

September 4, 2025

Ms. Lisa Felice  
Executive Secretary  
Michigan Public Service Commission  
7109 West Saginaw Highway  
Post Office Box 30221  
Lansing, MI 48909

**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 **Consumers Energy Company's Replies to the Exceptions to the Proposal for Decision.**

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,

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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

**CONSUMERS ENERGY COMPANY'S REPLIES TO EXCEPTIONS**  
**TO THE PROPOSAL FOR DECISION**

September 4, 2025

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**CONSUMERS ENERGY COMPANY’S REPLIES TO EXCEPTIONS  
TO THE PROPOSAL FOR DECISION**

In accordance with the schedule established by the Administrative Law Judge (“ALJ”), Consumers Energy Company (“Consumers Energy” or the “Company”) files these Replies to the Exceptions of the other parties. Failure to address any individual argument presented by another party should not be interpreted as acquiescence to that argument. In such instances, Consumers Energy relies upon its Exceptions to the Proposal for Decision (“PFD”), Initial Brief, Reply Brief, and the evidentiary record.

**I. RATE BASE**

**A. Net Utility Plant**

**1. Gas Transmission and Distribution Capital Expenditures**

**a. New Business Program**

**i. Mains Services & Meter Stands**

During the course 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. The PFD recommended adoption of these modified projections. PFD, page 36.

The PFD appropriately recommended rejection of Michigan Environmental Council (“MEC”), Sierra Club, and Citizen’s Utility Board of Michigan’s (“CUB”) (collectively “MSC”) proposed new business cost modifications. Specifically, the PFD recommended “rejecting the suggestion to set customer growth rates to zero or less than zero. While the growth of natural gas customers could decelerate, potentially aided by increased electrification of home heating, there is insufficient data on the record to support this recommendation at this time.” PFD, page 36. Additionally, the PFD rejected MSC’s call to reduce the allowance for new line extension costs to 50% of total costs starting in the test year indicating that “[t]his recommendation is a significant alteration and there is insufficient evidence in the record to support it.” *Id.* The Michigan Public Service Commission (“MPSC” or the “Commission”) should reject MSC’s exception to the PFD’s recommendation and deny MSC’s request that the Commission disallow \$26,832,000 in New Business capital expenditures. MSC’s Exceptions, page 2.

MSC claims that the Commission should require the Company to reduce the amount of new customer attachment costs socialized to existing customers. MSC’s Exceptions, page 11. There is no support for this recommendation. MSC arbitrarily reduced the Company’s projection by 50%. But there is no evidence to support the proposition that there will be a 50% reduction in new customers requesting service. MSC did not consider the impact that this modification will have on attaching customers nor the impact to homebuilding in the state. MSC did not consider that other Michigan utilities have similar customer attachment programs (“CAPs”) nor does MSC explain why it is reasonable for new Consumers Energy natural gas customers to pay a higher upfront cost than similar customers of other Michigan utilities. Nor has MSC 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 MSC in DTE Gas

Company's ("DTE Gas") recent rate case. See MPSC Case No. U-21291, November 7, 2024 Order, pages 81-86. Moreover, the evidence shows 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.

MSC continues its argument by alleging that the Company's line extension policies incentivize new customer connections by subsidizing much of the cost to connect. MSC argues that in this "increasingly risky environment, continuing to impose 90% of the costs of new connections on other customers on the assumption that the new customers will eventually pay these costs through rates is unreasonable." MSC's Exceptions, page 6. Despite the fact that MSC has no evidentiary support for its speculative claim of a "risky environment," the record in this case shows 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 a new service is retired prematurely, or the Company does not receive the forecasted revenue over the course of the next 20 years. However, 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 and Reply Brief. MSC's argument also 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.

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 also considers projected revenue from the customer in accordance with the Customer Attachment tariffs, Rule C8 of the Company's Rate Book for Natural Gas Service. *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 its proposed modification, MSC challenges the assumptions utilized in the Company's Gas Engineering Model (see MSC's Exceptions, pages 4-9) claiming that the Company did not support the reasonableness of these assumptions. This argument is also 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. MSC, however, carries the burden of supporting its concerns with the approved tariff. 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. See 2 TR 199-209. Accordingly, MSC's arguments should be dismissed, and the Commission should reject MSC's requested cost disallowance.

**ii. Large New Business Projects**

With respect to the Company's Large New Business project, the PFD found that "the company accepted most of the Attorney General's recommended disallowances, although it rejected a disallowance related to the Delta Energy Park because it now has a signed contract and is expected to be completed by the end of 2025. This PFD agrees with the company's position and recommends accepting the company's concession to disallow \$1.948 million in 2024, \$0.685 million in the 2025 bridge period, and \$4.820 million in the projected test year." PFD, page 40. The Attorney General takes exception to this recommendation, alleging uncertainty around the project's timeline. See Attorney General's Exceptions, pages 4-5. This reasoning is unfounded. The timeline related to the Delta Energy Park project is set. As indicated in Exhibit AG-2, page 6, and discussed by Company witness Lincoln D. Warriner, the contracts related to the project were signed in April 2025. Construction is ongoing, and the project is expected to be completed by November 1, 2025. The Attorney General does not provide a reasonable basis for her recommendation, and the Commission should approve the Company's request for recovery of these reasonable project costs.

**b. Asset Relocation Program**

**i. Transmission Asset Relocation**

The PFD declined to recommend the Attorney General's requested modifications to the Company's Transmission Asset Relocation expenditures and reasonably found that "[t]he three disputed projects already have a preliminary design in progress in addition to having work scheduled to begin during the projected test year. Thus, while these projects may not be fully developed, they already have design work in progress such that they appear to be sufficiently developed to warrant inclusion in rate base." PFD, page 46. The Attorney General disagrees with this recommendation. Attorney General's Exceptions, pages 5-8.

Contrary to the Attorney General’s Exceptions, the Company’s transmission asset relocation projects are following their typical schedule. Exhibit AG-17 provides the timing and cost of these projects. While the Attorney General claims that “the start of construction is not certain” (Attorney General’s Exceptions, page 7), these projects are in the engineering stage. The Company’s engineers manage the projects being constructed in the current year up until late spring. Then, these projects start to be released for construction during the construction season. 4 TR 1307. At that time, the engineers begin working on projects for the next year. *Id.* This is the normal project cadence. These projects are on track for construction in 2026 and the Commission should reasonably approve the Company’s Asset Relocation Transmission Program capital expenditures.

**ii. Distribution Asset Relocation– 2023 Historical Projects**

The Mound Road reconstruction project is a civic improvement project that incurred capital expenditures in 2022 and 2023, with work completed in 2024. 2 TR 59. The PFD reasonably determined that the Company supported the costs associated with this project. See PFD, page 45. These costs are related to work already undertaken and the project is being used for the benefit of customers. The Association of Businesses Advocating Tariff Equity (“ABATE”) takes exception to recovery of these costs, claiming that the cost variance is unsupported, and recommended a \$5.319 million disallowance for this project. ABATE’s Exceptions, pages 3-4. This recommendation should be rejected.

Replacing utility infrastructure when undergoing a civic improvement project is complex. This work involves coordination of work scope and schedules with municipal project administrators and construction crews who may have project requirements that are specific to the local community. 2 TR 123. The Company rarely has complete information about the civic improvement projects when developing the project estimate at the time the annual budget

projections were created. 2 TR 123. Large civic improvement project estimates that were used for the Company's 2023 budget were not intended to be precise estimates. 2 TR 123.

The PFD correctly acknowledged why the costs increased for the project. In Exhibit AB-5, the Company explained that the cost variance from the original budget was due to scope changes by the county responsible for road construction and heavy concrete restoration work also resulted in additional project cost. See PFD, page 45. To this point, the PFD properly reasoned, “[i]t would not be reasonable to hold the company responsible for cost overruns caused by changes in scope prompted by a third party.” *Id.*

The Company understands that there are variances within its asset relocation projects and occurred in this required project. The cost variances do not mean the project is unreasonable. The costs associated with the Mound Road reconstruction project are reasonable, and the Commission should approve recovery of these historical costs.

**c. Regulatory Compliance**

**i. Transmission and Distribution MAOP**

Citing the Commission's decision in Case No. U-21404, where the Commission addressed a similar issue, the PFD indicated that it declined to adopt the Attorney General's proposed 50% disallowance for maximum allowable operating pressure (“MAOP”) capital expenditures. The PFD correctly noted that these expenditures are required for safety purposes to reestablish the MAOP of the pipelines. PFD, page 57. The Attorney General disagrees with the PFD's recommendation, arguing that a disallowance of 50% of the expenditures is appropriate given that the expenditures are being incurred because of the Company's alleged failure to maintain records. Attorney General's Exceptions, page 9.

The Company disagrees with the suggestion that it failed to maintain appropriate records to establish MAOP. Before 1970, there was no requirement for pressure test records at all. 2 TR

129. Under the Pipeline and Hazardous Materials Safety Administration's ("PHMSA") pipeline safety regulations implemented starting in 1970, those pre-existing pipelines without pressure test records were "grandfathered" and permitted to continue operating without records as long as they were not operated at pressures exceeding the highest pressure observed between 1965 and 1970. 2 TR 129. PHMSA has indicated that its new regulations "clarifies and expands recordkeeping requirements...." Exhibit AG-6, page 4. PHMSA's new regulations require the Company, for the first time ever, to have records meeting the new "traceable, verifiable, and complete" ("TCV") record standard even for pre-1970 pipelines if the pipeline operates above 30% of the Specified Minimum Yield Strength ("SMYS"). 2 TR 129-130. Second, between 1970 and 2020, new pipeline segments put into service were required to have *some* pressure test records, but they *were not* required to have pressure test records that would meet the new TVC standard that only became effective in 2020. The new PHMSA regulations require utilities to have records that are able to be linked to a specific pipeline segment and to also have "complementary, but separate documentation" that provides redundant documentation of pressure test results. 2 TR 131. Before the new regulations became effective in 2020, a utility may have had records that documented pressure testing for the whole pipeline more generally but not necessarily records that could be traced to each specific segment of that pipeline. Likewise, before the new regulations became effective in 2020, a utility may have had a single record to document pressure testing, but not two or more redundant records to document the same pressure testing. Those conditions would have been consistent with the standards at the time, even though they do not meet the standards going forward.

The new PHMSA regulations establish the record requirements the Company should have by the completion dates set forth in 49 CFR 192.624(b); i.e. 50% of impacted pipeline segments

must be compliant by July 2028 and the rest by July 2035. It does not somehow create a mandate that utilities were to have had compliant records before the new rules became effective. The Company could not have known in 1950 (or even 1990) what new documentation requirements PHMSA would enact in 2020. The Attorney General's claim is facially arbitrary and unreasonable. Her claim that Consumers Energy failed to maintain records is wrong.

Under federal regulations, there are six ways to reconfirm a pipeline's MAOP: (1) pressure testing; (2) pressure reduction; (3) engineering critical assessment; (4) pipe replacement; (5) pressure reduction for pipeline segments with small potential impact radius; and (6) alternative technology. 49 CFR 192.624. The Company evaluated these methods for each gap segment and chose replacement as the best option. In Exceptions, the Attorney General claims that "the Company did not identify any alternatives to replacement to re-establish the MAOP." Attorney General's Exceptions, page 9. This is inaccurate. In selecting a MAOP reconfirmation method, the Company chose the manner that would provide benefits to customers beyond compliance with the rules. 4 TR 1305. Additionally, the Company explained that other reconfirmation methods are not practical or feasible due to existing operational constraints and risks on the Company's distribution system. 2 TR 79. For example:

- Reconfirmation methods 2 and 5 involve pressure reduction, which is not practical in most instances. All the line segments requiring MAOP reconfirmation are in critical high-pressure systems, and some, like the Company's distribution lines in southeast Michigan, are highly interconnected. 2 TR 79-80. Pressure reduction would impact the full length of the line or multiple lines, in interconnected systems, which would reduce deliverability downstream. 2 TR 80.
- Reconfirmation method 1, which requires pressure testing, is not feasible and is risky because the distribution system is not generally designed to remove water used in pressure testing—water that must be removed after testing is completed. 2 TR 79. If pressure testing failed, the line would have to be replaced anyway and the potential for unplanned outages during such an event, particularly if it created the need for replacement before the winter heating season, would create a risk that the Company would not be able to provide gas to customers when needed. 2 TR 80.

- Other reconfirmation methods involve material verification testing, which involves removing samples of pipe so they can be lab tested to confirm the pipeline’s material properties through destructive testing.<sup>1</sup> 2 TR 87.

By contrast, replacement offers many benefits. For example, when replacing a segment, to ensure it complies with current MAOP standards, the replacement pipeline would be designed, constructed, and pressure tested according to these standards. 2 TR 79. As a result, the Company would avoid the operational risks and constraints of re-testing pipe that is already in service. *Id.* Mr. Warriner explained that “[t]he Company’s plan to replace various pipeline segments, as opposed to other reconfirmation options, best balances the need to maintain service to customers while complying with the new requirements.” 2 TR 132

As noted in the PFD and the Commission Order in Case No. U-20940, cost recovery for these projects is reasonable when the need to take remediation actions can also provide other benefits to customers. In addition to complying with the new PHMSA regulations, Company witnesses Warriner and Michael P. Griffin detailed the different benefits the projects to be undertaken will provide at 2 TR 79-90, 131-132; 4 TR 1305-1306. Accordingly, the Commission should reject the Attorney General’s exception and include all of the Company’s projected investments for its Distribution and Transmission MAOP projects for the bridge period and test year in the rates set in this case.

**d. Material Condition Program**

**i. Material Condition Non-Modeled Program**

Under the Material Condition Non-Modeled Program, the Company performs replacements to address emergent issues that must be resolved to comply with regulations or to ensure safety, and targets certain assets for replacement that may not rank as highly in the

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<sup>1</sup> Destructive testing assesses a pipeline’s material properties by placing incremental levels of stress on the pipe until the pipe breaks to determine its yield strength.

Company's risk modeling but whose replacements benefit customers. 3 TR 398-399. Project types include main or service replacements due to active damages, leaks, or temporary repairs that need to be resolved within the year; safety situations such as saddle tee replacements; cathodic issues; resolution of standards discrepancies or customer issues; and operational improvements not effectively represented in risk model results, and thus are not Enhanced Infrastructure Replacement Program ("EIRP") projects. 3 TR 399.

The Attorney General recommended capital expenditure reductions in the Material Condition Non-Modeled Program for the Wrought Iron Mains, Leak Mitigation and Obsolete Meters, and Line 1010 projects. See 4 TR 1884-1887. The PFD properly rejected the Attorney General's recommended reductions for the replacement of wrought iron mains, leak mitigation, and replacement of obsolete meters based on the PFD's determination that the Company "adequately explained the need for these expenditures." PFD, page 63. The PFD also appropriately rejected the Attorney General's recommended 50% disallowance associated with Line 1010 for the same reason the PFD rejected the disallowance for other MAOP capital expenditures. PFD, pages 62-63. The Commission should reject the Attorney General's exceptions to the PFD's findings on these issues. See Attorney General's Exceptions, pages 10-14. First, the Attorney General argues that the capital expenditures for wrought iron main replacement should be disallowed because the replacements should be performed in the EIRP instead of in the Material Condition Non-Modeled Program. Attorney General's Exceptions, pages 11-12. The Attorney General takes the position that since some wrought iron main projects are performed in the EIRP, all wrought iron main projects must be performed as part of the EIRP. See Attorney General's Exceptions, page 11. The Attorney General's argument must be rejected.

The Material Condition Non-Modeled Program includes projects based on operational improvements that may not be effectively represented in a risk model under the EIRP, and the Company's replacement of the standard pressure system under the Material Condition Non-Modeled Program involves the replacement of cast iron. 3 TR 399-401, 447-448. Of the remaining 12 miles of wrought iron main, the Company plans to split the replacement between the EIRP and the Material Condition Non-Modeled Program. 3 TR 448. Because of the lower quality used to manufacture wrought iron pipelines, it is impossible to ensure the quality of a finished weld would be adequate for use on the gas system. 3 TR 448. The EIRP risk model does not account for whether the main is weldable. And the wrought iron main replacement planned to be completed in the Material Condition Non-Modeled Program are small segments of pipe that may not be prioritized in the EIRP risk modeling. *Id.* Wrought iron mains are part of the Company's medium pressure system, and replacing the remaining miles of wrought iron enhances reliability and safety. *Id.*

There is no reason to require that all wrought iron replacements occur as part of the EIRP, particularly where the EIRP risk model is not likely to highly rank these projects given their size and characteristic. The Commission should approve the costs to complete these prudent replacements.

Second, the Attorney General argues that the capital expenditures for the Leak Mitigation and Obsolete Meter projects should be disallowed based on the Attorney General's contention that the Company did not adequately support the projects. Attorney General's Exceptions, page 12. As the PFD determined, the Attorney General's argument should be rejected.

The leak mitigation performed in the Material Condition Non-Modeled program is planned leak replacements, while emergent projects are included in Material Condition renewals. The leak

details discussed as part of Material Condition Renewals apply to both programs. 3 TR 449. The Company provided evidence showing the total number of leaks found during leak surveys annually from 2017 through 2024, and a ratio of leaks repaired to the sum of leaks repaired and open leaks at year end. 3 TR 409. To improve system integrity and public safety, the Company is replacing metallic services and mains rather than repairing them to prevent future leaks on the same service or main and repeat repairs. 3 TR 410. The Company also plans to eliminate Grade 2 leaks by January 2026 and to reduce Grade 3 leaks through the test year. *Id.*

The Attorney General criticized the PFD for stating that Exhibit AG-10 provided support for the leak mitigation expenditures, arguing that “[t]here is no justification for the specific requests in that exhibit.” Attorney General’s Exceptions, page 12. The Attorney General’s argument is incorrect. For example, Exhibit AG-10, page 4, explains that the leak mitigation in the Material Condition Non-Modeled is for projects planned and designed by the engineering team, while Material Condition Renewals involves field-initiated replacement projects that require immediate attention. Exhibit AG-10, page 4, also details the number of leak mitigation projects that were performed in 2024 and forecasted for 2025 and 2026 along with their projected cost. The Commission should approve the projected leak mitigation expenditures to provide the funding needed for the Company to address leaks in the Material Condition Non-Modeled Program.

Similarly, the obsolete meter replacements in the Material Condition Non-Modeled Program are for planned meter replacements to meet meter exchange requirements and minimize customer outages that correspond to emergent meter exchanges. 3 TR 450. The Company performs meter exchanges pursuant to MPSC requirements. See Exhibit A-42 (NPD-1), page 58. See also the Company’s Natural Gas Diaphragm Meter Testing Procedures most recently approved in the Commission’s September 26, 2024 Order in Case No. U-21341. These replacements include

the replacement of meter stands because of the Regulated Meter (“RM”) residential gas meter that was discontinued in 2021. 3 TR 412. The RM meter is the most common meter in Consumers Energy’s gas system. 3 TR 412. As the RM inventory decreases, it becomes necessary to replace RM meter stands with top-connect meter stands due to the different connection methods of each type of meter. *Id.* Exhibit AG-10, page 4, details the number of obsolete meter replacements planned for 2026 along with their projected cost. The Company is performing 5,500 obsolete meter replacements as part of the Material Condition Non-Modeled Program. 3 TR 399. The Commission should approve the projected expenditures that will provide the needed funding to meet meter exchange requirements to ensure all customers have the necessary meters. 3 TR 450-451.

Third, the Attorney General argues that 50% of Line 1010 costs should be disallowed based on the Attorney General’s position that the Company should cover 50% of the costs related to MAOP remediation. PFD, page 14. The Commission should reject the Attorney General’s recommendation.

