



September 30, 2025

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

Via E-File

RE: MPSC Case No. U-21870

Dear Ms. Felice:

Attached please find the enclosed documents for filing:

- Direct Testimony and Exhibits of Richard J. Bunch on behalf of Citizens Utility Board of Michigan (CUB-21 through CUB-30); and
- Proof of Service.

Thank you for your assistance in this matter. If you have any questions, please feel free to contact me.

Sincerely,

Tracy Jane Andrews
tjandrews@tropospherelegal.com

CC: Parties to Case No. U-21870

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 generation
and distribution of electricity and for other
relief.

U-21870

DIRECT TESTIMONY OF RICHARD J. BUNCH
ON BEHALF OF
CITIZENS UTILITY BOARD OF MICHIGAN

September 30, 2025

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1 **I. INTRODUCTION & QUALIFICATIONS**

2 **Q. Please state for the record your name, position, and business address.**

3 A. My name is Richard J. Bunch. I am a lead consultant at 5 Lakes Energy, LLC. My business
4 address is PO Box 869, Northport MI 49670.

5 I am also Executive Director of Michigan Municipal Association for Utility Issues (MI-
6 MAUI).

7 **Q. On whose behalf is this testimony being offered?**

8 A. I am testifying on behalf of Citizens Utility Board of Michigan (CUB).

9 **Q. Please summarize your experience in the field of utility regulation.**

10 A. I have worked in my role at 5 Lakes Energy for six years. I have worked since 2015 in
11 positions related to clean energy, primarily on behalf of local governments. A significant
12 portion of that work has included analysis of Michigan Public Service Commission (MPSC
13 or Commission) rate and other cases and supporting local government participation in rate
14 cases and other MPSC proceedings. From 2015 to 2017, I organized and led the Municipal
15 Street Lighting Coalition, a group of 24 municipalities served by DTE Energy, which
16 intervened in Cases U-17767, U-18014, U-20836, and U-21297, and participated in the
17 subsequent MPSC-ordered street lighting collaborative. I organized and supported the
18 intervention of several municipalities receiving street lighting services from Consumers
19 Energy in cases U-20134, U-20697, U-20963, U-21224, and U-21389. I have submitted
20 comments in several other case dockets on behalf of MI-MAUI and have participated in
21 various MI Power Grid working groups and the Electric Distribution Planning working
22 group. I directed MI-MAUI's intervention in DTE Energy's Voluntary Green Power case

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1 U-20713.

2 In the field of consumer protection, I am president and board chair of the Washington
3 Public Interest Research Group (WashPIRG), an independent, non-partisan, non-profit
4 organization based in Seattle that works to protect consumers and promote good
5 government. I am also an officer of the WashPIRG Foundation, an affiliated research and
6 public education organization. I was Executive Director of WashPIRG from 1989 to 1992
7 and worked on a number of consumer protection issues during that time and in more junior
8 positions prior to that. I also served until 2020 as an officer of the PIRG in Michigan
9 (PIRGIM) Education Foundation, a nonpartisan consumer protection and good government
10 public education and research organization based in Ann Arbor.

11 I am a member of the Commission's Low-Income Energy Policy Board and previously
12 served as a stakeholder co-chair of the Commission's Data Analysis and Regulatory
13 Review working group.

14 My work experience is summarized in my résumé, provided as Exhibit CUB-21.

15 **Q: Please list your training and education relevant to the field of utility regulation.**

16 A. I have participated in the following courses and events.

- 17 • EUCI Outdoor Street Lighting Conference, June 2019
- 18 • EUCI Electric Cost-of-Service - Essential Concepts for a Changing Industry, July 2019
- 19 • MSU-IPU Accounting and Ratemaking course, September 2020
- 20 • EUCI Utility Green Tariffs: A to Z course, November 2020
- 21 • MSU-IPU Advanced Regulatory Accounting and Auditing course, October 2021

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1 • NRRI Regulatory Training Institute, Regulating Public Utility Performance course,
2 2022.

3 • EUCI Advanced Rate Design for Cost Effective Tariffs course, 2024

4 **Q. Have you testified before this Commission or as an expert in any other proceeding?**

5 A. I have previously testified before the Commission in the following cases:

6 • Case U-20530 (I&M PSCR Reconciliation case)

7 • Case U-20561 (DTE Electric Company Electric General Rate Case)

8 • Case U-20697 (Consumers Energy Company Electric General Rate Case)

9 • Case U-20836 (DTE Electric general rate case)

10 • Case U-20963 (Consumers Energy Company Electric General Rate Case)

11 • Case U-21087 (DTE Electric PrePay case)

12 • Case U-20836 (DTE Electric Company Electric General Rate Case)

13 • Case U-21224 (Consumers Energy Company Electric General Rate Case)

14 • Case U-21297 (DTE Electric Company Electric General Rate Case)

15 • Case U-21389 (Consumers Energy Company Electric General Rate Case)

16 • Case U-21534 (DTE Electric Company Electric General Rate Case)

17 • Case U-21860 (DTE Electric Company Electric General Rate Case)

18 I have testified before the Kentucky Public Utilities Commission in rate cases 2020-349
19 and 2020-350, the combined Kentucky Utilities and Louisville Gas & Electric electric and
20 gas rate cases.

21 **Q. Are you sponsoring any exhibits?**

22 A. Yes, I am sponsoring the following exhibits:

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1	Exhibit CUB-21	Résumé of Richard J. Bunch
2	Exhibit CUB-22	Company Response to U-21870-MNSC-CE-0560 & 0561
3	Exhibit CUB-23	Change in CXCO Historical O&M
4	Exhibit CUB-24	Company Response to U-21870-SA-CE-113 & 114
5	Exhibit CUB-25	Labor Costs Adjustments
6	Exhibit CUB-26	Proposed LVD Pole Replacement Surge
7	Exhibit CUB-27:	SAIDI Benefits Modified U21870-AG-CE-
8		0424_Kelly_ATT_1
9	Exhibit CUB-28	2025-2030 Line Clearing O&M
10	Exhibit CUB-29	Present Value of Each Undergrounding Project
11	Exhibit CUB-30	Sorted Benefits

12 **II. SUMMARY**

13 **Q. What topics are you addressing in your testimony?**

14 A. I am addressing the following topics:

- 15 • General context of this rate case;
- 16 • Inflation and productivity offsets;
- 17 • Reliability Improvement Cost Recovery;
- 18 • Undergrounding; and
- 19 • Storm Cost Recovery Mechanisms.

20 **Q. Which Company witnesses' testimony do you discuss in your testimony?**

21 A. I am addressing the testimony of Company witnesses Blumenstock, Byrom, Daly, Grob,
22 Kelly, Myers, Partlan, Snider, and Stewart.

1 **III. GENERAL CONTEXT OF THIS RATE CASE**

2 **Q. Please summarize your general understanding of Consumers Energy's requests in**
3 **this rate case**

4 A. Consumers Energy (the Company) is requesting an overall rate increase of \$460,204,000
5 or 9.7%. Most of that increase – \$325,894,000 to be exact – would come from increased
6 residential rates, constituting a 13.3% average increase for residential customers.

7 Many factors contribute to the Company's proposed increase. My 5 Lakes Energy
8 colleague, Douglas Jester, and I address residential rates and reliability, both foundational
9 to the statewide effort to transition to cleaner energy. Our analysis of the Company's rate
10 request reveals that increases in distribution system spending, much of it motivated by the
11 need to improve system reliability, drive most of the proposed rate hike. We support the
12 drive to improve reliability but maintain that this objective must be balanced against rate
13 impacts.

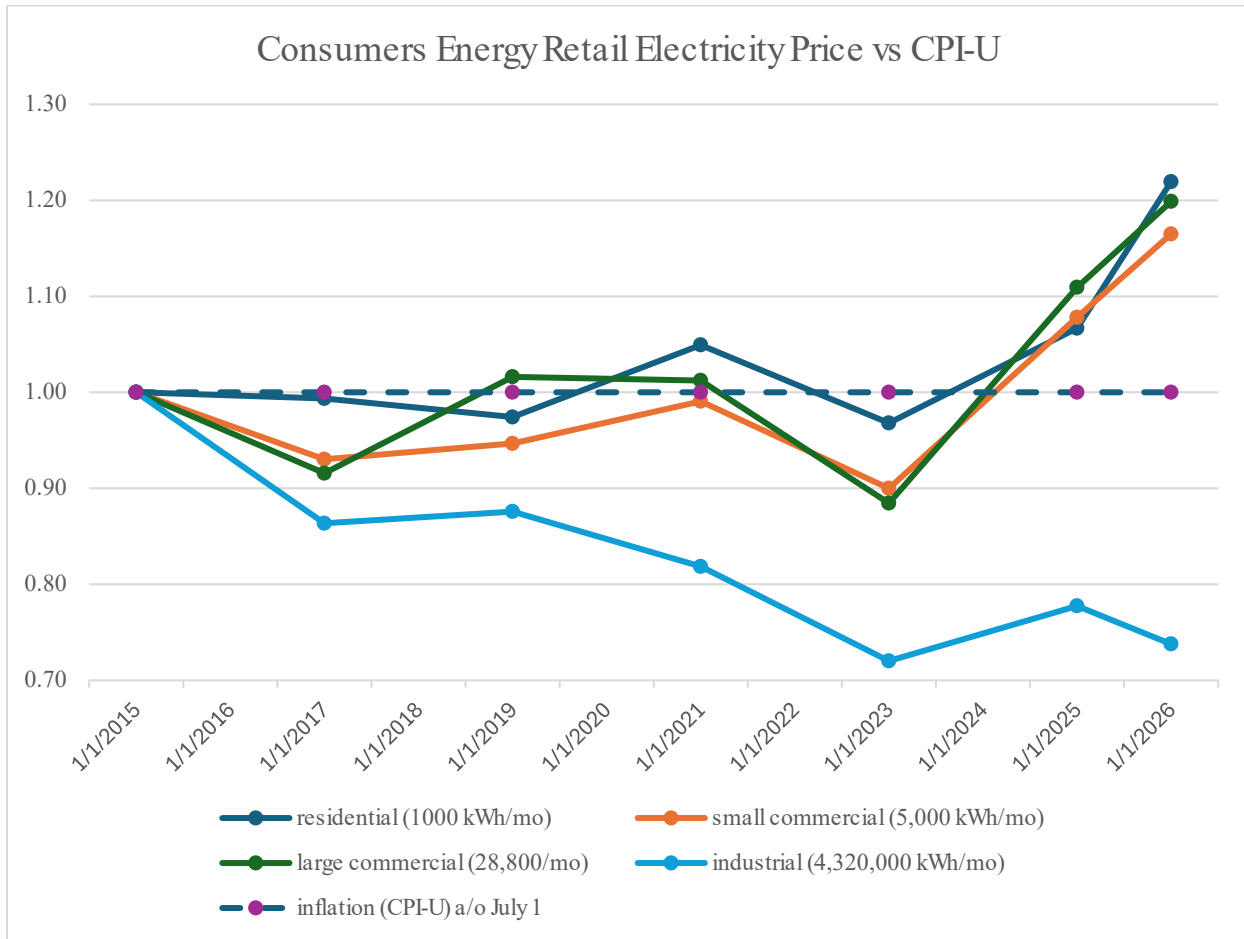
14 **Q. Is Consumers' proposed 13.3% average increase in residential rates reasonable?**

15 A. No. The requested increase is unreasonable in three respects. First, such a significant
16 increase would put unreasonable burdens on household energy budgets, which for too
17 many Consumers customers already consume much more of their household income than
18 the national average. Second, the requested increase greatly exceeds cost inflation. Third,
19 proposed additional investments in reliability are not sufficiently cost-effective to justify
20 the resulting rate increases.

21 Until recently, Consumers' residential retail electricity prices tracked reasonably closely
22 with inflation. (Figure 1)

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1 *Figure 1*



2
3 *Source: MPSC Comparison of Average Rates (<https://www.michigan.gov/mpsc/consumer/electricity>) accessed 8/27/2025*

4 Figure 1 compares Consumers' retail electricity rates to constant 2015 dollars, depicted by
5 the flat dashed line. As of late 2023, residential rates were about the same, in constant
6 dollars, as they had been in 2015. But they had already begun to rise sharply by then, and
7 as of August 2025 they were about 7% higher in constant dollars than they had been in
8 2015. Notably, however, the Company's proposed increase would cause residential rates
9 to be 22% higher, in constant dollars, in 2026 than they were in 2015.

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1 **Q. Why use inflation as a benchmark for rate growth?**

2 A. If rates grow faster than inflation, then energy costs will consume an ever-larger portion of
3 customers' household incomes. Already, Michigan households pay a higher percentage of
4 household income for energy than most other states. In 2023, Michigan ranked 16th worst
5 nationally for total residential energy burden.¹ Rates persistently rising faster than inflation
6 would exacerbate that situation.

7 Inflation does not tell the whole story, though. If Consumers' rates were historically lower
8 than those of comparable utilities, that might contextualize the Company's relatively low
9 reliability performance and justify "catch-up" spending. That is not the case here, however.
10 In 2023, the average US residential customer paid 16 cents per kilowatt-hour.² That same
11 year, Consumers' residential customers were paying 18.8 cents/kWh, or 17.5% higher than
12 the national average.³ An additional rate increase higher than inflation would exacerbate
13 that already large spread.

14 **Q. Is there evidence that rate increases are burdensome to Consumers' residential**
15 **customers?**

16 A. Yes. The number of residential customers significantly in arrears has risen noticeably in
17 recent years. While seasonal variations are significant, as shown in Figure 2, the best-fit

¹ CUB of Michigan 2025 Utility Performance Report, p.36, available at <https://cubofmichigan.org/our-work/reports/>, last checked September 18, 2025

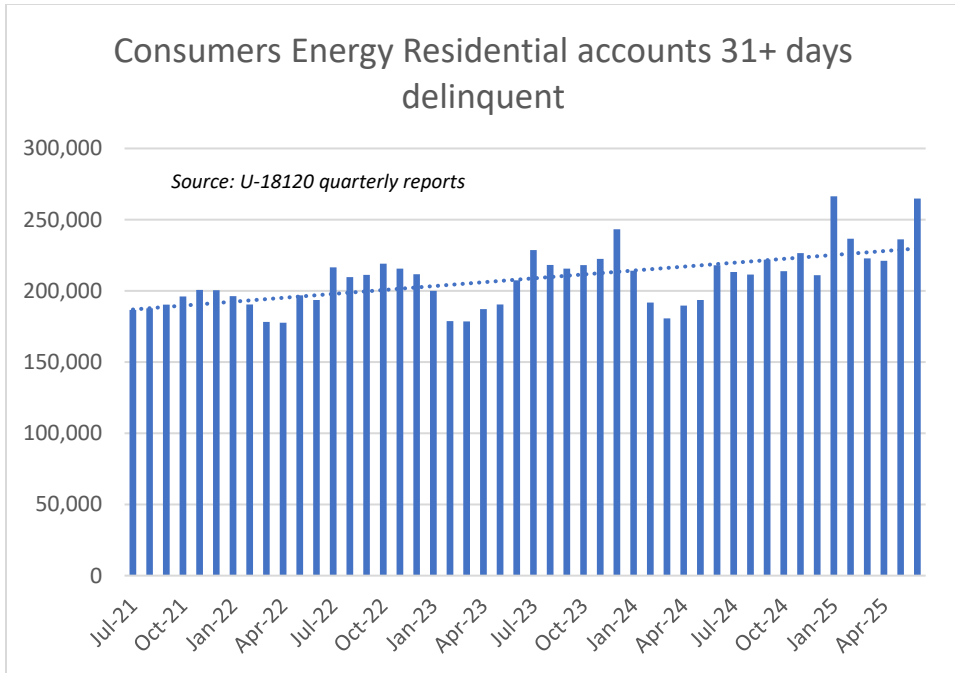
² <https://cubofmichigan.org/reports/utility-performance-report-2025-edition/>, "Household Energy Main" tab, last accessed September 18, 2025.

