize the gas sales, deliveries, and customer count forecasts presented by the Company as revised in its rebuttal testimony in this case.

B. The Attorney General's Alternative Gas Deliveries Forecast for Commercial Transportation Should Be Rejected

The Attorney General argues in her Initial Brief that the Commission should increase the Company's forecast of commercial transportation volumes by 1,325 MMcf over the Company's forecasted amount. Attorney General's Initial Brief, page 151. Consumers Energy anticipated the Attorney General's arguments for this recommendation, based on the testimony of its witness Mr. Coppola, and addressed the Attorney General's arguments in the Company's Initial Brief. See Consumers Energy's Initial Brief, pages 255-260. The Company continues to rely on its Initial Brief, which effectively refutes the Attorney General's claims, as if fully repeated in this Reply Brief. The Company responds further only to address a small number of arguments in the Attorney General's Initial Brief that attempt to build on the testimony of her witness and the discovery in this case.

On page 151 of the Attorney General's Initial Brief, she claims that Consumers Energy "could not point to anything pertinent" when asked in discovery to identify where the Commission has previously approved the Company's forecasts using its regression methodology. That is not accurate. The Company's discovery pointed the Attorney General back to Mr. Sherwani's direct testimony, where he identified eight specific Consumers Energy's gas rate cases where the results of the Company's regression analysis were accepted and approved as part of the final rates set in those cases. See Exhibit AG-81; 2 TR 270.

Also, on page 151 of her Initial Brief, the Attorney General attempts to respond to Mr. Sherwani's point that Mr. Coppola's methodology for calculating the commercial transportation volumes would cause the forecast to fluctuate substantially from year to year. The Attorney General responds by arguing that "[y]ear to year variations will occur whether Mr. Coppola's approach is used or the company's methodology." Attorney General's Initial Brief,

page 151. That response is a non-sequitur and fails to actually address Mr. Sherwani's point. Again, Mr. Sherwani warned that Mr. Coppola's methodology would "*cause* the forecasts to fluctuate substantially from year to year . . . ." 2 TR 283 (emphasis added). Under the Company's methodology, the forecast will be consistent with the economic and weather data that serves as the independent variables in the regression model. So, it is the data – not the Company's methodology – that will cause a variation from year to year, and that variation will reflect the actual results with reasonable accuracy because it will be based on the variables that cause those results. In contrast, Mr. Coppola's methodology would produce different results in different years even if all the independent variables remained the same because the Compound Annual Growth Rate is unstable. 2 TR 284. So, while it may be true that actual consumption will vary year to year under either method, that wasn't Mr. Sherwani's concern and the Attorney General's response fails to address the problem Mr. Sherwani actually identified.

On page 152 of her Initial Brief, the Attorney General attempts to discredit the Company's use of the most recent 11 years of data in its regression analysis by arguing that the time period includes the period of time corresponding to the COVID-19 pandemic. She also argues that "businesses change and expand over time." Attorney General's Initial Brief, page 152. As the Company noted in its Initial Brief, these kinds of statements just demonstrate that the Attorney General does not understand what regression modeling does or how it works.

Regression modeling does not simply take historical data and assume that it will be representative of the same data in the future. Regression modeling mathematically calculates the existence, directionality, and magnitude of the relationship between two variables. See 2 TR 268. For example, a regression model might mathematically analyze the relationship between residential gas consumption (a dependent variable) and new housing starts (an independent

variable). If the number of new housing starts are low in year 1 and higher in year 2, and if residential gas consumption is low in year 1 and higher in year 2, regression analysis can mathematically substantiate whether there is a sufficiently strong correlation between those two variables to be able to predict whether gas consumption will increase or decrease when housing starts increase or decrease. It can tell mathematically if those variables will increase in tandem (a direct correlation) or whether one will decrease as the other increases (an inverse correlation). It can even mathematically determine how much the analyst should expect the dependent variable to change based on how much the independent variable changes.

In regression analysis, an extreme data point does not necessarily mean that the model results will be inaccurate. In fact, extreme data points can enhance confidence in the model if the mathematical relationship between the variables is confirmed to continue holding true even during the extreme conditions, and it can add to the model's learning. Although Consumers Energy's regression model uses data that includes the period of the COVID-19 pandemic, the statistical tests that evaluate the accuracy of the Company's regression model remain very strong. 2 TR 270-272. All of the tests exceed accepted ranges for indicating a highly accurate model. 2 TR 270-272.

Therefore, the Attorney General's arguments about the impact of COVID-19 or businesses changing and expanding over time are irrelevant. The Company's regression model mathematically analyzes how those changes relate to natural gas consumption and creates a formula that predicts what will happen to gas consumption if future economic indicators are expected to be more like COVID-19 or more normal. Likewise, the model learns how commercial customers use gas when they're small or when they're growing and then, if the population of commercial customers is expected to be more like a growing customer, it predicts how much gas consumption should be expected from such a population of growing commercial customers. The

Attorney General presumably inadvertently points out issues that actually illustrate why the Company's regression analysis is a better methodology than the one Mr. Coppola used. This is also why the Attorney General's claims of "stale" data make no sense with reference to a regression model. Under regression modeling, it does not matter how "stale" the data is as long as the mathematical relationship between the independent and dependent variables continues to hold true for both the older and the newer data. In Consumers Energy's model, it does.

On pages 152 and 153 of the Attorney General's Initial Brief, she argues that certain adjustments in regression-model results from prior cases prove that the model is deficient. But, again, she inadvertently points out an issue that illustrates the value of regression modeling. Because the regression model can mathematically inform an analyst when the relationship between a particular independent variable and dependent variable may not be as strong, it allows the analyst to make reasoned adjustments to the results of the forecast to correct for any weakness or error in the correlation between the variables. That did not need to occur with commercial transportation volumes in this case because there was nothing to suggest any weakness in the mathematical relationship between the variables associated with commercial transportation volumes. The Attorney General's methodology is incapable of that kind of insight.

Finally, on page 153 of her Initial Brief, the Attorney General argues that Mr. Sherwani's criticism of Mr. Coppola's methodology on the basis that it ignores the impact of Energy Waste Reduction ("EWR") is unwarranted because Mr. Coppola "reflects the customers' actual usage inclusive of actual EWR achieved by customers." However, that does not answer Mr. Sherwani's criticism. The Company does not dispute that Mr. Coppola's methodology reflects any *past* EWR impacts on commercial transportation load. The problem is that it does not include any *future* EWR impacts during the period that it is attempting to forecast. The Attorney General is correct

that the Company uses an "assumed EWR reduction percentage," but it is not just assumed out of thin air. The EWR reduction percentage that the Company uses is based on the litigated outcome of its EWR proceedings before the Commission. See Exhibit MEC-39, page 2. Unlike the Attorney General, the Company incorporates the expected new EWR savings into its forecast of future customer load, which is the proper approach to ensure that future forecasts are as accurate as possible. The Attorney General fails to do that.

For all of the reasons discussed above and in Consumers Energy's Initial Brief, the Commission should reject the Attorney General's recommended adjustment to commercial transportation volumes. Instead the Commission should approve the Company's gas sales, deliveries, and customer count forecasts as presented in Consumers Energy's rebuttal testimony and supported by Staff.

VI. ADJUSTED NET OPERATING INCOME

A. Lost and Unaccounted For Gas

The Attorney General recommends that the Commission reduce the Company's allowance for LAUF by $728,000. Attorney General's Initial Brief, page 157. Attorney General witness Coppola argued that the reduction was justified because of the Company's methane reduction goals. However, in Consumers Energy's rebuttal testimony and Initial Brief, the Company explained that LAUF is not perfectly synonymous with methane emissions, so reducing methane emissions does not necessarily equal LAUF reduction. See Consumers Energy's Initial Brief, pages 264-267. In her Initial Brief, the Attorney General attempts to refute that point by arguing that natural gas consists primarily of methane gas and that "there are several components to LAUF gas," which are "nearly the same as the sources of methane gas that the Company seeks to reduce with its Net Zero goal . . . ." Attorney General's Initial Brief, page 156.

It is correct that natural gas consists primarily of methane gas, but that does not support the Attorney General's treatment of the Company's methane reduction goal as synonymous with a reduction in LAUF volumes. Natural gas consumed by Consumers Energy's customers also contains methane, but it would be illogical to conclude that the Company's methane reduction goal is synonymous with reducing customer gas consumption. That is a non sequitur.

The Attorney General's other claim is confusing as written. The citation the Attorney General includes in her Initial Brief for this claim points to Mr. Joyce's testimony where he describes the reasons that methane emissions and LAUF volumes are not synonymous. See Attorney General's Initial Brief, page 156, citing 4 TR 1528-1529. Yet, the Attorney General then claims that this testimony "identifies" "components of LAUF gas" that "are nearly the same as the sources of methane gas that the Company seeks to reduce with its Net Zero goal." It is challenging to understand how the Attorney General draws that conclusion from a description of the differences between the two. None of the LAUF elements that Mr. Joyce described at pages 1528 and 1529 in volume 4 of the transcript are the same, or even nearly the same, as the sources of methane emissions that the Company is targeting for reduction. In that part of his testimony, Mr. Joyce describes LAUF volumes from "theft, customer billing, metering and storage adjustments" and later "theft and metering inaccuracies." 4 TR 1528-1529. LAUF attributable to "theft" obviously involves unlawful conversion and use of Company gas. LAUF attributable to "customer billing" involves errors in recording and billing the actual amount of gas consumption. LAUF attributable to "meter inaccuracies" and "metering adjustments" involves meters that do not accurately record the full amount of gas actually consumed by a customer. LAUF attributable to "storage adjustments" often involves migration of gas within storage fields such that the gas is

no longer accessible in the formation as working gas. None of those elements of LAUF involve methane emissions. The Attorney General's argument does not make sense.