Line 1010 is a 1950s era pipeline that the Company purchased from another utility. 3 TR 403. PHMSA rules related to TVC records for pressure test documentation previously exempted pipeline segments installed before test record requirements implemented in 1970 from original construction pressure test documentation requirements and permitted these pipelines to operate at the highest actual operating pressure observed between 1965 and 1970. 3 TR 403-404. In 2020, PHMSA updated the rule to limit this exemption to pipelines operating below 30% of the SMYS. 3 TR 404. Thus, the Company must reconfirm the MAOP for all pre-1970 pipelines operating above 30% SMYS. *Id.*

When Line 1010 was built in 1951, there was no code requirement to maintain pressure test records. 3 TR 404. The Company explored the option to repressure test Line 1010, but found that it was not feasible to retest all of Line 1010 while serving customers on the system. 3 TR 405. Customers would have been without gas for durations from several hours to several days during the testing. *Id.* Thus, the Company determined that replacing the line is the best alternative, which allows the Company to also provide customer improvements such as a larger pipe to meet customer demand. 3 TR 451-452. This replacement will bring the pipeline into compliance with the new PHSMA rule, as well as convert three services from high pressure to medium pressure, install a 200-foot bypass near the Coolidge City Gate, and will operate at a pressure that will avoid the need to be inspected every six years as part of the Transmission Integrity Management Program. 3 TR 404. Considering all these factors and project benefits, the Commission should reject the Attorney General's arbitrary and unreasonable recommendation to exclude 50% of these project costs from recovery.

**ii. EIRP**

As discussed at pages 12 through 17 of Consumers Energy's Exceptions, the PFD recommended the following reductions in EIRP capital expenditures: (1) \$84.889 million for seven individual projects, and (2) if the individual project reductions are rejected, then the test year should be capped at \$197 million. As set forth in the Company's Exceptions, the Commission should reject these reductions because the EIRP projects are on track for completion as planned, and Commission approval will allow the Company to move forward with these projects and avoid the risks of the remaining vintage pipe associated with the projects. And the Commission should reject the proposed test year spending cap, which would slow the pace of replacement of the at-risk pipe and the associated safety and reliability improvements. Consumers Energy's Exceptions, page 14.

ABATE excepts to the PFD’s recommendation only to argue that EIRP expenditures should be reduced by even more and set at “the average historical level over the past five years of \$143 million.” ABATE’s Exceptions, page 3. For the same reasons discussed at pages 12 through 17 of Consumers Energy’s Exceptions, the Commission should reject this reduction in EIRP capital expenditures, which would even further slow the pace of replacement of high-risk vintage pipe. Even if the Commission agreed that EIRP expenditures should be set based on a five-year average, which it should not, ABATE is incorrect that the five-year average is \$143 million – the five-year average EIRP expenditures is \$171.5 million. 3 TR 463. The Commission should reject suggestions to slow the pace of the Company’s EIRP projects, which are necessary to achieve important safety and reliability improvements for customers and Michigan.

**e. Capacity/Deliverability Program**

**i. Transmission Capacity/Deliverability Program**

**(a.) Deliverability Base Field Measurement Program**

The Attorney General disagrees with the PFD’s recommendation to allow for recovery of the Lainsburg Inc. Meter Installation. This is despite the fact that this project will provide benefits to customers. The Lainsburg Meter Installation is at a major interstage where multiple large Company-owned pipelines intersect and having the available metering data will improve measurement accuracy, and associated reports to identify losses on the system. 4 TR 1308. Exhibit AG-18 further details that a new meter installation at this valve site will allow the Company to diagnose and troubleshoot losses on Line 1100. Additionally, the investment will allow the Company to continue to conform to the MPSC technical standards. 4 TR 1308.

In Exceptions, the Attorney General questioned whether the project was in the phase of development to include in rates. Attorney General’s Exceptions, page 15. In making this claim, the Attorney General incorrectly noted that the project was still in the preliminary phase. As

pointed out in discovery, this project was in the process of being engineered at the time of the discovery response. This project is actively moving forward, and the Commission should allow for recovery of the costs of the Lainsburg Meter Installation project and reject the Attorney General's recommendation to disallow costs of the active project.

**(b.) Deliverability Base Pipeline Program**

The Deliverability Base Pipeline expenditures support maintaining operations in accordance with the Michigan Gas Safety Standards. During the proceeding, well before the filing of testimony, project B-GL-00251, was cancelled and replaced with project GL-03313. The PFD properly recommended recovery of this project indicating that the Company provided sufficient detail about the project and that it was sufficiently developed to include in rates. PFD, page 88. In her Exceptions, at page 16, the Attorney General disagrees with this recommendation contending that “adding a new project during the course of case is patently unreasonable.” This ignores the fact that the Attorney General was provided information about this project when the case was filed.

The Company does not dispute that Project B-GL-00251 was cancelled and replaced by project GL-03313, a project originally planned for 2026. The Company explained this in Exhibit AG-19. The same exhibit explained that project B-GL-00274 is an emergent inoperable valve project, and provided the project phase, reason, and cost associated with the project. This information was the same information provided for all the other projects in workpaper, WP-MPG-4, which is included in Exhibit AG-19. This is the same information provided for the Company's other planned projects. The information provided for project GL-03313 was not new and was provided to all parties when the case was filed; accordingly, recovery of the costs for project GL-03313 in the case is reasonable.

## **2. Gas Compression and Storage Capital Expenditures**

### **a. Storage Pipeline Replacement - Hessen Storage Pipeline**

The Attorney General takes exception to the PFD's recommendation to include all of Consumers Energy's capital expenditures for the Hessen Storage Field pipeline in calculating rates in this case. Attorney General's Exceptions, pages 17-18. At the time this case was filed, the Hessen pipeline project was pending approval of the Act 9 certificate of public convenience and necessity to proceed with construction. The Attorney General argued that it was premature to approve the capital expenditures for the project while the Act 9 certificate remained pending. 4 TR 1920. On July 10, 2025, the Commission approved Consumers Energy's Act 9 certificate for the Hessen Storage Field pipeline project. Accordingly, the PFD recommended approving the capital expenditures for the project. PFD, page 102.

In her Exceptions, the Attorney General contends that approval of the Act 9 certificate is not sufficient reason to approve the Company's proposed capital expenditures for the Hessen pipeline project because, according to the Attorney General, there remains some doubt about "whether the expenditures would occur as projected even after approval is granted." Attorney General's Exceptions, page 18. There is no basis for the Attorney General's expressed doubts. Company witness Timothy K. Joyce testified that "the Company accounted for the time required to navigate the Act 9 process when planning for the expected start date for construction, so there is no reason to expect misalignment between the start of construction and the rate recovery included in the Company's filing." 4 TR 1537. The Attorney General's concern about the schedule for the project is entirely speculative and contrary to the record evidence. The Commission should approve the Hessen Storage Field pipeline project capital expenditures in calculating rates as recommended by the PFD.

**b. Storage - New Wells**

The Company plans to drill eight new storage wells in 2025 and 2026. 4 TR 1514. In 2025, the Company plans to drill three wells in the Winterfield Storage Field and one well in the Cranberry Storage Field. 4 TR 1514. In 2026, the Company plans to drill two new wells in the Puttygut Storage Field and two new wells in the Ray Storage Field. 4 TR 1514. Company witness Joyce provided a specific cost forecast for each new well individually in Table 7 of his direct testimony. 4 TR 1514. The costs vary from a low of \$6,852,403 for well P-302 in the Puttygut Storage Field in 2026 to a high of \$10,641,316 for well C-1103 in the Cranberry Storage Field in 2025. The PFD recommended approval of the Company's estimated costs for these wells. PFD, page 114. In doing so, the PFD appropriately rejected a disallowance proposed by the Attorney General.

As she did in her briefs, the Attorney General attempts to justify her proposed disallowance of \$4.6 million in 2025 and \$3.9 million in 2026 by calculating an average cost per well for 2024, applying an inflation factor for 2025 and 2026, and then comparing the resulting figure to the average cost of the wells in the Company's forecast for those years. 4 TR 1919. Because the average of the Company's projected costs for drilling the wells for 2025 and 2026 was higher than the Attorney General's inflation adjusted average cost per well from 2024, she concludes that the Company's forecasted costs were "excessive and not justified." Attorney General's Exceptions, page 19.

The PFD properly agreed with the testimony of Consumers Energy witness Joyce that the Attorney General's analysis was not valid because the Company's Storage Engineering group uses information about the specific attributes of a planned new well to create projected expenses for each of the new well projects. 4 TR 1532. Factors such as different geologic formations, drill depths, pipeline lengths, and site preparation all affect the costs to dig a particular well. 4 TR

1531-1532. That explains why there is so much variation in the costs shown on Mr. Joyce's Table 7 even among the eight wells planned for 2025 and 2026. In fact, five of the eight wells planned for 2025 and 2026 are projected to cost less than the most expensive well drilled in 2024. The data in Table 7 makes it clear that there is not a "typical" cost-per-well for drilling new storage wells. The Company's methodology for projecting the costs for each well utilizes specific engineering data and is far more sophisticated and accurate than the Attorney General's overly simplistic approach of assuming that every well will be the same as the wells drilled in 2024.

In her Exceptions, the Attorney General only claims that the PFD's reliance on the Company's testimony is unjustified because (i) the Company did not provide information on well depths, pipeline lengths, and site preparation cost difference as part of its exhibits in the case and (ii) use of average costs can be "useful in projecting future costs." Attorney General's Exceptions, page 19. As to the Attorney General's first argument, it is notable first that the Attorney General never asked the Company to supply the engineering details on which the Company's estimate was based for each well. In fact, as Exhibit AG-77, page 2, shows, the Attorney General only asked the Company to *confirm* that those details had not been provided, but assiduously avoids asking the Company to actually share the details. It's almost as if the Attorney General preferred to preserve the argument that the details were missing rather than to confirm that the Company's estimates were sound. In any case, the unrefuted evidence in this case is that the estimate was based on an engineering analysis of the required drilling for the specific wells. Attorney General witness Sebastian Coppola is not an engineer (see 4 TR 2062) and would not have been in a position to refute the Company's engineering analysis even if Mr. Coppola had personally reviewed the engineering designs.

As to the Attorney General's second argument, the Company does not dispute that average costs can be useful in projecting future costs – when there is not a better and more accurate method available. Here, a better and more accurate method is available. The Company's testimony shows that all new well drills are unique due to the unique geology and other conditions present on any given drill site. That uniqueness means that the cost to drill past wells may not be reflective of the cost to drill a different new well. Correspondingly, an average of the cost of several past wells may not be reflective of the cost to drill a different new well. Where engineering experience allows a direct analysis of the conditions at a specific site and a more directly fit cost estimate, the engineering analysis will provide a better and more accurate estimate of the cost to drill a new well than the average of the costs of old wells. The PFD correctly recognized this. The Commission should adopt the PFD's recommendation and reject the Attorney General's proposed disallowance.

### **3. Fleet Capital Expenditures**

Fleet Services provides 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. 4 TR 1419. Fleet Services expenditures are used to perform preventative maintenance on existing vehicles, regularly inspect them, manage the parts inventory, and schedule maintenance across 36 garages by approximately 110 mechanics. 4 TR 1417. The expenditures are also used to acquire and dispose of Company owned and rented vehicles and related equipment. This includes managing the Fleet capital purchase plan, vehicle specification design, licenses, titles, registration, and ultimately retirement. *Id.* The Company projected total gas Fleet Services capital expenditures of \$9.405 million for the 12 months ending December 31, 2024; \$7.048 million for the 10 months ending October 31, 2025; and \$13.532 million for the projected test year. See Exhibit A-12 (CEB-1), Schedule B-5.2, line 5.

The Attorney General recommended projecting capital expenditures using an average cost per vehicle in 2024 plus inflation, resulting in a recommended reduction of \$1.202 million in the 10 months ending October 2025 and \$4.809 million in the test year. 4 TR 1937. CUB witness Joshua W. Denzler questioned the accuracy of the Blended Factor to inform vehicle replacement because the Company has experienced instances of major component failure in units with a Blended Factor rating of 0.0%. 4 TR 2466. Mr. Denzler recommended a 20% reduction in the projected expenditures, resulting in a reduction of \$3.39 million in the 22 months ending October 31, 2025 and \$2.58 million in the projected test year. 4 TR 2467.

The PFD correctly rejected the Attorney General's and MSC's recommendations, stating that the PFD was "not persuaded of the reasonableness or accuracy of the Attorney General's unit cost approach to determine projected vehicle fleet spending" and "agrees with the company that basing projected spending on the combination of vehicles planned to be purchased and their current manufacturer price is more accurate." PFD, page 129. The PFD also disagreed with MSC's recommendation, "finding that the company has supported the reasonableness of its vehicle replacement planning process, including the use of the Blended Factor tool." *Id.*

MSC excepts to the PFD's recommendation, arguing that the Blended Factor tool is "ineffective," and recommends that the Commission require the Company to evaluate the tool and reduce the Company's Fleet capital expenditures by either the amount recommended by the Attorney General or by MSC. MSC's Exceptions, pages 16-17. The Commission should reject MSC's recommendations.

The Company uses the Blended Factor as the first step in the process to inform the Fleet Vehicle Capital Replacement Plan. 4 TR 1423. The Blended Factor considers age, usage, and mileage to establish a replacement priority for units that are more economical to replace than

continue to maintain. *Id.* A Blended Factor result greater than 0.00% indicates that a vehicle is at or past its expected life and is eligible for consideration for replacement. *Id.* MSC complains that the Company's Blended Factor "identified 2,794 eligible replacement vehicles, yet only 96 are scheduled for replacement in the test year." MSC's Exceptions, page 16. While the Company identified 2,794 out of 7,207 units that are greater than 0.00% using the Blended Factor, the Company also explained that vehicles with a result greater than 0.00% are not automatically replaced – rather, the Blended Factor provides a starting point each year in the selection of vehicles for replacement. 4 TR 1424. The Company also uses the Fleet Cost Tool, the Crewing Model Tool, and the Fleet Utilization Tool to inform the plan for vehicle replacements. See 4 TR 1425-1433. These tools provide a review of repairs and improvement costs associated with each vehicle that can extend its service life, ensure units are allocated effectively considering established work plans and employees needed to perform the work, and determine whether there are any redundancies that can be addressed through attrition and reallocation. 4 TR 1428, 1430, 1433.

The Fleet Vehicle Capital Replacement Plan is informed by qualitative and quantitative inputs to identify units for replacements, particularly those units with high maintenance costs and at the end of their expected useful lifespans. 4 TR 1436-1437. This process is not based on the Blended Factor alone, and relies on data the fleet generates over time, inspections, maintenance and repair costs, and local expertise. 4 TR 1437. Retiring and replacing Fleet units systematically supports a safe, reliable, and cost-effective fleet that is available to respond to outages, damaged service, service renewal, and new construction requests. *Id.*

As discussed, CUB witness Denzler questioned the accuracy of the Blended Factor because the Company has experienced instances of major component failure in units with a Blended Factor rating of 0.0%. 4 TR 2466. But identifying units that have failed before 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. Although there are a few instances where the Blended Factor model did not precisely predict a vehicle failure, there are over 7,200 units in the Company's vehicle fleet, and the failure of the Blended Factor to predict a few vehicle failures out of 7,200 units over the course of several years does not statistically invalidate the Blended Factor model. 4 TR 1465. And as discussed, the Company's replacement plan decision making does not rely solely on the Blended Factor model. The Blended Factor is only the first step in a process that considers many other factors in identifying the vehicles that will be replaced. *Id.*

MSC's recommended reductions in Fleet capital expenditures must be rejected. MSC fails to justify how its recommended blanket 20% reduction in replacement plan costs is reasonable based on the few instances where vehicles failed prior to being identified for replacement consideration with the Blended Factor. 4 TR 1465. And the Attorney General's recommended reduction should be rejected because it disregards the actual mix of vehicles planned to be purchased in 2024 and 2025. The average cost per vehicle may vary significantly from year to year because the Company does not purchase the same combination of vehicles each year. 4 TR 1464. The projected unit costs that the Company used in this case are based on current manufacturer pricing, and represent a better projection of the expected unit costs for the precise mix of vehicles that will be purchased in 2025 and 2026 than using a historical average unit cost from previous years that do not involve the same combination of vehicles.

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. The Commission should reject MSC's request for an evaluation of the Blended Factor

because there has been no showing that such an evaluation is necessary considering the full process used by the Company to develop the Fleet Vehicle Capital Replacement Plan. The Commission should approve the Company's projected replacement plan expenditures that are reasonably based on the Company's thorough and multi-step process to determine which vehicles to replace in the most cost-effective and efficient manner. See 4 TR 1434.

#### **4. IT and Security Capital Expenditures**

##### **a. Customer IT Expenditures**

##### **i. 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. These estimates are typically developed by technology and subject matter experts using historical actual costs for similar projects. The purpose of the ROM estimate is to determine whether to move forward with the project, but factors such as resource needs, delays in receiving materials, changes in project schedule, and changes in project scope or complexity can result in funding needs being lower or higher than the ROM estimate. 4 TR 668-669. The Company included a 20% reduction in projected expenditures for projects included in this case with ROM estimates. 4 TR 669.

CUB witness Denzler argued that the Company has underspent its ROM estimates by more than 20% and recommended that ROM estimates should instead be reduced by 40%. 4 TR 2460-2461. The PFD rejected this recommended additional reduction in ROM estimated expenditures, finding that it was not appropriate to impose this type of "general, blanket disallowance . . . based upon the premise that the company generally underspends its ROM adjustments." PFD, pages 172-173. MSC excepts to the PFD's recommendation and argues that the Commission should adopt MSC's proposed 40% reduction in ROM estimates. MSC's Exceptions, pages 27. The Commission should reject MSC's recommendation.

MEC argues that its proposed additional 20% reduction in ROM estimates is no different from the Commission's original 20% reduction approved in Case No. U-20697. MSC's Exceptions, page 27. That argument is wrong. The 20% reduction ordered in Case No. U-20697 was based on the MPSC Staff's ("Staff") analysis of the nature of a ROM estimate, where actual project costs range from -25% to +75% of the estimate, compared with definitive estimates that have a range of -5% to +10%. MPSC Case No. U-20697, December 17, 2020 Order, pages 135-138. MSC's proposed additional 20% reduction for all ROM estimates is even lower than the lower bounds of a ROM estimate. See 4 TR 781. And even based on Mr. Denzler's own analysis, when looking at the most recent actual spend compared with the ROM projections approved in Case No. U-21490, the actual spend is shown as 27% less than the ROM estimate, slightly more than the 20% reduction that was already applied. See 4 TR 2461, Table 2.

The Company's ROM estimates are intended to cover the full cost of the project and are built to address specific project scope. 4 TR 670. But 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. The proposed reduction to ROM capital expenditures will result in a shortfall in the projected funding required to deliver these projects. 4 TR 784. The Commission should reject any further reduction to capital expenditures based on ROM estimates.

**b. Asset Refresh Program**

**i. ARP-Physical Security**

Asset Refresh Program ("ARP")-Physical Security enhances or replaces physical security assets to provide improved awareness and resolution of security concerns. 4 TR 685. The Attorney General recommended removing \$747,000 of capital expenditures for ARP-Physical Security based on Mr. Coppola's argument that this is not a "priority project" and there are more

“pressing priorities.” 4 TR 1930-1931. The PFD declined to adopt the Attorney General’s proposed disallowance, determining that the PFD “is not convinced that delaying the refresh of security assets is reasonable and prudent.” PFD, page 165. The Attorney General excepts to the PFD, continuing to argue that the expenditures in this area appear to be “routine maintenance issues” and the level of replacements proposed by the Company do not appear to be reasonable. Attorney General’s Exceptions, page 23.