³ <https://cubofmichigan.org/reports/utility-performance-report-2025-edition/> Energy Costs tab, SAIDI with MEDS data, last accessed 9/18/2025.

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1 line shows an increase from about 180,000 accounts delinquent for more than 31 days in
2 2021 to about 230,000 in June of 2025, an almost 28% increase in only four years.

3 *Figure 2*



4
5 The growth in customers in arrears is roughly proportional to an increase in net write-offs,
6 which the Company ultimately recovers through rates. Net write-offs in 2020 totaled
7 \$10,428,000 and are projected to rise to \$20,274,000 in the projected test year – a doubling
8 rate of seven years at about 10.4% per year.⁴

9 **Q. Should the Commission be satisfied if Consumers' rates were to grow no faster than**
10 **inflation?**

11 A. No, inflationary electricity price increases are not a satisfactory goal. Rising residential
12 rates, even at about the rate of inflation, still cause increasing financial stress on customers.

⁴ Exhibit A-90 (MJF-4) p. 2.

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1 In addition, revenue requirements and rates rising in step with inflation indicate ineffective
2 cost containment and productivity efforts by company management. Companies operating
3 in competitive markets cannot pass cost increases directly on to their customers without
4 running the risk of losing business. This cost pressure motivates productivity gains.

5 **Q. Does the need to improve distribution system reliability justify the requested revenue**
6 **requirement and rate increase?**

7 A. It is fair to expect that Consumers can and should deliver electricity at similar prices and
8 with similar reliability as utilities in nearby states. But the Company's customers are
9 already paying more while getting worse service. The average Consumers customer went
10 913 minutes without power in 2023.⁵ The US average that year was 342 minutes without
11 power, meaning that the average Consumers customer went about 9-1/2 hours more than,
12 or 2.67 times longer than, the average US customer, while already paying a 17.5%
13 comparative premium for that electricity.⁶

14 It is unreasonable for the Company's residential customers to experience markedly inferior
15 service quality accompanied by a significant increase in electricity rates. This is contrary
16 to basic performance justification principles. In competitive markets, companies would not
17 expect approval for increased capital while simultaneously presenting substantially poorer
18 performance metrics relative to their industry peers.

⁵ MPSC website Distribution System Reliability Metrics page, SAIDI tab, <https://www.michigan.gov/mpsc/consumer/electricity/distribution-system-reliability-metrics#SAIDI> (accessed September 29, 2025).

⁶ 2025 Utility Performance Report online data, CUB of Michigan, State Electric Reliability tab, SAIDI with MEDs, <https://cubofmichigan.org/reports/utility-performance-report-2025-edition/>. (accessed September 29, 2025).

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1 **Q. Are you suggesting that the Commission should not allow the Company to recover its**
2 **costs?**

3 A. The Commission should allow the Company to recover *reasonable and prudent* costs. It is
4 reasonable to expect the Company to deliver electricity to its customers at rates similar to
5 comparable utilities and with similar reliability. Granting substantial rate increases to help
6 the Company catch up to service reliability benchmarks, when its rates are already high, is
7 unreasonable.

8 **Q. How should the Commission limit rate impacts caused by costs of new activities such**
9 **as the distribution surge spending?**

10 A. A significant portion of Consumers' distribution surge spending is remedial. That is, the
11 Company has fallen behind its peers on distribution system maintenance and investment,
12 causing it to experience worse reliability, and it has a backlog of maintenance to work
13 through. It is not fair to charge today's customers the full cost of investments that should
14 have been made in the past, on top of current investments.

15 Below, I discuss how much surge spending should be attributed to this backlog. My 5 Lakes
16 Energy colleague, witness Douglas Jester, recommends that certain distribution surge
17 expenses should not be recovered as O&M costs or added to rate base but should rather be
18 held as regulatory assets to be considered for future securitization subject to prudence
19 review. In my testimony, I identify specific incremental test-year capital and O&M
20 expenditures undertaken to improve reliability, which witness Jester proposes for
21 regulatory asset treatment and potential securitization.

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1 **Q. What else should the Commission do to reduce the energy burden on Consumers’**
2 **residential electric customers?**

3 A. In my testimony, I propose two additional measures.

4 First, I show that the Company projects that the vast majority of benefits from its reliability
5 investments will accrue to non-residential customers and yet its Cost of Service Study
6 allocates a substantial majority of those costs to residential customers. An allocation of
7 these costs more in line with the benefits received would be more equitable and reduce
8 residential rate impacts. I recommend that the Commission direct the Company to review
9 its allocators from a cost-causation standpoint incorporating its analysis of the benefits of
10 these investments, and either propose adjustments or justify the status quo as part of its
11 next rate filing.

12 Second, I oppose the creation of the Company’s proposed Service Restoration Resiliency
13 Fund and Extraordinary Storm Accounting. The Commission has reviewed and rejected
14 essentially similar proposals in the past. There is little new in the Company’s current
15 proposal. These proposals represent attempts to make customers responsible for outage and
16 damage costs resulting largely from the Company’s past improvident distribution system
17 maintenance practices. Aside from this improper assignment of responsibility for costs, the
18 proposals include weak accountability for use of the funds and, by creating a substantial
19 regulatory liability, may result in customers paying costs that may be of benefit only to
20 future ratepayers.

1 **IV. INFLATION AND PRODUCTIVITY OFFSETS**

2 **Q. Which Company witnesses' testimony do you discuss in this section of your**
3 **testimony?**

4 A. I am addressing the testimony of Company witnesses, Blumenstock, Byrom, Daly, Grob,
5 and Myers.

6 **Q. Please describe how this section of your testimony is organized**

7 A. In section 1, I describe how inflation and productivity impact company costs in general and
8 regulated utilities in particular.

9 In section 2, I summarize the history of this issue in recent Consumers electric dockets
10 including the Commission's relevant orders.

11 In section 3, I describe and critique how the Company has responded to the Commission's
12 orders in the instant filing.

13 In section 4, I recommend what action the Commission should take to address this issue.

14 **Q. Please preview your recommendation.**

15 A. I recommend that the Commission adopt labor and non-labor productivity offsets to
16 inflation factors.

17 **Q. Please briefly describe the basis for your recommendation.**

18 A. The Commission has given the Company ample opportunity to propose a comprehensive,
19 consistent and transparent method for incorporating productivity gains in its cost and
20 expenditure projections. The Company has not done so and argues that the undertaking is
21 unnecessary. I disagree and propose that the Commission adopt a methodology for

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1 incorporating productivity into cost projections that is similar in methodology and basis to
2 that already used for inflation. I propose the application of that method to a specific
3 program and recommend that the Commission require the Company to present future
4 spending proposals in a similar format.

5 **1. Impact of Inflation and Productivity on Costs and Prices**

6 **Q. Can companies operating in competitive markets directly pass inflationary cost**
7 **increases on to their customers by raising prices?**

8 A. No, they cannot. A company cannot raise its prices higher than its competitors' prices
9 without losing market share. Even when all companies face the same inflationary cost
10 pressures, raising prices in unison will reduce overall demand for their products. Either
11 way, raising prices will reduce sales owing to elasticity of demand. To avoid this outcome,
12 companies facing cost pressures innovate, seek efficiencies and cut costs so they can
13 remain price competitive. In this way, productivity gains are a direct response, and offset,
14 to inflationary cost increases.

15 **Q. How can a company mitigate inflationary cost increases?**

16 A. A company is not merely a passive price-taker when unit prices increase, whether owing
17 to inflation or other market forces. A company has various levers to manage inflationary
18 pressures, such as harvesting operational efficiencies, implementing alternative
19 procurement strategies, renegotiating contracts, and managing workforce turnover, which
20 can offset price pressures.

21 First, a company facing increased costs for capital goods and services can extract greater
22 productivity from its existing assets. Rather than buying an additional machine, it can try

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1 to run its existing machines faster or longer, or it can keep older machines in service longer
2 than it had intended by repairing and servicing them rather than replacing them. It can run
3 extra shifts to get round-the-clock production from its physical assets.

4 Second, a company facing increased prices for capital goods and contracts can seek new
5 suppliers through improved procurement processes or can negotiate with existing
6 suppliers.

7 Third, the company can find an alternative production method, modify its specifications,
8 or redesign its product to be less reliant on inputs whose costs are increasing. It can also
9 substitute labor for capital (and vice versa).

10 Fourth, the company can increase labor productivity by revising processes or making
11 capital investments so workers can do their jobs faster or better.

12 In addition, an unregulated company can adjust its output levels to keep its unit input costs
13 down or in anticipation of reduced demand if it raises its prices. This approach may not be
14 fully available to an electric utility like Consumers, although it can influence how much
15 demand is met through effective energy waste reduction (EWR) and demand response
16 programs.

17 Thus, when its input costs rise, a company does not lack potential managerial remedies to
18 avoid passing those increases through to its customers by raising prices.

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1 **Q. With regards to managing cost inflation, how is a regulated utility different from a**
2 **company operating in a competitive market?**

3 A. One important difference between a regulated utility and a company operating in a
4 competitive market is that the utility does not face competitive pressure to keep its prices
5 low. Its customers – mostly - cannot take their business elsewhere.

6 Otherwise, a regulated utility has the same arsenal of managerial responses to inflationary
7 cost increases as companies operating in competitive markets. But it has reduced
8 motivation to deploy that arsenal if it is assumed that it should recover inflationary cost
9 increases by raising rates. Regulatory review should act as a proxy for market forces, and
10 regulatory review of costs and, ultimately, rates, should include a reasonable expectation
11 that the utility demonstrate over time that it is achieving productivity gains similar to those
12 of companies operating in competitive markets.

13 **Q. Should the Commission limit cost growth to inflation offset by productivity on a line-**
14 **item basis?**

15 A. The Commission should focus on limiting increases in *overall* costs and revenue
16 requirement to inflation offset by productivity (“Productivity-Adjusted Inflation” or PAI).
17 It may build up the allowable change in revenue requirement by applying a factor to each
18 line item, but it should not rigidly insist that every program budget grow (or shrink) in
19 lockstep. Per my discussion of management actions above, to realize productivity gains the
20 Company must have managerial discretion to balance cost increases in one area with
21 changes in others. In this way, the Company can fully recover reasonable and prudent cost
22 increases by identifying offsetting productivity measures.

1 **Q. Do you recommend that the Commission preclude any and all growth in cost and**
2 **revenue requirement in excess of Productivity-Adjusted Inflation?**

3 A. No – there are situations in which increased cost is justified. When sales increase, for
4 example, it should be relatively straightforward for a utility to demonstrate how that
5 increases costs. New statutory or performance requirements may also justify cost increases
6 in excess of productivity-adjusted inflation, but even in those situations the Commission
7 should insist that the Company demonstrate cost-effective responses.

8 **2. History of Inflation and Productivity Issues in Recent Consumers Dockets**

9 **Q. Has the Commission addressed the Company’s use of inflation factors before?**

10 A. Yes. In the Company’s most recent electric rate case, U-21585, the Commission addressed
11 the use of inflation factors in projecting the Company’s O&M expenses. The Company
12 utilized annual inflation factors to reconcile its historical year O&M costs with projected
13 test year estimates. It first escalated historical costs for inflation and then applied “Other
14 Adjustments” to reconcile the inflation-adjusted costs with its test-year projections.⁷

15 MNC argued that the Company’s inflation rates should be reduced by an appropriate
16 productivity factor for labor and non-labor costs, as regulated utilities don’t face the same
17 pressures to improve efficiency as companies in competitive markets, and a productivity
18 factor would simulate that effect.⁸ The Company countered that reducing the inflation rates
19 by a productivity factor would not be reasonable or appropriate because “(i) not all O&M
20 expenses are projected by the Company using inflation; and (ii) productivity gains were

⁷ Case No. U-21585, PFD dated January 27, 2025, p. 474.

⁸ *Id.*

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1 already reflected in the Company’s projection of test year O&M expenses where
2 applicable.”⁹ The Company noted that many of the Other Adjustments for various line
3 items were reductions, and that the overall test year’s projected costs were lower than the
4 historical year’s actuals.¹⁰

5 The ALJ agreed with MNC that productivity improvements may offset or partially offset
6 inflationary pressures and questioned whether the ‘Other Adjustments’ simulated the effect
7 of productivity improvements.¹¹ The ALJ concluded that the Company did not provide
8 sufficient evidence to support the claim that the reduction in O&M costs is attributable to
9 productivity gains and not to other methodological factors, such as the use of a five-year
10 average to calculate certain projected costs.¹² The ALJ “recommend[ed] that the
11 Commission accept [Consumers’] projection in this case but direct Consumers to present
12 more detailed evidence to demonstrate that it is in fact offsetting inflation by productivity
13 in the Company’s next rate case.”¹³ The Commission adopted the ALJ’s
14 recommendation.¹⁴

15 **Q. Has the Commission addressed inflation and productivity in other Consumers Energy**
16 **dockets?**

17 A. Yes, it has. A similar issue arose in the Company’s most recent gas rate case, U-21806,
18 where the ALJ recommended that the Commission require the Company to clearly show

⁹ *Id.* at 475.

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.*

¹³ Case No. U-21585, Order, March 21, 2025, p. 355-56.

¹⁴ *Id.* at 356.

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1 in its next rate case how it offsets inflationary increases with productivity gains. The ALJ
2 also rejected the Company's claim that this process is too burdensome, noting that the
3 Company already considers productivity or other reductions in its cost estimates, and the
4 directive merely asks the Company to more transparently document those practices.¹⁵ The
5 Commission issued its final order in that case on the date this testimony was filed.

6 **3. Summary and Discussion of Consumers' Proposals Regarding Inflation and**
7 **Productivity in This Case**

8 **Q. What rate of inflation is the Company proposing to utilize through the test year?**

9 A. Company witness Daly proposes inflation factors of 2.1%, 2.4% and 2.4% for years 2025,
10 2026, and 2027, respectively. The 2027 factor is pro-rated to 0.8% for the 4-month period
11 ending April 30, 2027.¹⁶

12 **Q. How is the Company applying these inflation rates to arrive at test-year cost**
13 **projections in this case?**

14 A. Inconsistently. Sometimes Company witnesses explicitly apply inflation rates, and
15 sometimes they don't. Company witnesses rely on a mix of methods to reach their final
16 projection figures, which often obscures the underlying factors driving their increasing
17 costs. In many instances, budget line items with no explicit inflation rate applied also
18 include the impact of inflation in their cost projections.

¹⁵ Case No. U-21806, PFD dated August 14, 2025, p. 417.

¹⁶ Direct Testimony of Patrick D. Daly, p.14, 10:11.

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1 **Q. Are there examples where the Company explicitly demonstrates applying inflation**
2 **factors in its cost projections?**

3 A. Yes. Witness Daly compiles inflation increases to O&M costs across all work groups in
4 Exhibit A-13 (PDD-42), Sch. C-5.1, lines (d) through (f), with Other Adjustments reflected
5 in (g). However, the adjustments shown do not always align with the actual inflation
6 assumptions used by sponsoring witnesses.