Finally, the Attorney General argues that Company witness Joyce's rebuttal "implies that the proposed reduction in LAUF gas proposed by Mr. Coppola should not be accepted because it cannot be accurately calculated." Attorney General's Initial Brief, page 156. Mr. Joyce's rebuttal testimony implied no such thing. Mr. Joyce's testimony was that LAUF and methane emissions are not the same thing. Obviously *some* LAUF volumes represent *some* of the methane emissions that the Company would like to eliminate. But, some methane emissions have nothing to do with LAUF and some LAUF has nothing to do with methane emissions. So, it is illogical to conclude, as the Attorney General has, that methane emissions will result in a one-for-one reduction in LAUF. It will not.

The Commission has an approved methodology for calculating LAUF volumes, which the Company follows. To the extent that any methane emissions eventually translate into LAUF reductions, that methodology will reflect it. There is no valid support for the Attorney General's proposed LAUF reductions because they rely on an invalid assumption that methane emission reductions are the sale as LAUF reductions. The Attorney General's recommended LAUF reduction must be rejected and the Company's proposed LAUF amounts approved in this rate case.

B. Other O&M Expense

1. Gas Engineering and Supply O&M Expense

Consumers Energy supported the Gas Engineering and Supply O&M expense and responded to the parties' recommendation at pages 267 through 270 of Consumers Energy's Initial Brief. The Commission should approve the Company's projected expenses.

a. Gas Asset Management

i. Storage Integrity Management Program

The Commission should reject the Attorney General's recommended reduction in the System Integrity expense because it would result in a reduction of necessary workforce to complete integrity management activities, and the projected increase in the expense in this case resulted from a reclassification of existing salaries and expenses as O&M based on activities expected to be performed. The Attorney General's Initial Brief, page 159, argues that the Company failed to provide comparable information resulting from departmental reorganizations in response to discovery. Attorney General's Initial Brief, page 159. The Attorney General's argument should be rejected because it mistakenly assumes that the increased System Integrity expense was due to a "reorganization."

While there was a reorganization in Gas Engineering and Supply in certain departments (see 3 TR 355-356), that reorganization was unrelated to the increase in the System Integrity expense. As the Company explained in discovery and again in rebuttal, the additional $1.5 million in System Integrity expense was due to a shift of existing salaries and expenses for inspection and remediation work from capital to O&M. 3 TR 460. The Attorney General's proposed reduction is based on an incorrect and unsupported premise and should be rejected.

2. Gas Operations O&M Expense

a. Leak Backlog Elimination Initiative

Both ABATE and the Attorney General recommend that the Commission disallow $1.3 million that the Company forecasted for its initiative to eliminate the Company's current leak repair backlog in the test year. ABATE's Initial Brief, page 35; Attorney General's Initial Brief, pages 167-168. The Company anticipated most of ABATE's and the Attorney General's Initial Brief arguments on this issue in its Initial Brief. The Company's Initial Brief sets forth numerous

reasons that the Commission should reject ABATE's and the Attorney General's recommended disallowance. See Consumers Energy's Initial Brief, pages 272-276. The Company continues to rely on the arguments presented in its Initial Brief as if fully restated in this Reply Brief. However, ABATE's and the Attorney General's Initial Briefs each included additional arguments that require further response here.

ABATE's Initial Brief claims that the Company's leak backlog only contains Grade 3 leaks, which are the least hazardous classification, and that there are no Grade 1 or Grade 2 leaks in the backlog. ABATE's Initial Brief, page 34. ABATE also claims that the leak backlog may include "false positives." ABATE's Initial Brief, page 34. ABATE did not expound on the conclusions that it believes the Commission should draw from these claims. However, it appears that ABATE may be suggesting that (i) the leaks included in the Company's backlog need not be eliminated because they are the least hazardous type of leaks and (ii) there may not be as many leaks as the Company currently reports because some of the reported leaks may actually be false positives. If these are the conclusions that ABATE meant for the Commission to draw, they are not valid conclusions.

The Company notes, as an initial matter, that these claims seem to be walking back ABATE's original argument that the Company does not have a backlog of leaks. ABATE now acknowledges that there is a backlog and only appears to question the urgency of the backlog and the magnitude of the backlog. However, ABATE's own exhibit refutes its claim that there are only Grade 3 leaks in the Company's backlog. ABATE sponsored Exhibit AB-26, and even cites it as support for its claim that there are only Grade 3 leaks in the backlog, but Exhibit AB-26 clearly shows that there are also numerous Grade 2 leaks in the backlog. The data from Exhibit AB-26 is reproduced below:

	Total Year end open leaks (Backlog)	Grade 1	Grade 2	Grade 3
2020 Actual	3,574	0	1,382	2,192
2021 Actual	3,028	0	1,130	1,898
2022 Actual	1,564	0	558	1,006
2023 Actual	5,618	0	2,147	3,471
2024 Actual	5,480	0	1,672	3,808

As of 2024, approximately 31% of the leaks in the Company's backlog are Grade 2 leaks. ABATE is clearly mistaken about the facts. ABATE acknowledges that Grade 2 leaks are a more hazardous leak classification. ABATE's Initial Brief, page 34. There are no Grade 1 leaks in the backlog because, by definition, Grade 1 leaks are so hazardous that they require immediate repair when discovered. Exhibit AG-12, page 8. Even if ABATE was correct that the backlog only consisted of Grade 3 leaks, however, it would not justify the conclusion that the Company should disregard the backlog. While Grade 3 leaks are the lowest hazard level, they still represent some safety hazard and typically require remediation within 12 months. Exhibit AG-12, page 8. Furthermore, Company witness James P. Pnacek testified that safety hazards are only one of the reasons it is important to repair known leaks. Mr. Pnacek explained that eliminating the leak backlog is also important to "increase the integrity of the natural gas system, reduce methane emissions, and lower long-term costs."[19] 4 TR 1640. ABATE's claim is both incorrect and not a valid reason to delay the effort to eliminate the backlog.

ABATE's claim that there can be "false positives" included in the leak backlog is correct, but not a justification to delay eliminating the backlog. In response to discovery from ABATE,

[19] This is why it remains important to continue with the leak elimination initiative despite the fact that the Leak Detection and Repair ("LDAR") rules have been delayed. The LDAR rules are meant to reduce safety hazards, but there are other valid non-safety reasons to repair leaks too. The Company's initiative to eliminate its leak backlog is not just a regulatory compliance issue.

Mr. Pnacek interpreted "false positives" to refer to situations where a leak has been detected but no leak can be found to exist upon later re-examination. Exhibit AB-25, page 1. Mr. Pnacek acknowledged that the Company's measurement of its leak backlog is kept in "near real-time," which means that "false positives" can occur between the time a leak is first detected and the time that re-examination occurs. Exhibit AB-25, page 1. However, Mr. Pnacek also explained that the Company photographs above-ground leaks discovered during surveys, which has been effective in reducing the number of "false positives" by 74% since the practice was adopted. There is no indication in the record that the incidents of "false positives" is a significant proportion of the total leak backlog. To the extent there are some "false positives" that does not change the fact that there are many "true positives." For all of the reasons Mr. Pnacek indicated, it is important to remediate those leaks and eliminate the backlog. ABATE's argument to the contrary is without merit.

On page 168 of the Attorney General's Initial Brief, she disputes Mr. Pnacek's testimony that the backlog elimination initiative is necessary irrespective of whether the Leak Detection and Repair ("LDAR") rules are delayed. The Attorney General argues that Mr. Pnacek's discussion of the $1.3 million for the backlog elimination initiative was in the context of his response to a question about the impact of the LDAR rules on the Company's Leak Repair and Survey Program. Attorney General's Initial Brief, page 168. It is correct that Mr. Pnacek discussed the $1.3 million for the leak backlog elimination during his discussion of the LDAR rules and in response to questions about LDAR, but the Attorney General ignores what he said in those responses. In response to the specific question quoted by the Attorney General in her Initial Brief, Mr. Pnacek testified: "As talked about previously in my testimony, the Company plans to reduce the known leaks on the system, at an accelerated rate, as part of planned work, regardless of the timing of the rule." 4 TR 1641-1642, emphasis added.

Mr. Pnacek actually first introduced his discussion of the $1.3 million for leak backlog elimination earlier in his direct testimony. There, Mr. Pnacek responded to a question asking him about the Company's "plan to comply with the leak backlog requirements of the proposed [LDAR] rule." 4 TR 1611. His answer remained consistent. After explaining that the Company did not plan to request funding for most projects related to LDAR compliance because of the uncertainty around the timing of the final rule, he testified: "The Company plans to eliminate the backlog of known leaks on the system at an accelerated rate as part of the work plan, regardless of the timing of the LDAR rule publication." 4 TR 1612, emphasis added. The context of the testimony does not support the Attorney General's conclusion that this project is solely about LDAR compliance. The Company has been clear from the beginning that the initiative to eliminate the leak backlog was needed regardless of LDAR rule timing. To be clear, the Company's initiative to eliminate the leak backlog will also satisfy certain requirements of LDAR when the rule is finalized. The Company is not claiming that it is entirely unrelated. But, this is a situation where the Company can kill two birds with one stone, as the old saying goes. The Company's leak backlog elimination initiative does not *only* satisfy LDAR requirements.