The Commission should reject the Attorney General’s proposed disallowance of ARP-Physical Security expenditures. The Attorney General’s proposal would run critical security hardware to failure. The costs projected in this area will fund specific hardware that needs to be replaced based on timing of when it was installed and the risk if replacement is ignored. 4 TR 775. Performing timely replacements is important to address issues that the Company faces with physical security assets, such as cameras no longer working, transmitter failures, hard drive failures, reader failures, door strike failures, and control board failures. See Exhibit A-111 (SHB-14). Failing to refresh physical security assets or deferring a portion of the asset refreshes risks the use of older, unsupported equipment, which results in continued security vulnerabilities and increased operating and maintenance (“O&M”) costs to maintain older equipment. *Id.*

The Commission should approve the requested funding because this critical hardware is necessary to avoid physical security vulnerabilities and to comply with state, federal, and Federal Energy Regulatory Commission (“FERC”) requirements. 4 TR 775-776.

ii. **ARP-Field Device Asset Management and ARP-Workstation Asset Management**

The ARP-Field Device Asset Management (“FDAM”) project replaces field devices according to a four-year refresh cycle that is based on industry standards, hardware failures, security patches, and software compatibility. 4 TR 687. The project includes both replacements

and new devices needed to support customer interactions and business operations. *Id.* The ARP-Workstation Asset Management (“WAM”) project replaces and installs new desktops, laptops, and tablets on a four-year refresh cycle based on industry standards, hardware failures, security patches, and software compatibility, and replaces monitors every eight years based on historical failure rates. 4 TR 693. The project includes both replacements and new devices. 4 TR 695. Staff recommended a disallowance of all 10-month period ending October 2025 and test year projected expenditures for new devices in the ARP-FDAM and ARP-WAM projects, arguing that the Company did not provide adequate support for the expenditures. 4 TR 2712-2713, 2715-2716.

The PFD properly declined to adopt Staff’s proposed disallowances, stating the disallowance is not necessary based on the Company’s explanation of its projection of new purchases. PFD, pages 158, 161. Staff excepts to the PFD’s determination, and continues to argue that all projected expenditures for new purchases in these projects should be disallowed. Staff’s Exceptions to the PFD, page 9. Staff argues that the Company’s explanation for its projections is contradictory since the Company stated that it based its projections on historical actuals, but also shows detailed line item projections for ARP in Exhibit A-22 (SHB-7). See Staff’s Exceptions to the PFD, pages 8-9. The Company’s evidence is not contradictory, and the Commission should not adopt Staff’s recommended disallowance.

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 spending. 4 TR 757. The four-year average spend for both ARP-FDAM and ARP-WAM for the total Company was \$2,594,368. *Id.* The Company’s projected expenditures are less than the four-year average amount and represent a reasonable projection of new technology purchases that are in line with historical

purchases. Exhibit A-22 (SHB-7) provides detail on how the Company expects to spend this projected amount. See Exhibit A-22 (SHB-7), page 4, lines 4-7, and page 12, lines 8-18. The Company's projection is an annual amount validated by total Company spend over the last four years. See 4 TR 757.

Staff also criticized the Company's methodology for projecting these costs based on historical actuals because the ARP-FDAM and ARP-WAM projects were previously combined into ARP-WAM. Staff's Exceptions, page 8. But the Company's methodology reasonably considers that these expenditures were historically combined into a single program, and results in projected Company expenditures for new purchases that are below the four-year average. See Exhibit S-19.1, pages 11-12.

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. Lack of field devices can lead to delays in work initiation and completion because of lack of access to information, and increase safety risks because of lack of access to safety manuals and resources. 4 TR 757. Field devices also facilitate better communication, particularly during emergencies or unexpected events, and there is a risk of losing business continuity and effective communication without these devices, hindering timely responses to customer needs. 4 TR 757-758. Without field devices, workers may not be able to access online training and Company resources, resulting in deficiencies in knowledge and skills. 4 TR 758. And without workstations, workers will face productivity losses as a result of being unable to access systems needed to perform their work, as well as many of the same difficulties and inefficiencies resulting from a lack of field devices. See 4 TR 760-761.

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.

Even if the Commission agrees with Staff's proposal to remove funding for new field devices and workstations, which it should not, Staff's proposed reduction provided in testimony is incorrect because it represents total Company projected expenditures. The projected gas allocation capital expenditures for the ARP-FDAM project are \$261,198 for the 10-month period ending October 31, 2025 and \$314,156 in the test year. 4 TR 758. And the projected gas allocation capital expenditures for the ARP-WAM are \$261,197 for the 10-month period ending October 31, 2025 and \$314,300 in the test year. 4 TR 761.

**c. IT/Digital Foundation**

**i. SAP S/4HANA Implementation**

The SAP S/4HANA Implementation project will modernize the current Enterprise Resource Planning ("ERP") SAP solution and provide enhanced functionality along with a supported and secure platform capable of business transformation. 4 TR 727. The current SAP ERP system will reach end of mainstream vendor maintenance on December 31, 2027, and operating the system beyond the end of support date creates significant regulatory, operational, and security risks. 4 TR 727. The project scope includes migrating the current SAP ERP to the latest S/4HANA solution, enabling an architecture that minimizes downtime for system maintenance activities, implementing solutions where existing SAP ERP functionality is not available in S/4HANA, and implementing a foundational clean core framework. 4 TR 728. The project will take about three years to complete, extending into 2028, requiring the Company to

purchase extended SAP support for 2028 – extended support for the Company’s current SAP version is only available until 2030. 4 TR 731.

The Company is requesting to amortize the cloud implementation costs for the Software as a Solution (“SaaS”) that will be a part of the SAP S/4HANA Implementation project over a 15-year asset life, and is requesting to defer the Investments and O&M expense associated with the project and recover the expense over the life of the asset. 4 TR 734-735.

Attorney General witness Coppola argued that it is premature to include any capital expenditures in this case or defer O&M costs for the SAP S/4HANA Implementation project. 4 TR 1927-1928. The PFD rejected the Attorney General’s argument and recommended approval of the SAP S/4HANA Implementation project and the associated request for deferral of O&M expense and the amortization of associated cloud computing costs. PFD, page 134. The PFD stated that extending support as recommended by the Attorney General “would only temporarily delay the inevitable need to transition to a supported system once extended support is no longer offered.” PFD, page 134. The Attorney General excepts to the PFD’s recommendation, arguing that the option exists to operate the current system until 2030, that including costs is premature, and extending the existing system will allow more time to implement the best new system. Attorney General’s Exceptions, pages 21-22. The Commission should reject the Attorney General’s argument.

Contrary to the Attorney General’s argument, the project is not premature or incomplete in any way. The Company reasonably developed cost estimates in this case using a third party that specializes in preparing for S/4HANA upgrades. 4 TR 732-733, 771-772. An IT business case has been completed and approved for this project, but the project remains in the Investment Planning phase until funding is approved through the rate case and budget disposition. Significant

project requirements are complete, and the Company fully plans to spend the projected expenditures according to the timeline included in this case. 4 TR 772.

Company witness Baker testified to the extensive planning that has already occurred in development of the SAP S/4HANA Implementation project. The Company considered three migration alternatives: (1) build a new SAP system without using any existing customizations, configurations, processes, or data (Greenfield); (2) upgrade the existing SAP system, retaining existing customizations, processes, and data, and then remediate errors that arise during the upgrade in a series of iterations (Brownfield); and (3) adopt a hybrid approach of building a new SAP system while migrating critical data and processes from the existing system (Bluefield). 4 TR 730. The Company selected the hybrid (Bluefield) approach because it provides the best balance of lower risk and cost, supporting the current essential customizations needed for the Billing and Employee Payroll areas, while supporting the need of the Finance, Supply Chain, and Work Management areas where the current customizations are suboptimal. 4 TR 730-731.

Labor and contractor cost projections for the project were developed by (1) laying out the phases of the project in a timeline based on the phased development and hybrid migration approach discussed above; (2) identifying the processes, pain points, customizations, integrations, roles, and data volumes that need to be migrated; (3) translating the effort needed in the design and subsequent phases into the number of hours and resources required for each phase; and (4) assuming a 30% internal employee and 70% external contractor resource mix. 4 TR 732-733. The software cost estimate was based on an indicative Bill of Material from SAP, and the non-labor cost estimates were based on business expense and labor overheads. 4 TR 733. The Company also conducted a comparison of peer utility overall cost estimates and duration for S/4HANA

implementation projects to validate the reasonableness of the Company's projected duration and cost. *Id.*

The Company determined that the SAP S/4HANA Implementation is more cost-effective than completely replacing the Company's SAP systems. 4 TR 734. Replacing the Company's SAP systems would require re-engineering the entire system to a new solution (or multiple solutions), and would require significant effort to re-skill Company employees, re-engineer business processes, re-implement the system, and integrate the new system with all the other systems currently interfacing with SAP. *Id.* The Company currently has more than 1,000 interfaces with SAP, and replacing SAP with multiple systems would be more costly and result in additional risk because of the complexity of managing many different solutions. *Id.*

The Attorney General also argues for removal of funding because of the Attorney General's contention that the option exists to operate the current system until 2030 and "potentially past that date." Attorney General's Exceptions, page 21. But as discussed, extended support is only available until 2030, the project will take three years to complete, and there is an increased risk of cyberattacks if the project is not executed because standard patches will no longer be available. 4 TR 771. As Company witness Baker testified, SAP has stated that after maintenance ends, standard patches will no longer be available for SAP customer-specific maintenance, which will leave the Company's SAP systems vulnerable to emerging threats from bad actors exploiting known vulnerabilities. 4 TR 731-732. Although the Company does have a robust cyber-security system outside the ERP system that any cyber-attacks would need to penetrate before reaching the ERP system (Exhibit AG-68, page 3), that does not negate the need to have protections in place to protect against cyber-attacks that reach the ERP system.

Purchasing the extended maintenance until 2030 would also put the Company at a higher risk of securing the high-demand skilled resources needed to implement the project since a skill shortage is anticipated as SAP customers scramble to meet the 2030 deadline. 4 TR 728. And keeping the current system beyond 2030 would limit the Company’s ability to improve operational efficiency and maintain the stability, reliability, and security of the system. *Id.*

The Commission should approve the funding for this critical project and the proposed ratemaking treatment to avoid the additional cost and risk of staying on the current SAP version beyond the end of vendor maintenance.

## **5. Customer Experience Capital Expenditures**

### **a. Response to Staff on the LMI Project**

Company witness Jessica R. Byrom proposed a low and moderate income (“LMI”) Customer Support Enhancement project which is a tool primarily aimed to help LMI customers enroll in payment assistance and income-qualified programs. The tool is a “streamlined, self-attestation workflow,” in other words an application that makes enrolling in programs simpler. 4 TR 1095-1096. Company research shows that many customers are either unaware of the Company’s assistance programs or find the enrollment process too time consuming. 4 TR 1097. The tool additionally can help enroll customers in clean energy solutions. 4 TR 1098. The PFD largely supported the project finding stating “the LMI will serve an important role in removing barriers to identifying and enrolling in assistance programs.” PFD, page 192.

In their Exceptions, Staff largely reiterates their arguments from testimony and briefing that the costs of the project are misaligned with the benefits. Staff’s Exceptions, pages 1-3. The PFD properly rejects much of Staff’s argument stating, “Consumers has provided convincing data since its launch in December 2024, the project has demonstrated value by helping LMI customers more easily access needed support.” PFD, page 192. Staff’s response to the data from the

Company is to understate what the Company has shown by asserting the majority of customers that used the tool did not enroll in any programs. Staff's Exceptions, page 4. Staff's argument ignores that all customers regardless of eligibility can use the tool to determine their eligibility so it is not surprising that there would be a significant number of customers that use it and do not enroll in a program. This shows the tool is working as intended by helping customers quickly determine their eligibility for programs and increasing the visibility of the available programs. Staff then claims "the Company did not demonstrate that those customers who did interact with the LMI tool would not have looked for and enrolled in applicable programs without using the tool. It appears the Company did not track customers' program browsing and therefore cannot definitively state that the LMI tool is the reason for any program enrollments." Staff's Exceptions, page 4. These arguments are meritless and contradicted by the evidence they presume to reject because the Company did show that a significant number of customers in fact used the tool and enrolled in programs through the tool.

Staff then argues that the PFD's conclusion that the LMI project will help reduce the uncollectible expense is not guaranteed and "much like every other element of the LMI program, the benefits are speculative rather than assured." Staff's Exceptions, page 4. Staff is focusing on secondary and tertiary effects to argue that the benefits of the project are speculative but ignoring the Company's evidence showing that the tool is more than capable of achieving its primary goal. The Company has clearly shown "that the tool is immediately delivering on its intended purpose: reducing enrollment barriers, increasing program visibility, and helping LMI customers more easily access the support they need." 4 TR 1111.

Staff argues again that the goals of this project can be met through the Company's website but shows that it fails to understand what the project does despite clear evidence provided by the

Company throughout the record. Staff states it “is concerned that the Company argues that it needs more than \$2.1 million to inform customers about offerings that are already available on the Company’s website.” Staff’s Exceptions, page 5. The Company has made it clear that the project does not just provide information but provides an application that customers can use to determine their eligibility and enroll in programs. The tool can greatly benefit customers by removing the need for them to do their own research and instead quickly find programs that are the right fit for each individual customer. This is even useful for customers that end up not enrolling in a program through the tool because using the tool they are able to quickly determine their lack of eligibility without digging through links and deciphering eligibility. The PFD correctly noted the Company “has rebutted Staff’s claim this project consists of little more than mere updates to the company’s website.” PFD, page 193.

Staff’s arguments against the LMI project are not supported on the record. The LMI project will not only quickly connect customers in need with payment assistance programs, it will save customers time as well. The Commission should reject Staff’s Exceptions and approve all expenditures related to the LMI project.

## **6. Working Capital**

### **a. Response to the Attorney General on the Company’s Cash Balance**

The Attorney General recommended reducing Consumers Energy’s cash balance from the Company’s requested \$23,130,000<sup>2</sup> to \$12,300,000. 4 TR 1943. The PFD properly rejected the Attorney General’s recommended reduction, adopting the Company’s \$23,130,000 proposal, “which is based upon the benchmark of 1% of projected revenues, and which results in a total

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<sup>2</sup>The Company accepted 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.

working capital balance of \$1.364 billion.” PFD, page 201. The Attorney General disagrees with the PFD and argues that the Commission should adopt the Attorney General’s reduction to the Company’s cash balance. Attorney General’s Exceptions, page 24. The Commission should reject the Attorney General’s arguments.

The Company projects working capital based on 1% of anticipated operating revenues. Consumers Energy has demonstrated that a 1% benchmark is generally an amount reasonably necessary to cover the Company’s cash needs for the test year ending October 2026. It makes sense to use a projection for the cash level needed in a forward-looking test year. Basing the projected cash balance on current or historical revenues would not be appropriate and potentially not representative of typical cash balances when abnormal years are considered. See, 4 TR 879-880.

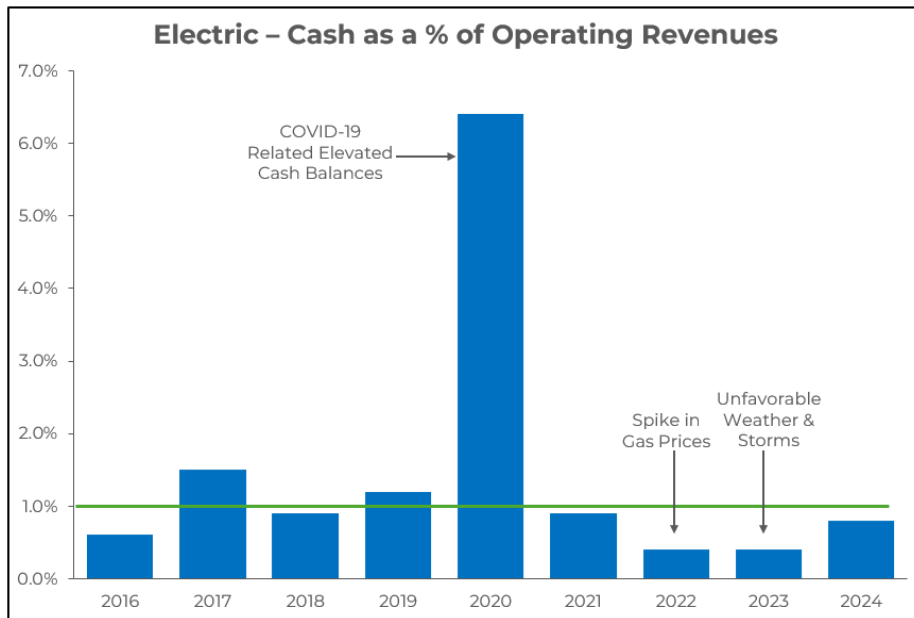
The PFD cites the Commission’s order in Consumers Energy’s most recent electric case that approved a projected cash balance approximately equal to 1% of revenues.<sup>3</sup> PFD, page 201. The Attorney General takes exception and argues that “strict adherence to prior Commission orders is not required.” Attorney General Exceptions, page 25. The Attorney General further argues that the Company needs to prove its request in each case. *Id.* The Attorney General’s arguments are misplaced. But Company witness Marc R. Bleckman provided extensive testimony on the Company’s request in this case, and he rebutted all of the Attorney General’s arguments. See 4 TR 876-884; see, also, 4 TR 835, 823-825.

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. Typically, the Company’s

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<sup>3</sup>In his testimony, Company witness Bleckman cited to Case No. U-21389. In that case, the ALJ agreed with the Company that “the use of 1% of revenues as a benchmark for working capital cash is not arbitrary or inapplicable to determining the reasonableness of the amount of cash on hand.” 4 TR 835. The Commission adopted that ALJ’s recommendation in Case No. U-21389. *Id.*

actual cash balances have been approximately 1% of operating revenues. 4 TR 883. The recent exceptions are 2020, 2022, and 2023. 4 TR 883. Attorney General witness Coppola proposed using “the 13-month average cash balances at the end of each year 2022, 2023, and 2024.” 4 TR 1943, emphasis added. Mr. Coppola’s use of these abnormal years is unreasonable and should be rejected. The Company’s actual cash balances over a longer period are shown below, taken from Company witness Bleckman’s testimony (4 TR 883):



The PFD’s recommendation adopting the Company’s \$23,130,000 projected cash balance is correct because it is more reflective of the Company’s normal levels of cash balance.

The Attorney General quotes from the PFD insofar “that the goal in setting a cash balance should be to determine an amount reasonably necessary to cover the company’s cash needs, and as such the Commission should direct that the company substantively justify why the 1% benchmark is reasonable for achieving that goal beyond the mere fact that it is ‘reflective of normal levels of cash balance.’” PFD, page 202. The Company has demonstrated that its method is reasonable. Consumers Energy strives to finance the Company’s short-term liquidity needs with cash and short-term borrowing facilities. 4 TR 823. Mr. Bleckman testified that the timing and

amount of short-term borrowing is directly related to the level of cash on hand. *Id.* Utility cash inflows and outflows are seasonal. 4 TR 823. The Company generally holds more cash in the spring and summer months and relies on short-term borrowing in the fall and winter months. 4 TR 823-824, 877. Throughout the year, the Company maintains a minimum level of cash on hand. 4 TR 824, 877. The Company projects an average cash balance for the entire test year. 4 TR 877. In sum, a goal for Consumers Energy's projected cash balance estimate is to support the Company's liquidity and financing strategy. 4 TR 879; see, also, 4 TR 823-825.

Another goal for an adequate projected cash balance estimate is risk mitigation. Mr. Bleckman testified that ratings agencies assess liquidity as a component of their overall credit rating methodology. 4 TR 825. All three major credit ratings agencies, S&P, Moody's, and Fitch have liquidity measures. 4 TR 881-882. Essentially, these measures indicate whether Consumers Energy has adequate headroom or cushion with cash on hand to cover the Company's operating and short-term liquidity requirements. 4 TR 882. If Consumers Energy's cash balances were reduced, and the Company had to rely consistently on short-term borrowing, the Company's liquidity metrics would weaken. 4 TR 825. Therefore, the Company's normal level of cash balance is "necessary for the Company to manage working capital requirements and manage financial risk." 4 TR 881.