7 For example, in Exhibit A-97 (KKG-1) p. 2, witness Grob seemingly applies witness
8 Daly's sponsored inflation rate to capture inflation-related changes to the Company's
9 Defined Company Contribution Plan (DCCP) and Savings Plan costs (line items 13 and 14
10 of Exhibit A-13, Schedule 5.1). However, witness Grob's direct testimony states that the
11 Company is using a merit salary factor of 3.2% for 2024 through the 12 months ending
12 April 30, 2027, to arrive at the projected test-year costs for the Company's DCCP¹⁷ and
13 Savings Plan¹⁸ costs. This merit salary factor exceeds the inflation factor recommended by
14 witness Daly. Further clarification through discovery reveals that the portion of merit
15 increases in excess of inflation is captured in the 'Other Adjustment' in column (i).¹⁹

16 In another instance, witness Byrom testifies that Exhibit A-53 (JRB-2), page 4, which
17 provides information for lines 9 and 10 of Exhibit A-13 (PDD-42), Schedule C-5.1, is a
18 hypothetical illustration of projected Customer Experience and Operations O&M expenses
19 based on a hypothetical inflation factor.²⁰ She uses a zero-based accounting method to

¹⁷ Direct Testimony of Kendra K. Grob, p.16, 8:10.

¹⁸ *Id.* at 17, 23 to 18, 1.

¹⁹ Exhibit CUB-22, Company Response to U21870-MNSC-CE-0560 & 0561.

²⁰ Direct Testimony of Jessica R. Byrom, p. 4, 2:16.

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1 arrive at her projections, and column (g), Other Adjustments, captures any difference
2 between her projections and the Company-sponsored inflation-adjusted numbers.²¹
3 Projected costs for Customer Experience & Operations are expected to increase by 5.1%
4 annually in the bridge period and the projected test year, compared to a decline of 7.5%
5 annually between 2019 and 2024.²² Witness Byrom notes increases in labor and contractor
6 costs as one of the reasons for cost increases across multiple workstreams under Customer
7 Experience and Operations; however, it is unclear whether these are driven by unit cost
8 increases, necessary resource increases or both, and at what rates, and if the Company-
9 sponsored inflation correctly captures it.

10 These examples show that even where Company witnesses seemingly explicitly apply the
11 Company-sponsored inflation factor, the actual inflationary effects are only partially
12 captured in the inflation adjustments shown in columns (d) through (f) and the rest flow
13 into Other Adjustments.

14 **Q. Are there examples where the impact of inflation is embedded in cost projections**
15 **without being identified as an explicit factor?**

16 Yes. Company witness Stewart sponsors the total O&M costs for Forestry Operations in
17 line 2 of Exhibit A-13 (PDD-42), Schedule C-5.1, with no amounts identified for inflation
18 adjustments. However, in her direct testimony, witness Stewart states that “[t]he
19 Company’s internal labor expenses for Forestry Operations shown in Figure 14 and Exhibit
20 A-175 (SES-6) are a combination of current staffing, anticipated retirements, replacement

²¹ *Id.*

²² Exhibit CUB-23, Change in CXCO Historical O&M.

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1 and new hiring, merit increases, and contracted planning resources,”²³ which includes the
2 impact of labor inflation, even though no corresponding merit and inflation increases are
3 reflected.

4 **Q. Does the Company’s presentation accurately reflect how inflation is impacting its cost**
5 **projections?**

6 A. No. For O&M expenses, more than half of the line items in Exhibit A-13 (PDD-42),
7 Schedule C-5.1, do not incorporate the Company-sponsored inflation numbers for cost
8 projections. Instead, many of their ‘actual’ inflation effects are embedded in the ‘Other
9 Adjustments.’²⁴

10 Inflation-adjusted numbers created and presented in this manner are not transparent
11 reflections of the labor and material cost drivers that the Company is facing. The
12 Company’s treatment of inflation in cost projections is not comprehensive, consistent, or
13 clear.

14 Witness Daly does not provide a similar breakdown of inflation adjustments for capitalized
15 costs summarized in Exhibit A-12 (PDD-35), Schedule B-5. However, similar to O&M
16 expenses, each of the sponsoring witnesses’ testimony and exhibits provides more details
17 on the inflation adjustments applied, either directly or embedded in cost projections.

²³ Direct Testimony of Sara E. Stewart, p. 37, 15:17.

²⁴ Exhibit CUB-24, Company Response to U21870-SA-CE-113 & 114.

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1 **Q. How are the Company’s costs changing as compared to inflation in this case?**

2 A. The Company’s test-year O&M expenses are projected to increase by 21.4% from 2024
3 historical actual expenses. The Company’s test-year capital expenditure is projected to
4 increase by 62.8% from 2024 historical actuals. (Table 1)

5 **Table 1: Comparing growth in Consumers’ electric costs vs inflation**

6

	Actual; 12 Mo Ended 12/31/2024	Projected; 12 Mo Ended 4/30/2027	% change
O&M	663,157	804,953	21.4%
Labor	250,644	277,065	
Non-labor	412,513	527,888	
Capex	1,175,022	1,913,465	62.8%
Labor	175,770	287,904	
Non-labor	999,252	1,625,561	
Total labor (O&M and capitalized)	426,413	564,969	32.5%
Total non-labor (O&M and capitalized)	1,411,765	2,153,448	52.5%
Compounded Company- sponsored inflation from 12/31/2024 thru 04/30/2027			5.4%

7 Breaking these down by labor versus non-labor, the Company’s test-year O&M and
8 capitalized labor costs are projected to increase by 32.5% compared to the historical year
9 2024 amounts. I calculated this amount by adding labor-cost details from sponsoring
10 witnesses to witness Daly’s summary O&M and Capital expense worksheets.²⁵

11 The Company’s test-year O&M and capitalized non-labor costs are projected to increase
12 by 52.5% compared to the historical test year 2024 amounts. This total includes all line

²⁵ Exhibit CUB-25, Labor Costs Adjustments.

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1 items not classified as labor or union labor in the Company's budget line items. It does
2 include costs corresponding to line-item contractor, as those are not specifically outlined
3 as labor-only costs by the Company. I calculated this amount by adding non-labor cost
4 details from sponsoring witnesses to witness Daly's summary O&M and Capital expense
5 worksheets.

6 The Company's projected compounded inflation rate during the same period is 5.39%,
7 significantly lower than the O&M and capital expense increases the Company is projecting.
8 The bulk of the increase in costs is captured in the Other Adjustments columns of the
9 Company's exhibits.

10 In short, the Company's projected costs are increasing much faster than inflation.

11 **Q. How did the Company respond to the Commission's order in case U-21585 regarding**
12 **inflation and productivity?**

13 A. Company witness Myers addresses the issue in her testimony, stating that there are
14 complexities in presenting granular, standalone evidence that definitively attributes cost
15 containment to productivity gains.²⁶ She further states that the absence of such detail should
16 not be interpreted as a lack of effort or effectiveness in managing inflationary impacts
17 through productivity.²⁷

18 While it may be a challenging exercise to implement, it is the Company's burden to present
19 evidence showing *how* it is incorporating cost containment and productivity into its
20 budgeting process rather than simply assuring the Commission that it is doing so.

²⁶ Direct Testimony of Heidi J. Myers, p. 29, 14:16.

²⁷ *Id.* at 29, 20:21.

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1 **Q. Does the Company provide examples of how it claims to be increasing productivity?**

2 A. Yes, witness Myers provides several examples from other Company witnesses, illustrating
3 how cost projection is more complex than simply applying an inflation factor to historical
4 costs. The statements suggest potential productivity improvements passing through to test-
5 year cost projections, but most do not withstand scrutiny:

6 • **Company claim:** “Ms. Stewart states that all contractor rates are contractually
7 limited through mid-2029 to an annual adjustment of a minimum of 0.0% per year
8 up to a maximum of 2.5% per year based on the Producer Price Indices WPUFD4
9 and WPU443.”²⁸

10 **Response:** Productivity, simply put, is output per unit of input. Contractor
11 productivity, then, is output per contract dollar spent. Because witness Stewart does
12 not address whether contractor output is rising faster than contract rate caps, this
13 example tells us nothing about contractor productivity.

14 • **Company claim:** “Company witness Byrom explains that Customer Experience &
15 Operations’ projected expenses are developed using zero-based budgeting. This
16 means that all expenses must be justified for a new period or year, starting from
17 zero, versus starting with the previous budget and adjusting it as needed. She also
18 describes initiatives that have resulted in reduced costs for customers.”²⁹

19 **Response:** Zero-based budgeting is simply an alternative budgeting method and
20 has no specific bearing on how the Company manages inflation and offsets it by

²⁸ *Id.* at 30, 6:9.

²⁹ *Id.* at 30, 19:23.

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1 harvesting productivity improvements. Furthermore, as previously mentioned,
2 witness Byrom provides no details on how the Company plans to manage labor
3 rates, contractor costs, or postage rates and become more cost-efficient. It is unclear
4 what programs witness Myers is referring to in the latter half of the statement.

- 5 • **Company claim:** “Company witness Foster describes how Adjusted Corporate
6 Services O&M expense was calculated and describes a reduction to projected test
7 year O&M due to insurance distributions.”³⁰

8 **Response:** The reduction in insurance distributions in the projected test year is due
9 to the replacement of actual insurance distributions received in 2024 with a 5-year
10 historical average.³¹ A change in cost projection method is not the same as a real
11 change in costs, and a change in costs is not the same as a change in productivity.

- 12 • **Company claim:** “Company witness Blumenstock describes how Generation
13 O&M is projected and discusses efficiencies that have limited cost increases in the
14 projected test year.”³²

15 **Response:** In his testimony, witness Blumenstock states that, “Total O&M expense
16 for the years 2024 through the projected test year demonstrates average annual
17 decreases of approximately 9.0%. As discussed later in this direct testimony, this
18 average annual decrease primarily reflects a change in the mix of the Company’s
19 owned generating assets, including the movement of renewable energy resources

³⁰ *Id.* at.31, 3:5.

³¹ Direct Testimony of Matthew J. Foster, p.7, 7:11.

³² Myers Direct, p.31, 1:2.

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1 to the Company’s renewable energy plans.”³³ However, he provides no evidence
2 clarifying the relative contribution from each factor, leaving it unclear whether the
3 decrease reflects real operational efficiency or a shift of costs from the rate case to
4 the REP . He also highlights two waste reduction projections, which reduce total
5 O&M expenses by \$490,000 in the projected test year. This is perhaps the most
6 relevant example presented by the Company of how it is identifying opportunities
7 to reduce overall costs.³⁴

8 The Company conflates quantifying productivity improvements with contractual labor cost
9 caps, alternative budgeting methods, and cost reductions resulting from methodological or
10 reporting changes. The Company’s anecdotes fail to demonstrate how it is harvesting
11 productivity improvements to offset inflationary pressures, and it provides no
12 comprehensive approach to the undertaking.

13 **Q. Has the Company, per the Commission’s order in Case No. U-21585, presented “more**
14 **detailed evidence to demonstrate that it is in fact offsetting inflation by productivity**
15 **in the Company’s next rate case?”³⁵**

16 **A.** No. The Company has essentially resuscitated the same arguments it presented in U-21585,
17 which the Commission found lacking then. As quoted above, in U-21585, the Company
18 stated that: “(i) not all O&M expenses are projected by the Company using inflation; and
19 (ii) productivity gains were already reflected in the Company’s projection of test year

³³ Direct Testimony of Richard T. Blumenstock, p.103, 11:15.

³⁴ *Id.* at 100, 1:19.

³⁵ Case No. U-21585, PFD dated January 27, 2025, p. 476.

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1 O&M expenses where applicable.”³⁶ These assertions are indistinguishable from the
2 arguments the Company makes in this case, albeit at greater length, including examples
3 that largely fail to hold up under scrutiny. While the examples offered by the Company
4 provide more detail per the Commission’s previous order, those details are not relevant or
5 responsive to the Commission’s previous order.

6 **4. Recommendations to the Commission Regarding Inflation and Productivity**

7 **Q. Should the Commission accept Consumers’ assurances that it is incorporating**
8 **productivity gains?**

9 A. No. If the Company were delivering more electricity with greater reliability (outputs) at a
10 faster rate than its revenue requirement (inputs) were growing, that would be a high-level
11 indicator of productivity gains. Instead, the Company proposes to deliver a little bit more
12 electricity slightly more reliably by increasing capital spending almost 63%, a tremendous
13 decline in capital productivity, and O&M spending by more than 21%. The Company may
14 be realizing some productivity gains but the overall financial picture does not suggest
15 systematic and significant improvements.

16 To address this issue going forward, the Commission should constrain the Company to
17 Productivity-adjusted Inflation (PAI) increases in O&M and capital expenditures and
18 require it to justify any excursions from these limits (“Other Adjustments”) in terms of
19 changes in sales, legal, or performance requirements.

³⁶ *Id.* at 474.

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1 **Q. Please explain how the Commission should utilize PAI to benchmark the Company's**
2 **costs.**

3 A. If the Company responds to cost pressures as effectively as companies in competitive
4 markets must, then it should be able to recover reasonable costs with rates that increase at
5 the Productivity-adjusted Inflation (PAI) rate:

6
$$\text{PAI} = \text{Projected Inflation Rate} - \text{Projected Productivity Gain}$$

7 This equation recognizes that the Company is subject to inflationary cost pressures, but if
8 it can improve labor and capital productivity at the same rate as other companies, it can
9 offset a substantial amount of the inflationary increases and mitigate the impact of
10 increasing costs on rates.

11 The Commission should hold expenditures related to ongoing, or baseline, activities to
12 productivity-adjusted growth no greater than the PAI factor. The Commission may allow
13 additional expenditures driven by changes in sales, legal or performance requirements, or
14 other case-by-case supported adjustments, but the default should be to hold baseline
15 historic expenditures to grow no faster than PAI.

16 Applying PAI ensures that utility rates would rise only to the extent that cost increases are
17 not offset by improved asset utilization, better procurement practices, workforce
18 optimization, or other operational efficiencies. It would promote cost discipline, align
19 incentives with performance, and mirror how prices are constrained in unregulated sectors
20 of the economy.

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1 **Q. Should the Company’s costs never exceed PAI growth rates?**

2 A. The PAI factor would function as a disciplining benchmark for the Company’s baseline
3 costs, which should reasonably grow at a PAI rate before adjusting for other dynamics,
4 such as changes in sales, new performance requirements (e.g., reliability surge) or legal
5 requirements. When the Company presents evidence supporting that the future is likely to
6 look different than the past, that demonstration may justify “Other Adjustments.” These
7 adjustments, too, are subject to prudence review, and later in my testimony, I address
8 several proposed incremental costs that are not justified.

9 **Q. Should the Commission apply these productivity offsets only to the line-items where**
10 **the Company is explicitly using an inflation factor to arrive at projected test-year**
11 **estimates?**

12 A. No, as previously discussed, the Company’s presentation of inflation adjustments is
13 inconsistent, and many cost categories have inflation effects rolled into ‘Other
14 Adjustments.’ Exempting these line items from the PAI cap would allow the Company to
15 pass along cost increases without demonstrating offsetting efficiency improvements. The
16 PAI factor should be applied consistently across all programs.