Also on page 168 of her Initial Brief, the Attorney General argues that the increase in the Company's leak backlog observed from 2022 to 2023 was "the result of the Company's inattention to the issue." The Attorney General cites no record evidence to support that conclusion. Mr. Pnacek explained in response to discovery from the Attorney General that the Company has not had sufficient funding to address all of the prior year leak backlog and all newly discovered leaks in order to reduce or eliminate the leak backlog. Exhibit AG-69, page 2. The Attorney General failed to acknowledge that response. According to Mr. Pnacek, "The funding requested in this case will allow the Company to accelerate the reduction of leaks on the leak backlog for

customer safety, risk reduction, and emissions reduction to serve all of the Company's customers and increase public trust." Exhibit AG-69, page 2.

The Attorney General's claim of "inattention" is not a persuasive argument even if it were true (which it is not). If maintenance and repairs are needed for safety, improved system integrity, methane emissions reduction, and to lower long-term costs (4 TR 1640), then the maintenance and repairs should be completed regardless of whether they were previously not attended to. Maintenance needs don't disappear or get better with inattention. The Attorney General's argument appears to be punitive in nature, implying that underfunding needed leak repairs is somehow meant to punish the utility for not completing the work sooner, despite the fact that the Company did not have sufficient funds to complete both the new leaks and the full leak backlog in any single recent year. Consumers Energy does not have limitless resources.

Neither ABATE nor the Attorney General present any valid reasons for their recommended disallowance. For the reasons discussed in the Company's Initial Brief and this Reply Brief, the Commission should reject their common recommendation. The Commission should include the $1.3 million for the Company's initiative to eliminate its leak backlog in calculating rates for the test year of this case as supported by Staff.

b. Gas Staking and Locating

On page 166 of her Initial Brief, the Attorney General recommends that the Commission disallow $11.2 million of the Company's test year expense forecast for its natural gas staking and locating program, which is a program mandated by law. The Attorney General's recommended disallowance is nearly half of the Company's forecasted expense for the year. The Attorney General also recommended rejecting the Company's proposed deferred accounting mechanism for its staking and locating costs. In Consumers Energy's Initial Brief, the Company thoroughly addressed the errors in the Attorney General's arguments and explained why her recommendation

is inappropriate and should be rejected. See Consumers Energy's Initial Brief, pages 276-284. The Company continues to rely on the arguments presented in its Initial Brief as if fully restated in this Reply Brief. Nevertheless, there are some arguments in the Attorney General's Initial Brief that warrant additional response. The Company addresses those additional issues as they relate to the Attorney General's two separate recommendations below.

i. Staking and Locating Contractor Expense

The Attorney General's overarching narrative about the history of the Company's Staking and Locating practices is factually inaccurate. According to the Attorney General's narrative, Consumers Energy (i) started an experimental program in Oakland County in 2023 to evaluate the benefits of a dedicated approach to staking, (ii) gathered only limited data as a result of that experiment, (iii) precipitously decided that it wanted to use the dedicated staking approach throughout its service territory, and then (iv) issued a Request for Proposals ("RFP") for a new staking contractor while telegraphing that it was only interested in hearing from contractors who used a dedicated approach (even though dedicated staking is double the price of staking under a shared approach). The Attorney General's narrative is contradicted by the record in this case. In short, it is not true. Company witness Pnacek corrected the Attorney General's numerous factual inaccuracies in his rebuttal testimony, but the Attorney General largely ignores those factual corrections in her Initial Brief.

The Company's Initial Brief spells out the factual history accurately. See Consumers Energy's Initial Brief, pages 277-278. In case it was not sufficiently clear from the Company's account of the history in its Initial Brief, the transition to dedicated service in Oakland County starting in 2023 and Kent County starting in 2024 was not an "experiment." 4 TR 1705. Mr. Pnacek clearly testified that "[t]he use of dedicated staking contractors in Oakland and Kent Counties was not a test-case for justifying the Dedicated Staking Model in other parts of the

Company's service territory." 4 TR 1705. Instead, it was "necessary to improve timeliness and accuracy of staking for public safety, especially given the continued ticket volume." 4 TR 1650. The Company had been the subject of a show-cause proceeding due to the inadequate performance of its then-current staking contractor and continued to receive 62 additional violations for staking -related issues after the show-cause order. Exhibit AG-69, page 8. Consumers Energy's concluded that its then-current staking contractor lacked the ability to adequately stake the Company's entire service territory, so the Company sought a different contractor to serve its two highest-volume counties. There was no "study" or "experiment" underway. The Company had a safety problem, and moving the two highest-volume counties to a new contractor solved the safety problem. Mr. Pnacek explained that the Company does "not put a financial value on public safety." 4 TR 1705. These accurate historical facts undermine the first two points of the Attorney General's narrative.

It is true – but not a material fact – that the Company's problematic contractor operated on a shared services basis. Even if the unsatisfactory service had been provided by a dedicated--approach contractor, the Company would have responded the same way. The Company must have a contractor that can keep up with the volume of staking requests the Company experiences without failing to stake infrastructure, being late to stake, or staking in the wrong location. It is also true – but not a material fact – that the Company put considerable effort into working with the problematic contractor to improve its performance since 2019 but was never able to get completely satisfactory resolution of the problems. 4 TR 1706. However, irrespective of that background, the Company's contract with the problematic contractor was reaching the end of its term and set to expire in the first quarter of 2025. 4 TR 1654. The Company had no alternative but to issue an RFP for a new staking contractor, which it did in the third quarter of 2024. 4 TR

1654. The Company's RFP invited bids from either dedicated contractors, shared contractors, or contractors that provided a mix of both. 4 TR 1654. The Company only received one bid from a contractor willing to provide services on a shared basis, but several willing to provide services on a dedicated basis. 4 TR 1707. The lowest cost bid was a dedicated contractor. 4 TR 1654. Hence, there was no precipitous decision to change to a dedicated contractor for staking services and there was no telegraphing by the Company to potential bidders that it wanted to switch its whole territory over to a dedicated staking approach. In fact, Mr. Pnacek testified that the Company did not have any actual plans to move to a fully dedicated staking approach in this RFP. 4 TR 1710; Exhibit AG-69, page 9. The Attorney General's narrative is concocted and demonstrably false.

The Attorney General claims in her Initial Brief that "[t]here is no indication that the Company attempted to address the staking and locating problems with the contractors under the shared model . . . ." Attorney General's Initial Brief, page 163. First, that claim is inconsistent with the record. It blatantly ignores Mr. Pnacek's testimony about the Company's efforts. Second, and most importantly, that claim is entirely irrelevant to this proceeding. The Company did not discontinue its service with the problematic vendor and switch to a fully dedicated staking approach because of the problems with the previous contractor's service. The Company's contract with the problematic contractor expired according to its terms. And, the Company switched to the new dedicated contractor because it offered the lowest cost contract among all available bidders in the RFP. Likewise, the Attorney General's claim that the Company "has not provided evidence that there are serious problems with staking and locating in the counties to which it now proposes to expand the Company only program" (Attorney General's Initial Brief, page 164) is also irrelevant. Again, the Company *did not* discontinue its service with the previous staking contractor

because of the problems with the previous contractor's services. Its staking services contract expired.

On page 164 of her Initial Brief, the Attorney General argues that Consumers Energy "had not performed a comparative cost analysis between its dedicated staking and locating program using outside contractors and DTE Gas, SEMCO, and MGU's models using Company technicians." She also argues that the Company did not perform "a formal analysis of using its own employees . . . ." Attorney General's Initial Brief, pages 164-165. The latter claim is carefully worded to avoid record evidence offered and admitted by the Attorney General herself in this case. The Company *did* perform an "informal evaluation" of performing the staking work in-house using Company employees which resulted in a "cost estimate of around twice the cost of the dedicated contractor." Exhibit AG-69, page 5. While the Attorney General's argument implies that the Company took no action to determine if it could do the staking work itself at a lower cost to customers, that inference is not correct. The Company specifically reported to the Attorney General that it had made such a comparison, but the economics were not favorable. To the extent that the Attorney General believes that was insufficient unless it is a "formal" analysis – whatever that means in this context – there is no merit to that argument. The Company need not launch a "formal" study in order to prepare estimates of its own labor costs.

With respect to the Attorney General's argument about a comparative cost analysis with DTE Gas, SEMCO, and MGU, that would be a pointless exercise. DTE Gas, SEMCO, and MGU do not generally offer to perform staking services for-hire for third-parties such as Consumers Energy. So, Consumers Energy could not avail itself of their in-house pricing no matter how well it compares. And, even if their in-house pricing were better than Consumers Energy's in-house cost estimate, that would not somehow cause Consumers Energy's in-house cost to become more

favorable. The Company's cost is based on its own union contracts, labor rates, overheads, and other cost rates – not on DTE Gas's, SEMCO's, or MGU's. There is no merit to the Attorney General's arguments.