In addition to risk mitigation, there are benefits associated with a projected cash balance equal to approximately 1% of test year revenues. Mr. Bleckman testified that "adequate levels of cash on hand allows the Company additional flexibility in securing the lowest interest rate on its long-term debt issuances which benefits the Company and customers." 4 TR 881. In light of the Company's large capital expenditure program, the Company's overall liquidity should be sufficient to carry out day-to-day operations with flexibility to also meet investing activities should

there be a delay in accessing long-term capital from the capital markets. 4 TR 881. A projected cash balance equal to approximately 1% of test year revenues is reasonable and supportive of the Company's operating, investing, and financing 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.

In sum, the Attorney General's arguments are without merit. The Company demonstrated the reasonableness of its projected cash balance estimate. The Company's method 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. The Company's method is forward looking to match the test year; accounts for risk; provides operating, investing, and financing opportunities; supports the Company's credit metrics; and is part of a prudent overall liquidity and financing strategy. The Attorney General did not sufficiently explain why her method is more reasonable than the Company's. 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 Commission should adopt the PFD's recommendation for a projected cash balance of \$23,130,000 in this case and acknowledge that the Company has used a well-reasoned method to project this amount.

## **II. CAPITAL STRUCTURE AND RATE OF RETURN**

### **A. Capital Structure**

The PFD recommends that the Company receive an authorized equity ratio of 50%. For the reasons stated in Consumers Energy's Exceptions on pages 52 through 63, the Company explained why the PFD's equity ratio recommendation should be rejected in favor of the Company's proposed 50.75% equity ratio. In her Exceptions, the Attorney General proposes that if the Commission adopts the PFD's equity ratio recommendation, Consumers Energy's long-term

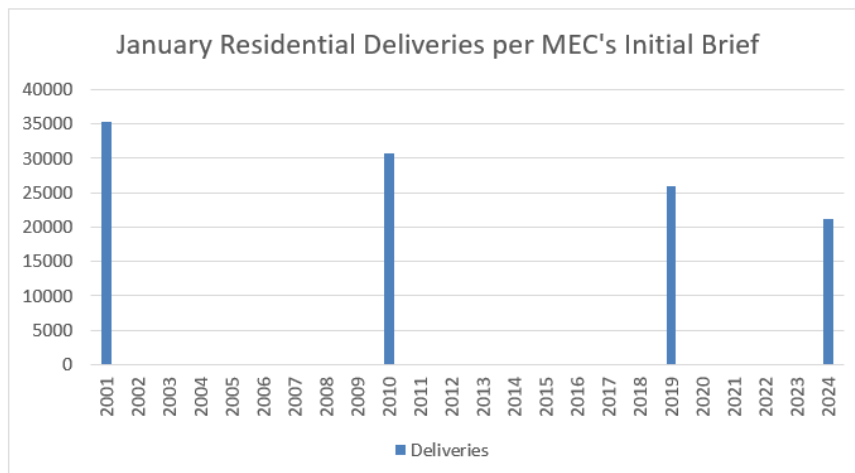
debt should be increased by \$194 million, and the Company's equity should be decreased by the same amount. Attorney General's Exceptions, page 26. The Company confirms that if the Commission finds that a 50% equity ratio is appropriate, the Attorney General's adjustment is correct.

### **III. THROUGHPUT**

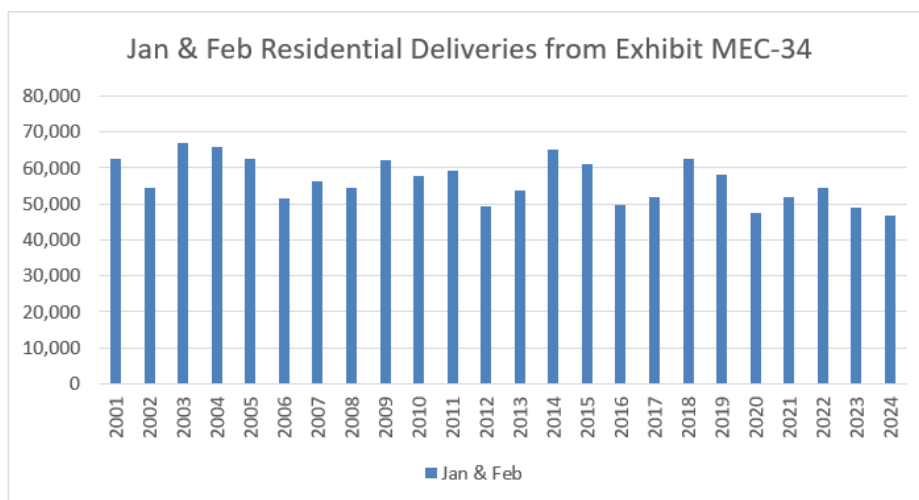
#### **A. Response to MSC**

MSC takes exception to the PFD's recommendation to adopt the sales forecast as adjusted by Staff's Residential Income Assistance adjustment. PFD, page 318. In briefs, MSC recommended that the Commission reject the Company's load forecast based on its claims that Consumers Energy "has seen significant and steady declines in peak residential gas consumption" of about 4%, which it claimed were not reflected in the Company's load forecasting. MSC's Initial Brief, pages 93-94. However, the PFD correctly concluded that "it is open for debate whether there is currently a clear, long-term trend of declining gas usage" and declined to adopt MSC's recommendation. PFD, page 318. There is no merit to MSC's exceptions on this issue.

MSC incorrectly argues that the Company "obfuscate[ed] data" that MSC claims "show substantial and steady declines in peak residential gas service." MSC's Exceptions, page 33. That claim is wrong. As Consumers Energy pointed out in its Reply Brief, there is nothing "steady" about any declines that may exist in peak residential gas service. Whereas MSC presented the following misleading January-only data to claim a "steady" decline in residential peak demand (see MSC's Initial Brief, page 94; graph of MSC's data created by Consumers Energy in its Reply Brief) –



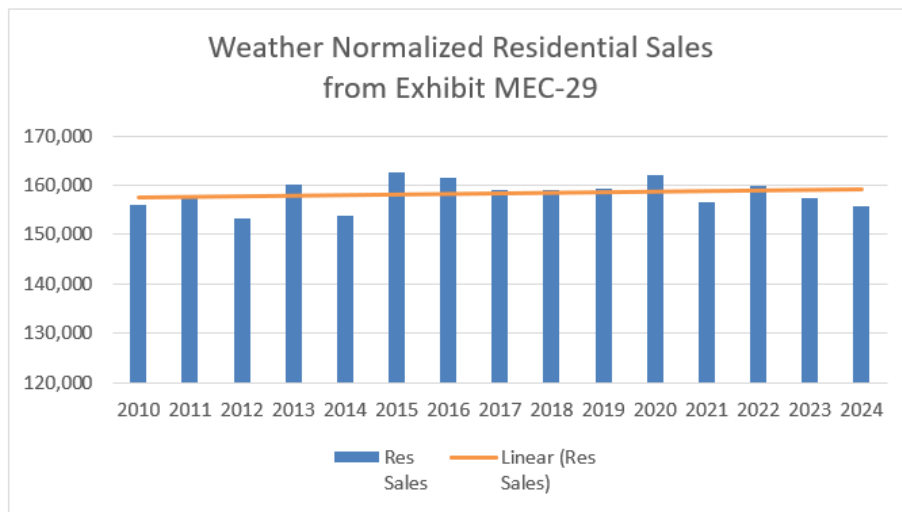
– the Company showed that a complete graph of all the relevant peak data from January and February<sup>4</sup> over the 2001 to 2024 period demonstrates that actual load is much more variable. The Company’s graph of the complete data looks like this:



<sup>4</sup> Here it is interesting that MSC tries to characterize Consumers Energy as the party presenting misleading data. In its Exceptions, MSC emphasizes a statement in Consumers Energy’s Reply Brief where the Company pointed out that February set the peak 42% of the time between 2001 and 2024, and argues that Consumers Energy “left unstated” that January was the peak the remaining 56% of the years. MSC’s Exceptions, page 34. The problem is that MSC was the party that originally included January-only data and claimed in its Initial Brief that Consumers Energy’s witness testified that January represents the peak. See MSC’s Initial Brief, pages 93-94. That claim was unequivocally false. Consumers Energy’s witness clearly testified that January *and* February represent the peak for gas consumption. 2 TR 297, 304. The fact that January often includes the Company’s peak consumption for the year didn’t need to be “stated” because Consumers Energy never tried to mislead the Commission into believing it didn’t. Only MSC tried to mislead this Commission by misrepresenting the testimony and the data in the record. Consumers Energy encourages the Commission to read MSC’s Initial Brief and Consumers Energy’s Reply Brief on this topic in their entirety and then judge for itself.

The Company acknowledged in its Reply Brief that the complete data set shown above does “appear to show some declining trend in actual historical gas demand overall, particularly in the last five years, [but it does] not support [MSC]’s claim of a ‘steady’ 4% decline annually.” Consumers Energy’s Reply Brief, page 83.

MSC’s response in its Exceptions is to add a trendline to the data that Consumers Energy graphed in its Reply Brief. MSC’s Exceptions, pages 34-35. The trendline shows a general decline, but Consumers Energy never disputed that. Consumers Energy reiterates: there is no steady 4% decline shown by the data. More importantly, Consumers Energy pointed out in its Reply Brief – and reiterates here – that the historical data, by itself, is not a good indicator of future load expectations because it is not weather-normalized and includes no control for economic conditions. When the Company’s historical residential load is presented on a weather-normalized basis, the graph looks like this:



The weather normalized residential sales data is less volatile than the non-weather normalized data that MSC 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. MSC makes no attempt in its Exceptions to respond

to this information that the ALJ considered in reaching his recommendation in the PFD. Given the increasing trend shown in the weather-normalized data, the Company could have had some kind of argument justifying a residential load forecast that called for increased gas load, but the Company didn't do that. Consumers Energy's load forecast predicted a decline in residential load over the next several years, but a much smaller decline than MSC claims. The Company's load forecast was well justified based on its regression analysis, which takes account of the econometric factors that actually influence changes in gas consumption.

Next, MSC argues that "the Company should be required to incorporate historical declines into at least one load forecast" and that the Company should be required to demonstrate this by "sharing relevant methodology and model inputs in its filings." MSC's Exceptions, page 35. Here, MSC demonstrates that it does not understand the Company's regression analysis. The Company already does "incorporate historical declines into at least one load forecast." The Company's regression analysis uses the most recent 11 years of historical data. 2 TR 280. The Company also already demonstrates this by "sharing relevant methodology and model inputs in its filings." All of the data supporting the Company's regression analysis was filed with the case as part of the Commission's Part III filing requirements.

In Exceptions, MSC also agrees with the PFD's recommendation to require the use of out-of-sample testing of its regression model in the Company's next gas rate case. MSC's Exceptions, page 36. The Company addressed this recommendation in its own Exceptions. See Consumers Energy's Exceptions, pages 96-97. Again, the Company already plans to include additional out-of-sample testing in its next gas rate case and believes this recommendation is generally unnecessary. However, for the first time in this case, MSC now recommends that the out-of-sample data used for this test should be data withheld from years "in the middle of the time

period used for the regression model.” MSC’s Exceptions, page 36. Consumers Energy disagrees with that new recommendation. The Company specifically discussed this scenario in its Exceptions, where the Company explained that excluding one or more years of data from within the most recent 11-year period would mean the model would necessarily be trained with less data, making it more susceptible to error. MSC offers no justification or record support for this new recommendation. The Commission should reject this new recommendation.

Finally, MSC agrees with the ALJ’s recommendation in the PFD to require Consumers Energy to “find a way to incorporate the impact on gas demand attributable to increasing electrification measures.” See PFD, page 320; MSC’s Exceptions, pages 36-38. Again, Consumers Energy addressed this recommendation in its own Exceptions. See Consumers Energy’s Exceptions, pages 97-98. MSC now claims that the PFD was “not specific enough” in its direction. MSC’s Exceptions, page 37. MSC asks the Commission to “include low-, medium-, and high-electrification scenarios into its load forecasts.” MSC’s Exceptions, page 37. The Commission should reject MSC’s invitation to be overly-prescriptive. As the Company has already pointed out, at the time of filing this case, there was simply not any quality data available to support any impacts from potential future electrification. MSC is essentially asking the Commission to require a *guess* about what could happen as the result of electrification in the future. The Company is actively assessing electrification activity and already plans to incorporate the impacts of electrification into its gas load forecasts when reliable data supporting those impacts is available. The data should drive the analysis, not the desire for a particular outcome. The Commission should reject MSC’s overly-prescriptive recommendation.

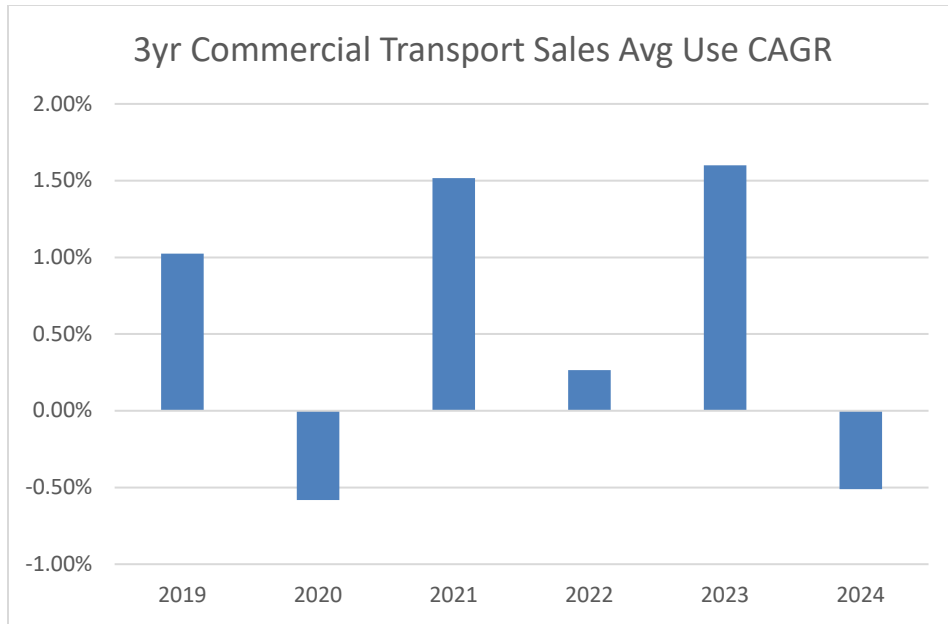
For all the reasons discussed above, the Commission should reject MSC’s exceptions to the PFD as they relate to the Company’s load forecasting. The Commission should adopt the

Company's sales forecast as adjusted by Staff's Residential Income Assistance adjustment consistent with the PFD's recommendation. The Commission should decline to adopt the PFD's other recommendations related to future load forecasting as unnecessary, but should certainly not adopt any of MSC's further recommendations related to those requirements.

**B. Response to the Attorney General**

The Attorney General takes exception to the PFD's rejection of her proposed adjustment to the commercial transportation volumes in the Company's sales forecast. Attorney General's Exceptions, pages 27-30. The Attorney General claims that the PFD "appears to assume that the use of the [Company's regression] model is infallible." Attorney General's Exceptions, page 28. The Attorney General then argues that large commercial customers' gas usage has likely changed over the last 11 years (responding to the Company's use of the most recent 11 years of data in its regression model) and that the "most recent usage better reflects the future usage." Attorney General's Exceptions, page 28. There is no merit to any of those claims.

First, the PFD did not claim that the Company's regression model is "infallible." That claim is just hyperbole. The PFD simply agreed that the Company's regression model is "better" than the one-off adjustment recommended by the Attorney General. That was a reasonable conclusion. Company witness Mustafa A. Sherwani explained that the Attorney General's methodology assumes that customers' future behavior will be identical to behavior during the last three years. 2 TR 282. The Attorney General provides no basis or support for that assumption. Furthermore, Mr. Sherwani demonstrated that the combined average growth rate ("CAGR") value that the Attorney General used to adjust the 2024 deliveries is highly variable from one year to the next. 2 TR 283-284. Mr. Sherwani included the following graph in his rebuttal testimony showing how dramatically the three-year CAGR value that the Attorney General relies on can fluctuate each year:



Mr. Sherwani testified that use of any forecasting methodology that relies on this CAGR value will result in possible rate instability. 2 TR 283. There is simply no evidence or conceptual support for the assumption that the growth rate in natural gas deliveries from 2024 to the test year will in any way resemble the average of CAGR in the preceding three years. Past growth is not what decides future growth. Future changes in customer consumption are driven by econometric factors such as projected service sector and manufacturing sector employment, new housing starts, and population changes, as well as shifts in the number of billing days and weather. The regression model approach, which the Company used for its forecast and which the Commission has long accepted, takes account of those impacts. 2 TR 267-270. The Attorney General’s approach does not. Mr. Coppola did not provide any information about forecasted conditions that would explain the need for these adjustments to the proposed forecast that used the long-standing regression modeling methodology. 2 TR 282.

Second, the Attorney General’s argument that large commercial customers’ gas usage has likely changed over the last 11 years shows that the Attorney General apparently 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.

The Company's regression model mathematically analyzes how changes in econometric inputs 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 past indicators or less like past indicators. 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. Mr. Sherwani explained that "it is important to use an adequate amount of historical data when training a regression model as too few datapoints can generate unrealistic forecasts." 2 TR 283. He explained that 11 years of data is "adequate to develop the formula while maintaining data that is current." 2 TR 283. Mr. Sherwani evaluated

the regression model based on model statistics and fit with the data. 2 TR 269-270. Regression analysis determines whether there is a mathematically verifiable and measurable relationship between certain independent variables (such as weather and economic activity) and a dependent variable (in this case, customer consumption of natural gas). Then, it uses those verified and measured relationships to mathematically determine probable future behavior in the dependent variable relative to expected changes in the independent variables. It does not assume that past customer behavior will continue into the future, as Mr. Coppola's approach does using only one year of data. Instead, it provides insight into the factors that drive customer behavior and then anticipates future customer behavior based on expected changes in those drivers. Mr. Coppola's criticism about the use of 11 years of customer data to perform the Company's regression analysis is invalid because it misunderstands what regression does. In Consumers Energy's model, it does.

In her Exceptions, the Attorney General argues that "deficient" input data will produce model outputs that also "reflect those deficiencies." Attorney General's Exceptions, page 28. That is true of any methodology. However, the Attorney General fails to point out any valid deficiency with the Company's input data. The Attorney General claims that "[a]n example of this relates to EWR" and argues that her use methodology "reflects the customers' actual usage inclusive of actual EWR achieved by customers" whereas the Company's approach "uses an assumed EWR reduction percentage." Attorney General's Exceptions, pages 28-29. 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.

In contrast, the Company has shown the deficiency in the Attorney General's CAGR input. Mr. Sherwani noted in discovery that the Attorney General's methodology uses "lower quality data than the Company's" and that the Attorney General has provided "no evidence showing the simplistic model's accuracy." Exhibit AG-81, pages 1 and 4. Most utilities in the country use regression modeling to forecast their deliveries. 2 TR 283. Furthermore, Mr. Sherwani explained that Itron's MetrixND (the software that Consumers Energy uses for regression analysis) is considered an industry standard, as more than 150 utilities, Independent System Operators, municipal utilities, cooperatives, and other energy service providers use Itron's MetrixND. 2 TR 283. The Attorney General's simplistic approach not only deviates from the historically reviewed and approved methodology, it also completely rejects the validity of the regression modeling process and accuracy. 2 TR 283. She offers no explanation for why this longstanding and widely regarded approach should now be treated as inferior to her novel method. It is also noteworthy that the Attorney General herself appears to believe that the Company's regression analysis using econometric data provides a perfectly acceptable gas deliveries forecast for every customer class except commercial transportation. 4 TR 1993. She offers no explanation why the regression analysis works so well for every customer class but one.