17 **Q. Should the Commission require the Company to apply a PAI factor to both O&M**
18 **costs and capital expenditures?**

19 A. Yes. The principles of operational efficiency, cost containment, and accountability should
20 apply to all costs irrespective of whether they are incurred for O&M expenses or capital
21 expenditures. Both O&M and capital expenditures include costs related to ongoing,
22 baseline activities that are subject to inflationary pressures. The Company has access to the
23 same levers – improved asset utilization, better procurement practices, workforce

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1 optimization, and technological improvements – to manage and control its capital costs as
2 its O&M expenses. While the same principles apply in the context of capital expenditures,
3 I recommend the Commission begin here with O&M expenditures.

4 **Q. Should the Commission require the Company to use the same PAI factor for both**
5 **labor and non-labor costs?**

6 A. No, I recommend that the Commission apply different productivity factors to labor and
7 non-labor costs. I recommend the Commission require the Company to apply those factors
8 to whatever inflation factor(s) it approves in this case. I do not make any recommendation
9 in this testimony as to the appropriateness of the Company's proposed inflation factors,
10 other than that they should be adjusted for productivity.

11 Going forward, in the same way that the Commission allows the Company to propose
12 inflation factors, it should allow the Company to propose the productivity factors that best
13 correspond to its cost structures.

14 **Q. The Company has previously rejected this approach, calling it overly simplistic.³⁷ Is**
15 **this method too simplistic?**

16 A. No. As previously noted, in the Company's last electric rate case, U-21585, the
17 Commission issued the Company a clear directive to provide evidence demonstrating how
18 it offsets productivity improvements to mitigate the impact of inflation on costs in its next
19 rate case – i.e., this case.³⁸ The Company's position is that productivity gains are embedded
20 throughout its cost projections in various ways, but the examples it gives are not on point.

³⁷ Case No. U-21806, PFD, p. 412.

³⁸ Case No. U-21585, Order, March 21, 2025, p. 356.

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1 By contrast, my proposal provides a straightforward, transparent, and less burdensome
2 alternative. Furthermore, my recommendation is no more “simplistic” than applying an
3 across-the-board inflation factor, which is a well-established practice. Both inflation and
4 productivity factors rely on thoroughly researched, empirical data collected and reported
5 by federal government agencies.

6 **Q. How should the Commission apply the PAI factor in this case?**

7 A. While the explicit use of a formulaic historical-plus-PAI factor for ongoing, baseline costs
8 may not have been formalized in prior cases, the underlying premise that the Company can
9 offset inflationary pressures through productivity improvements and should provide
10 evidence for how it is incorporating productivity in its cost projections has been accepted
11 in previous proceedings.³⁹

12 For O&M costs, I recommend the Commission apply this methodology to all proposed
13 O&M expenses and disallow excess costs unless they are driven by sales growth or specific
14 performance or legal requirements, such as the costs associated with the Company’s Line
15 Clearing surge. Applying a PAI factor to all O&M costs is consistent and compatible with
16 the development of baseline cost projections developed by escalating historical actuals
17 using inflation.

18 For capital expenditures, I am not making any recommendation in this case in the interest
19 of gradualism and to allow the Company to become more conversant in the methodology.

³⁹ *Id.* at 355.

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1 **Q. What productivity factor should be applied to labor costs in this case?**

2 A. I recommend that the Commission limit O&M labor to 2024 historical levels plus
3 compounded Labor PAI. To calculate Labor PAI, I recommend utilizing the Bureau of
4 Labor Statistics labor productivity figures for Michigan’s private, non-farm sector, the
5 most narrowly tailored productivity factor reasonably descriptive of the Company’s labor
6 market. The compounded annual change in labor productivity in Michigan from 2014-2024
7 was 1.34%. This results in a Labor PAI rate of 0.76%, 1.06%, and 1.06% in 2025, 2026,
8 and 2027, respectively. (see Table 2 below) These numbers were calculated by subtracting
9 the labor productivity in Michigan from 2014 to 2024 from the Company-sponsored
10 inflation rates.

11 *Table 2: Labor Productivity-adjusted inflation calculations*

Labor inflation factor	2025	2026	2027
Annual merit increase	2.1%	2.40%	2.40%
Number of months in the period	12	12	4
Pro-rated Company projected inflation	2.1%	2.4%	0.8%
Labor Productivity factor	1.34%	1.34%	1.34%
Pro-rated factor	1.34%	1.34%	0.45%
CUB Productivity-adjusted Inflation (PAI-labor)	0.76%	1.06%	0.35%

12 **Q. What productivity factor should be applied to non-labor costs in this case?**

13 A. For non-labor O&M costs, I recommend that the Commission limit projected costs to 2024
14 historical levels plus non-labor Total Factor-PAI. To calculate the non-labor Total Factor-
15 PAI, I recommend utilizing the Bureau of Labor Statistics Total Factor Productivity (TFP)
16 factor for the US private, non-farm business sector. TFP is a measure of economic
17 performance that compares the amount of goods and services produced (output) to the
18 amount of combined inputs used to produce those goods and services. The compounded

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1 annual change in TFP from 2014-2024 was 0.81%. Applying this average factor to the
2 Company's projected inflation factors derives a non-labor Total Factor-PAI rate of 1.29%,
3 1.59%, and 1.59% in 2025, 2026, and 2027, respectively. (Table 3).

4 *Table 3: Non-labor Total Factor Productivity-adjusted Inflation*

Non-Labor inflation factor	2025	2026	2027
Annual inflation rates per WP-PDD-37	2.1%	2.40%	2.40%
Number of months in the period	12	12	4
Pro-rated Company projected inflation	2.1%	2.4%	0.8%
Non-labor Productivity factor	0.8%	0.8%	0.8%
Pro-rated factor	0.8%	0.8%	0.3%
CUB Productivity-adjusted Inflation (PAI-non-labor)	1.29%	1.59%	0.53%

5 **Q. Have you prepared recommendations for programmatic O&M budgets by applying**
6 **the methods you describe above?**

7 A. Yes, I have. For O&M expenses, in this case, I recommend that the Commission allow the
8 Company to recover costs that meet the target of historical actuals plus compounded PAI.
9 In the next section of my testimony, I also recommend approving \$72.7 million in
10 additional expenses for the Forestry program that primarily covers costs related to the
11 ramp-up of its LVD and HVD Line Clearing work; witness Jester proposes securitizing
12 these costs. Table 4 shows my program-specific recommendations for test-year O&M
13 expenditures.

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1 **Table 4: CUB Proposed PAI adjustments to test-year O&M projections**

Description	Company Projected; 12 Months Ended 4/30/2027	CUB proposals		
		Proposed historical plus PAI target; 12 months ended 4/30/2027	Proposed disallowance to rate base; 12 months ended 4/30/2027	Proposed securitization \$s for surge expenditures; 12 months ended 4/30/2027
Electric Division - Electric & Common	300,994	253,341	(47,653)	-
Forestry	186,684	113,977	(72,707)	72,707
Generation	103,732	131,920	28,187	-
Operations Support	13,600	15,016	1,416	-
Information Technology Operations	55,297	43,460	(11,837)	-
Information Technology Investments	24,789	8,077	(16,712)	-
Information Technology - Security Operations	11,362	9,548	(1,814)	-
Information Technology - Security Investments	1,513	722	(791)	-
Customer Interactions	23,454	21,476	(1,978)	-
Billing & Payment	11,505	10,495	(1,010)	-
Demand Response	34,630	32,225	(2,405)	-
Defined Company Contribution Plan	16,507	15,097	(1,410)	-
401(k) Employees' Savings Plan	12,731	11,645	(1,086)	-
Active Health Care/Life Insurance/LTD	33,385	29,725	(3,660)	-
Other Benefits	2,780	2,679	(101)	-
Corporate Services	36,968	38,363	1,395	-
Incentive Compensation	2,211	2,150	(61)	-
			(132,226)	72,707

2
3 These recommendations reflect the simple reality that hard choices must be made if rates
4 are not to rise unreasonably. Improvements to reliability are an overriding priority,
5 endorsed by the Commission per the Liberty distribution audit, and incurring additional
6 O&M expenditures that do not directly impact reliability cannot, for now, be a priority.
7 Other O&M costs should be limited to increases determined by Productivity-Adjusted
8 Inflation to avoid any additional impact on rates.

9 **Q. Please summarize your conclusions and recommendations for this section to the**
10 **Commission.**

11 **A.** For this case, I recommend the Commission use the PAI-adjusted cost approach to limit
12 growth in O&M spending, by completely disallowing \$51.5 million in proposed O&M
13 costs. The Commission should approve forestry surge costs in the additional amount of

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1 \$72.7 million but, per witness Jester's recommendation, direct the Company to treat those
2 costs as a regulatory asset for potential future securitization.

3 For future cases, I recommend that the Commission direct the Company to present both
4 O&M and capital test-year cost baseline projections calculated as historical cost adjusted
5 for PAI. It should be assumed that the Company can reasonably recover its costs including
6 inflation if it is as industrious as other companies must be in pursuing productivity
7 improvements. The Company may present "Other adjustments" in addition to these
8 baseline amounts but should demonstrate why they are necessary owing to changes in sales,
9 new statutory requirements, or new performance requirements; however, "Other
10 adjustments" should not (implicitly or explicitly) embed inflation.

11 **V. RELIABILITY IMPROVEMENT COST RECOVERY**

12 **Q. Which Company witnesses' testimony do you discuss in this section of your**
13 **testimony?**

14 A. I address the testimonies of witnesses Kelly, Partlan, and Stewart.

15 **Q. Please summarize the recommendations you will make here.**

16 A. I recommend that the Commission approve surge spending in certain reliability programs
17 identified as priorities in reports by the Liberty Consulting Group summarizing its audit of
18 Consumers' distribution system (Liberty Audit), which the Commission adopted in Case
19 No. U-21305. The Company should recover these costs, but in such a way as to minimize
20 the rate impact of remedial work on today's customers and to recognize that the Company
21 bears some responsibility for the financial and service-quality impacts of catching up on

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1 backlogged work. In his testimony, witness Jester recommends treatment of these costs as
2 regulatory assets for potential future securitization.

3 **Q. Why is it necessary to minimize the rate impact of remedial work on today's**
4 **customers?**

5 A. All told, the Company's proposed costs and allocation would result in residential rates
6 increasing by over 13%. As I established above, a growing number of customers are
7 already struggling, the Company's rates are already high and have recently risen faster than
8 inflation. To prevent further unreasonable rate increases, hard choices must be made to
9 invest only in reliability programs that yield the greatest improvements per dollar spent.
10 Additionally, the Commission should take steps to ensure that reliability costs are allocated
11 equitably among rate classes and that the way those costs are recovered is equitable.

12 **Q. Which reliability investments do you recommend the Commission approve for surge**
13 **spending?**

14 A. The Liberty Audit identified backlogs in tree trimming/vegetation maintenance and pole
15 replacements and found that surge spending in both these areas would be especially cost-
16 effective. I recommend that the Commission approve these surge costs and hold other
17 reliability investments at PAI-adjusted current levels. Focusing on the backlogged tasks
18 first will make it easier to determine what additional reliability actions may be needed next,
19 after the proverbial dust settles. Implementing everything at once would also be very
20 expensive, as reflected in the Company's proposed revenue requirement.

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1 **Q. Please summarize your concern about equitable recovery of surge costs.**

2 A. Today's customers should not have to bear the full financial burden of catching up to
3 deferred (backlog or surge) maintenance as part of the Company's effort to improve
4 reliability. Substantial costs should have been incurred in the past, and past customers
5 should have contributed to their recovery. Furthermore, today's customers should not bear
6 full financial responsibility for the Company's past managerial decisions that resulted in
7 backlogged maintenance and poor reliability performance. To reduce intergenerational
8 inequity among customers, and to equitably assign shared responsibility for the rate
9 impacts of surge spending, witness Jester proposes that surge costs be held as regulatory
10 assets for potential securitization.

11 Additionally, I present evidence showing that residential customers pay for reliability
12 improvements far out of proportion to the benefits they realize. Thus, I recommend that the
13 Commission require the Company to analyze reliability benefits and propose changes as
14 part of its next rate filing that more closely align distribution allocations with principles of
15 cost causation.

16 **Q. Please summarize the Company's electric distribution reliability investment**
17 **programs.**

18 A. The Company's electric distribution strategy and investments program comprises multiple
19 distinct distribution focus areas, including Low Voltage Distribution (LVD) and Metro
20 systems, High Voltage Distribution (HVD) system, Grid Automation, Streetlighting,
21 Forestry Line Clearing, and Service Restoration.

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1 **Q. Please summarize the Company's line clearing program proposed in this case.**

2 A. The Company's line clearing program is divided into two parts: HVD and LVD line
3 clearing. The HVD program manages the vegetation along the Company's high voltage
4 systems and currently operates on a four-year clearing cycle.⁴⁰ The LVD program manages
5 vegetation along the low voltage systems and has been working towards a seven-year
6 effective clearing cycle, which it has yet to attain.⁴¹

7 The Company proposes maintaining its current four-year HVD clearing cycle while
8 ramping up to a five-year clearing cycle for its LVD systems. It targets the end of the 2030-
9 2031 test period to achieve the shortened LVD clearing cycle.⁴²

10 **Q. Does the Company anticipate the line clearing program will improve its reliability**
11 **metrics?**

12 A. Yes, it does. Figures 9 and 10 on page 30 of witness Stewart's testimony project that the
13 line clearing program will lead to a 27% reduction in SAIFI including major event days
14 (MEDs) and a 29% reduction in SAIDI including MEDs in 2030 compared to 2025
15 values.⁴³

⁴⁰ Direct Testimony of Sara E. Stewart, p. 12. 4:6.

⁴¹ *Id.* at 12, 13:14.

⁴² *Id.* at 15, 18:23 to 16, 1:3.

⁴³ *Id.* at 30.

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1 **Q. Is the Company’s line clearing program as proposed in this case a surge?**

2 A. Yes, it is. As mentioned, the Company proposes ramping up its LVD line clearing work to
3 achieve a five-year cycle. This clearing cycle target is consistent with the recommendations
4 put forth in the Liberty Audit.⁴⁴

5 The Liberty Audit’s recommendation is to achieve a four- or five-year line clearing cycle
6 for LVD circuits by year-end 2028, which the Company asserts is not operationally
7 feasible.⁴⁵ Instead, the Company aims to reach this cycle by the end of the 2030-2031 test
8 period. To reach this target cycle, the Company must devote significantly more spending
9 towards the line clearing program compared to both historical spending levels and what
10 will be required to maintain its five-year cycle once it is realized.⁴⁶

11 **Q. Do you support the Company’s proposed surge spending on LVD line clearing?**

12 A. I support the Company’s operational plan and spending level, which I consider to be
13 consistent with recommendations of the Liberty Audit. I also agree that line clearing surge
14 costs should be held as regulatory assets, but I do not agree with the Company’s calculation
15 of the surge amount.

16 **Q. How does the Company calculate the value of its forestry surge spending?**

17 A. Witness Stewart establishes the Company’s forestry “baseline” spending for the test year
18 by taking the current projection for the annual expense to maintain the five-year cycle after
19 it is achieved in the 2030-2031 test period, adjusted (or deflated) to the projected test period

⁴⁴ *Id.* at 18, 10:16 to 19, 1:5.

⁴⁵ *Id.* at 19, 10:12.

⁴⁶ *Id.* at 36, Figure 13.