Finally, the Attorney General claims that Mr. Pnacek's testimony that the dedicated service bid selected from the RFP had a lower per-unit cost than the shared-approach is "contrary to the historical information provided by the Company." Attorney General's Initial Brief, page 165. On this point, the Attorney General is apparently just confused; however, she continues to ignore Mr. Pnacek's testimony clarifying her confusion. To explain why she believes Mr. Pnacek's claim is "contrary to the historical information," the Attorney General refers back to Table 29 in Mr. Pnacek's direct testimony (4 TR 1646), reproduced below:

Staking and Locating Sub-program Projection Breakdown by Activity Type		
Work Type	**2023 Actual**	**2025-2026 Test year**
Outside Services - Staking and Locating (Shared)	$7,865,196	$0
Outside Services - Staking and Locating (Dedicated Oakland and Kent)	$2,766,691	$6,703,509
Outside Services - Staking and Locating (Dedicated remainder of service territory)	$0	$15,112,608
Company Labor	$1,401,778	$1,802,959
Licenses, Permits & Fees	$373,380	$838,409
Total Program	**$12,407,045**	**$24,457,485**

The "historical information" that the Attorney General refers to appears to be the "2023 Actual" column in the table above, specifically the first line. As already discussed, the 2023 price is no longer available to the Company. Contrary to the Attorney General's argument, the Company never said that the dedicated contractor chosen in the RFP has a lower unit cost *than the shared provider from 2023*. The Company clearly said that the dedicated contractor chosen in the RFP

has a lower unit cost *than the only shared-approach contractor that bid in the RFP*. 4 TR 1646-1647 ("The Company is mitigating a higher increase by expanding its Dedicated Contractor approach, which is available at a lower unit cost **than continued use** of the Shared Contractor approach . . . ."). "Continued use" of the shared-approach to staking would have required selecting the only shared-approach bidder in the RFP. The Attorney General appears to assume, without any evidence, that the previous staking contractor would continue to honor the old price in its expired contract. That assumption is not true and is also unrealistic. In an effort to correct the Attorney General's confusion, Mr. Pnacek restated the issue in rebuttal testimony. He explained, "As shown in Exhibit A-143 (JPP-5) CONF, the Shared Resource Model Contractor unit cost is higher than the Dedicated Resource Model Contractor's bid." 4 TR 1709. He further explained, "While previously the Shared Resource Model Contractor unit cost was below the Dedicated Resource Model unit cost, historical pricing is not a guarantee of future pricing." 4 TR 1709. However, the Attorney General fails to acknowledge Mr. Pnacek's clarifying testimony. The Attorney General's way of framing the argument may be consistent with the Attorney General's factually inaccurate narrative about the history of the Company's staking operations, but it is not consistent with actual history of the Company's staking operations and the record evidence in this case. It is the Attorney General – not Consumers Energy – who continues to make arguments that are "contrary to the historical information provided by the Company."

For all of the reasons discussed in the Initial Brief and this Reply Brief, the Commission should reject the Attorney General's proposed disallowance of nearly half the O&M costs needed for staking and locating operations during the test year. The Commission should approve the full amount of the Company's new staking contract of approximately $15.1 million as proposed by the Company.

ii. Staking and Locating Deferred Accounting

With respect to the Attorney General's recommendation that the Commission reject the deferred accounting for staking and locating expense in this case, the Company responds further to address only one new argument in the Attorney General's Initial Brief. On page 167 of her Initial Brief, the Attorney General attempts to refute Mr. Pnacek's rebuttal testimony supporting the deferred accounting in which Mr. Pnacek explains that the mechanism is necessary "because of the increase in staking and locating requests for optic cable." The Attorney General claims that Mr. Pnacek's reason is invalid because Mr. Pnacek "admits that the Company does not install or need to stake and locate optic cable." Attorney General's Initial Brief, page 167. This response demonstrates that the Attorney General does not understand staking and locating work.

Obviously, the Company does not install large amounts of optic cable; nor, does the Company stake and locate much optic cable (because it does not own much, if any) – **but**, other companies *do* install large amounts of optic cable. When those other companies install optic cable, they will dig trenches to lay the optic cable. When they dig trenches, they will need to know if there are buried gas mains, services, or transmission lines underground that the other company might hit and damage while excavating their trenches. If they don't know about the presence of buried natural gas infrastructure, and they hit the natural gas infrastructure with their excavation equipment, the natural gas infrastructure could rupture (explode) and injure people or damage property. So, when other companies are installing large amounts of optic cable, Consumers Energy has to locate and stake *its own buried natural gas infrastructure* so that the other company excavating to install its optic cable will not accidentally injure or kill someone.

The Attorney General's recommendation to reject the Company's requested accounting deferral for staking and locating expenses should be rejected. Instead, the Commission should

approve the Company's deferred accounting mechanism as modified by Staff witness Jacob G. Martus.

c. EIRP Training Expense

On page 171 of her Initial Brief, the Attorney General recommends that the Commission disallow $1.7 million of the Company's test year expense forecast for its EIRP training expense. The Attorney General claims that Mr. Pnacek's rebuttal testimony "manipulates the number of employees hired and departed to justify the increase in O&M expense for training." Attorney General's Initial Brief, page 170. The Attorney General claims that recent actual hiring activity for the EIRP program does not support the Company's forecast. These arguments are without merit.

Consumers Energy thoroughly addressed the errors in the Attorney General's arguments in its Initial Brief and explained why the Attorney General's recommended disallowance is inappropriate and should be rejected. See Consumers Energy's Initial Brief, pages 284-286. The Company continues to rely on the arguments presented in its Initial Brief as if fully restated in this Reply Brief. The Company responds further in this Reply Brief mainly just to address the Attorney General's specious claim that Mr. Pnacek "manipulated" the hiring data presented in his rebuttal.

There is no basis for the Attorney General's claim that Mr. Pnacek "manipulated" the hiring data. The "Headcount" numbers provided in Exhibit A-145 (JPP-7) are drawn directly from the Company's Annual EIRP Performance Report filed with the Commission in each of the Company's gas rate cases corresponding to the year of the report. Those reports can easily be reviewed and the data confirmed. Although Mr. Pnacek did not specify the source of the number of mid-year employees lost and hired, there is no basis for any claim that he manufactured, modified, or otherwise "manipulated" those numbers. They were undoubtedly drawn from Company records. Mr. Pnacek offered the exhibit to contradict the Attorney General's false claim

(which is repeated again in its Initial Brief) that the Company attributed the increase in training costs to the EIRP "expanding in recent years." Instead, Exhibit A-145 (JPP-7) proves that there is considerable turnover in the EIRP workforce, which requires the Company to train replacement employees for the very technical work in the EIRP program just as surely as the Company needs to train a new hire. When you consider the significant employee turnover and then add to that the fact that the Company *does* plan to expand the EIRP workforce *in the test year*, the modest increase in training expense in this case is easily explained.

There is no merit to the Attorney General's arguments regarding the Company's proposed EIRP training expense for the test year. The Attorney General's recommended disallowance should be rejected. Instead, the Commission should approve the full amount of the Company's forecasted expense in this case.

3. Regulatory Compliance O&M Expense

a. MAOP – Transmission

The MAOP Transmission Program O&M expense is projected to be $1,898,000 in 2024, $2,361,000 in 2025, and $2,370,000 for the test year ending October 31, 2026. Exhibit A-58 (MPG-1), page 1, line 1. Of these expenses, the Attorney General proposes to reduce the expenses related to the Company's Standardized Engineering Analysis by 50%. This is a $561,000 expense reduction. Attorney General's Initial Brief, pages 171-172. The Company addressed these arguments in its Initial Brief at pages 290-291. For the reasons stated in its Initial Brief, the Commission should reject the Attorney General's proposed expense reduction.

b. Corrosion Control – Transmission

The Corrosion Control – Transmission Program for O&M expenses on the transmission system include special projects like large atmospheric painting projects, pipeline recoating projects, shorted casing remediation, and close interval surveys. 4 TR 1270. The Corrosion

Control – Transmission Program O&M expense is projected to be $1,505,000 in 2024, $1,955,000 in 2025, and 2,210,000 for the test year ending October 31, 2026, as shown on Exhibit A-58 (MPG-1), line 2. The Attorney General proposes to remove $1,186,000 from the Company's forecasted O&M expense for the projected test year. See Attorney General's Initial Brief, pages 172-174.

The Company discussed the reasonableness of these expenses in its Initial Brief and addressed the Attorney General's proposal. See Consumers Energy's Initial Brief, pages 291-292. Accordingly, the Attorney General's recommendation should be rejected.

4. Fleet O&M Expense

a. Fleet Responsibility

As discussed at pages 294 and 295 of Consumers Energy's Initial Brief, the Company's expected Fleet responsibility costs in 2025 and 2026 of $75 million are in-line with historical Fleet responsibility costs in 2021 through 2023, and the Commission should reject MEC's recommendation to reduce these costs by $15 million in 2025 and $15 million in 2026. MEC argues that "there is no way to fully evaluate the pattern" since 2024 actual Fleet responsibility costs are not in the record. MEC's Initial Brief, page 65. But 2024 actual amounts were not available at the time the Company filed this case in December 2024 – the Company's original filing included Fleet responsibility actual costs from 2016 through 2023. See Exhibit A-27 (CEB-2). This evidence that is in the record demonstrates a clear "pattern" – Fleet responsibility costs have generally increased since 2016, and were $72.6 million in 2021, $86.6 million in 2022, and $80.063 million in 2023. The last time Fleet responsibility costs were less than $60 million was in 2017. See Exhibit A-27 (CEB-2). MEC's recommended disallowance that is significantly lower than recent annual actuals is not supported by the record, is unreasonable, and should be rejected.