Finally, the Attorney General argues that the PFD's preference for the Company's regression analysis approach is not warranted because the Company has made adjustments to its regression model in past cases. Attorney General's Exceptions, page 29. 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.

The PFD correctly found that the Attorney General's approach to adjusting the commercial transportation volumes did not offer reliable results and should be rejected. The Company's regression analysis provides insights into the relationship between commercial transportation volumes and econometric factors that allow for a more accurate forecast. The Commission should adopt the PFD's recommendation to use the Company's forecast of commercial transportation volumes.

#### **IV. ADJUSTED NET OPERATING INCOME**

##### **A. Lost, Unaccounted For, and Company Use Gas**

The Attorney General recommended that the Commission reduce Consumers Energy's forecasted expense for lost and unaccounted for ("LAUF") gas by \$728,000 based on the Attorney General's claim that this amount would be consistent with the Company's net-zero methane goals. 4 TR 2016-2017. The PFD properly recommended that the Commission reject that proposed reduction.

In her Exceptions, the Attorney General claims that the PFD's reasoning was that the proposal "should not be accepted because it cannot be accurately calculated because it is affected by other items." Attorney General's Exceptions, page 31. That's an inaccurate reflection of the

PFD's reasoning. The PFD did not mention anything about difficulty in "accurately calculat[ing]" LAUF. The ALJ instead correctly stated that the Attorney General's proposal should be rejected because "LAUF gas can encompass gas lost through means other than leaks or emissions such that it would not be entirely appropriate to adopt the proposed disallowance." PFD, page 323. In other words, the Company's net zero methane goals are targeted at some emissions that were never included in LAUF in the first place, so successful elimination of those emissions would not result in any reduction to LAUF. The Attorney General's argument that other expenses in rate cases are difficult to accurately calculate is a straw man. 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 Attorney General also argues that "the additional components of LAUF gas that Company witness Joyce identifies in his rebuttal are nearly the same as the sources of methane gas that the Company seeks to reduce with its Net Zero goal." Attorney General's Exceptions, pages 31-32. Here, the Attorney General is reiterating an argument that she made in her Initial Brief, where she observed that natural gas consists primarily of methane gas. However, the point that the Attorney General is attempting to make is unclear.

First, 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.

Second, the argument is just confusing. The Attorney General claims that Mr. Joyce’s 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” 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.

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 synonymous with LAUF reductions. The PFD correctly rejected the Attorney General’s recommended LAUF reduction. The Commission should likewise approve the Company’s proposed LAUF amounts in this rate case.

**B. Other O&M Expense**

**1. Gas Engineering and Supply O&M Expense**

**a. System Integrity Expense**

Attorney General witness Coppola recommended a reduction of the \$1.513 million amount that the System Integrity expense is projected above inflation, arguing that the Company did not sufficiently support this amount. 4 TR 2000-2001. The basis for Mr. Coppola's argument was his understanding that the increase stemmed from a department reorganization, and that the Company should provide information "to trace and validate the historical costs and ensure they were removed and offset the increase in the new function or area where they now reside for the projected test year." 4 TR 2001. The PFD rejected the Attorney General's recommended disallowance, stating that the "PFD is satisfied by the company's explanation that the reclassification was not related to departmental reorganization but was a shift of salaries from capital expenditures to O&M." PFD, page 329.

The Attorney General excepts to the PFD's recommendation, arguing that there remains a lack of transparency and support for the adjustments. Attorney General's Exceptions, page 34. The Commission should reject the Attorney General's exception. As the Company explained in response to discovery, the "additional \$1.5 million does not represent an increase in workload," but reflects a "reclassification of existing salaries and expenses as operational and maintenance (O&M) costs based on activities expected to be performed." Exhibit AG-57, page 4. The Company annually reviews historical costs to consider what portion of inspection and remediation work leads to capital replacement or to O&M repairs, and this review informs the Company's projection as to which costs will be funded through O&M or through capital. *Id.* The increase in O&M projected in this case is attributed to the Company's expectation that additional remediation activities will be funded through O&M. *Id.*

This reclassification does not offset or remove O&M costs in other areas, but shifts costs from capital to O&M based on the inspection and remediation work that will be performed. 3 TR 460. The Commission should reject Mr. Coppola’s recommended reduction because it would result in a reduction of the necessary workforce to complete necessary integrity management activities. *Id.*

## **2. GAS OPERATIONS**

### **a. Leak Repair/LDAR Rule**

Consumers Energy proposed to include \$1.3 million of additional spending for its Leak Repair and Survey Program in this rate case to address a backlog of leaks on the Company’s distribution system, which relate to leaks that the Company identified in previous years but have not yet been repaired. 4 TR 1636-1637, 1642. The repairs to eliminate the backlog would have also been required by the anticipated federal Leak Detection and Repair (“LDAR”) rules, but Company witness James P. Pnacek explained that the Company planned to eliminate the backlog regardless of the timing of the LDAR rules due to the “benefits to public safety, and the Company’s desire to further reduce risk.” 4 TR 1612. Mr. Pnacek testified that eliminating the Company’s current leak backlog will enhance public safety, increase the integrity of the natural gas system, reduce methane emissions, and lower long-term costs. 4 TR 1640. Staff supported the Company’s proposal. 4 TR 2699-2700.

When the Trump administration delayed final promulgation of the LDAR rules, the Attorney General and ABATE argued that the Commission should disallow the \$1.3 million included in this case for eliminating the leak backlog. Nevertheless, the ALJ recommended including the \$1.3 million in the calculation of rates in this case, finding that it is reasonable and prudent to address leaks regardless of when or whether the federal LDAR rule goes into effect.

PFD, page 334. ABATE and the Attorney General take exception to the PFD's recommendation. There is no merit to their exceptions.

**i. Response to the Attorney General**

Before responding to the Attorney General's argument in her Exceptions, it is first necessary to address a confusing statement she makes in the preamble to her argument. The Attorney General claims, "Although some of the increase in the forecasted expense is meant to reduce the backlog in outstanding gas leaks, the Company also included \$1,300,000 of expense pertaining to the anticipated implementation of the new LDAR rule proposed by PHMSA." Attorney General's Exceptions, page 35. The Attorney General's use of the word "also" in that sentence could potentially create some confusion and requires some clarification. The Attorney General seems to be claiming that the Company has included two separate amounts in this case, both of which are addressed toward reducing the leak backlog on the distribution system. As written, the Attorney General seems to be saying that the Company proposed an increase of \$2.8 million in the Leak Repair and Survey Program, at least some of which is needed for reducing the leak backlog, but then "also" included a separate \$1.3 million for leak backlog due to LDAR, for a total increase of \$4.1 million. That is not correct. The \$1.3 million for eliminating the leak backlog is *included* in the \$2.8 million increase proposed by the Company for the Leak Repair and Survey Program in this case. Mr. Pnacek clearly testified that the \$1.3 million was "allocated among the three Leak Repair work types in Table 22." 4 TR 1642. Table 22 detailed the breakdown of the \$2.8 million increase for the Leak Repair and Survey Program compared to the 2023 historical year. 4 TR 1637. The Company proposed only one amount of \$1.3 million for eliminating the leak backlog in this case.

Turning to the Attorney General's argument, she claims that the Company discussed the \$1.3 million in the context of a question about the LDAR rules and then asserts that "it is not clear

that the cost will be incurred in the projected test year.” Attorney General’s Exceptions, page 35. The Attorney General did not explicitly complete the syllogism connecting those two thoughts, but it appears that she means to imply that the Company’s only purpose for seeking the \$1.3 million was for LDAR compliance, which is now uncertain. 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. Again, eliminating the Company’s current leak backlog will enhance public safety, increase the integrity of the natural gas system, reduce methane

emissions, and lower long-term costs. 4 TR 1640. The Attorney General’s exception is incorrect and should be rejected.

**ii. Response to ABATE**

ABATE argues that the PFD failed to address ABATE’s testimony or briefing on this issue. First, ABATE argues that “it is not just the timeline for approval, but also the contents of the LDAR rule that are currently in flux . . . .” ABATE’s Exceptions, page 5. However, ABATE’s Exceptions then fail to identify anything about the “contents of the LDAR rule” that are inconsistent with the Company’s plans to eliminate its leak backlog and only argues further about the timing of the LDAR rules. See ABATE’s Exceptions, page 5. Consumers Energy is aware of no proposed revision to the LDAR rules that would encourage or require a utility to ignore known leaks and leave them unrepaired. Assuming that any version of LDAR would promote some form of leak remediation, ABATE’s point is unclear. With respect to timing, again, the Company’s initiative to eliminate its leak backlog is not exclusively to comply with LDAR if or when it is adopted. The Company’s initiative to eliminate the leak backlog is mostly about safety, which is important even if LDAR is never adopted.

Second, ABATE argues that “historical evidence does not support the Company’s assertion that it has a backlog of leaks that need to be promptly addressed.” ABATE’s Exceptions, page 5. ABATE claims that the Company’s known number of leaks in 2023 was below the average for the previous five years and that the “number of leaks has been declining, not increasing.” ABATE’s Exceptions, pages 5-6. ABATE also 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 Exceptions, page 6. Finally, ABATE claims that the leak backlog may include “false positives.” ABATE’s Exceptions, page 6. There is no merit to these arguments.

ABATE's first claim is not supported by the evidence. ABATE witness Colin T. Fitzhenry provided a table in his testimony showing the number of leaks the Company repaired in each of the five years from 2019 to 2023. 4 TR 2145. From his table, Mr. Fitzhenry calculated the average number of leaks repaired over the five years and then observed that the leaks scheduled for repair in 2023 were below the historical average. 4 TR 2145. However, that does not support the conclusion that the number of leaks has been declining. Mr. Fitzhenry's table included no data regarding the number of unresolved leaks that existed *before* 2019 or the number of new leaks discovered *during* the five-year period between 2019 and 2023.<sup>5</sup> See 4 TR 1702. So, it is patently illogical that anyone could draw a conclusion from that data alone about whether a leak backlog exists or whether it is growing. Company witness Pnacek included a more informative table as part of his response to discovery from the Attorney General, which was admitted as Exhibit AG-69, page 3. That table includes the elements of data missing from ABATE witness Fitzhenry's table, substantiating the full picture of the Company's leak repair activity and leak backlog. Exhibit AG-69, page 3. It shows that the Company continues to find a significant amount of new leaks each year, which outstrip the Company's efforts to repair them all. In fact, Exhibit AG-69, page 3, shows that the number of new leaks found as well as the leak backlog grew significantly in 2023 and 2024 compared to 2022.

With respect to ABATE's second and third arguments, 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

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<sup>5</sup> It is also worth observing that Mr. Fitzhenry's table only includes two of the Company's three types of leak repairs covered by the program: main leak repairs and service leak repairs. 4 TR 2145. ABATE offers no explanation for why it excluded the Company's third type of leak repairs under the program – meter stands and regulator leak repairs – which happens to be the highest cost category of leak repairs under the program. See 4 TR 1637, Table 22.

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.

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 Exceptions, page 6. 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 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.”<sup>6</sup> 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 valid justification to delay eliminating the backlog. In response to discovery from ABATE, 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.

The PFD was correct in concluding that it is reasonable and prudent for Consumers Energy to address known leaks regardless of when or even if the federal LDAR rules go into effect. The Commission should adopt the PFD’s recommendation to include the \$1.3 million for leak backlog elimination in the calculation of rates in this case.

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<sup>6</sup> This is why it remains important to continue with the leak elimination initiative despite the fact that the 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.

**b. Staking & Locating**

In her Exceptions, the Attorney General discontinued her recommendation to disallow any of the Company's projected staking and locating expense in the test year; however, the Attorney General continues to oppose the Company's requested deferral mechanism for staking and locating costs. Attorney General's Exceptions, pages 36-37. The Attorney General claims that "there [is] no compelling evidence that staking requests have been highly volatile or that there has been a significant variation in expense, which apparently are the main reasons put forth by the Company in support of deferral mechanism." Attorney General's Exceptions, page 37. Contrary to the Attorney General's claim, the Company provided sound evidence supporting the likelihood that actual costs could vary from the expense the Company has proposed for setting rates.

Company witness Pnacek provided data showing that staking request volumes have been increasing over recent years and explained that the volume of staking requests is expected to increase even further into the test year due to fiber optic and other infrastructure work. 4 TR 1648-1649. In rebuttal, Mr. Pnacek provided more specific details about the drivers of this growth. He testified that the Company based its deferral request mainly on two high-speed internet infrastructure grant programs administered by the Michigan High-Speed Internet Office. 4 TR 1713. He further explained:

The first program is Realizing Opportunities with Broadband Infrastructure Networks ('ROBIN'). According to the State of Michigan's Labor and Economic Opportunities website, the ROBIN program includes \$250.6 million to expand high-speed internet service to unserved locations in the state. All program funds must be expended by the end of the 2026 calendar year. The second program is the Broadband Equity, Access, and Deployment Program ('BEAD'). According to the State of Michigan's Labor and Economic Opportunities website, as of 2023, close to 500,000 households are unserved or underserved by high-speed internet infrastructure. BEAD is designed to ensure that every one of Michigan's unserved and underserved homes and businesses can get connected to reliable high-speed internet infrastructure. Approval of

Michigan’s final list of subgrantees and the locations to be served is anticipated to occur in mid-2025. After final approval, subgrantees will have four years to complete their infrastructure projects and begin delivering service. [4 TR 1713.]

Mr. Pnacek testified that these two infrastructure projects “have the potential to significantly increase staking volumes above forecasted levels.” 4 TR 1713. He explained that the deferral mechanism benefits both the Company and customers as it allows for refund and recovery without building the unknown cost into rates. The Commission should reject the Attorney General’s recommendation to disapprove the deferral mechanism. Instead, the Commission should adopt the mechanism as modified by Staff witness Jacob G. Martus and as recommended by the PFD. See PFD, pages 349-350.

**c. EIRP Training**

The PFD recommended that the Commission reject the Attorney General’s proposed \$1.7 million reduction in Consumers Energy’s EIRP training expense during the test year, finding that the Company adequately explained that employee transfer and turnover can necessitate increased training costs even in a mature program. PFD, page 352. The Attorney General takes exception to that recommendation, but the Attorney General merely reiterates the arguments that the ALJ rejected. In particular, the Attorney General continues to claim that there is “no evidence of a high employee turnover to justify the training of a larger number of employees or contractors.” Attorney General’s Exceptions, page 38. The Attorney General also persists in her straw man argument that the Company claimed the EIRP workforce “continues to grow,” which she then claims to be contrary to “recent actual hiring activity.” Attorney General’s Exceptions, page 38 (emphasis omitted). As the PFD found, there is no merit to these arguments.

First, the Company did not make any claim in its testimony or briefs that recent past growth in the EIRP workforce explained the increase in funding or that the program “continues to grow.”

The Attorney General fabricates the Company's alleged reasoning out of thin air. Company witness Pnacek testified that, when asked about this issue in discovery, his responses to the Attorney General merely reiterated his direct testimony and include no claim that the EIRP workforce has been growing in the most recent historical years. 4 TR 1714; see also Exhibit AG-58. The Company has been clear that it is planning for *future* growth in the EIRP workforce. Mr. Pnacek explained that the Company plans to hire a total of 145 employees for this program for 2025 and 2026, which is necessary to support the increase in the EIRP work plan miles from 118.1 miles of plastic in 2025 to 136.2 miles of plastic in 2026. 4 TR 1715. He explained that test year O&M expenses are increasing due to additional training needed for the complexity of the EIRP work plan, and for training new hires to maintain the workforce. 4 TR 1688-1689. So, the Attorney General's recitation of recent past additions of new employees as supposed refutation of the argument that Consumers Energy EIRP workforce "continues to grow" is irrelevant misdirection. That wasn't the Company's argument in the first place.

In testimony, Attorney General witness Coppola attempted to claim that the EIRP program is mature, suggesting that – outside of any new additions – the work force shouldn't require any additional training. 4 TR 2009. However, Mr. Pnacek testified that the EIRP workforce is one of the largest hiring groups in the Company and experiences a lot of employees transferring to other operating departments. 4 TR 1688. Mr. Pnacek provided data showing that the EIRP program experienced a turnover rate of 76% from 2020 to 2024. 4 TR 1715; Exhibit A-145 (JPP-7). Accordingly, Mr. Pnacek pointed out that "no matter how mature a program is, when employees leave the program for other opportunities within the Company, their replacements will still need to be trained." 4 TR 1714.

Contrary to the Attorney General’s unsupported claims and mischaracterization of the record, the EIRP workforce does not settle into a “mature” state of equilibrium that eliminates the need for training even when the overall size of the workforce remains consistent from prior years. The previous amount of funding remains necessary to address workforce turnover. When you add that to the fact that the Company needs to expand the workforce in the test year to accommodate an increase in the miles of pipeline in the workplan, the result is a modest \$1.7 million increase in training costs. In other words, the additional training expenses are needed for new hire and step promotion training caused by movement in the existing workforce. 4 TR 1714. The PFD was correct to reject the Attorney General’s recommended disallowance. The Commission should adopt the PFD’s recommendation.

### **3. Regulatory Compliance O&M Expense**

#### **a. Corrosion Control**

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. Projects in this program are typically identified during yearly surveys and typically occur in a short timeframe. *Id.* 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 PFD recommended recovery of these expenses. See PFD, page 357.

The Attorney General takes exception to this recommendation, seemingly based on a discovery complaint, and argues that it is reasonable to use 2023 actual expenses, plus inflation, to project the costs for this program. In support of using historical costs, the Attorney General indicated that the Company’s test year expenses were not supported by any increased work units

or activities. However, this information was never requested. See Exhibit AG-59. The Company did, however, supply the number of projects and average cost for each category in this program in response to another discovery request. See Exhibit A-137 (MPG-10). Additionally, the Company explained the difficulty with projecting work based on units in this program. See 4 TR 1321. The Company also explained that the increase in costs in the projected test year pertained to changes in the PHMSA regulations to prevent atmospheric corrosion and recoat pipelines and related facilities. See 4 TR 2011. The Company's projected expense level will ensure that the Company is able to complete the necessary work within the required timeframes. Accordingly, the Attorney General's recommendation should be rejected.

#### **4. Fleet O&M Expense**

CUB witness Denzler recommended a disallowance of Fleet O&M responsibility costs in the amount of \$72,720 based on his estimated annual savings for electrified fleet vehicles. 4 TR 2469. While the PFD recommend that the Commission require the Company to track and quantify Electric Vehicle ("EV")-related savings and incorporate the savings into projected spending in rate cases going forward, the PFD did not adopt the proposed \$72,720 reduction. PFD, page 363. MSC excepts to the PFD's refusal to recommend the \$72,720 reduction, arguing that Case No. U-21461 provides support for the reduction, and even if not, expected savings should be incorporated into future projections. MSC's Exceptions, pages 18-20. The Commission should reject MSC's proposed O&M reduction.

In Case No. U-21461, Indiana Michigan Power Company ("I&M") had completed a Benefit Cost Analysis ("BCA") but failed to track the financial benefits that the BCA predicted, including dollar amounts, operational benefits, and measurable customer benefits. Case No. U-21461, July 2, 2024 Order, page 55. In the current case, Company witness Quentin A. Guinn testified that it would be premature to include the estimated savings in the Company's cost

projections because the deployment of Company EVs in the test year of this case is expected to provide the Company the data needed to establish an accurate assumption related to fuel, maintenance, and other savings to be achieved by replacing internal combustion engine vehicles with EVs. 4 TR 1466. The Commission should not approve MSC's recommended cost reduction while the Company is gathering the necessary data to confirm the cost savings.

CUB witness Denzler also argued that the Company did not establish the reasonableness and prudence of fleet responsibility costs, and recommended a 20% reduction in these costs, for a total proposed reduction of \$30 million (\$15 million in 2025 and \$15 million in 2026). 4 TR 2471. The PFD properly rejected this recommended reduction, finding that CUB failed to demonstrate the reasonableness of the recommendation, that the recommended disallowance appears arbitrary, and that the Company adequately supported the projected \$75 million expected cost. PFD, page 363. MSC excepts to the PFD's finding and continues to argue that the Commission should adopt MSC's recommended \$30 million cost reduction. MSC's Exceptions, pages 21-22. The Commission should reject MSC's recommended reduction because the Company supported the reasonableness of the projected costs and MSC's recommended reduction is arbitrary.