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1 dollars.⁴⁷ In other words, witness Stewart estimates today's baseline by working backwards
2 in time from a hypothetical future steady-state (i.e., post-surge) costs. Based on the amount
3 by which proposed forestry spending exceeds this backcasted baseline, the Company is
4 requesting to create a regulatory asset related to the program for \$22.24 million.⁴⁸

5 The Company's methodology to calculate the baseline is speculative and novel. It uses a
6 projection of expenses several years into the future to backcast the baseline costs of work
7 to be performed in the test year. In any other expense category, the Company would adjust
8 historical costs forward to estimate future costs. Line clearing should be treated no
9 differently.

10 **Q. Please explain how you propose to calculate the value of the Company's forestry surge**
11 **spending.**

12 A. Put simply, I compare PAI-adjusted historical spending to proposed spending; the
13 difference is the surge.

14 The Company proposes spending \$186,684,000 on forestry in the test year. (Table 4)
15 Adjusting its historical test year spending for PAI yields a baseline figure of \$113,977,000.
16 Any proposed amount in excess of that figure represents increased activity over adjusted
17 baseline, or surge. That amount is \$72,707,000, which is the figure witness Jester proposes
18 for regulatory asset treatment and potential securitization.

⁴⁷ *Id.* at 35, 12:14.

⁴⁸ *Id.* at 48, Figure 23.

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1 **Q. Is the Company planning any additional surge work on its distribution system to**
2 **improve reliability?**

3 A. Yes, it is. The Company proposed to invest significant capital to replace poles in its LVD
4 system. It plans on replacing 3,076 poles at a cost of \$29,711,000 in the bridge period and
5 12,500 poles at a cost of \$127,500,000 in the projected test year.⁴⁹ This is a notable increase
6 compared to the Company's U-21585 proposal of replacing 1,666 poles in that case's
7 bridge period and 149 poles in its test period.⁵⁰ The Liberty Audit confirmed a significant
8 backlog in pole replacement and recommended catch-up investments.

9 **Q. Do you support the Company's LVD pole replacement plans?**

10 A. I support the surge in pole replacements but have the same concerns about equitable
11 recovery of its costs as I have with forestry surge costs. Again, it is not equitable to charge
12 today's customers for costs that yesterday's customers should have contributed to. Nor is
13 it equitable to require customers to pay normal recovery of costs that have escalated
14 because of the Company's decision to underinvest in past maintenance. Thus, I estimate
15 the amount of the surge, and witness Jester proposes that amount should be treated as a
16 regulatory asset for potential securitization.

17 **Q. What cost do you calculate for the pole replacement surge?**

18 A. Once again, I start with historical annualized costs and apply the PAI factor to arrive at a
19 test-year baseline. Any proposed amount in excess of that baseline is surge spending.

⁴⁹ Direct Testimony of Jennifer M. Partlan, p. 69, Figure 35.

⁵⁰ Case No. U-21585, Direct Testimony of Donald A. Lynd, 4 Tr 579, Figure 39.

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1 For pole replacement, the Company estimates it will spend \$29.71 million in the 16-month
2 bridge period, which annualizes to \$22.28 million. I adjust that figure for PAI and round
3 upward to arrive at the test-period baseline spending of \$25 million. The Company
4 proposes to spend \$127.5 million in the test year, therefore the surge amount is \$102.5
5 million. Witness Jester proposes this amount be treated as a regulatory asset for potential
6 securitization and the baseline amount of \$25 million should be added to rate base.

7 **Table 5: CUB Proposed PAI adjustments to LVD pole replacement** ⁵¹

Description	Source	Historical			Total costs and adjustments					
		12 Months Ended 12/31/2024	16 Months Ending 4/30/2026	12 Months Ending 4/30/2027	Bridge period projections and adjustments		Test-year projections and adjustments			
					CUB projected bridge-year target = (h) + (l) + (j) + (l) + (m) + (n); 16 months ended 4/30/2026	Company proposal = (f); 16 Months Ended 4/30/2026	CUB projected test-year target = (p) + (k) + (o); 12 months ended 4/30/2027	Company proposal = (g) 12 Months Ended 4/30/2027	Test-year disallowance based on PAI = (w) - (x); 12 months ended 4/30/2027	CUB proposed securitization \$ for surge expenditures; 12-months ended 4/30/2027
Pole replacements PAI baseline estimate	Direct testimony of Jennifer M. Partlan, p. 69, Fig. 35	N/A	29,711	127,500		29,711	22,638	127,500		102,500 (127,500 - 25,000)
							Rounded to 25,000			

8

9 **Q. Do you have concerns with how the Company allocates its reliability spending**
10 **amongst customer classes?**

11 A. Yes, I do. Reliability improvements are allocated using the same factors as other
12 distribution system expenditures but may not have the same cost causation.

13 The Company uses the cost-of-service study (COSS) to allocate distribution expenditures
14 and investments. The Roadmap incorporates a mix of operational costs (line clearing) and
15 capital investments (line clearing and LVD and HVD investments). I summarize the

⁵¹ Exhibit CUB-26, Proposed LVD Pole Replacement Surge.

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1 account numbers and allocation factors used for each combination of HVD/LVD and
2 capital/O&M costs in Table 6.

3 Table 6 - Distribution Allocation Factors

	Expenditure Type	Account Number	Allocation Factor(s)
HVD	Capital	364/365	122/123/124/125/230
	O&M	593	121/122
LVD	Capital	364/365	230/231/235
	O&M	593	307

4
5 Table 7 shows the allocations across each customer class for the allocation factors listed in
6 Table 6.

7 Table 7 - Customer Class Allocations

Allocation Factor	Residential	Commercial Secondary	Lighting & Unmetered	Primary	Rate GSG
122	50.5074	23.5252	0.3727	24.9190	0.6757
123	0.0000	0.0000	0.0000	95.2174	4.7826
124	0.0000	0.0000	0.0000	95.3595	4.6405
125	50.7580	23.6420	0.3745	24.8494	0.3760
230	54.1983	25.2444	0.3999	20.0795	0.0779
231	67.8814	31.6177	0.5009	0.0000	0.0000
235	67.8814	31.6177	0.5009	0.0000	0.0000
307	66.5223	25.4012	0.3887	7.5950	0.0927

8
9 Allocation factors 123 and 124 are applicable only for HVD capital investments. However,
10 HVD investments could also be assigned to allocation factors 122, 125, or 230, depending
11 on the voltage of the line. This means that the residential rate class is allocated at least 50%,
12 and up to 67% of all non-HVD capital investments and operational expenditures, as well
13 as a portion of HVD capital investments.

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1 **Q. Are the Company's allocators for distribution investments and expenditures**
2 **equitably distributed amongst customer classes?**

3 A. No, the benefits are very unequally distributed across rate classes. To the extent some
4 distribution system investments are made to address (i.e., are caused by) reliability
5 concerns, the allocators being used appear to be inequitable.

6 The Company appropriately recognizes that there is a monetizable benefit in avoided
7 outage costs due to increased reliability. Specifically, the Company asserts that its SAIDI,
8 the same model that the Company utilizes to determine the \$6.1 billion, separates the
9 benefits into three classes: residential, small commercial and industrial (C&I), and
10 medium/large C&I.

11 I include these benefits broken down by class, as well as the proportion of reliability
12 benefits received compared to the total \$6.1 billion in reliability benefits, in Table 8.

13 Table 8 - Distribution of Monetized Reliability Benefits⁵²

Class	Economic Benefit (\$000s)	Percentage of Total Benefit
Residential	92,592	1.9%
Small C&I	4,408,851	90.4%
Medium/Large C&I	375,583	7.7%
Total	6,107,573	100%

14
15 Table 8 demonstrates that the Company's own modeling shows that the residential
16 customer class will receive only a very small fraction of the economic reliability benefits
17 from these investments and expenditures. The current allocation methodology allocates up
18 to two-thirds to the residential rate class.

⁵² Exhibit CUB-27, SAIDI Benefits Modified U21870-AG-CE-0424_Kelly_ATT_1.

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1 **Q. Why do non-residential customers receive the vast majority of economic benefits from**
2 **improved reliability despite being a minority of the Company's customers?**

3 A. While it is true that non-residential customers are a small percentage (about 12%) of the
4 Company's 1.9 million customers,⁵³ the economic impact of an outage is substantially
5 larger for a non-residential customer than it is for a residential customer. C&I customers
6 simply have costs on a larger scale than an individual household's budget. When a non-
7 residential customer loses power, they are either partially or fully restricted in their ability
8 to conduct business. Examples of such impacts could include additional labor needed to
9 make up production losses, additional materials to restart a production process, the need to
10 operate backup power generators and lost sales at commercial locations. This results in a
11 combination of lost revenue and increased costs, impacting their financial performance.

12 A residential customer's cost of interrupted power is smaller than a non-residential
13 customer's. Still, lost power creates real and tangible costs for the residential class, such as
14 needing to replace spoiled food, relocating to a location with power, or lost income due to
15 the inability to work. When monetized, however, these impacts are simply less than those
16 experienced by C&I customers.

17 The Company's modeling reflects this difference by putting the average cost of interruption
18 (COI) at \$0.04 per minute with a standard deviation of \$0.05 per minute for residential
19 customers in 2025.⁵⁴ For Small C&I customers, the average COI is \$14.79 per minute with

⁵³ A-16 (EAD-1), Sch F-1 and WP-EAD-1-48, Input2 sheet, Cell G183.

⁵⁴ Exhibit CUB-27, SAIDI Benefits Modified U21870-AG-CE-0424_Kelly_ATT_1.

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1 a standard deviation of \$9.81 per minute. For Medium/Large C&I customers, the COI is
2 \$235.10 per minute, and the standard deviation is \$127.67 per minute.

3 **Q. Under the current allocation methodology, will residential customers pay more than**
4 **the reliability benefits they receive from these investments?**

5 A. Yes, residential customers will pay substantially more than the benefits they receive. As
6 demonstrated in Table 8, residential customers will only derive approximately 1.9% of the
7 economic benefits from increased reliability due to these investments and expenditures.
8 With the current allocation methodology, they are being asked to cover the vast majority
9 of the costs of this work.

10 For the sake of simplicity, let us focus on just the LVD line clearing program. Between
11 2025 and 2030, the Company is anticipating \$1,161,440,000 in operational expenditures to
12 clear its LVD system.⁵⁵ Since these are O&M expenses, they are assigned to allocation
13 factor 307, which puts 66.5223% of the spending towards the residential class. This means
14 that residential customers will pay around \$772,617,000 over that period. However, this
15 class will only receive approximately \$115,900,000 in benefits for the entirety of the
16 Roadmap (which is inclusive of line clearing).⁵⁶ Without taking into consideration the
17 money allocated to them for the rest of the capital investments in the Roadmap, the
18 residential class will unjustly be paying several hundred millions of dollars more than the
19 benefits they will realize.

⁵⁵ Exhibit CUB-28, 2025-2030 Line Clearing O&M.

⁵⁶ 1.9% x \$6.1 million in projected economic benefits.

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1 **Q. Please summarize your recommendations on reliability improvement investments**
2 **and expenditures allocation.**

3 A. First, I recommend that the Commission reject the Company's proposed surge amount of
4 \$22.24 million associated with its Forestry O&M costs. Instead, I recommend the
5 Commission adopt the surge amount of \$72.71 million, calculated as the excess of
6 projected test-year costs over the historical plus PAI. Witness Jester recommends
7 securitizing these costs.

8 Second, I propose that the Commission allow \$25 million associated with the LVD Lines
9 pole replacement program to be included in the rate base and treat the remaining \$127.5
10 million as a surge. Witness Jester recommends treating these surge costs as a regulatory
11 asset, potentially eligible for securitization.

12 Third, I recommend the Commission require the Company to conduct an analysis of its
13 allocation methodology for distribution costs, particularly to the extent that distribution
14 investments are justified on the basis of reliability and propose revisions as part of its next
15 rate case. The work that the Company is doing to improve reliability is needed, but under
16 the current allocation methodology, there is a severe misalignment between the costs and
17 benefits to each customer class.

18 **VI. UNDERGROUNDING**

19 **Q. Which Company witness's testimony do you address in this part of your testimony?**

20 A. I am addressing the testimony of Company witness Kelly.

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1 **Q. Please summarize the history of the Company's undergrounding strategy.**

2 A. In Case No. U-21389, the Company proposed an undergrounding pilot to explore how
3 undergrounding can help improve reliability for customers, comparing the benefits and
4 costs of this work. The Commission approved the proposal, resulting in approximately 10
5 miles of undergrounding that the Company executed in 2024 and early 2025. In the
6 subsequent rate case (Case No. U-21585), the Company proposed expanding the pilot with
7 an additional 25 miles of undergrounding. The Commission did not approve the expansion
8 because the results from the initial pilot were not yet available.

9 **Q. Please summarize the Company's undergrounding proposal in this case.**

10 A. The Company proposes undergrounding 50 miles in the test year.⁵⁷ The Company projects
11 a per-mile cost of \$400,000 for the projects it has identified, a lower unit cost than what
12 was achieved in its pilot.⁵⁸ It believes that cost savings will occur due to better
13 identification of economically competitive projects and being able to perform the work at
14 scale. The Company also intends to scale the program to underground 400 miles per year
15 by 2028.⁵⁹ Exhibit A-167 (JMP-21) page 21 outlines the 28 undergrounding projects the
16 Company includes in the instant case.

17 **Q. Does witness Kelly's testimony justify the scope of the Company's proposed**
18 **undergrounding?**

19 A. No, it does not. Witness Kelly does not assess the costs and benefits of individual
20 undergrounding projects he proposes. When this analysis is conducted, I find that half of

⁵⁷ Witness Kelly testimony, p. 67, line 2.

⁵⁸ Witness Kelly testimony, p. 64, lines 21 through 22.

⁵⁹ Witness Kelly testimony, p. 67, lines 8 through 9.

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1 the projected benefits of this program would be realized from a small minority of the 50
2 miles proposed. Given how expensive undergrounding is, the Company should focus its
3 learning and cost-curve efforts on the few projects that have encouraging cost-benefits
4 prospects.

5 **Q. Please explain how you determined which undergrounding projects will be the most**
6 **cost-effective.**

7 A. On page 21 of Company Exhibit A-167 (JMP-2), the Company outlines the benefits that
8 each undergrounding project is expected to yield. The benefits are customer outage minutes
9 avoided and range from about 22,000 minutes to 436,500 minutes per year depending on
10 the project. The Company also provides yearly estimates of the average cost of interruption
11 to its customers for 2025 through 2032. For the residential class, this shakes out to be about
12 \$0.04 per minute in 2025 growing to \$0.05 per minute in 2032.⁶⁰ Applying the Company's
13 discount rate of 1.5%,⁶¹ I can then calculate the net present value (NPV) of avoided outages
14 for each project through 2032.

15 **Q. What is the value of avoided outages for the proposed undergrounding projects**
16 **through 2032?**

17 A. For the entire proposed program, the eight-year present value of avoided outages for
18 residential customers is \$689,700.⁶² However, these benefits are very unevenly distributed

⁶⁰ Exhibit CUB-27, SAIDI Benefits Modified U21870-AG-CE-0424_Kelly_ATT_1.

⁶¹ Company Response to U21870-AG-CE-0430, Attachment U21870-AG-CE-0430_Kelly_ATT_1, Model worksheet, cell E9.

⁶² Exhibit CUB-29, Present Value of Each Undergrounding Project.