Mr. Denzler also recommended that the Company perform a more detailed analysis of its vehicle idling, and Consumers Energy agreed to work on such an analysis. See 4 TR 1467, 2474-2475, 2484. In its Initial Brief, MEC adds for the first time a request that the Commission require the Company to "undertake such a study immediately and produce it as a stand-alone filing in this docket, as well as evaluate opportunities for additional idle reductions in the next rate case." MEC's Initial Brief, pages 66-67. Consumers Energy does not object to making the analysis available in an appropriate docket and manner once the Company is able to complete the analysis. But it is unclear what MEC means by requiring the Company to "evaluate opportunities for additional idle reductions in the next rate case." The Company has shown that it is already reviewing opportunities to reduce idling (see 4 TR 1443-1444), and the Company has agreed to perform the additional analysis MEC requests. The Commission should not require any further evaluation in the next rate case until the Company has had the time to complete the requested idling analysis.

5. Information Technology O&M Expense

Consumers Energy supported its IT O&M expense and responded to parties' recommendations at pages 295 through 297 of its Initial Brief. The Commission should approve the Company's recommended IT O&M funding as discussed in its Initial Brief.

As discussed at page 297 of Consumers Energy's Initial Brief, the Company's originally filed Exhibit A-18 (SHB-2) inadvertently included some non-cloud computing pre-payments and expenses, and the Company filed a corrected exhibit as Exhibit A-158 (SHB-17). As shown on Exhibit AG-38, page 2, the original exhibit included an amortization expense of $17,351,545 in the calculation, while the corrected exhibit included the corrected amortization expense of $11,874,017 in the calculation as shown on Exhibit AG-38, page 5.

The Attorney General's Initial Brief, page 176, proposes to disallow the difference between $17,351,545 and $11,874,017, for a total disallowance of $5,478,000. The Attorney General's recommendation must be rejected because the Attorney General's assertion that the Company's "rate case filing included $17,351,545 of expense" is incorrect. While the calculation of the cloud computing prepaid balance in Exhibit A-18 (SHB-2) originally included the incorrect expense amount, which did have an impact on the working capital calculation (see 4 TR 1777), the cloud computing amortization expense amount included in the Company's originally filed projected test year was the correct amount of $11,874,017 – the error in Exhibit A-18 (SHB-2) did not change the correct expense amount that was included in the test year in the Company's filing. See Exhibit AG-68, page 5. The Company's correction of Exhibit A-18 (SHB-2) did not result in any change in the calculation of the amortization expense for cloud computing fees and costs included in the case because the original projection included the correct $11,874,017 amount, and as such the proposed $5,478,000 must be rejected. 4 TR 773.

6. Pension and Benefits Expense

As Consumers Energy noted in its Initial Brief, the Attorney General recommended that the Commission reduce the Company's projected active health care costs to reflect savings from changes to the Company's health care plans. The Attorney General continues to press this argument, but the Attorney General has adjusted her requested disallowance. The Attorney General previously recommended a $2,754,000 adjustment and now proposes a $1,993,000 adjustment. Attorney General's Initial Brief, page 181. This latest adjustment, however, suffers from some of the same flaws as her first proposed adjustment. The Attorney General also does not fully appreciate the extent of the Company's analysis.

Although the Attorney General's proposed $1,993,000 reduction to the Company's active health care expense now appears to be limited to savings from the Company's gas business, the

Attorney General still does not recognize that the Company considered these savings and that they are more than offset by increasing health care costs. See Consumers Energy's Initial Brief, page 304. As the Company explained in response to discovery, it decided to use general inflation rates to project its active healthcare expense even though healthcare trend rates are higher than the general inflation rates. Exhibit AG-73, page 3. As a check on this decision, the Company "looked at what the cost would be if all the pieces were broken out" by using the expected healthcare trend rates offset by savings from known plan changes and expected reductions to employee counts. *Id.*

Using expected healthcare trend rates offset by savings, the analysis supported an active health care, life insurance, and LTD expense of $20,017,000 in the projected test year. Because this alternative analysis produced results similar, in order of magnitude, to the $19,765,000 projection based on general rates of inflation, the Company chose the simpler method (general inflation rates) to build its case. See Exhibit AG-73, page 3. The Attorney General does not, and cannot, explain away these facts. The Commission should approve the Company's projected active health care expense.

7. Incentive Compensation Expense

On page 192 of her Initial Brief, the Attorney General recommends that the Commission disallow the entire amount of the Company's Employee Incentive Compensation Plan ("EICP") expense for the test year or at least be set at no more than $1.02 million. In Consumers Energy's Initial Brief, the Company thoroughly addressed the errors in the Attorney General's arguments and explained why her recommendation is inappropriate and should be rejected. See Consumers Energy's Initial Brief, pages 304-327. The Company continues to rely on the arguments presented in its Initial Brief as if fully restated in this Reply Brief. The Company has identified only three additional issues from the Attorney General's Initial Brief that warrant additional response.

First, on pages 185 and 186 of the Attorney General's Initial Brief, the Attorney General attempts to rehabilitate her claim – which the Company proved to be false in rebuttal testimony – that the Company includes a merit increase of 3.5% for salaries in the O&M expense for this case. The Commission has indicated in recent rate cases that it will only approve salary increases as part of test year rates that are based on the same CPI inflation used to estimate other inflation-based costs, not on independent indexes of labor inflation. See e.g. MPSC Case No. U-20697, December 17, 2020 Order, pages 169-172. The Company, therefore, limits its test year salary increases included in the rate case to the CPI inflation amount, even though the independent labor inflation indexes would support a higher 3.5% increase. 4 TR 1183. In her Initial Brief, the Attorney General now argues that the Company's actual merit increase are based on the 3.5% and claims it is the actual merit increases "which [are] of importance here . . . ." Attorney General's Initial Brief, page 185. The Attorney General fails to explain that obviously false conclusion. This rate case is only concerned with Consumers Energy's costs for which it is seeking rate recovery beginning in the test year. Since Consumers Energy is not seeking recovery for the full amount of its labor rate increase, it is of no importance whatsoever in this rate case if the Company has incurred or will incur additional costs beyond those sought. Consumers Energy continues to disagree with the Commission's policy decision about holding salary increases to the general inflation rate rather than the labor inflation rate determined by economists under current market conditions. Nevertheless, the Company understands that the Commission is unwilling to reconsider that issue at this time and has not chosen to waste its time arguing for an amount that is certain for disallowance. The Attorney General's argument about what unrecovered expenses the Company chooses to incur during the test year are not material to this rate case.

Second, the Attorney General discusses the Commission's longstanding policy of excluding the portion of EICP expense attributable to the Company's financial EICP metrics at length on pages 186-188 of her Initial Brief. The Attorney General frames the issue as one that the Company allegedly failing to comply with the Commission's established standard for recovery of EICP expense from Case No. U-14347 in December of 2005. While ostensibly acknowledging that the Company's EICP expense request in this case does not include any portion of the expense related to financial metrics, the Attorney General nevertheless goes on to argue extensively that the Company's EICP plan "continue[s] to [be] derive[d] from the financial performance of the Company" and that the EICP plan for the Company's officers is "still far too focused on financial results." Attorney General's Initial Brief, page 187. The Attorney General argues that "The Company's witnesses did not demonstrate how the financial measures benefited ratepayers to the extent that they and not shareholders should bear the cost of the EICPs." Attorney General's Initial Brief, page 187. Again, the Attorney General's argument is entirely irrelevant. This is not evidence that the Company has failed to comply with the Commission's 20-year-old order in Case No. U-14347. It is proof that the Company's EICP proposal in this case is *fully* consistent with the requirements of that order. Consumers Energy stopped requesting recovery for the portion of EICP attributable to financial metrics precisely to satisfy the conditions that the Commission established for EICP recovery. Again, it is of no importance whatsoever in this rate case if the Company has incurred or will incur additional costs beyond those sought. The Attorney General is now even trying to hold the Company's acts of compliance out as evidence of non-compliance. The argument is absurd.

Finally, the Attorney General makes an interesting statement on page 191 of her Initial Brief that merits a final response. The Attorney General argues (wrongly) that the Company's

EICP structure is not really designed to incent "exception performance" but only "ordinary performance." With that as her premise, the Attorney General claims, "Performance that is ordinary and achieves basic goals and efficient operations should be paid for in base salaries." Attorney General's Initial Brief, page 191. That observation ignores an inconvenient truth that undermines the Attorney General's entire argument. Even if the Attorney General were correct that employees' performance is only ordinary (which it is not), the Company's base salary **does not** fully compensate employees for even their ordinary performance. Consumers Energy's instead has been quite clear that base salaries alone are set *below* market level so that the *combination* of base salaries and EICP will be approximately equal to market level pay. 4 TR 1145-1149. So, if the Attorney General's recommendation is approved, the result would be that employee salaries would fail to compensate them even for their ordinary performance. That is not right.

The Commission should reject the Attorney General's proposed disallowance (and Staff's) and approve the EICP expense amount requested by the Company in this case.

8. Customer Experience O&M Expense

a. Customer Interactions Expense

i. Analytics and Outreach

In the Attorney General's Initial Brief, she mainly reiterates her witness's rebuttal position but there is one argument that the Company did not address in its Initial Brief. She claims "the systems that process the millions of customer interactions are already in place and the functions are in maintenance mode. Therefore, continuing the current level of resources is not necessary as proposed by Mr. Coppola." Attorney General's Initial Brief, page 178. This claim is unsupported by evidence and misunderstands the function of Analytics and Outreach.