Fleet responsibility costs are incurred as needed to maintain the Company's vehicle fleet, and Exhibit A-27 (CEB-2) provides total fleet responsibility costs over the years 2016 through 2023. These costs include things such as Licensing, Technicians, Parts, Vendors, Fuel, and Support. See Exhibit A-27 (CEB-2). Each fleet unit has defined work assignments that determine which functional areas are allocated the associated responsibility dollars for the unit, and fleet responsibility costs are allocated to both capital and O&M based on the work assignment performed. 4 TR 1419. The costs are assigned to internal orders and to a department/responsibility area and are allocated to work orders or cost centers based on the labor charges to that

department/responsibility area, separated between labor and non-labor fleet loading. 4 TR 1420. Thus, these costs are included as part of the projections of Company witnesses that have these allocated costs. See 4 TR 2470.

As Mr. Denzler noted, the Company is estimating approximately \$75 million in Fleet responsibility costs in 2025 and 2026. 4 TR 2470. And as shown in Exhibit A-27 (CEB-2), in the years 2021 through 2023, actual Fleet responsibility costs per year were \$72,575,154 in 2021, \$86,709,077 in 2022, and \$80,063,275 in 2023. Given these recent historical costs experienced by the Company to maintain the Company's vehicle fleet, it would be unreasonable and punitive to reduce these expenditures to approximately \$60 million annually as proposed by MSC. 4 TR 1467.

No evidence was provided that would support any reasonable expectation that fleet responsibility costs will decrease to \$60 million in the years 2025 and 2026, particularly considering that recent historical costs have been well above that amount and that annual fleet responsibility costs have been higher than \$60 million since 2018. See Exhibit A-27 (CEB-2). Even if the Commission adopted a reduction in the costs needed to maintain the Company's fleet, which it should not, the reduction should be 67% capital and 33% O&M based on the estimated components of those costs. 4 TR 1467. However, the Commission should reject the proposed reduction in these costs needed to maintain the Company's vehicle fleet.

CUB witness 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. For the first time in its Initial Brief, MSC added 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.” MSC’s Initial Brief, pages 66-67. While the PFD adopted Mr. Denzler’s originally described recommendation to perform an analysis of vehicle idling, the PFD rejected the additional MSC recommendations provided for the first time in briefing and instead recommended that results be provided in subsequent rate cases as soon as the study is completed. PFD, page 364. MSC excepts to the PFD and requests the Commission require a “reasonable process, including timeline” for completion of the study. MSC’s Exceptions, page 24.

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, and would not object to an adequate timeline. But Mr. Denzler did not recommend a timeline for completion of the analysis, and as such Mr. Guinn’s statement that the Company agrees to work on such an analysis also did not discuss a timeline for completion. See 4 TR 1469, 2471-2475. Accordingly, based on the current record, there is no evidentiary support for the time needed for the Company to perform the new detailed analysis requested by MSC, and it would not be reasonable for the Commission to establish such a timeline based on this record.

It is also unclear, based on MSC’s Exceptions, whether MSC is still requesting that the Commission require the Company to evaluate opportunities for additional idling reductions in the next rate case. If so, 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 idling analysis. 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**

### **a. SAP S/4HANA Project Expense**

Besides recommending removal of all capital expenditures related to the SAP S/4HANA project, the Attorney General also recommended the removal of any O&M expense associated

with the project. 4 TR 2018. Consistent with the PFD’s recommendation to approve the SAP S/4HANA project capital expenditures, the PFD recommended approval of the Company’s associated request for deferral of project O&M expenses and amortization of associated cloud computing costs. PFD, page 366. The Attorney General excepts to the PFD’s recommendation for the same reasons the Attorney General disagrees with the PFD’s recommendation regarding SAP S/4HANA project capital expenditures. Attorney General’s Exceptions, pages 41-42.

For the reasons discussed in Section I.A.4.c of these Exceptions, the Commission should reject any O&M reductions to the SAP S/4HANA Implementation project, and should approve the Company’s associated accounting requests to help reduce the burden to customers and avoid spikes in IT O&M expense. 4 TR 1598-1599.

## **6. Pension and Benefits Expense**

Of the Company’s Pension and Benefits Expense, only the Company’s Leaving It Better Award (“LIBA”) and active health care costs remain in dispute. The Company addressed its LIBA expenses in its Exceptions, which leaves the active health care costs as the one outstanding issue. To project active health care costs, the Company considered several factors, including current and projected inflation rates and 2023–2024 national health trends. The Company collaborated with Willis Towers Watson (“WTW”) actuarial consulting, together reviewing cost surveys and health care trends from WTW and other respected consulting firms. The Company also considered its employees’ and retirees’ actual health care claims. 4 TR 1349. The Company’s employees are older, on average, than insured employees in the workforce at large, which means more health care claims than the general populace and higher costs:

[T]he Company’s health plans have a higher expected utilization rate that is associated with an older covered population. Of the Company’s current workforce, as of December 31, 2023, 49% of employees are over age 45; 34% are over age 50; and 20% are over age 55. The Company understands the older age of its workforce is

expected to lead to a higher health care expense (primarily due to utilization of services). [4 TR 1349–1350.]

Although the Company expects a higher health care expense in the projected test year and also knows that, overall, health care costs are increasing faster than the general rate of inflation, the Company has made changes to its health care, life insurance, and Long-Term Disability (“LTD”) plans to help offset the higher expense and rising costs. 4 TR 1350-1351, 1353-1355. The goal was to keep cost increases in line with Consumer Price Index (“CPI”) inflation rates.<sup>7</sup> Beginning with its actual 2023 costs, the Company used CPI inflation rates to forecast active health care, life insurance, and LTD costs. 4 TR 1349; Exhibit A-64 (KKG-1), page 2 (using a 3.2% inflation rate for 2024, 2.4% for 2025, and 2.5% for 2026). These costs were \$18,359,000 in 2023 and are forecasted to be \$19,765,000 in the projected test year. Exhibit A-64 (KKG-1), page 1.

The Attorney General recommended a large and unmerited adjustment to the Company’s active health care costs. The Attorney General argued that the Company did not account for the full savings it will achieve from changes to its health care plans. But the Attorney General overlooked the portion of these savings allocated to the electric business and did not account for increasing health care costs that more than offset these savings. In her Initial Brief, the Attorney General adjusted her requested disallowance. The Attorney General previously recommended a \$2,754,000 adjustment to account for cost savings but recalculated these savings in her Initial Brief to propose a revised \$1,993,000 adjustment. Attorney General’s Initial Brief, page 181.

Of the test year savings, however, only \$483,000 are attributable to the gas business. 4 TR 1370. Moreover, the Attorney General still has not recognized that the Company considered these savings and that they were more than offset by increasing health care costs. See Consumers

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<sup>7</sup> Although this was the goal, Company witness Kendra K. Grob testified in rebuttal, with the benefit of actual 2024 data, that increasing health care costs are trending well above inflation rates, 4 TR 1370, and this is likely to continue into the projected test year.

Energy's Initial Brief, page 304. For these reasons, the ALJ "decline[d] to adopt the Attorney General's proposed healthcare disallowance and instead credit[ed] the company's argument that properly allocated savings were already incorporated into the company's projections but were more than offset by rising healthcare costs." PFD, page 376.

The Attorney General responded that it was "not clear where and how [health care savings] were incorporated," Attorney General's Exceptions, page 42, without recognizing the Company's explanation in response to discovery. See Exhibit AG-73, page 3. The Company acknowledged that it used general inflation rates to project its active healthcare expense even though healthcare trend rates were higher than the general inflation rates. *Id.* Yet, 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.* (emphasis added).

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 seeks to create confusion where there is none. The Commission should approve the Company's projected active health care expense

## **7. Incentive Compensation Expense**

On pages 43 through 47 of her Exceptions, the Attorney General takes issue with the fact that the PFD only adopted Staff's modest \$276,300 reduction of the Company's Employee Incentive Compensation Program ("EICP") expense, rather than disallowing the entire expense amount or, in the alternative, setting the EICP expense at no more than \$1.02 million as

recommended by the Attorney General. The Attorney General characterizes the PFD's decision as being based solely on a desire not to deviate from the Commission's treatment of EICP in Consumers Energy's recent electric rate case, Case No. U-21585. Attorney General's Exceptions, page 43. That is not a fair characterization of the reasoning in the PFD.

While the PFD inarguably indicated that it was persuaded to remain consistent with the Commission's decision in Case No. U-21585, the ALJ also articulated certain facts from this case that led the ALJ to conclude that the same treatment should apply. Most significantly, the PFD found that, for non-officer employees of Consumers Energy "EICP is part of a reasonable level of overall employee compensation." PFD, page 398. The Attorney General ignores the fact that the Company provided evidence showing that Consumers Energy sets total non-officer employee pay at a level that is comparable to the market. Consumers Energy's management actively reviews compensation levels so that employees are neither overpaid nor underpaid relative to the market and uses a rigorous survey process which relies on valid and reliable data from multiple sources to determine median levels of compensation. 4 TR 1152. Compensation levels are actively monitored, and the Company engages in a rigorous benchmarking analysis of comparable jobs and rates of pay. 4 TR 1152-1156. The Company's process of researching market pay data ensures that the Company's compensation levels match the relevant market and are not inflated over prevailing market levels. 4 TR 1155; see Exhibit A-40 (AMC-2). For non-officer employees, this total overall market-based, competitive level of pay is then allocated into components of (i) base salary, and (ii) incentive compensation. 4 TR 1145-1146. The incentive compensation is one component of the overall market-based competitive compensation; it is not an addition to the total overall market-based pay. 4 TR 1146. Therefore, without the EICP component, the Company's employees would be paid below market levels.

The Attorney General argues that the PFD’s recommendation to require Consumers Energy to provide additional information about separation of EICP costs between the gas and electric business in its next rate case is tantamount to “an acknowledgment that the Company has not provided sufficient support for its proposal.” Attorney General’s Exceptions, pages 44-45. The Attorney General characterizes it as “[a]sking the Company to comply with previous orders.” Attorney General’s Exceptions, page 44. However, this claim is misleading. The order in Case No. U-21585 was issued approximately three months *after* this case was filed. So, Consumers Energy did not have an opportunity in this case to respond to any future directives the Commission included in that case. The Commission itself in Case No. U-21585 stated that its directive only applied to “future rate case filings” so, by its own terms, the directive did not apply to this case. See MPSC Case No. U-21585, March 21, 2025 Order, page 354. Even if it did, the Company has addressed the concerns about the combined treatment of EICP expense in its Exceptions in this case. Consumers Energy’s Exceptions, pages 106-107. Consumers Energy submits that no similar directive is needed in the Commission’s final order in this case.

Next, the Attorney General criticizes the PFD’s observation that, in Case No. U-21585, the Commission “was satisfied . . . that a reduction in non-officer EICP to match achieved metrics was unnecessary” and the PFD’s follow-up recommendation that “if a pattern of underspending based on unmet metrics unfolds going forward, concomitant reductions in approved EICP cost should be considered.” Attorney General’s Exceptions, page 45. The Attorney General claims that the PFD’s recommendation is “vague” and that it is “not clear what underspending means.” Attorney General’s Exceptions, page 45. Despite her stated confusion, however, the Attorney General nevertheless claims that “the concept is inconsistent with how incentive pay works.” Attorney General’s Exceptions, page 45. There is nothing unclear or difficult to understand about the ALJ’s

observation and recommendation. In the context of the PFD's recommendation, "underspending" obviously refers to a situation in which the Company's actual spending on EICP falls below the allotment for EICP approved in rates. In other words, the ALJ is saying that, if the Commission were to approve \$1.5 million for EICP in rates but the Company only paid employees \$1 million, then (if a pattern of that underspending persists) the Commission should consider reducing the amount of EICP expense allowed in rates. There is nothing "inconsistent" about that recommendation with regard to how incentives work. More importantly, the PFD's recommendation is a tacit recognition that such underspending has not historically been a problem for Consumers Energy. Consumers Energy does not even request the full amount of its actual EICP expense in rates. The Company excludes the portion of EICP attributable to its financial metrics and it only requests EICP expense at the 100% payout level of its program even though employees can earn a payout above 100%. 4 TR 1146-1147, 1169. That means that, by design, customer rates include total employee compensation that is less than actual cost and less than market value. Customers are getting a discount on employee compensation. There is no reasonable justification for rejecting the small portion of EICP that the Company requests for recovery through rates.

Despite this, the Attorney General claims that the "reality" is that the Company's EICP request "does not account for the fact that other factors could influence employee performance" or that "other parts of O&M . . . could affect achieving the EICP's goals." Attorney General's Exceptions, pages 45-46. Consumers Energy does not dispute the fact that other factors, in addition to the EICP, can influence and affect employee performance and achievement of the Company's goals. But, that does not support the conclusion that the EICP does not contribute positively to that performance. Company witness Amy M. Conrad explained that a wide body of

research supports the view that incentive pay (a variable pay component) works. 4 TR 1150. According to Ms. Conrad, one researcher states, “theory and research show that incentive pay can substantially increase individual and organizational performance and can represent a powerful tool for establishing a competitive advantage within an industry.” (Dow Scott, “Incentive Pay: Creating a Competitive Advantage” – WorldatWork Press, 2007). 4 TR 1150. Ms. Conrad further testified that group incentive plans can contribute to organizational collaboration and achievement of company goals which lead to benefits for customers. 4 TR 1150. Ms. Conrad testified that a May 15, 2018 Forbes article entitled “The Key to an Effective Incentive Plan” (Bill Fotsch and John Case) continues to support this theory indicating that “[i]ncentive plans, by definition, are supposed to affect people’s behavior on the job, day in and day out. They incent people to work harder and smarter, to go the extra mile, to collaborate with their coworkers, to come up with new ideas to improve some aspect of the business.” 4 TR 1150. According to Ms. Conrad:

When properly selected and implemented, incentives motivate employees, focus employees on a company’s goals, and increase both individual work performance and team performance. When goals are challenging yet achievable, employees are motivated to increase productivity and performance to achieve the goal. In addition, incentives increase a company’s ability to attract, hire, and retain qualified and motivated individuals. [4 TR 1150-1151.]

Ms. Conrad testified that a study by the International Society of Performance Improvement showed that incentive pay programs increase performance by an average of 22.0%. (International Society of Performance Improvement, “Incentives Motivation and Workplace Performance Research and Best Practices,” Spring 2002). 4 TR 1151. Ms. Conrad quoted the following from the Society of Human Resource Management:

Research has demonstrated that some human resource programs and initiatives produce a significant impact on performance in organizations (as measured by factors such as quality, productivity, speed, customer satisfaction and unwanted turnover). The two initiatives that consistently showed statistically significant positive

results were linking pay to performance and using variable pay. Research has established the potential of variable pay to produce the desired business results.” [4 TR 1151 (quoting Robert Greene, “Variable Pay: How to Manage it Effectively, Society of Human Resource Management,” April 2003).]

Therefore, contrary to the Attorney General’s argument, the “reality” is that EICP positively impacts employee performance and achievement of the Company’s goals for improvement in service to customers. Consumers Energy’s practice of making a portion of overall employee compensation subject to incentives is consistent with best industry practices for compensation. 4 TR 1155-1156.

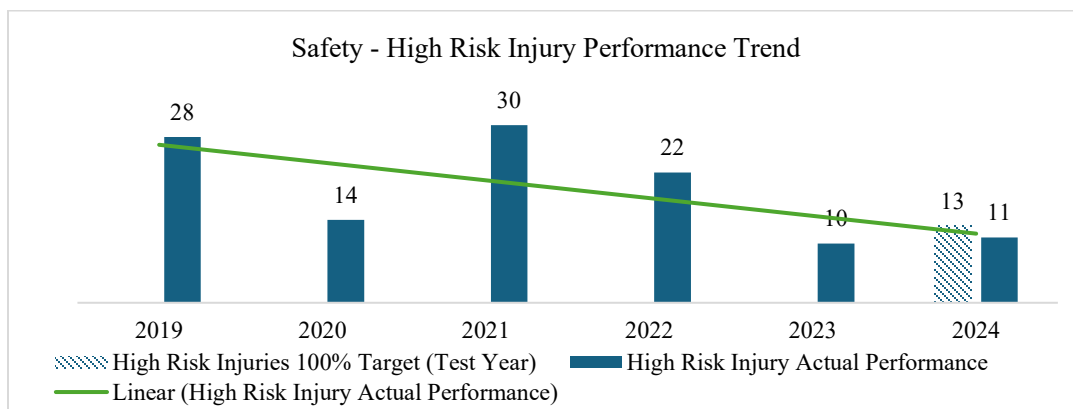
Next, the Attorney General makes a series of arguments (all of which are invalid) in which she claims that the benefits of EICP are somehow still not sufficient to justify the very small portion of EICP costs that Consumers Energy requests for recovery through rates. As a general proposition, it is not correct that EICP does not benefit customers. The Attorney General’s claim once again ignores the fact that, even including incentive compensation, Consumers Energy’s employees are being paid at market level. 4 TR 1147, 1158, 1160, 1171. In other words, customers are not paying “extra” in rates to provide cost coverage for the Company’s incentive compensation. Customers unquestionably benefit from the services provided by the Company’s employees, and customers will lose those benefits if the Company pays compensation below market levels, which would induce the most qualified and talented employees to seek opportunities elsewhere. 4 TR 1147-1148. Company witness Conrad testified that the incentive compensation amount is not a “bonus,” a “profit-sharing plan,” or pay in excess of the reasonable compensation level. 4 TR 1173. To the contrary, as Ms. Conrad explained, the Company has decided to make a certain portion of its reasonable compensation level at risk. 4 TR 1171. With this in mind, the Company addresses each of the Attorney General’s specific claims below.

The Attorney General argues that the Company's quantification of benefits related to its safety metric indicates the Company's actual safety trend is upwards, that Workers Compensation costs are erratic, and that the projected savings are "wishful thinking." Attorney General's Exceptions, page 46. With respect to the Company's electric reliability metric, the Attorney General argues that the Company's data fails to use actual System Average Interruption Duration Index ("SAIDI") results to show a trend and claims that the analysis is just an "attempt to show cost savings where none have exist." Attorney General's Exceptions, pages 46-47. The Attorney General argues that the Company's quantification of savings associated with its Culture Index metric fails to show an improving trend and claims there is a mismatch between the Company's employee satisfaction measures and its cost savings. Attorney General's Exceptions, page 47. None of the Attorney General's criticisms are valid.

As an initial matter, Company witness Ashley E. Meschke clarified that the Company never stated that the savings shown in her exhibits represent historical costs savings. 4 TR 1560. Ms. Meschke explained that her exhibits demonstrate the cost savings that the Company would expect to realize and pass on to customers in the future if it achieves the operations goals associated with each exhibit. 4 TR 1560. Ms. Meschke's analysis is akin to the benefit portion of a cost-benefit analysis. The benefits in a cost-benefit analysis are always a projection of expected benefits – not a historical summary of benefits that have already been achieved. The benefits in a cost-benefit analysis are meant to show that the cost of a potential investment is lower than (and, therefore, justified by) the benefits expected to be received if the investment is made. If the benefits have already been achieved and quantified, there would be no need for the investment. The Attorney General is essentially insisting that Consumers Energy should be required to prove

it has already achieved the benefits that the test year EICP are meant to achieve before it can make the investment needed to achieve them. That’s not how cost-benefit analysis works.