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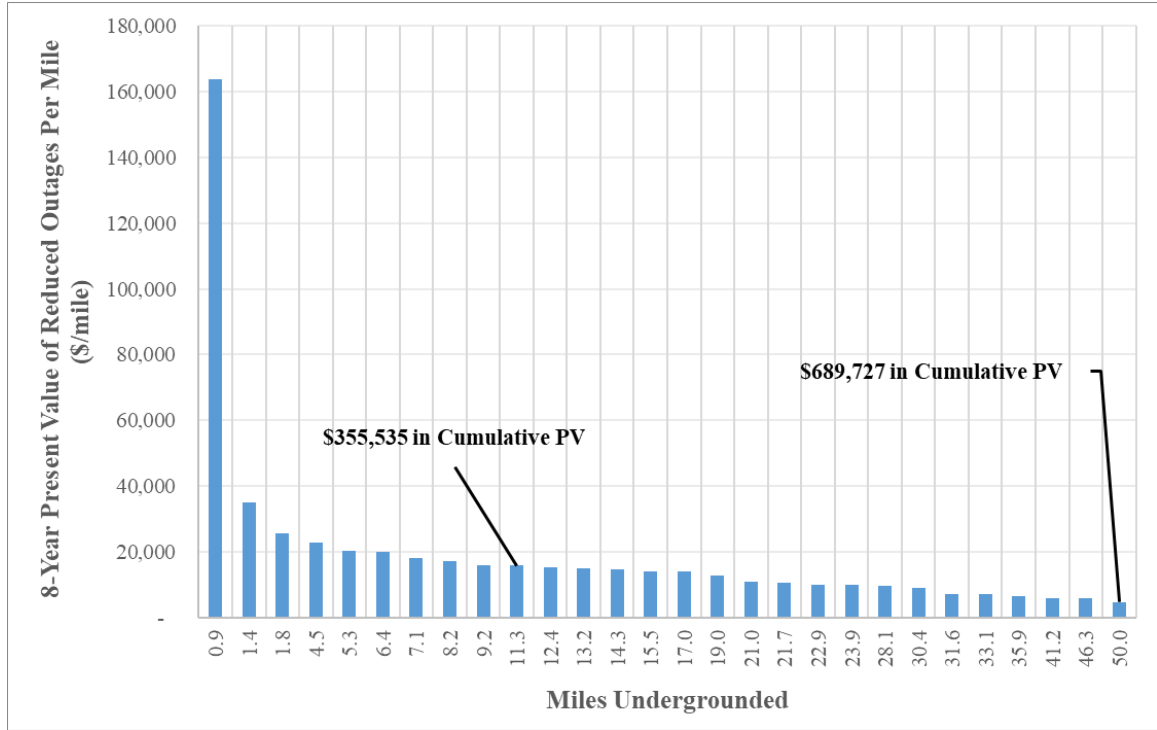
1 among the proposed projects. Half of the residential customer benefits are realized from
2 only 11.3 of the 50 miles of undergrounding proposed.

3 **Q. Please explain how you determined this scope.**

4 A. To determine the scope of 11.3 miles, I divided the aforementioned eight-year present value
5 of avoided customer outages by the number of miles being converted for each project. I
6 then sorted the present value per mile and calculated a running total (or, cumulative benefit)
7 to determine at what point approximately half of the program's benefits are realized. Figure
8 4 displays the results of this process.

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1 Figure 3 - Economic Benefits of Proposed Undergrounding⁶³



2

3 As Figure 4 shows, the benefits per mile exhibit diminishing returns. The cumulative

4 present value for the entirety of the program is \$689,727. Over half of this value – \$355,535

5 – is met by undergrounding only 11.3 miles worth of projects and additional benefit gains

6 continue to diminish thereafter. Whereas the proposed program would underground 50

7 miles of cable at a cost of \$20 million, the reduced scope I recommend would create fully

8 half of the projected customer benefits for only about 13% of the projected cost.

9 I show which of the projects constitute the 6.4 miles in Table 9.

⁶³ Exhibit CUB-30, Sorted Benefits.

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1 Table 9 - MNSC Proposed Undergrounding Projects

Line Number ⁶⁴	Project Description	Miles
8	LAKE LEANN/LAKE LEANN/282	1.0
10	PECK ROAD/M-91/473	2.1
11	PENINSULA/MAPLETON/124	1.1
12	SPRUCE ROAD/EAST BAY/693	0.5
13	SPRUCE ROAD/EAST BAY/868	0.7
16	BLACKMAN/SANDSTONE/404	2.7
17	KOLASSA/MATTESON/187	0.8
18	TRUFANT/GOWEN/847	1.1
22	WHITTEMORE/SAND LAKE/28	0.9
28	BROOKLYN/BROOKLYN/811	0.4

2 **Q. Please summarize your recommendations for the undergrounding program.**

3 A. I recommend the Commission greatly reduce the scope of the Company’s undergrounding
4 program. Undergrounding is very expensive and the cost-benefit of individual projects
5 varies enormously, making it important to evaluate each project individually rather than at
6 an aggregated program level The Commission should reduce the scope of the program to
7 just the high-impact projects (shown in Table 9) so that revenue requirement impacts are
8 limited during this exploration period. This would result in a disallowance of \$15,480,000
9 in the test period.⁶⁵

⁶⁴ Company Exhibit A-167 (JMP-2), p. 21

⁶⁵ (50 miles – 6.4 miles) * \$400,000 per mile

1 **VII. SERVICE RESTORATION FUNDING MECHANISMS**

2 **Q. Which Company witness' testimony do you address in this part of your testimony?**

3 A. I am addressing the testimony of Company witness Snider.

4 **Q. Please summarize the Company's proposed mechanisms related to the Service**
5 **Restoration O&M spending.**

6 A. Company witness Snider has put forth two proposals for new accounting mechanisms
7 related to the Service Restoration O&M spend:

8 1. **Service Restoration Resiliency Fund (SRRF):** The Company proposes establishing
9 a regulatory liability to capture any underspent service restoration O&M dollars from
10 prior years. These surplus funds would be earmarked for future service restoration
11 O&M needs and would be utilized as a first source when actual spends exceed
12 authorized amounts. In effect, the SRRF serves as a buffer that shields the Company
13 during the years when restoration costs surpass the amounts embedded in authorized
14 rates. The SRRF would be capped at \$30.7 million, with any balance above the cap
15 refunded to customers through a bill credit.⁶⁶

16 2. **Extraordinary Storm Accounting (ESA):** The Company also proposes a deferred
17 accounting mechanism that would allow for deferred recovery of restoration costs
18 associated with certain 'extraordinary storms,' subject to reasonableness and prudence
19 review, when the total service restoration costs exceed the authorized base amounts.
20 The Company defines "extraordinary storms" as storms that cause at least 300,000
21 customer outages over a seven-day period or that trigger a State of Emergency

⁶⁶ Direct Testimony of Andrew R. Snider, p. 23, 18:24.

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1 declaration from the Governor’s office. Excess costs related to events unrelated to these
2 ‘extraordinary storms’ would not be eligible for recovery under ESA.

3 **Q. Has the Commission addressed similar proposals previously?**

4 A. Yes, the Commission has addressed and rejected similar proposals on multiple occasions.
5 Most recently, in the Company’s last electric rate case, U-21585, the Commission rejected
6 the Company’s Service Restoration Cost Sharing Mechanism (SRCSM), that would have
7 allowed the Company to recover 50% of the excess service restoration costs above the
8 authorized base amounts.⁶⁷ In instances where the Company underspent on service
9 restoration, the ratepayers would have received 50% of the difference as a refund.

10 The Commission rejected this proposal, finding that it did not provide sufficient benefit for
11 ratepayers to outweigh the additional risk it would place on them.⁶⁸ The ALJ noted that,
12 “the evidence presented shows that customers are unlikely to realize a refund given that
13 storm restoration expense has been more than predicted for many years, with no prospect
14 for a different outcome during the test year.” The Commission agreed with the ALJ’s
15 assessment and added that, “While severe storms are unpredictable, the company has more
16 control over the costs associated with restoration than customers do and therefore should
17 bear more of the risk.”⁶⁹

18 In addition to U-21585, the Company has proposed similar cost-sharing or reserve
19 mechanisms in several prior proceedings. Taken together, the Commission has rejected at
20 least five such proposals over the past decade, consistently finding that they provide

⁶⁷ Case No. U-21585, PFD, p. 422.

⁶⁸ Case No. U-21585, Order, March 21, 2025, p.313.

⁶⁹ *Id.* at 314.

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1 asymmetric benefits to the Company, shift the risks associated with restoration cost
2 volatility to ratepayers, and reduce the Company's accountability for cost control.⁷⁰

3 **Q. How are the Company's proposals in this case different from the SRCSM and its**
4 **historical versions?**

5 A. They are not significantly different. While the Company has repackaged its approach in
6 this case by presenting two distinct mechanisms, their underlying objectives and design
7 repeat those of SRCSM. They continue to skew the risks associated with volatile service
8 restoration costs away from the Company towards the ratepayers and reduce Company
9 incentives to implement cost efficiency in its service restoration.

- 10 • SRRF, like SRCSM would have done, creates a mechanism for the Company to retain
11 ratepayer-paid dollars in years when the Company underspends on service restoration.
12 While under SRCSM, 50% of the underspend would have been refunded to ratepayers,
13 SRRF weakens that threshold even further. Under SRRF, 100% of the underspent funds
14 would be earmarked for future service restoration, effectively reducing the Company's risk
15 in the future, with no upside to the ratepayers, until the fund reaches its cap of \$30.7
16 million, when refunds would be issued. While the Company claims that the likelihood of
17 underspending should increase in the future, it provides no evidence to support it. On the
18 contrary, witness Snider acknowledges that extreme weather conditions will become more
19 frequent in the coming years⁷¹ and "are the main cause of increased service restoration
20 spending and pose the largest risk to sustainable service restoration operations,"⁷² thus

⁷⁰ Case No. U-21585, PFD, p. 425.

⁷¹ Snider Direct, p. 8, 14:16.

⁷² *Id.* at 28, 18:19.

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1 leading to the Company's proposal for ESA. The fact that the Company is simultaneously
2 seeking ESA underscores that the real risk is overspending, not underspending – making it
3 very unlikely that the ratepayers will see any benefits from the underspend years. SRRF
4 creates asymmetric benefits for the Company and its shareholders at the expense of its
5 ratepayers.

- 6 • ESA, like SRCSM, uses a deferred accounting mechanism to recover excess restoration
7 costs. The primary difference is that ESA is applicable only for costs related to
8 'extraordinary storms,' and their recovery will require the Company to demonstrate their
9 prudence and reasonableness. While the additional prudence review is an improvement,
10 the mechanism remains problematic. Again, the high expected frequency and costs
11 associated with extraordinary storms mean that it is very likely that ESA will be triggered
12 often. Allowing deferred recovery for such events reduces the risk for the Company and its
13 shareholders while increasing the ratepayers' exposure to restoration costs associated with
14 large, extreme weather-related events.

15 In essence, both SRRF and ESA embody the same fundamental imbalance as the
16 Company's previous proposals and shift cost volatility and risk from the Company and its
17 shareholders to its ratepayers.

18 **Q. Does the Company's restoration performance in recent years justify the proposed**
19 **mechanisms?**

20 A. No, the Company's performance does not justify these cost recovery mechanisms. As
21 discussed previously, the Company's overall reliability performance has been among the
22 worst in the nation. And while the Company details supposed improvements in its
23 restoration performance, SAIDI All Weather shows no signs of sustained and meaningful

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1 improvement.⁷³ In the context of this poor reliability performance, Consumers Energy's
2 continued proposals for cost recovery mechanisms that increase risks for ratepayers are
3 unreasonable. Nothing indicates that these mechanisms will improve the Company's
4 efficiency in service restoration operations and overall cost control. Furthermore, they
5 make today's ratepayers financially responsible for storm damage substantially attributable
6 to the Company's past distribution system maintenance practices.

7 **Q. Do you have other concerns pertaining to these mechanisms? If so, please elaborate.**

8 A. Yes. I am particularly concerned about the lack of any prudence or oversight standards
9 associated with the proposed SRRF. It allows the Company to retain and later draw upon
10 surplus ratepayer-funded dollars without any such review at the time of use. Once funds
11 are deposited into SRRF, the Company may use them to cover future service restoration
12 costs without demonstrating whether those costs were efficient, necessary, or reasonably
13 incurred.

14 Company witness Snider states that SRRF is preferable to the current practice, where the
15 Company simply reallocates any underspent restoration dollars to other O&M categories.
16 I disagree. While not ideal, current practice encourages internal budgetary discipline and
17 incentivizes the Company to reduce its service restoration costs, whereas SRRF simply
18 would not.

⁷³ <https://cubofmichigan.org/reports/utility-performance-report-2025-edition/>, Energy Costs tab, SAIDI with MEDS data (last accessed September 18, 2025).

DIRECT TESTIMONY OF RICHARD J. BUNCH FOR CUB
CASE NO. U-21870

1 **Q. What is your recommendation?**

2 A. I recommend the Commission reject the Company's proposed Service Restoration
3 Resiliency Fund (SRRF) and Extraordinary Storm Accounting (ESA) mechanisms. There
4 is very little that is new here compared to past proposals the Commission has repeatedly
5 rejected. Both mechanisms provide the Company with an opportunity to recover costs from
6 customers in years when they overspend on service restoration; however, they don't
7 provide the ratepayers with the same relief when the Company underspends.

8 Until the Company demonstrates sustained efficiency gains that offset the growing
9 pressures from extreme weather, it is far more reasonable to expect the likelihood of
10 underspending in future years to be low, meaning that the Company and its shareholders
11 stand to benefit more from such mechanisms than the ratepayers.

12 Furthermore, these proposals make today's ratepayers financially responsible for storm
13 restoration costs that are, in large part, the result of the Company's past underspending in
14 distribution system maintenance and resilience. Rather than ensuring accountability, these
15 asymmetric mechanisms transfer the risks associated with the volatility of restoration costs
16 from the Company and its shareholders to its ratepayers, who have little control over the
17 Company's restoration efforts. I therefore propose that the Commission reject both these
18 proposals.

19 **VIII. RECOMMENDATIONS**

20 **Q. Please summarize your conclusions and recommendations to the Commission.**

21 A. I recommend that the Commission:

DIRECT TESTIMONY OF RICHARD J. BUNCH FOR CUB
CASE NO. U-21870

- 1 1. Completely disallow \$59.9 million of O&M costs beyond the 2024 historical
2 actuals plus PAI baseline.
- 3 2. Allow recovery of an additional \$72.7 million of forestry surge costs related
4 to its LVD and HVD Line Clearing programs; witness Jester recommends
5 securitizing these costs.
- 6 3. Allow recovery of \$127.5 million of capital expenditures related to the LVD
7 Lines Reliability-pole replacement program; \$25 million of this amount
8 should be added to rate base and witness Jester recommends treating the
9 remaining \$102.5 million as a regulatory asset potentially eligible for
10 securitization.
- 11 4. Direct the Company, in its next rate case, to present its O&M costs and capital
12 expenditure projections against historical actuals plus PAI benchmark and
13 require it to justify any spending above this benchmark as driven by sales,
14 statutory, or performance requirements, with evidence that such expenditures
15 will produce measurable improvements in service.
- 16 5. Require the Company, in its next rate case, to present an analysis of its current
17 allocation methodology for distribution costs, particularly those justified on
18 the basis of reliability improvements and propose alternative mechanisms for
19 allocation of reliability costs that are more closely aligned with principles of
20 cost causation.
- 21 6. Reduce the scope of the Overhead-to-Underground conversion program to six
22 projects proposed in Table 9.