The Attorney General cites Exhibit AG-70, page 2 to support her position in recommending a disallowance for the Analytics and Outreach group. Exhibit AG-70, page 2 is related to the work the Digital Customer Operations ("DCO") group does and discussing the website and mobile app in relation to the DCO would be relevant – but claiming "the systems that process the millions of customer interactions are already in place and the functions are in maintenance mode" in relation to Analytics and Outreach is not relevant nor would it be a valid argument against funding the Analytics and Outreach group. The group conducts customer research, data analytics and customer outreach for the Company. Exhibit AG-60, page 1. The work this group does supports many functions across the Company from billing and payment to supporting field teams and using data to support the business case for technological enhancements for the Company. 4 TR 1128. The group additionally supports regulatory reporting as well as customer data analysis and quality assurance, further the group uses data analysis to problem solve and find ways to improve customer experience which is hardly a static function. *Id*. The argument the Attorney General makes for a disallowance ignores the actual functions of the Analytics and Outreach team and instead references an unrelated discovery response about DCO. It would be inappropriate to disallow the recovery of operating costs based on an argument that does not even attempt to address what kind of work the group performs. Additionally, as addressed in the Company's Initial Brief the Attorney General mistakenly refers to work units as "customer interactions", the Attorney General's mistaken assumptions are not a basis for a disallowance. Consumers Energy's Initial Brief, page 328. The costs are supported and should be approved by the Commission.

ii. DCO

Again, in the Attorney General's Initial Brief, she mainly reiterates her witness's rebuttal position but there is one argument that the Company did not address in its Initial Brief. She claims "the systems that process the millions of customer interactions are already in place and the

functions are in maintenance mode. The current level of resources is not necessary." Attorney General's Initial Brief, page 179. This claim is unsupported by evidence and misunderstands the nature of the work DCO performs.

Here the Attorney General does not cite the discovery response that was related to DCO and includes an identical claim, but because the Attorney General is repeating the same exact claim it would follow that the basis of the Attorney General's argument is the same discovery response as above that explicitly inquired about DCO operations. Exhibit AG-70, page 2. Not only does this further illustrate the Attorney General does not understand the function of the Analytics and Outreach function, it seems that the Attorney General does not understand the difference between the two groups which was clearly explained in rebuttal. 4 TR 1127-1130. Analytics and Outreach supports data analysis in support of a wide variety of functions across the Company (including regulatory reporting and field operations) while DCO supports the improvement, management, and maintenance of the mobile app and the website.

The Attorney General's assertion that the "systems … are in maintenance mode" cannot be found in the record, nor is it clear what maintenance mode means to the Attorney General. The Company's response states "some parts of the website and mobile app are based on automated functions. For other parts of those systems the DCO team is responsible for the maintenance, content management, and continuous improvement of the website and mobile app to ensure that it functions optimally to serve customer needs." Exhibit AG-70, page 2. DCO does not simply maintain the website, the team ensures that the website stays up to date and implements projects that add new functions and features to the website, and it collects customer feedback to make improvements. 4 TR 1086. The Attorney General is incorrect to connect systems being in place and in maintenance mode to the overall goal of DCO. DCO does maintain systems, but it also

improves and updates. The costs of the DCO have trended downward as the organization finds efficiencies, but ultimately the operational cost of DCO supports two major platforms (mobile app and website) that support over 45 million customer interactions annually. 4 TR 1129. The DCO's costs should be approved by the Commission.

9. Inflation Rate and Productivity Factors

At page 193 of her Initial Brief, the Attorney General recommends that the Commission direct the Company to clearly disclose by operating unit and cost function the forecasted inflationary cost increases it has included in the bridge period and the projected test year for specific expense items if those increases are different than the CPI forecasted inflation rates reported separately. This request is unnecessary. With the exception of Corporate Expenses, the Company projects its O&M expenses and explains the development and reasonableness of its projected amounts in its witnesses' testimonies.

MEC recommends that the Commission require the Company to show where and how it is offsetting inflation with productivity gains. MEC's Initial Brief, page 110. However, as explained above, the Company does not project all of expenses by applying an inflation factor, and thus there is no need for the Company to be required to demonstrate how it is offsetting inflation for those expenses. Additionally, the Company already reflects productivity gains in its test year expenses where applicable. 4 TR 1591. As explained in the Company's Initial Brief at page 337, Consumers Energy works toward continuing to mitigate inflationary pressures. And while the Company incorporates known savings in its cost projections, Company witness Heidi J. Myers explained that "accurately measuring productivity gains that accumulate over time and pointing to a specific spending line item in the case that is impacted can be complex. Productivity as defined by the BLS, is outputs divided by inputs. Trying to identify each and every change in either outputs or

inputs in the context of productivity as part of a regulatory filing would be overly burdensome." 4 TR 1593. Accordingly, MEC's proposal should be rejected.

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

A. Cost of Service

Consumers Energy supported approval of its Cost-of-Service Study ("COSS") Version 2, with certain changes proposed by Staff, and responded to other parties' arguments at pages 342 through 346 of the Company's Initial Brief. In its Initial Brief, ABATE argues that COSS Version 2 is "flawed" because it uses the Average & Peak ("A&P") cost allocation method. ABATE's Initial Brief, page 40. Consumers Energy does not agree that this represents a "flaw" in the Company's COSS Version 2. As Company witness Samuel M. Geller noted, although the Average and Excess method is reasonable and makes some improvements to the A&P method, the Commission has consistently approved the use of the A&P method to allocate distribution mains costs. 4 TR 1235.

B. Rate Design

Consumers Energy designed rates to recover from each customer class the revenue needed to serve each class. 4 TR 1786. This was the Company's number one priority and the lens through which it viewed all rate design issues.

1. Rate Design and Economic Breakeven Points

ABATE criticizes the Company for the costs allocated to the ST, LT, and XLT rate classes under the Company's rate design. ABATE's Initial Brief, page 68. The rate increases for these transportation rate schedules are based on the Company's COSS, which indicates that the cost to serve these rate classes is increasing more than the cost to serve other classes. ABATE would have other customer classes – sales customers – pay for the increasing cost to serve the ST, LT, and XLT transportation customers without a sound cost basis for doing so. As Staff witness

Nicholas M. Revere described it, ABATE would "arbitrarily lower[ ] the increase to the transportation class and shift[ ] revenue responsibility to the sales class (and amongst the transportation rate schedules)." 4 TR 2765. Company witness S. Austin Smith similarly questioned the cost basis for ABATE's proposal: "Rather than using a COSS to guide revenue allocation, [ABATE] witness York is relying on revenue apportionment—essentially shifting revenue between classes without a supporting cost basis." 4 TR 1808.

ABATE also claims that the Company has acknowledged its proposed rate design does not "align precisely with the current class COSS" and, according to ABATE, has implicitly acknowledged that ABATE's proposal would force the Company to do so. ABATE's Initial Brief, page 66. But the Company has not acknowledged this, implicitly or otherwise. Mr. Smith's statement that ABATE quoted in part – which was part of a hypothetical illustrating the potential for customer migration – should be read in context. He clearly said that ABATE's proposal did not produce cost-based rates. 4 TR 1808. And Mr. Smith obviously was not concerned that ABATE's proposal would somehow force the Company to adopt a cost-based approach as the Company already used a cost-based approach. Indeed, Mr. Smith criticized ABATE's approach for undermining "the very purpose of conducting a COSS in the first place." *Id.*

ABATE also continued to criticize the Company for designing rates to maintain breakeven points. It said that "the principal customers charges for Rates LT and XLT are set to maintain the existing economic breakeven points," which means these rate schedules were less than the COSS supported. ABATE's Initial Brief, page 66. Maintaining breakeven points was one of the Company's objectives, but it was a secondary objective. The Company's primary objective was to design cost-based rates that recover revenue from each customer class that reflects the costs to serve that class. Although the Company did make adjustments, it used the same breakeven points

that have been approved in past rate cases, which have proven effective at minimizing rate switching. 4 TR 1793-1794, 1809. The Company will not deviate from these breakeven points lightly or without Commission direction. 4 TR 1810.

The Commission should adopt the Company's proposed rate design.

2. Customer Charges

Concerning the Company's proposed customer charge, the parties generally agree on the facts but draw different conclusions from them. From the Company's perspective, the issue is, at its core, whether the customer charge should be cost based. If so, then the Commission should approve a customer charge that captures the costs directly associated with supplying service, like metering, service laterals, and customer billing. 4 TR 1804. The Company and Staff both proposed higher customer charges to capture more of these costs – even if the two parties disagree about the best method to use – while the Attorney General and MEC opposed any increase. See Attorney General's Initial Brief, page 198; MEC's Initial Brief, pages 119-120. The Attorney General and MEC do not deny that their proposed customer charges are not cost based, but this does not appear to bother them because they are more concerned about advancing other priorities. See, e.g., MEC's Initial Brief, pages 113-116, 119-120.

Someone, however, is paying to advance their priorities, and if it is not the customers benefiting from services like metering, service laterals, and customer billing, then it is customers who are not benefiting from these services who are nonetheless paying for them. This is the unbalanced outcome the Company seeks to avoid. And the Commission has historically avoided this outcome as well, holding that "customer charges should be limited to the costs associated directly with supplying service to a customer." MPSC Case No. U-17999, December 9, 2016 Order, page 66.

At the same time, the Company recognizes that there is value in moderating the increase. Achieving a cost-based charge would require a $7.00 increase to the current customer charge, and the Company proposed a lower $5.00 increase. 4 TR 1790. Moderating the impact is a secondary consideration though. Adhering to cost-causation principles when proposing the customer charge was the Company's highest priority – just like it has been the Commission's highest priority in the past when setting the customer charge.

To adhere to cost-causation principles, the Company proposed a customer charge that moves it closer to its cost of service than any other party's proposed customer charge. The Commission should adopt the Company's proposal.