With respect to the Company’s quantification of expected benefits related to the safety metric specifically, Ms. Meschke testified that the Attorney General’s claim of a negative trend does not accurately reflect the Company’s overall safety performance. 4 TR 1558. Ms. Meschke testified that, in 2007 and 2008, the Company incurred 558 and 335 incidents respectively, which prompted the Company to begin an initiative to transform its approach to employee safety and health. 4 TR 1558. As a result of the Company’s focused effort to improve its safety record, Ms. Meschke reported that, since 2012, “recordable incidents have consistently been at or below 150 per year, and the Company has exceeded the average performance of peer utilities nine of the last ten years.” 4 TR 1558. Ms. Meschke also pointed out that 70% of the Company’s safety metric is focused specifically on high-risk injuries and that any fatality completely eliminates an EICP payout for the safety metric. 4 TR 1558-1559. She notes that the Company’s performance on those types of injuries show a favorable downward trend, particularly starting in 2022 when the high-risk element was added to EICP. 4 TR 1559. Ms. Meschke displayed the trend graphically in her rebuttal testimony as recreated below (4 TR 1559):



Clearly, the Company's focus on safety has been working, and Consumers Energy expects it to continue working to protect its employees and reduce costs for customers. Finally, Ms. Meschke explained that the Attorney General did not provide sufficient analysis to support her claim that costs associated with safety incidents have increased. 4 TR 1561. Ms. Meschke notes that the costs outlined in Exhibit A-96 (AEM-2) are broken down by lost time and medical expenses, workers' compensation, and other exposures. 4 TR 1561. To adequately indicate a trend in costs, Ms. Meschke explained that cost per incident should be analyzed as opposed to total cost. 4 TR 1561. The Attorney General failed to do that. Ms. Meschke testified:

When analyzing these costs between 2020 and 2024, there is a negative trend in costs associated with lost days. In reviewing the cost per incident associated with medical expenses, workers compensation, and other exposures, there has been an increase in actual costs – which is reasonable given national headlines indicating the rise in inflation and healthcare cost since 2020. However, the cost trends are not erratic as Mr. Coppola indicates. These costs are within statistical control limits. Additionally, by including High Risk Injuries into the EICP, the Company is focused on reducing the potential for safety incidents that have the potential to result in a fatality or severe injury – which would more than likely result in higher costs – as opposed to injuries such as insect bites and minor abrasions – which are also included in the cost savings projection. [4 TR 1561.]

One thing is certain – in any given year, the Company's injury-related costs will always be higher if there are more injuries than if there are fewer injuries. The Company's costs will also be higher if the injuries tend to be more severe than if they tend to be less severe. The Attorney General's argument takes unfair advantage of the fact that the historical data can never show how much the Company would have spent on the injuries that its efforts have already prevented. But, that does not mean her arguments have any merit. They do not. The Company's focus on safety has dramatically improved the Company's experience with safety incidents over the past two decades;

and, continued focus on safety is expected to keep safety-related costs lower than they would be without that focus. The Company's EICP metric is an important part of that cost savings.

With respect to the Company's quantification of expected benefits related to the electric reliability metric, Ms. Meschke explained that the Company's methodology for calculating expected savings makes more sense than the Attorney General's suggested approach. 4 TR 1562. She explained that, for the test year, the Company leveraged the EICP 100% target for SAIDI of 170 customer minutes to estimate projected cost savings to customers and stated that "[t]his is a reasonable approach to indicate the savings customers should expect when the Company achieves targeted levels of SAIDI performance." 4 TR 1562. She further explained that leveraging historical averages to set targets and project customer benefits is the best practice in data analytics "because it provides a more stable and reliable basis for decision-making." 4 TR 1562. She testified that this approach "avoids the inconsistencies and anomalies that can arise from year-over-year fluctuations, ensuring that targets are based on consistent long-term trends." 4 TR 1562. However, even if the Company had calculated its expected savings in the manner suggested by the Attorney General, it does not support her thesis that the expected savings are not valid.

Ms. Meschke explained:

If the Company leveraged actuals from 2020-2024 and calculated the average impact [as the Attorney General proposed], the results would have been 155 customer minutes in 2024 – resulting in an eight-minute reduction in customer minutes and customer benefits of \$25,115,262 as opposed to the results outlined in Exhibit A-97 (AEM-3). This indicates that the Company's approach to calculate projected savings are conservative and understated by three minutes and \$9,687,366. [4 TR 1562.]

Finally on this topic, Ms. Meschke also pointed out that this is yet another example of a positive performance trend associated with an EICP metric. According to Ms. Meschke, analysis of the longer-term trend in SAIDI performance reveals a negative trend (i.e. declining outage minutes)

over the last several years. 4 TR 1562-1563. Again, EICP is one of the ways that the Company is focusing employees on performance improvements, this time for electric reliability, and seeing results.

With respect to the Company's quantification of expected benefits related to the Culture Index metric, Ms. Meschke once again showed that the Attorney General's claims of a negative trend are inaccurate. Ms. Meschke testified that the 2020 data point selected by the Attorney General to indicate a negative trend represents an extreme outlier in the Company's historical performance trend. 4 TR 1563. She explained that, "in 2020, voluntary turnover during the COVID-19 global pandemic was generally exceptionally low in many industries due to economic uncertainty and unprecedented actions by governments to curtail normal business activity." 4 TR 1563. She noted that the Company's employee turnover rates are significantly lower than the average across peer utilities and that, when a company like Consumers Energy is already achieving performance in the top quartiles, "it is natural to see some year-over-year variation without significant performance improvement." 4 TR 1563. Instead, she explained, "the goal is focused on maintaining the Company's strong performance." 4 TR 1563. The Company's Culture Index metric helps the Company do that. Furthermore, Ms. Meschke explained that there is no merit to the Attorney General's criticism of the supposed "mismatch" between its cost savings calculation and its use of peer company turnover rates as a point of comparison. She testified:

In Exhibit A-95 (AEM-1), the Company outlines the Culture Index survey questions. The following questions from the survey are leading indicators for employee retention: (1) If I were offered a similar job elsewhere at the same pay, I would stay at the Company; (2) Given your choice, how long would you plan to continue working for the Company?; (3) I would recommend my Company as a good place to work; (4) I feel proud to work for the Company; (5) I feel able to be myself at work; and (6) I feel like I belong at the Company. Consumers Energy's historical trends indicate that there is a strong correlation between its Culture Index and employee

turnover. When Culture Index performance is high, the employee turnover is low. Despite fluctuations in year-over-year performance, the Company has consistently exceeded benchmark performance in employee turnover – illustrating that by including the Culture Index in the Company’s EICP operational metrics it is achieving a cost savings compared to peer utilities. [4 TR 1564.]

The Culture Index survey has been an effective measure of whether the Company could experience more employee turnover, regardless of what peer companies do (or don’t do) to anticipate and manage their own turnover. The metric also helps the Company ensure that it is managing its workforce in a way that promotes retention. The peer group comparison demonstrates how much more expense the Company might incur as a result of higher turnover, regardless of how the Company anticipates its future turnover. There is no “mismatch” between the two because they are not dependent on one another. The Attorney General does not explain why her alleged “mismatch” would matter even if it did exist.

Next, the Attorney General claims that the Company has only achieved, on average, 66% of its target level of performance for the operating measures over the past five years. Attorney General’s Exceptions, pages 47-48. The Attorney General claims that this indicates that the EICP has an unreasonably low threshold for awarding a payout to employees. However, Ms. Conrad pointed out in her rebuttal that the Attorney General’s claim is not valid. She explained that structuring the payout to consider performance of each goal individually “ensures that employees have an independent motivation to achieve each goal regardless of whether another goal may be off target to meet payout levels during the year.” 4 TR 1181. Ms. Conrad explained that this removes any potential mis-incentive to “give up” on one goal just because another may have become unlikely to be achieved. 4 TR 1181. According to Ms. Conrad, each goal has the ability to earn an EICP payout on its own merit. 4 TR 1181. So, contrary to the Attorney General’s claim, every goal remains important, and employee motivation to attain each goal individually remains

high. 4 TR 1181. Ms. Conrad explained that it would be counterproductive to set the EICP thresholds at unachievable levels because “it would be difficult to maintain employee motivation and would result in fewer customer benefits.” 4 TR 1184. According to Ms. Conrad, when goals are challenging yet achievable, employees are motivated to increase productivity and performance to achieve the goal. 4 TR 1184.

Furthermore, the Attorney General’s argument once again overlooks the fact that employees’ total compensation, including incentive compensation, is set to the market median. Company witness Conrad showed that the EICP operational payouts averaged 105% over the past five years. 4 TR 1184. The Company is only asking for recovery at the 100% payout level. 4 TR 1184. The Company’s shareholders absorb all of the EICP expense for the financial measures and for any portion of the operational measures that exceed 100%. That means that, if the Company achieves the target level for nearly every goal, but misses target level performance on even a single goal, the total employee compensation for that year will be below market level. 4 TR 1181-1182. There is nothing unreasonable about the EICP payout structure.

Finally, the Attorney General argues (wrongly) that the Company’s EICP structure is not really designed to incent “exceptional 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 Exceptions, page 48. That observation once again ignores the inconvenient truth that perpetually 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 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. Again, that is not right.

There is no merit to any of the Attorney General's exceptions or to her proposed disallowances. The Commission should reject them and, for the reasons stated in the Company's Exceptions, approve the full amount of the Company's request for EICP expense in the test year.

### **8. Inflation Rate**

The PFD reasonably declined to adopt ABATE's recommendation to use the gross domestic product ("GDP") chained price index rather than the standard CPI, finding that "[t]he standard CPI is an adequate and generally recognized gauge for inflation and a new price index should not be adopted based upon a correlation review of a single expense item like gas meters." PFD, page 416. ABATE took exception to this recommendation contending that the GDP chained price index is more appropriate because it annually updates an entire basket of goods and services to reflect what consumers are buying and is therefore responsive to customer behavior across various goods. ABATE's Exceptions, page 4. This claim does not discount the reasonableness of the CPI and is inconsistent with the Commission's previous determination.

Contrary to the assertion that the Chained Price Index is superior due to its annual updates, the CPI is also updated periodically to reflect more recent consumer spending patterns. The Bureau of Labor Statistics ("BLS") updates the CPI to recognize the emergence of new items, changes to existing items, and their relative importance. 4 TR 1595. This ensures that the CPI remains a relevant and accurate measure of inflation, accommodating shifts in consumer behavior and market trends.

Additionally, the Commission has consistently approved the use of the CPI in rate cases, recognizing it as the most widely used measure of inflation. In DTE Electric Company's ("DTE

Electric”) rate case, Case No. U-21534, the Commission rejected the proposal to switch to the Chained Price Index. See MPSC Case No. U-21534, January 23, 2025 Order, page 76. The Commission found that ABATE did not demonstrate that the Chained Price Index’s customer substitution treatment was superior to the periodic updates made in the CPI’s basket of goods or how the Chained Price Index was superior to the CPI for either labor or non-labor costs. *Id.* The facts in this case are similar to the DTE Electric case, and ABATE has not provided adequate support to move to the Chained Price Index. Accordingly, the Commission should approve the continued use of the CPI for inflation.

## **V. COST OF SERVICE, RATE DESIGN, AND TARIFF ISSUES**

### **A. Cost of Service Study**

#### **1. A&E Cost Allocation**

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. The PFD agreed that COSS Version 2, as modified, should be used for setting rates in this proceeding. PFD, page 444. ABATE disagrees with the PFD’s recommendation, characterizing the approved COSS Version 2 as “flawed.” See ABATE’s Exceptions, pages 1, 18. Consumers Energy does not agree that the Company’s COSS Version 2, which uses the Average & Peak (“A&P”) cost allocation method, is “flawed.” 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.

#### **2. Other Distribution Plant Allocation**

The Company’s COSS Version 2 included a proposal to breakout and allocate other distribution plant by FERC account. The Company has historically allocated other distribution

plant using Allocator 105. 4 TR 1231. Other distribution plant includes costs in FERC Accounts 374, 375, 377, 378, and 382. 4 TR 1232. The Company proposed to allocate other distribution plant for FERC Accounts 374, 375, 377, and 378 using Allocator 104 because costs in these accounts are incurred to serve all customers and Allocator 104 is based on each rate class's respective forecasted total annual throughput and peak month throughput. 4 TR 1232. This represents an improvement over the current Allocator 105, which excludes volumes that bypass the high-pressure system. 4 TR 1232-1233. For FERC Account 382, the Company proposed using Allocator 108 since those costs are incurred in connection with the original installation of customer meters. 4 TR 1233.

FERC Account 378 includes costs of installed meters, gauges, and other equipment used to measure and regulate gas associated with distribution system operations, other than measurement of gas deliveries to customers. 4 TR 1232. Pursuant to the settlement agreement in Case No. U-21490, the Company also provided a more detailed analysis of FERC Account 378, with that analysis identifying costs associated with measuring and regulating stations serving different pressure levels as shown at Exhibit A-57 (SMG-6). 4 TR 1235-1236, 1242. Based on that analysis, Staff witness Nicholas M. Revere proposed a composite allocator for FERC Account 378 that weights allocators by the amount of costs in the categories shown in the Company's analysis. 4 TR 2756. The Company agreed with Staff's proposed composite allocator for FERC Account 378 costs. Staff's proposal more accurately assigns costs to serve customers based on pressure level and more appropriately reflects cost causation. 4 TR 1242-1243. Michigan State University and Lansing Board of Water and Light (collectively "MSU-LBWL") witness Timothy S. Lyons recommended allocating FERC accounts 374, 375, 377, and 378 with Allocator

217 which functionalizes other distribution plant costs into high pressure and non-high pressure mains before allocating costs to each rate class. See 4 TR 2254-2257.

The PFD recommended approval of Staff's proposed composite allocator for FERC account 378, but rejected MSU-LBWL's proposed allocation of FERC accounts 374, 375, and 377 because there was insufficient information in the record to support that proposal. PFD, page 434. ABATE excepts to the PFD's recommendation regarding FERC accounts 374, 375, and 377, arguing that the necessary information to adopt the proposal is in the record. ABATE's Exceptions, pages 20-21. The Commission should reject ABATE's proposed allocation.

As Company witness Geller testified, it is not appropriate to functionalize FERC Accounts 374, 375, and 377 based on pressure without additional analysis of whether those accounts contain costs that are not associated with a particular pressure class, such as the analysis that was performed for Account 378. 4 TR 1244. For example, FERC Account 377 contains \$11 million in assets serving the Huron Compressor station, which maintains the pressure and flow of natural gas to the high-pressure distribution system, and all customers at all pressure levels are served by high pressure distribution either directly or downstream of the system. *Id.* Just as with Account 378, allocating this entire account based on pressure is unreasonable because these costs are not associated with a particular pressure class. *Id.*

## **B. Rate Design**

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

### **1. Cost-Based Rates**

ABATE recommended a revenue apportionment method to design rates that adjusted rate-design outcomes to reflect its Average and Excess ("A&E") cost-of-service method, which

ABATE called the A&E Demand (“AED”) method. 4 TR 1808, 2080-2085. Specifically, ABATE recommended setting rate schedules at the AED cost of service, using distribution charges to recover the remaining portion of the class revenue requirement shown in Table JAY-4 in ABATE witness Jessica A. York’s testimony, and recalculating the breakeven points accordingly. 4 TR 2106; Exhibit AB-4. The ALJ found that ABATE’s proposed revenue apportionment “appears to shift revenue from one customer class to another consistent with ABATE’s preferred outcome, but without any meaningful COS basis.” PFD, page 445.

ABATE disagreed, arguing that its “proposed revenue apportionment utilized both the Company’s Version 2 and Version 3 CCOSs to move rates closer to cost of service while reflecting gradualism.” ABATE’s Exceptions, page 11. According to ABATE, its rate design “represent[s] a significant and meaningful reduction in the Company’s proposed increases for Rates ST, LT, and XLT (even though those increases would still be above the system average increase)” and “*would have an immaterial impact on other customer classes.*” ABATE’s Exceptions, page 14 (emphasis added).

To understand ABATE’s argument, Table JAY-4 is a helpful visual aid:

**TABLE JAY-4**  
**Alternative Revenue Apportionment (\$000)**

Line	Rate Schedule	Delivery Revenues at Current Rates <sup>1</sup> (1)	Consumers Proposed Increase / (Decrease) <sup>1</sup>			ABATE Proposed Increase / (Decrease)		
			Amount (2)	Percent (3)	Index (4)	Amount (5)	Percent (6)	Index (7)
1	Residential <sup>2</sup>	\$1,110,994	\$195,779	17.6%	1.10	\$200,560	18.1%	1.13
2	GS-1 <sup>2</sup>	172,968	16,171	9.3%	0.58	16,171	9.3%	0.58
3	GS-2 <sup>2</sup>	131,566	7,432	5.6%	0.35	7,432	5.6%	0.35
4	GS-3 <sup>2</sup>	28,958	1,037	3.6%	0.22	3,192	11.0%	0.69
5	ST	34,864	11,814	33.9%	2.11	8,681	24.9%	1.55
6	LT	27,199	7,765	28.5%	1.78	5,154	18.9%	1.18
7	XLT	30,204	7,923	26.2%	1.64	5,195	17.2%	1.07
8	XXLT	10,129	87	0.9%	0.05	1,624	16.0%	1.00
9	Total	\$1,546,883	\$248,008	16.0%	1.00	\$248,008	16.0%	1.00

Sources and Notes:  
<sup>1</sup> Exhibit No. A-16 (SAS-1), Schedule F-2, page 2.  
<sup>2</sup> Proposed revenues include incremental late payment revenue totaling \$498,000 from WP-SAS-2.

ABATE’s statement that lower rate increases for Rates ST, LT, and XLT would allegedly “have an immaterial impact on other customer classes” can be tested on a percentage basis and on a dollar basis. From a percentage perspective, the Company proposed a 0.9% increase for Rate XXLT while ABATE proposed a 16.0% increase for this rate class (a 15.1% difference). Likewise, the Company proposed a 3.6% increase for Rate GS-3 while ABATE proposed an 11.0% increase for this rate class (a 7.4% difference). ABATE’s statement that its reduction to Rates ST, LT, and XLT would have “an immaterial impact on other classes” should be viewed with these percentages in mind. ABATE’s Exceptions, page 14.

On a dollar basis, residential customers would be forced to absorb much of the savings ABATE is proposing for transportation customers. Under ABATE’s proposal, Rates ST, LT, and XLT would pay approximately \$8 million less than they would pay under the Company’s proposed rates,<sup>8</sup> while residential customers would pay almost \$5 million more than they would pay under

<sup>8</sup> Compare Company’s proposed rate increase for Rates ST, LT, and XLT in ABATE’s Table JAY-4, column 2, lines 6-7 (\$11,814,000 + \$7,765,000 + \$7,923,000 = \$27,502,000) with ABATE’s proposed rate increases for the

the Company's proposed rates.<sup>9</sup> This additional \$5 million allocated to residential customers under ABATE's proposal represents nearly two thirds of the savings ABATE proposes for Rates ST, LT, and XLT. There are more residential customers to absorb the increase, so ABATE's proposal has a small percentage impact (ABATE proposes an 18.1% increase compared to the Company's proposed 17.6% increase), but the dollar impact is telling.

ABATE also claims that its "approach is consistent with the Commission's method of allocating costs in DTE Gas Company's recent rate case," ABATE's Exceptions, page 13, but ABATE's interpretation is strained. In Case No. U-21291, the Commission rejected ABATE's proposed AED approach, see Case No. U-21291, November 7, 2024 Order, pages 224, 228-229, and the same problems exist in this case. Although ABATE characterizes its proposal as a cost-based approach, ABATE witness York admitted that another alternative version of the COSS could also be used to approximate the same results. 4 TR 1808. The question, then, is whether the COSS is driving the revenue apportionment or whether ABATE is leveraging its preferred COSS to achieve a desired outcome.