DIRECT TESTIMONY OF RICHARD J. BUNCH FOR CUB
CASE NO. U-21870

1 7. Disallow \$15.4 million in capital expenditures corresponding to the reduced
2 Overhead-to-Underground conversion.

3 8. Reject the Company's proposed Service Restoration Resiliency Fund (SRRF)
4 and Extraordinary Storm Accounting (ESA) mechanisms.

5 My silence regarding any position taken by the Company in its application or direct
6 testimony in this proceeding does not indicate my endorsement of that position.

7 **Q. Does that complete your testimony?**

8 **A. Yes.**

RICHARD J. BUNCH

rbunch@5lakesenergy.com

206-595-8293

Executive and organizational innovator with expertise in energy technology, finance, utilities and regulation. Leadership experience in academic, non-profit and public sectors. Broad topical and functional expertise in sustainable and socially responsible business and public policy. Demonstrated ability to recruit top performers and build strong teams.

EXPERTISE

- ▶ Clean energy project evaluation, development and financing for local governments; utility tariffs and regulatory processes.
- ▶ Broad understanding of sustainability and clean energy issues that impact businesses through markets, technology and public policy.
- ▶ Integration of clean energy and sustainability into organizational strategy, management and culture through education, training and strategic planning.
- ▶ Electric tariff topics including municipal streetlighting, rates and programs affecting low-income customers, service quality and billing rules, infrastructure project coordination with local governments, voluntary green power tariffs, production cost allocation, PSCR reconciliation.

PROFESSIONAL EXPERIENCE

5 Lakes Energy, Lansing, MI, *Lead Consultant, May 2019-present*

Michigan Municipal Association for Utility Issues, Ann Arbor, MI

Founder and Managing Director, 2017-present

Providing collective, expert and focused representation for municipal governments in Michigan Public Service Commission proceedings and in dialog with regulated utilities.

Southeast Michigan Regional Energy Office, Ann Arbor, MI

Executive Director, 2014-2017

Directed coalition of southeast Michigan municipalities cooperating to identify, finance and implement clean energy projects.

University of Michigan, Erb Institute for Global Sustainable Enterprise

Managing Director, 2008-2013

Led world-leading sustainable enterprise program at top-10 business school.

Aspen Institute Business and Society Program, New York

Senior Fellow, 2006-2008

Launched new Corporate Social Responsibility business education program in China in partnership with Chinese business schools, accrediting agency and corporations

Bainbridge Graduate Institute, Bainbridge Island, WA

Executive Director, 2003-2005

Led administration, education, fundraising and communications of fast-growing, startup business school with world-first infusion of sustainability throughout MBA curriculum.

World Resources Institute, Washington, DC

Director of Business Education, 1996-2003

Developed, fundraised and directed international sustainable business education initiatives engaging universities, companies, governments and non-profit leaders.

Washington Public Interest Research Group, Seattle, Washington

Executive Director, 1989-1992

EDUCATION

MBA with Environmental Management Certificate, University of Washington, 1995
BA in Political Science, Yale University, 1985

TRAINING

EUCI Outdoor Street Lighting Conference, June 4-5, 2019, Atlanta.
EUCI Electric Cost-of-Service – Essential Concepts for a Changing Industry Course, July 15-17, 2019, Chicago.
MSU-IPU Accounting and Ratemaking course, September 2020
EUCI Utility Green Tariffs: A to Z course, November 4-5, 2020, online
MSU-IPU Advanced Regulatory Accounting and Auditing course, October 2021
NRRRI Regulatory Training Institute, Regulating Public Utility Performance course, 2022
EUCI Advanced Rate Design for Cost Effective Tariffs training, 2024

REGULATORY PROCEEDINGS

Expert Witness, MPSC case U-21860 (DTE Electric general electric rate case, 2025)
Expert Witness, MPSC case U-21585 (Consumers Energy general electric rate case, 2024)
Expert witness, MPSC case U-21534 (DTE Electric general rate case, 2024)
Expert witness, MPSC case U-21389 (Consumers Energy electric rate case, 2023)
Expert witness, MPSC case U-21297 (DTE Electric general rate case, 2023)
Expert witness, MPSC case U-21087 (DTE Electric PrePay, 2021-2022)
Expert witness, MPSC case U-20836 (DTE Electric general rate case, 2022)
Expert witness, MPSC case U-20963 (Consumers Energy electric rate case), 2021.
Expert witness, MPSC case U-20697 (Consumers Energy electric rate case), municipal street lighting tariffs, 2020.
Expert witness, MPSC case U-20530 (I&M PSCR reconciliation
Expert witness, MPSC case U-20561 (DTE Electric general rate case), production allocation, 2019
Expert witness, Kentucky Public Utilities Commission cases 2020-349 and 2020-350, the combined Kentucky Utilities and Louisville Gas & Electric electric and gas rate cases.
Submitted comments, MPSC case U-20147, Electric Distribution Planning. Participated in stakeholder meetings.
Submitted comments, MPSC case U-20629, electric reliability standards. Focused on municipal street lighting reliability standards.
MPSC case U-20134 (Consumers Energy general electric rate case), organized and managed coalition of municipalities intervening to challenge street lighting tariffs.
MPSC cases U-18014 and U-17767, DTE Electric general rate cases, organized and coalition of municipalities challenging street lighting tariffs.

SELECTED RESEARCH AND PUBLICATIONS

“Corporate Responsibility In a Transitioning Industry: An Automotive Supply Chain Perspective”, Automotive Industry Action Group, 2019. Co-author and researcher.
“Expect the Unexpected: Building Business Value in a Changing World”, KMPG 2012. Erb Institute (University of Michigan) research team leader and contributor.
Where Will They Lead? China 2008 MBA Student Attitudes about Business & Society. The Aspen Institute, 2008.
“Beyond Grey Pinstripes: Preparing MBAs for Social and Environmental Stewardship,” World Resources Institute and The Aspen Institute, 1998, 1999, 2001 and 2003. Creator, co-author. Numerous academic, non-profit and public agency conference and meeting presentations and public testimony.

SERVICE

The Stewardship Network Board of Directors and Treasurer, 2022-present.
Michigan Environmental Council Board of Directors, 2009-present. Treasurer, 2017-2022.
Soulardarity Board of Directors and Secretary, 2018-present. Highland Park, MI.
Washington Public Interest Research Group and WashPIRG Foundation Board of Directors,
1994-present
PIRGIM Education Foundation Board of Directors, 2015-present. Ann Arbor, MI.
MPSC EAAC Data Analysis and Regulatory Review working group, ongoing.
MPSC Low Income Energy Policy Board, ongoing.

U21870-MNSC-CE-0560

Page 1 of 1

Question:

9. Refer to the Direct Testimony of Kendra K. Grob, pg. 16, 8:10, “DCCP costs are projected to increase using merit salary rate factors of 3.2% for 2024 through the 12 months ending April 30, 2027.” However, in Exhibit A-97 (KKG-1), pg.2, line 2, the factors applied to arrive at projected “Merit & Inflation” costs are the inflation factors of 2.1%, 2.4%, and 2.4% for 2025, 2026, and 2027, respectively. Please clarify the discrepancy and confirm which factor is correct.

Response:

Exhibit A-97 (KKG-1), page 2, columns b to h, show what the increase would be for applying inflation rates amounts projected out on 2024 actuals for DCCP and the column i adjustment includes adjustments for change in electric/gas splits, capitalizations, and merit 3.2% adjustment to inflation amounts. Full calculations can be found on WP-KKG-1.

Witness: Kendra K. Grob

Date: September 15, 2025

U21870-MNSC-CE-0561
Page 1 of 1

Question:

10. Refer to Witness Grob's testimony, pg. 17 and 18, "Savings Plan costs are projected to increase using merit salary rate type increase of 3.2% for 2024 through the 12 months ending April 30, 2027." However, in Exhibit A-97 (KKG-1), pg.2, line 3, the factors applied to arrive at projected "Merit & Inflation" costs are the inflation factors of 2.1%, 2.4%, and 2.4% for 2025, 2026, and 2027, respectively. Please clarify the discrepancy and confirm which factor is correct.

Response:

Exhibit A-97 (KKG-1), page 2, columns b to h, show what the increase would be for applying inflation rates amounts projected out on 2024 actuals for Savings Plan (401k) and column i includes adjustments for change in electric/gas splits, capitalizations, and merit 3.2% adjustment to inflation amounts. Full calculations can be found on WP-KKG-1.

Witness: Kendra K. Grob

Date: September 15, 2025

MICHIGAN PUBLIC SERVICE COMMISSION
 Consumers Energy Company
 Summary of O&M Expenses Projected Using Inflation
 Add Description
 (\$000)

Case No.: U-2xxxx
 Exhibit No.: A- (xxx-xx)
 Page: 2 of
 Witness: NAME
 Date: DATE

Line No.	(a) Description	(b)	(b)	(b)	(b)	(b)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
		Actual 12 Mos Ending 12/31/2019	Actual 12 Mos Ending 12/31/2020	Actual 12 Mos Ending 12/31/2021	Actual 12 Mos Ending 12/31/2022	Actual 12 Mos Ending 12/31/2023	Actual 12 Mos Ending 12/31/2024	Base O&M for Merit & Inflation 12 Mos Ending 12/31/2024	Merit & Inflation 12 Mos Ending 12/31/2025	Base O&M for Merit & Inflation 12 Mos Ending 12/31/2025	Merit & Inflation 12 Mos Ending 12/31/2026	Base O&M for Merit & Inflation 12 Mos Ending 12/31/2026	Merit & Inflation 4 Mos Ending 4/30/2027	Other Adjustments	Projected O&M 12 Mos Ending 4/30/2027
								(c) * Inflation Rate		(e) * Inflation Rate		(g) * Inflation Rate			(b) + (d) + (f) + (h) + (i)
1	Billing & Payment	19,474	16,221	17,126	18,212	15,671	10,176	10,176	-	11,294	-	11,424	-	1,329	11,505
	Labor	3,124	2,409	2,876	2,640	2,489	2,494	2,494	-	2,768	-	2,799	-	163	2,657
	Material	629	510	579	761	882	685	685	-	760	-	769	-	99	784
	Contractor	8,188	7,642	8,425	9,299	6,927	1,365	1,365	-	1,515	-	1,532	-	251	1,616
	Non-Labor Overhead	2,044	-	-	-	-	-	-	-	-	-	-	-	-	-
	Non-Labor Other	5,490	5,659	5,246	5,513	5,372	5,632	5,632	-	6,251	-	6,323	-	815	6,448
2	Customer Interactions	26,509	25,326	28,389	25,769	24,071	20,951	20,951	-	22,635	-	23,004	-	2,503	23,454
	Labor	17,650	17,608	18,761	18,115	17,444	15,605	15,605	-	16,860	-	17,134	-	1,608	17,213
	Material	208	68	81	30	41	69	69	-	74	-	76	-	15	83
	Contractor	7,096	6,345	7,575	6,616	5,601	4,579	4,579	-	4,947	-	5,028	-	508	5,087
	Non-Labor Overhead	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Non-Labor Other	1,554	1,305	1,972	1,009	984	698	698	-	754	-	766	-	372	1,070
3	Total CXCO O&M Expenses	45,983	41,547	45,515	43,982	39,741	31,127	31,127	-	33,930	-	34,428	-	3,832	34,959
	Labor	20,774	20,017	21,636	20,755	19,933	18,099	18,099	-	19,627	-	19,934	-	1,772	19,870
	Material	837	578	660	790	923	754	754	-	835	-	845	-	114	868
	Contractor	15,284	13,987	16,000	15,915	12,528	5,944	5,944	-	6,462	-	6,560	-	759	6,703
	Non-Labor Overhead	2,044	-	-	-	0	-	-	-	-	-	-	-	-	-
	Non-Labor Other	7,044	6,965	7,219	6,522	6,356	6,330	6,330	-	7,005	-	7,089	-	1,187	7,517

U21870-SA-CE-113

Requested By: Shannon M. Rueckert (SMR-1 - 4)

Respondent: Patrick D. Daly

Date of Response: 7/18/2025

Page 1 of 1

Question:

Inflation

4. Please provide a list of all exhibits that use inflation to project O&M expenses.

Response:

- **Projected Corporate Services O&M Expense** - Exhibit A-91 (MJF-2)
- **Projected Information Technology Operations O&M Expense** - Exhibit A-17 (SHB-1), page 2. As noted in the direct testimony of Company witness Stacy H. Baker (page 26, lines 29-30 and page 27, lines 1-6), labor is the only categorical spend projection that includes an increase based on the inflation rate. Inflation is not used to project any other categorical spending projections for IT Operations O&M expense.
- **Projected Benefits O&M Expenses** – Exhibit A-97 (KKG-1), page 2 – line 6, “Other Benefits” only.
- **Projected Electric Distribution O&M Expenses** – Exhibit A-128 (MPK-18). Refer to the direct testimony of Company witness Michael P. Kelly, page 124, lines 6 through 22, and page 125, lines 1 through 3 for further details. Projected Service Restoration expenses (a component of overall Electric Distribution O&M expenses included within the exhibit referenced above), were projected using 2024 historical expenses and applying inflation. Refer to the direct testimony of Company Witness Andrew R. Snider, page 20 lines 1 through 25 for further details.
- **Projected O&M Expenses Facilities and Shared Services** – Exhibit A-101 (QAG-2), page 2. Labor for the real estate department is the only categorical spend projection that includes an increase based on the inflation rate.

U21870-SA-CE-114

Requested By: Shannon M. Rueckert (SMR-1 - 5)

Respondent: Patrick D. Daly

Date of Response: 7/18/2025

Page 1 of 1

Question:

Inflation

5. Please provide a separate list of all expenses and their exhibit number that show inflation as if it's being used to project an expense, but do not actually use it in the projection. Example: Pension Plan A&B on A-97 KKG-1.

Response:

- **Projected Customer Experience & Operations Expenses** - Exhibit A-53 (JRB-2), page 4. Refer to the direct testimony of Company witness Jessica R. Byrom, page 4, lines 1 through 16 for further details.
- **Projected Demand Response O&M Expenses** - Exhibit A-95 (AMG-2), page 2. Refer to the direct testimony of Company witness Alex M. Gast, page 3, lines 16 through 26, and page 4, lines 1 through 5 for further details.
- **Projected Generation O&M Expenses** – Exhibit A-43 (RTB-4), page 2. Refer to the direct testimony of Company witness Richard T. Blumenstock, page 105, lines 11 through 15 for further details.
- **Projected Benefits O&M Expenses** – Exhibit A-97 (KKG-1), page 2. The following line items show inflation, but the corresponding calculation is not used in the projection of test year expense included within the instant case.
 - Line 1 – Pension Plans A/B
 - Line 2 – Defined Company Contribution Plan
 - Line 3 – 401k Employee Savings Plan
 - Line 4 – Active Health Care/Life Insurance/LTD – only Life Insurance and LTD use the inflation rate. Active Health Care utilizes the healthcare trend rate.
 - Line 5 – Retiree Health Care and Life Insurance
 - Lines 7 through 10 – Pension & OPEB Deferrals and related amortization expenses
- **Projected Electric Distribution O&M Expenses** – Exhibit A-128 (MPK-18). Refer to the direct testimony of Company witness Michael P. Kelly, page 124, lines 6 through 22, and page 125, lines 1 through 3 for further details. However, projected Service Restoration expenses (a component of overall Electric Distribution O&M expenses included within the exhibit referenced above), were projected using 2024 historical expenses and applying inflation. Refer to the direct testimony of Company Witness Andrew R. Snider, page 20 lines 1 through 25 for further details.