VIII. OTHER ISSUES

A. Natural Gas Delivery Plan

In its Initial Brief at pages 124-138, MEC criticizes the Company's NGDP alleging that it presents "significant risk" to customers by "planning for a decarbonization pathway that entrenches investments in gas infrastructure rather than planning for a managed decline consistent with reduced gas demand and impending electrification." In other words, MEC seeks to require Consumers Energy to plan for a decline in its natural gas business. MEC argues that Consumers Energy is not planning for the future in MEC's desired manner, but MEC does not have managerial prerogative over Consumers Energy's natural gas business. MEC requests that the Commission make a variety of different findings (see 4 TR 2313-2317) that would modify the Company's natural gas business and increase costs for customers. The Commission should avoid MEC's recommendations to interfere with the Company's managerial discretion in the planning for the future of its natural gas business.

The Company's NGDP provides a comprehensive 10-year plan for Consumers Energy's gas systems. The NGDP is in response to the Commission's September 26, 2019 Order in Case

No. U-20322 that directed Consumers Energy to develop a plan addressing the long-term operational and investment needs for the supply and delivery of natural gas that includes comprehensive treatment of the Company's storage, transmission, compression, and distribution systems. Specifically, the Commission stated:

> Based upon the record evidence in the instant case, it is clear that Consumers' natural gas business is considering significant investments in the coming years to address aging infrastructure, to comply with federal and state regulations, and to incorporate advanced technologies to properly maintain and operate its gas storage, transmission, and distribution systems. As the Commission has previously recognized in recent DTE Electric Company (DTE Electric) and Consumers electric rate cases, "in order to properly evaluate these investments, and provide a greater level of regulatory certainty, the Commission finds that the rate case process would benefit from the company providing a more comprehensive, forward-looking capital investment and operations plan." January 31 order, p. 40; February 28, 2017 order in Case No. U-17990 (February 28 order), pp. 18-19. Thus, the Commission directs Consumers to develop a strategic plan addressing the long-term operational and investment needs for the supply and delivery of natural gas that includes comprehensive treatment of the company's storage, transmission, compression, and distribution systems. MCL 460.55; MCL 483.155. Increased visibility into system planning will provide value to the Staff, other parties, and the Commission through awareness and understanding of anticipated needs, priorities, and spending. A plan of this nature should provide an assessment of the current status of the overall system, and identify and prioritize the mitigation of risks that impact safety and system resiliency while addressing regulatory requirements related to Consumers' natural gas business. The plan should set forth metrics by which the company can measure its performance and demonstrate progress toward achieving set goals. The Commission further recognizes that the identification and prioritization of risk is a constantly changing landscape that will require an iterative process which results in a strategic plan that evolves and improves over time. The Commission therefore directs the Staff to work with Consumers to address clarifying questions on the plan framework.

> Turning to the issue of safety, the Commission further expects Consumers to develop and implement a Pipeline Safety Management System (SMS) in accordance with American Petroleum Institute Recommended Practice 1173. A Pipeline SMS is intended to establish conformity across all of a pipeline operator's processes, procedures, and standards. Frequently, significant pipeline incidents are the result of a breakdown of multiple processes that become aligned during the incident. The Pipeline SMS seeks to identify gaps in practices and establish counter-measures that will minimize the likelihood of these compounding weaknesses manifesting themselves into failure. Safety is paramount in the decision-making of the Commission, and the Commission finds that development and implementation of a Pipeline SMS will serve to ensure pipeline operators understand and minimize the risk inherent in the operation of the natural gas system. [MPSC Case No. U-20322, September 26, 2019 Order, pages 34-35.]

The NGDP provides a clear and transparent investment plan framework for the next decade for the Company's natural gas assets. This investment plan framework considers safe and reliable gas supply and how the Company plans to evolve its assets in accordance with the Gas Pipeline industry standard American Petroleum Institute Recommended Practice 1173 Pipeline Safety Management Systems ("PSMS") framework. The Company's program in response to the PSMS is called the Gas Safety Management Systems. It also incorporates the suggestions discussed in the Commission's Statewide Energy Assessment ("SEA") final report, in Case No. U-20646, issued on September 11, 2019. The Commission's SEA includes recommendations that gas utilities develop safety management systems, use probabilistic risk models to prioritize investment across natural gas investment portfolios, limit risks associated with commodity supply, and enhance natural gas delivery through the development of demand response and remote gas shutoff systems.

In addition to addressing various Commission requirements above, the Company's NGDP also develops a strategic framework in response to decarbonization goals and future policy. 4 TR 569. The Commission has never required or requested that the Company examine decarbonization as part of its NGDP. In fact, Michigan does not have statutes in place that addresses decarbonization of the gas system. On its own initiative, Consumers Energy has made one of the primary objectives of the NGDP the "reduction of the Company's and its customers' contribution to climate change through gas system decarbonization. Gas system decarbonization will include options for reducing methane emissions across the delivery system and investment in renewable natural gas to help customers offset emissions associated with natural gas use." Exhibit A-42 (NPD-1), page 12. Consumers Energy has established its own climate goals and is committed to reducing fugitive methane and carbon emissions from the delivery system, while also better understanding the emissions from the natural gas upstream suppliers and end-use. This commitment is demonstrated in the Company's Scope 1 net zero methane emissions goal by 2030 and Scope 3 customer net zero carbon emissions goal by 2050. These goals align with the MI Healthy Climate Plan.[20] Exhibit A-42 (NPD-1), page 14.

While MEC spends a significant amount of time disagreeing with the decarbonization analysis included in the NGDP, it should be noted that this was a state level analysis performed by a third party. This analysis was not performed to meet any statutory mandates. Nor has the Company included any requests for cost recovery towards actions solely focused on decarbonization in this case. The current version of the NGDP focuses on how Consumers Energy will meet its methane net-zero plan, as well as a plan to help customers achieve a 20% reduction in Scope 3 emissions by 2030. Exhibit A-42 (NPD-1), pages 77-81. The NGDP shows the

[20] This plan was release in 2022.

Company's plan to help customers achieve a 20% reduction in Scope 3 emissions primarily through the use of EWR measures, renewable natural gas ("RNG"), carbon offsets, as well as new emerging technologies. Exhibit A-42 (NPD-1), page 79. Voluntary options under the MI Clean Air Program allow customers to choose to reduce emissions associated with natural gas. *Id*. at 80. And while MEC criticizes how EWR is included in the NGDP (see MEC's Initial Brief, page 132), the Company incorporates the results of its most recently litigated EWR Plan into the NGDP.[21] These EWR Program offerings play a role in decarbonizing the gas system.[22]

As described in the NGDP, the Company is actively investigating all potential carbon reduction pathways to meet the needs of customers in the future with an established decarbonization framework. This could include certain non-pipeline alternatives. But as Company witness Dreisig explained, certain non-pipeline alternative measures will increase customer costs. 4 TR 582. There is also the possibility that certain measures will introduce risk to the safety of the natural gas system. *Id*. at 583. Nevertheless, the Company is evaluating a number of decarbonization measures including RNG, exploring network geothermal technology, and studying synthetic gas production in Michigan using green hydrogen. *Id*. Additionally, Consumers Energy regularly collaborates with stakeholders around the industry to inform and validate decarbonization modeling and analysis assumptions. This includes collaborating with other domestic and global peer utilities, the Low Carbon Resources Initiative, the H2EDGE Program, the MI Hydrogen Initiative, and the Midwest Alliance for Clean Hydrogen ("MachH2")

[21] The Company's results from the 2024-2025 EWR Plan, Case No. U-21321, are integrated in the NGDP. See Exhibit A-42 (NPD-1) pages 83-85.

[22] At pages 135-136 of MEC's Initial Brief, MEC criticizes the Company for not having a gas demand response program. Consumers Energy concluded a gas demand response pilot after the 2020/2021 and 2021/2022 winter seasons. The results of the Company's pilots indicate that a full-scale customer program for natural gas demand response would not provide enough benefits to be cost effective. 2 TR 111. While the Company may choose to re-examine gas demand response, MEC has not provided a valid basis for the Company to revisit the pilot every three years, nor did it address the cost-effectiveness of the pilot in its request.

hydrogen hub as an energy provider. *Id*. Consumers Energy is actively investigating all clean fuel pathways to meet the needs of customers and assessing which technologies best support the future. The Commission should reject the arguments raised by MEC and recognize that the Company is actively considering various decarbonization pathways and the associated costs and risks of each.

IX. CONCLUSION

For reasons discussed in this Reply Brief, the Initial Brief, and as set forth in the evidence presented by Consumers Energy Company, Consumers Energy Company requests that the Michigan Public Service Commission authorize an increase in gas rates sufficient to produce additional annual revenues in the amount of $217,171,000 and grant the other related relief as set forth in more detail in this Initial Brief and the record evidence.