As Company witness S. Austin Smith described ABATE's proposal, "Rather than using a COSS to guide revenue allocation," ABATE is "relying on revenue apportionment—essentially shifting revenue between classes without a supporting cost basis." 4 TR 1808. Apportioning revenue in this way to reach a predetermined outcome undermines the very purpose of conducting a COSS in the first place. The ALJ, the Company, and Staff are all in agreement on this point.

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same rate classes in Table JAY-4, column 5, lines 6-7 ( $\$8,861,000 + \$5,154,000 + \$5,195,000 = \$19,210,000$ ). The Company's proposed rate increase for these rate schedules is  $\$8,292,000$  higher ( $\$27,502,000 - \$19,210,000 = \$8,292,000$ ) than ABATE's proposed rate increase for these rate schedules.

<sup>9</sup> Compare ABATE's proposed rate increase for residential customers in Table JAY-4, column 5, line 1 ( $\$200,560,000$ ) with the Company's proposed rate increase for residential customers in Table JAY-4, column 2, line ( $\$195,779,000$ ). ABATE's proposal increases rates to residential customers by  $\$4,781,000$  ( $\$200,560,000 - \$195,779,000 = \$4,781,000$ ).

## 2. Economic Breakeven Points

Besides designing cost-based rates to recover the revenue needed to serve each class, the Company also designed rates to maintain existing breakeven points for general service and transportation rate classes. Company witness Smith described economic breakeven points as the point where revenue collected from one volumetric rate would equal revenue collected from a different rate. 4 TR 1793. Staff witness Revere similarly described them as “the amount of usage at which the bills under two different rates are the same.” 4 TR 2766, n13. As directed by the Commission in Case No. U-21490, the Company held a collaborative meeting with interested parties to discuss breakeven points. Participants discussed transportation customer charges and breakeven points, including “resetting the breakeven points based on the natural breaks in billing frequency distribution, and eliminating breakeven points and establishing a declining block rate structure.” 4 TR 1795. The participants also discussed how the cost of service informs the breakeven points.

Considering feedback from the collaborative, the Company proposed rates that maintain the economic breakeven points first established in Case No. U-18124 and approved in many later cases. 4 TR 1793-1794. Maintaining existing breakeven points allows the Company to be more precise when predicting how much revenue rates will generate, to be more accurate when setting rates, and to minimize confusion for customers. 4 TR 1794. When economic breakeven points change, customers have an incentive to switch to a more economical rate, which can result in under- or over-recovery if many customers shift rates. *Id.* As Staff put it, “If these breakeven points were changed without cause, or without properly reflecting such a change in the determinants, the Company’s ability to collect its targeted revenue requirement would be inappropriately impaired.” 4 TR 2586. Moving breakeven points can also make it difficult to accurately predict revenues for ratemaking and planning purposes. 4 TR 1794.

ABATE opposed the Company's proposed economic breakeven points for transportation rate schedules. 4 TR 2104. The ALJ disagreed, finding that the economic breakeven points are reasonable. He reached this conclusion for three reasons. First, ABATE did not analyze sales determinates, allocations, or other factors when recalculating its breakeven points. PFD, page 455. Mr. Smith similarly testified that ABATE did not consider the impact that changing breakeven points would have on sales determinants or revenue. 4 TR 1810. According to Mr. Smith, a more thorough analysis, including another sales forecast with the new breakeven points, would be needed to calculate the rate impact of ABATE's proposal. *Id.*

ABATE responded that no additional analysis is needed since the Company recognized that its proposed rate design does not "align precisely with the current class COSS" and, according to ABATE, the Company has implicitly acknowledged that ABATE's proposal would force the Company to do so. ABATE's Exceptions, page 16 (citing 4 TR 1808-1810). 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. See 4 TR 1809. Mr. Smith obviously was not concerned that ABATE's proposal would somehow force the Company into a cost-based approach – it was already using one. And Mr. Smith clearly said that ABATE's proposal was not cost based.<sup>10</sup> 4 TR 1808.

Second, the ALJ found that "the proposal to reset breakeven points consistent with ABATE's preferred COSS, should be dismissed because ABATE's COSS was rejected." PFD, page 455. ABATE did not explicitly respond to this finding, although it did seek to support its preferred approach, see ABATE's Exceptions, pages 6-15, which was to adjust rate-design outcomes to reflect an alternative version of the COSS that used an AED allocator. 4 TR 1808,

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<sup>10</sup> Mr. Smith said, "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.

2082-2083. As discussed above, there is a question whether ABATE’s approach is truly cost based or whether it is outcome driven. Staff witness Revere correctly observed that ABATE “arbitrarily lower[ed] the increase to the transportation class and shift[ed] revenue responsibility to the sales class (and amongst the transportation rate schedules)” to achieve what ABATE viewed as a “more equitable” outcome. 4 TR 2764-2765.

Third, the ALJ agreed that the Company’s concerns about rate shifting were well founded, and “attempting to set new breakeven points as part of this proceeding could result in significant instability in revenue collection and could cause customer confusion.” PFD, page 455. ABATE disagreed and alleged that the Company provided no evidence to justify its concerns. ABATE’s Exceptions, page 16. In fact, the Company has produced evidence, and ABATE has the evidence too. The evidence is grounded in the Company’s experience and in the ratemaking principles the Company followed when setting breakeven points. 4 TR 1809.

The Company provided data to ABATE showing that rate shifting has occurred in recent years. See Exhibit AB-1, page 12. The Company has been able to minimize rate shifting by setting effective breakeven points, but Exhibit AB-1 is evidence that it does exist and could be worse without the right breakeven points. 4 TR 1809. Further, in principle, if these breakeven-point thresholds were altered midstream – without adjusting load forecasts, usage patterns, and cost allocations accordingly – it would “invalidate the assumptions embedded in the class COSS and result in rates that no longer align with actual cost causation.” 4 TR 1809.

The ALJ correctly found that the Company’s proposed economic breakeven points are reasonable.

### **3. Conclusion**

The Company proposed rate increases for the ST, LT, and XLT transportation rate schedules that are based on the Company’s COSS, which reveals that the cost to serve these rate

classes is increasing more than the cost to serve other classes. ABATE would have other customer classes – primarily residential customers – pay for the increasing cost to serve the ST, LT, and XLT transportation customers without a sound cost basis for doing so. It claims that its revenue apportionment method is cost based, but it appears to be as much outcome driven as it is cost based.

The Company proposed breakeven points to better predict how much revenue rates will generate, to be more accurate when setting rates, and to minimize confusion for customers. The Company 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 and breakeven points.

### **3. Customer Charges**

The Attorney General continues to oppose any increases to the residential customer charge and Rate GS-1 customer charge, without regard for their cost basis, arguing that the customer charges were just increased and that the recommended increases will result in higher bills and discourage energy conservation. Attorney General’s Exceptions, page 49. The ALJ properly rejected these arguments, agreeing with Staff and the Company that “the customer charge, like other costs, should be based on COSS principles.” PFD, page 462. The ALJ then recommended adjustments that were largely inconsistent with this finding, which the Company contested in Exceptions, but his overarching finding was correct. “[C]ustomer 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. Otherwise, as the Company has explained, the more the customer charge is below its cost basis, the more the wrong customers will be charged. See Company’s Reply Brief, page 133; Company’s Exceptions, pages 120-121.

Increasing the customer charge will generally *not* result in higher bills or discourage energy conservation. As the Company has also repeatedly explained, a higher customer charge and lower variable charge means a lower monthly bill for the most vulnerable Residential Income Assistance customers and often translates into a lower monthly bill for other customers as well. 4 TR 1805-1807; Company’s Initial Brief, pages 353-354; Company’s Exceptions, page 120. A higher customer charge also does *not* send poor price signals or impede customers’ ability to conserve energy. 4 TR 2481-2482; Company’s Initial Brief, page 354. The opposite is true. “By removing fixed costs from the volumetric rate, the remaining usage-based rate more closely reflects the marginal cost of delivering gas.” 4 TR 1807. Customers then see the true cost of their volumetric use, improving the price signal and encouraging customers to conserve power when circumstances most warrant.

The Commission should reject the Attorney General’s arguments and approve the Company’s proposed residential customer charge and Rate GS-1 customer charge.

## **VI. OTHER ISSUES**

### **A. Probabilistic Modeling**

The PFD declined to adopt MSC’s recommendation to require that cost effectiveness calculations be incorporated into the Company’s probabilistic risk modeling, noting that “calculating cost effectiveness for all programs would be unduly burdensome if, for example, a certain repair or replacement was legally mandated.” PFD, page 471. The PFD also pointed to the Company’s testimony that MSC’s recommendations are not possible to integrate with the existing probabilistic risk model. *Id.* MSC continues to argue that the Commission should require the Company to use probabilistic risk modeling to determine cost-effective levels of Material Condition pipe replacement. MSC’s Exceptions, pages 27-33, 40. The Commission should reject MSC’s recommendation.

First, MSC's proposed change to the way in which Consumers Energy selects its Material Condition Program projects is not necessary. Consumers Energy's Material Condition Program addresses leaks and improves the natural gas distribution system integrity, which results in reducing methane emissions to the atmosphere, improving system reliability, and enhancing public safety. 3 TR 382. The expenditures in this program include EIRP distribution pipe replacement projects, the Vintage Service Replacement ("VSR") Program, and additional system enhancements that are prioritized to improve safety and increase operational efficiencies by replacing lower performing infrastructure. The Material Condition Program also includes the Material Condition Renewals Program, which provides capital replacements due to leaks and system damages; Material Condition Non-Modeled, which provides emergent gas service and main replacement projects; and the Commercial and Industrial Meters Program, which provides business customer meter and meter stand replacement projects. *Id.* MSC's Exceptions focus on the EIRP, VSR, and Material Condition Non-Modeled programs. See MSC's Exceptions, page 28.

The purpose of the 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. While the Company is planning to begin implementing probabilistic risk modeling for distribution assets in 2027 to identify projects for 2030, Consumers Energy already selects EIRP projects using a relative risk model that assesses the risks and threats of each pipe segment, along with subject matter expert input. 3 TR 463, 469-470. The current risk assessment method used by the Company prioritizes high-risk segments for replacement based on several factors, such as pipe material type, age, soil conditions, and leak history. 3 TR 470.

EIRP projects have a defined scope – the Company is replacing all of the highest risk materials as classified by PHMSA, which is planned to be completed by 2035. See 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. Thus, the Company manages costs and prioritizes investments to provide the greatest benefit to customers.

The Company also began using the Distribution Risk Analysis Model, which is a relative risk model, for ranking VSR projects in 2025, and this risk assessment has been effective in prioritizing high-risk areas. 3 TR 471. And under the Material Condition Non-Modeled Program, the Company performs replacements to address emergent issues that must be resolved to comply with regulations or to ensure safety, and intentionally targets certain assets for replacement that may not rank as highly in the Company’s risk modeling but whose replacements benefit customers (such as the replacement of wrought iron mains). 3 TR 398-399, 447-448.

MSC suggests that capital expenditures are increasing in the EIRP, VSR, and Material Condition Non-Modeled programs because of MSC’s contention that the Company sets its capital spending based on the maximum number of projects that can be performed in a year considering available resources. MSC’s Exceptions, page 28. MSC’s argument does not provide a complete representation of the record. First, the referenced cross examination was in connection with extensive questioning regarding EIRP risk ranking, and was not addressing the VSR or Material Condition Non-Modeled programs. See the cross examination at 3 TR 474-507, which involved questioning on the EIRP risk ranking reflected in Exhibits A-141 and A-142. And while the referenced cross examination indicates that the Company selects the particular annual EIRP projects considering the available resources by region (see 3 TR 498-499), the overall Company

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

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. The purpose of EIRP risk modeling is to “prioritize system replacements to eliminate the highest risk distribution pipe first.” 3 TR 384. The Company’s risk ranking methodology appropriately informs the Company’s determination of which pipe replacements to prioritize each year, and the additional cost-effectiveness calculations proposed by MSC are not necessary and should not be required.

Second, MSC reiterates its argument that the Commission should require the Company to incorporate cost-effectiveness evaluations into project selection through risk modeling that considers costs and benefits. MSC’s Exceptions, page 33. This request fails to understand the Company’s probabilistic risk modeling that is currently in place and being developed.

The Company’s Transmission Probabilistic Risk Model is designed to calculate the total risk of an asset by assessing threats listed in ASME B31.8S and the consequences of failure across nine different failure modes at any location along the pipeline assets. 4 TR 1816. Exhibit A-157 (BMS-1) provides the uses and limitations of the model. The model is run annually by the vendor, with data from the Extract, Transformation, and Load (“ETL”) process which takes up to 90 days, followed by a three-month configuration and analysis period on vendor servers. 4 TR 1816. The

results are reviewed in the Geospatial Information System and other company systems, with a quality assurance review by subject matter experts. *Id.* The model prioritizes compliance with federal regulations and risk, selecting assessment methodologies such as Direct Assessment, Inline Inspection (“ILI”), and Pressure Testing, with ILI being the most effective. *Id.*

The model is used to understand the risk and threats to an asset. 4 TR 1814. The Company compares previous year risk results to current year results to understand the impact of work performed, although long-term comparisons are not feasible due to the recent transition from a relative to a probabilistic model. 4 TR 1818. The model assumes that the threats and risks are time-dependent, and it does not inherently calculate mitigation effectiveness values. 4 TR 1819. It relies on industry knowledge, cost, system reliability, and customer impact to select mitigation methodologies. 4 TR 1818. The model is an important tool for ensuring safe and reliable gas service.

The Company is in the process of implementing similar models with the same vendor for its storage wells and distribution system. 4 TR 1824. It is working with the vendor to develop a model for storage wells which it expects to begin utilizing in 2025 and the probabilistic distribution asset risk model should be available by 2027. 4 TR 1824. This is not a simplistic task, and the development of these models is a tremendous undertaking. *Id.*

While MSC argues that the Company should develop the distribution probabilistic model to assess cost-benefit or cost effectiveness (MSC’s Exceptions, page 31), this recommendation is not supported by the model’s current design and purpose, and incorporating a true-cost-effectiveness calculation would require substantial development. 4 TR 1817. With the Company’s model with its vendor, any cost analysis must currently be done outside the model and would require substantial further development of the model, using Artificial Intelligence to predict the

future repairs, where they are, how many, and the cost of remediation. That functionality is not likely to be available in the near future. *Id.*

In its Exceptions at page 28, MSC supports using the model to estimate cost-effectiveness, or risk spend efficiency, by dividing the risk reduction of each alternative by its cost. But, this is not an effective way to calculate cost-effectiveness. Company witness Brian M. Snyder testified that while some models are able to calculate cost-effectiveness, this is based on industry averages. This value is not accurate for analysis on individual assets which leads to over or understating of mitigation effectiveness. 4 TR 1819-1820. Mr. Snyder stated that “[t]he Company’s model is used to understand the risk and threats to an asset and then selects the methodology to mitigate that threat based on industry knowledge, cost, system reliability, and customer impact.” 4 TR 1820. The Company’s probabilistic risk model is intended to provide insight into threats on the system and is not a financial evaluation tool.

The Company’s model is not designed to calculate mitigation effectiveness values but instead is run annually with new data to provide a detailed representation of risks on the system to enable informed decision-making for Consumers Energy. MSC’s recommendations are inappropriate as they fail to understand how the model operates and its capabilities. Nor would the model provide an accurate cost-effectiveness value on individual assets. Thus, MSC’s recommendations should be rejected.

**B. Natural Gas Delivery Plan**

The PFD recommended that consistent with the Commission’s order in Case No. U-21291, the Commission should direct the Company to file an updated Natural Gas Delivery Plan (“NGDP”) that considers:

...the costs and risks of various energy transition pathways including information pertaining to how the company intends to achieve emissions reductions as part of its corporate goals and the

State's emissions reductions goals with an estimated timeline for achieving those goals and interim goals; alternatives to capital investment, such as pipeline repairs and NPAs; historical trends of natural gas demand, projected demand, and impacts of changing demand; and the projected impacts of the transition towards electrification and decarbonization, including the portions of its distribution system that Consumers estimates will be most immediately impacted. [PFD, page 482.]

Consumers Energy took exception to this recommendation as the Company has voluntarily made “clean” one of the primary objectives of the NGDP and incorporated the “reduction of the Company's and its customers' contribution to climate change through gas system decarbonization” into the NGDP. Exhibit A-42 (NPD-1), page 12.

MSC also took exception to the PFD. MSC's Exceptions, pages 38-40. While supporting the PFD's recommendation, MSC provides an extensive list of “procedural safeguards” that it claims needs to be incorporated into the PFD's recommendation. These “safeguards” include an extensive list of proposed elements to be incorporated into the NGDP, along with a comment period on the Company's plan, and required revisions of the NGDP. MSC further indicated that this should be accomplished by the end of 2025. MSC's recommendation is unreasonable and unwarranted.

The list of elements that MSC wants incorporated into the NGDP are not “procedural safeguards” but in fact show MSC's true objective of trying to dictate the Company's planning process. MSC seeks to require Consumers Energy to plan for a decline in its natural gas business – a decline that has not been established by the record evidence. This is despite the fact that Michigan **does not have statutes in place that address decarbonization of the gas system** – or the manner in which decarbonization should be accomplished. Still MSC seeks to require the Company to incorporate into its NGDP MSC's desired way for the Company to meet certain climate objectives – which is through electrification. This would modify the Company's natural

gas business and increase costs to customers. See Consumers Energy's Initial Brief, pages 361-365. The Commission should avoid MSC's attempt to interfere with the Company's managerial discretion in the planning for the future of its natural gas business. The Commission does not have authority to dictate how the Company plans for its natural gas business.

While the Company fundamentally disagrees with MSC's claims that its NGDP is "surface level" or "opaque" (MSC's Exceptions, page 39), the type of analysis that MSC claims to desire cannot reasonably be achieved in the timeframe specified. This is especially true if stakeholder comments are permitted. Moreover, MSC has not provided a reasonable basis for its request to provide comments on the Company's NGDP or have its comments incorporated into the Company's plan. This, again, is another attempt for MSC to manage the Company's business. But that managerial prerogative belongs to the Company.

The NGDP provides a comprehensive 10-year plan for Consumers Energy's gas systems, and in response to the Commission's September 26, 2019 Order in Case No. U-20322, provides 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 system. The Company includes this plan in its rate case filings, and it is updated annually as it is the underlying basis for its rate case cost projections. Moreover, it develops a strategic framework in response to decarbonization goals and future policy. 4 TR 569. Parties to the Company's rate case proceedings have every opportunity to review and comment on the costs included in the Company's rate case proceedings. This has been the process for the last five years. MSC has not provided a reason why this process should be modified. Ultimately, MSC's Exceptions are not well-taken, exceed the Commission's legal authority, and must be rejected.

**VII. CONCLUSION**

For the reasons set forth in these Replies to Exceptions, Consumers Energy Company's Exceptions to the PFD, Reply Brief, Initial Brief, testimony, and exhibits, Consumers Energy Company requests the Michigan Public Service Commission to authorize Consumers Energy Company to increase its retail gas rates so as to produce additional annual revenues in the amount of approximately \$217 million, and to grant other relief consistent with the positions set forth.

CONSUMERS ENERGY COMPANY



Dated: September 4, 2025

By: \_\_\_\_\_

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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

**PROOF OF SERVICE**

STATE OF MICHIGAN )  
 ) SS  
COUNTY OF JACKSON )

Melissa K. Harris, being first duly sworn, deposes and says that she is employed in the Legal Department of Consumers Energy Company; that on September 4, 2025, she served an electronic copy of **Consumers Energy Company's Replies to Exceptions to the Proposal for Decision**, pursuant to the Protective Order in this case, upon the persons listed in Attachment 1 hereto, at the e-mail addresses listed therein.



\_\_\_\_\_  
Melissa K. Harris

Subscribed and sworn to before me this 4<sup>th</sup> day of September, 2025.



\_\_\_\_\_  
Crystal L. Chacon, Notary Public  
State of Michigan, County of Eaton  
My Commission Expires: 05/25/30  
Acting in the County of Jackson

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