CONSUMERS ENERGY COMPANY

Dated: July 11, 2025 By: _____

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ATTACHMENT A

SCHEDULE E-4

MICHIGAN PUBLIC SERVICE COMMISSION

Case No.: U-17882
Exhibit: A-11 (JMS-4)
Schedule E-4
Witness: JMShore
Date: July 2015
Page: 1 of 1

Consumers Energy Company
Market Outlook: 5-Year Annual Calendar Gas Forecast by Class
(Consumption in MMcf)

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
					Inter-		LAUF Gas Volumes		
Line No.	Year	Residential	Commercial	Industrial	departmental	Total	MMcf	% of Output	Sendout
1	2016 Fcst	159,995	76,798	63,973	533	301,300	4,766[(2)]	1.6	306,065
2	2017 Fcst	159,812	77,249	63,284	528	300,873	4,000	1.3	304,873
3	2018 Fcst	159,674	77,193	62,921	500	300,288	4,000	1.3	304,288
4	2019 Fcst	159,621	77,190	62,759	504	300,074	4,000	1.3	304,074
5	2020 Fcst	159,797	77,231	62,579	519	300,126	4,000	1.3	304,126
6	CAGR (16-20)	0.0%	0.1%	-0.5%	-0.7%	-0.1%	-4.3%		-0.2%

Notes
(1) CAGR - Compound Annual Growth Rates
(2) Exhibit A-19 (SHB-6), line 14, column d

SCHEDULE E-4

MICHIGAN PUBLIC SERVICE COMMISSION

Consumers Energy Company
Market Outlook: 5-Year Annual Calendar Gas Forecast by Class
(Consumption in MMcf)

Case No.: U-18124
Exhibit: A-11 (EJK-4)
Schedule E-4
Witness: EJKeaton
Date: 43009
Page: 1 of 1

Line	Year	Residential	Commercial	Industrial	Inter-Departmental	Total	LAUF Gas Volumes MMcf	LAUF Gas Volumes % of Output	Sendout
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	2016 Fcst	161,290	76,923	62,853	263	301,329	5,510 (2)	1.8	306,839
2	2017 Fcst	161,336	76,953	62,672	470	301,431	5,510	1.8	306,941
3	2018 Fcst	161,197	76,848	62,858	451	301,354	5,510	1.8	306,864
4	2019 Fcst	161,087	76,802	63,017	440	301,346	5,510	1.8	306,856
5	2020 Fcst	161,134	76,841	63,303	430	301,708	5,510	1.8	307,218
6	CAGR (16 -20)	0.0%	0.0%	0.2%	13.1%	0.0%	0.0%		0.0%

Notes
(1) CAGR - Compound Annual Growth Rates
(2) Exhibit A-18 (SHB-6), line 14, column (d)

Schedule E-1

MICHIGAN PUBLIC SERVICE COMMISSION
Consumers Energy Company
Market Outlook: 5-Year Annual Calendar Gas Forecast by Class
(Consumption in MMcf)

Case No.: U-18424
Exhibit No.: A-15 (EJK-5)
Schedule: E-1
Page: 1 of 1
Witness: EJKeaton
Date: October 2017

Line No.	(a) Year	(b) Residential	(c) Commercial	(d) Industrial	(e) Inter-Departmental	(f) Total	(g) LAUF Gas Volumes MMcf	(h) % of Output	(i) Sendout
1	2017 Fcst	160,349	78,361	62,682	360	301,752	4,983[(2)]	1.7	306,735
2	2018 Fcst	160,093	78,732	62,791	331	301,946	4,983	1.7	306,929
3	2019 Fcst	159,899	79,234	63,477	306	302,916	4,983	1.6	307,899
4	2020 Fcst	159,847	79,839	64,135	287	304,108	4,983	1.6	309,091
5	2021 Fcst	160,095	81,583	64,473	279	306,430	4,983	1.6	311,413
6	CAGR (17 -21)	0.0%	1.0%	0.7%	-6.2%	0.4%	0.0%		0.4%

600.00%

Notes
(1) CAGR - Compound Annual Growth Rates
(2) Exhibit A-54 (MPP-6), line 14, column (d)

Schedule E-1

MICHIGAN PUBLIC SERVICE COMMISSION
Consumers Energy Company
Market Outlook: 5-Year Annual Calendar Gas Forecast by Class
(Consumption in MMcf)

Case No.: U-20322
Exhibit No.: A-15 (EJK-5)
Schedule: E-1
Page: 1 of 1
Witness: EJKeaton
Date: November 2018

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
							LAUF Gas Volumes		
Line	Year	Residential	Commercial	Industrial	Inter-departmental	Total	MMcf	% of Output	Sendout
1	2018 Fcst	159,097	83,529	60,956	187	303,769	2,954 (2)	1.0	306,723
2	2019 Fcst	161,573	80,776	60,116	343	302,808	2,954	1.0	305,763
3	2020 Fcst	162,303	81,093	60,203	340	303,939	2,954	1.0	306,893
4	2021 Fcst	163,049	81,706	64,483	340	309,578	2,954	1.0	312,533
5	2022 Fcst	163,438	82,380	65,226	341	311,385	2,954	0.9	314,339
6	CAGR (19 -23)	0.7%	-0.3%	1.7%	16.2%	0.6%	0.0%		0.6%

Notes
(1) CAGR - Compound Annual Growth Rates
(2) Exhibit A-30 (SHB-6), line 14, column (d)

Schedule E-1

MICHIGAN PUBLIC SERVICE COMMISSION
Consumers Energy Company
Market Outlook: 5-Year Annual Calendar Gas Forecast by Class
(Consumption in MMcf)

Case No.: U-20650
Exhibit No.: A-15 (EJK-5)
Schedule: E-1
Page: 1 of 1
Witness: EJKeaton
Date: December 2019

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
							LAUF Gas Volumes		
Line	Year	Residential	Commercial	Industrial	Inter-departmental	Total	MMcf	% of Output	Sendout
1	2019 Fcst	162,884	80,907	58,955	339	303,085	2,663 (2)	0.9	305,748
2	2020 Fcst	161,706	78,921	57,524	341	298,492	2,663	0.9	301,155
3	2021 Fcst	162,244	79,162	61,743	340	303,489	2,663	0.9	306,152
4	2022 Fcst	162,664	79,680	62,737	342	305,424	2,663	0.9	308,087
5	2023 Fcst	162,903	80,210	62,523	341	305,978	2,663	0.9	308,641
6	CAGR (19 -23)	0.0%	-0.2%	1.5%	0.2%	0.2%	0.0%		0.2%

Notes
(1) CAGR - Compound Annual Growth Rates
(2) Exhibit A-73 (TKJ-4), line 14, column (f)

Schedule E-1

MICHIGAN PUBLIC SERVICE COMMISSION
Consumers Energy Company
Market Outlook: 5-Year Annual Calendar Gas Forecast by Class
(Consumption in MMcf)

Case No.: U-21148
Exhibit No.: A-15 (EJK-5)
Schedule: E-1
Page: 1 of 1
Witness: EJKeaton
Date: December 2021

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
					Inter-		LAUF Gas Volumes		
Line	Year	Residential	Commercial	Industrial	departmental	Total	MMcf	% of Output	Sendout
1	2022 Fcst	159,455	79,487	70,931	271	310,144	2,922 (2)	0.9	313,066
2	2023 Fcst	159,303	79,158	70,948	269	309,678	2,922	0.9	312,600
3	2024 Fcst	159,183	79,101	70,277	265	308,826	2,922	0.9	311,748
4	2025 Fcst	158,907	79,038	69,760	263	307,968	2,922	0.9	310,890
5	2026 Fcst	158,701	79,059	69,558	260	307,578	2,922	1.0	310,500
6	CAGR (22 -26)	-0.1%	-0.1%	-0.5%	-1.1%	-0.2%	0.0%		-0.2%

Notes
(1) CAGR - Compound Annual Growth Rates
(2) Exhibit A-113 (TKJ-4), line 14, column (f)

Schedule E-1

MICHIGAN PUBLIC SERVICE COMMISSION
Consumers Energy Company
Market Outlook: 5-Year Annual Calendar Gas Forecast by Class
(Consumption in MMcf)

Case No.: U-21308
Exhibit No.: A-15 (EJK-5)
Schedule: E-1
Page: 1 of 1
Witness: EJKeaton
Date: December 2022

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
							LAUF Gas Volumes		
Line	Year	Residential	Commercial	Industrial	Inter-departmental	Total	MMcf	% of Output	Sendout
1	2023 Fcst	159,238	80,104	71,741	267	311,350	3,195 (2)	1.0	314,545
2	2024 Fcst	159,088	79,975	71,049	262	310,374	3,195	1.0	313,569
3	2025 Fcst	158,822	79,837	70,478	257	309,394	3,195	1.0	312,589
4	2026 Fcst	158,574	79,779	70,209	256	308,818	3,195	1.0	312,013
5	2027 Fcst	158,406	79,762	70,073	254	308,495	3,195	1.0	311,690
6	CAGR (22 -26)	-0.1%	-0.1%	-0.6%	-1.2%	-0.2%	0.0%		-0.2%

Notes
(1) CAGR - Compound Annual Growth Rates
(2) Exhibit A-73 (TKJ-4), line 14, column (f)

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

PROOF OF SERVICE

STATE OF MICHIGAN)
) SS
COUNTY OF JACKSON)

Crystal L. Chacon, being first duly sworn, deposes and says that she is employed in the Legal Department of Consumers Energy Company; that on July 11, 2025, she served an electronic copy of the **Reply Brief of Consumers Energy Company**, pursuant to the Protective Order in this case, upon the persons listed in Attachment 1 hereto, at the e-mail addresses listed therein.

Crystal L. Chacon

Crystal L. Chacon

Subscribed and sworn to before me this 11th day of July 2025.

Jennifer Joy Yocum

Jennifer Joy Yocum, Notary Public
State of Michigan, County of Jackson
My Commission Expires: 12/17/30
Acting in the County of Jackson

ATTACHMENT 1 TO CASE NO. U-21806

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* Receives Confidential Materials

ATTACHMENT 1 TO CASE NO. U-21806

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