CUB-25. Labor Costs Adjustments; WP Bunch Inflation and Productivity Adjustments
 p. 1/2

Schedule: C-5.1

MICHIGAN PUBLIC SERVICE COMMISSION

Consumers Energy Company

Summary of Inflation and Merit Increases Included in Operation and Maintenance Expenses
 For the Projected 12-Month Period Ending April 30, 2027
 (\$000)

Case No.: U-21870
 Exhibit No.: A-13 (PDD-42)
 Schedule: C-5.1
 Page: 1 of 1
 Witness: PDDaly
 Date: June 2025

Line No.	(a) Description	(b) Source	(c) Historical 12 Months Ended 12/31/2024	(i) Projected 12 Months Ended 4/30/2027	(j) Actual labor; 12 Months Ended 12/31/2024	(k) Projected labor; 12 Months Ended 4/30/2027	(p) Source: non-labor breakouts from Exhibits in column (b)		(q) Check	
							Actual non-labor; 12 Months Ended 12/31/2024	Projected non-labor; 12 Months Ended 4/30/2027	12/31/2024	4/30/2027
				(c) + (h)						
1	Electric Division - Electric & Common	Exhibit No.: A-128 (MPK-18)	246,620	300,994	140,584	173,473	106,036	127,521	0	0
2	Forestry	Exhibit No.: A-175 (SES-6)	110,225	186,684	3,262	5,583	106,962	181,101	-	-
3	Generation	Exhibit No.: A-43 (RTB-4)	128,438	103,732	74,738	60,362	53,700	43,371	-	(0)
4	Operations Support	Exhibit No.: A-102 (QAG-3)	14,564	13,600	3,903	4,181	10,661	9,418	-	-
5	Information Technology Operations	Exhibit No.: A-17 (SHB-1)	42,127	55,297	9,279	10,792	32,848	44,505	-	-
6	Information Technology Investments	Exhibit No.: A-19 (SHB-3)	7,835	24,789	2,127	7,667	5,707	17,122	-	-
7	Information Technology - Security Operations	Exhibit No.: A-17 (SHB-1)	9,277	11,362	3,841	4,628	5,435	6,734	-	-
8	Information Technology - Security Investments	Exhibit No.: A-19 (SHB-3)	702	1,513	300	1,019	402	495	-	-
9	Customer Interactions	Exhibit No.: A-53 (JRB-2)	20,951	23,532	15,605	17,213	5,346	6,240	-	78
10	Billing & Payment	Exhibit No.: A-53 (JRB-2)	10,176	11,427	2,494	2,657	7,682	8,848	-	(78)
11	Demand Response	Exhibit No.: A-95 (AMG-2)	31,240	34,630	7,122	6,761	24,118	27,870	-	-
12	Pension Plans A/B	Exhibit No.: A-97 (KKG-1)	(51,785)	(45,156)	(51,785)	(45,156)	-	-	-	-
13	Defined Company Contribution Plan	Exhibit No.: A-97 (KKG-1)	14,774	16,507	14,774	16,507	-	-	-	-
14	401(k) Employees' Savings Plan	Exhibit No.: A-97 (KKG-1)	11,396	12,731	11,396	12,731	-	-	-	(0)
15	Active Health Care/Life Insurance/LTD	Exhibit No.: A-97 (KKG-1)	29,089	33,385	29,089	33,385	-	-	-	-
16	Retiree Health Care and Life Insurance	Exhibit No.: A-97 (KKG-1)	(47,536)	(48,867)	(47,536)	(48,867)	-	-	-	-
17	Other Benefits	Exhibit No.: A-97 (KKG-1)	2,601	2,780	887	948	1,714	1,832	-	0
18	Pension/OPEB Volatility Mechanism Amortizati	Exhibit No.: A-97 (KKG-1)	15,491	(99)	15,491	(99)	-	-	-	(0)
19	Corporate Services	Exhibit No.: A-91 (MJF-2)	37,543	36,968	12,968	11,069	24,575	25,899	(0)	0
20	Uncollectible Expense	N/A	18,074	20,274	-	-	18,074	20,274	(0)	(0)
21	Injuries & Damages	N/A	7,677	5,083	-	-	7,677	5,083	0	0
22	Incentive Compensation	Exhibit No.: A-73 (AMC-3)	2,750	2,211	2,104	2,211	-	-	646	-
23	Job Work Expense	Exhibit No.: A-15 (EMB-3), Schedule E-2	1,278	1,278	-	-	1,278	1,278	(0)	(0)
24	Interest expense on security deposits	WP-PDD-19	298	298	-	-	298	298	(0)	(0)
25	Projected inflation of other O&M expenses	Sum Lines 1 - 24	663,802	804,952	250,644	277,065	412,513	527,888	645	(0)

CUB-25. Labor Costs Adjustments; WP Bunch Inflation and Productivity Adjustments
 p. 2/2

Schedule: B-5

MICHIGAN PUBLIC SERVICE COMMISSION
Consumers Energy Company
 Capital Expenditures Summary
 For the Projected 12-Month Period Ending April 30, 2027
 (\$000)

Line No.	(a) Description	(b) Source	(c) Historical		(j) Source: labor breakouts from Exhibits in column (b)		(p) Source: non-labor breakouts from Exhibits in column (b)		Check 12/31/2024	Check 4/30/2027
			12 Months Ended 12/31/2024	12 Months Ending 4/30/2027	Actual labor; 12 Months Ended 12/31/2024	Projected labor; 12 Months Ended 4/30/2027	Actual non-labor; 12 Months Ended 12/31/2024	Projected non-labor; 12 Months Ended 4/30/2027		
1	Electric Distribution	Exhibit No.: A-12 (MPK-1), Sch 5.7	920,439	1,529,914	163,901	271,759	756,538	1,258,155	0	-
2	Streetlighting	Exhibit No.: A-12 (DAS-1), Sch 5.9	18,541	16,545	2,648	2,272	15,893	14,273	(0)	-
3	Generation	Exhibit No.: A-12 (RTB-3), Sch 5.2	145,252	188,638	2,219	-	143,032	188,638	-	-
4	Information Technology	Exhibit No.: A-12 (SHB-4), Sch 5.1	39,979	66,983	5,367	11,102	34,612	55,882	0	(0)
5	Security	Exhibit No.: A-12 (SHB-4), Sch 5.1	4,044	10,736	274	1,129	3,769	9,607	0	-
6	Electric Vehicles	Exhibit No.: A-12 (JAM-1), Sch 5.8	1,431	171	217	26	1,214	145	0	(0)
7	Operations Support	Exhibit No.: A-12 (QAG-1), Sch 5.6	21,298	28,041	1,071	1,539	20,227	26,502	0	-
8	Fleet Services	Exhibit No.: A-12 (QAG-2), Sch 5.6	16,628	67,947	-	-	16,628	67,947	-	-
9	Corporate	Exhibit No.: A-12 (MJF-6), Sch 5.4	1,010	1,064	73	77	937	987	-	-
10	Customer Experience & Operations	Exhibit No.: A-12 (JRB-1), Sch 5.3	1,245	1,870	-	-	1,245	1,870	(0)	-
11	Demand Response	Exhibit No.: A-12 (AMG-1), Sch 5.5	5,156	1,555	-	-	5,156	1,555	0	-
12	Total capital expenditures		1,175,023	1,913,464	175,770	287,904	999,252	1,625,561	1	(1)

Notes

CUB-26 Proposed LVD Pole Replacement surge

Schedule: B-5

MICHIGAN PUBLIC SERVICE COMMISSION
Consumers Energy Company
 Capital Expenditures Summary
 For the Projected 12-Month Period Ending April 30, 2027
 (\$000)

(a)	(b)	(c)	(d)	(e)	(n)	(o)	(p)	(q)	(r)	(s)	
					Total costs and adjustments						
					Bridge period projections and adjustments		Test-year projections and adjustments				
<u>Historical</u>					CUB projected bridge-year target = (h) + (i) + (j) + (l) + (m) + (n);		CUB projected test-year target = (p) + (k) + (o);		Test-year disallowance based on PAI = (w) - (x);		CUB proposed securitization \$ for surge
Description	Source	12 Months Ended 12/31/2024	16 Months Ending 4/30/2026	12 Months Ending 4/30/2027	16 months ended 4/30/2026	Company proposal = (f); 16 Months Ended 4/30/2026	12 months ended 4/30/2027	Company proposal = (g) 12 Months Ended 4/30/2027	ended 4/30/2027	ended 4/30/2027	12-months ended 4/30/2027
Pole replacements PAI baseline estimate	Direct testimony of Jennifer M. Partlan, p. 69, Fig. 35	N/A	29,711	127,500		29,711	22,638	127,500			102,500
							Rounded to 25,000		(127,500 - 25,000)		

SYSTEM AVERAGE INTERRUPTION DURATION INDEX - SAIDI

Estimated Societal Benefits of Customer Reliability

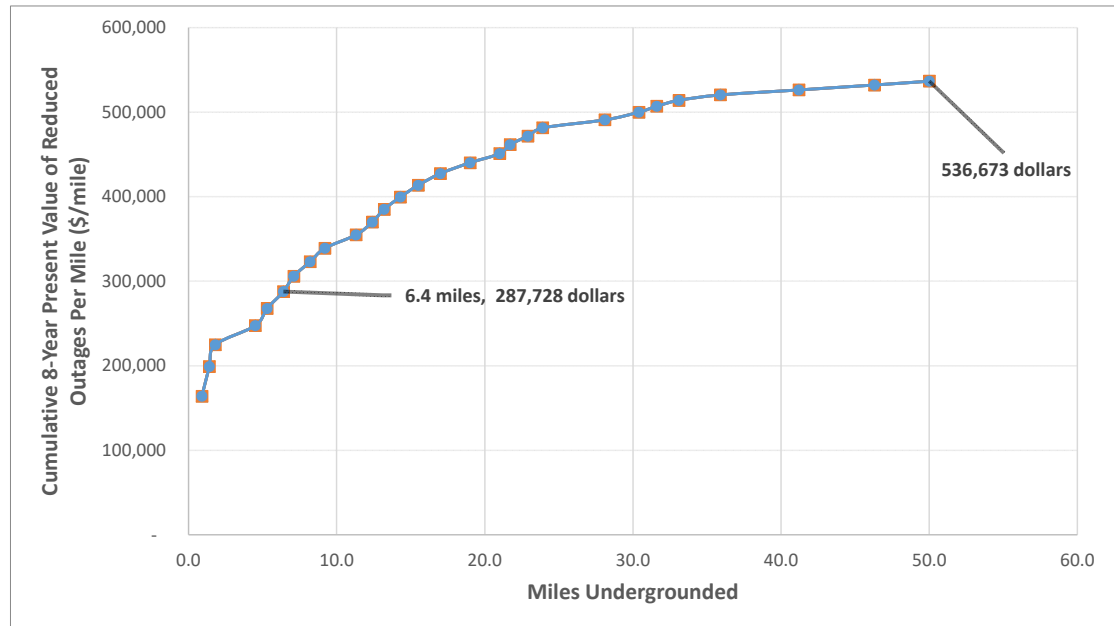
Line No.	Description ⁽¹⁾	Year	Customers ⁽²⁾ (000)	Cost of Interruption ⁽³⁾ (\$ per min)	COI Std Deviation ⁽³⁾ (\$ per min)	SAIDI ⁽⁴⁾		Cost/(Benefit) to Society ⁽⁵⁾			MNSC Calculations		
						Status Quo	Roadmap	Min	Average	Max	Cost/(Benefit) Share		
						(min / cust)	(min / cust)	(\$000)	(\$000)	(\$000)	Min	Average	Max
											%	%	%
1	Residential	2025	1,667.9	\$ 0.04	\$ 0.05	171	162	\$ -	\$ (667)	\$ (1,400)	0.0%	1.9%	2.3%
2	Small C&I	2025	229.7	14.79	9.81	171	162	(10,919)	(32,448)	(53,976)	89.6%	90.4%	90.5%
3	Medium / Large C&I	2025	1.2	235.10	127.67	171	162	(1,270)	(2,780)	(4,289)	10.4%	7.7%	7.2%
4	Residential	2026	1,677.7	\$ 0.04	\$ 0.05	171	153	\$ -	\$ (1,326)	\$ (2,782)	0.0%	1.9%	2.4%
5	Small C&I	2026	230.0	15.11	10.03	171	153	(21,605)	(64,202)	(106,799)	89.6%	90.4%	90.5%
6	Medium / Large C&I	2026	1.2	240.28	130.47	171	153	(2,510)	(5,493)	(8,476)	10.4%	7.7%	7.2%
7	Residential	2027	1,686.9	\$ 0.04	\$ 0.05	171	145	\$ -	\$ (1,919)	\$ (4,028)	0.0%	1.9%	2.4%
8	Small C&I	2027	230.3	15.45	10.25	171	145	(31,145)	(92,549)	(153,954)	89.6%	90.4%	90.5%
9	Medium / Large C&I	2027	1.2	245.56	133.34	171	145	(3,614)	(7,909)	(12,204)	10.4%	7.7%	7.2%
10	Residential	2028	1,695.8	\$ 0.04	\$ 0.05	171	137	\$ -	\$ (2,579)	\$ (5,413)	0.0%	1.9%	2.4%
11	Small C&I	2028	230.5	15.79	10.47	171	137	(41,677)	(123,847)	(206,016)	89.6%	90.4%	90.5%
12	Medium / Large C&I	2028	1.2	250.96	136.28	171	137	(4,832)	(10,574)	(16,315)	10.4%	7.7%	7.2%
13	Residential	2029	1,703.3	\$ 0.05	\$ 0.05	171	128	\$ -	\$ (3,360)	\$ (7,052)	0.0%	1.9%	2.4%
14	Small C&I	2029	230.7	16.13	10.70	171	128	(54,098)	(160,757)	(267,415)	89.6%	90.4%	90.5%
15	Medium / Large C&I	2029	1.2	256.49	139.28	171	128	(6,267)	(13,714)	(21,161)	10.4%	7.7%	7.2%
16	Residential	2030	1,708.8	\$ 0.05	\$ 0.05	171	119	\$ -	\$ (4,186)	\$ (8,785)	0.0%	1.9%	2.4%
17	Small C&I	2030	230.8	16.49	10.94	171	119	(67,224)	(199,762)	(332,299)	89.6%	90.4%	90.5%
18	Medium / Large C&I	2030	1.2	262.13	142.34	171	119	(7,783)	(17,030)	(26,278)	10.4%	7.7%	7.2%
19	Residential	2031	1,712.4	\$ 0.05	\$ 0.05	171	116	\$ -	\$ (4,517)	\$ (9,480)	0.0%	1.9%	2.4%
20	Small C&I	2031	231.0	16.85	11.18	171	116	(72,422)	(215,206)	(357,990)	89.6%	90.4%	90.5%
21	Medium / Large C&I	2031	1.2	267.90	145.47	171	116	(8,380)	(18,338)	(28,296)	10.4%	7.7%	7.1%
22	Residential	2032	1,713.8	\$ 0.05	\$ 0.05	171	115	\$ -	\$ (4,697)	\$ (9,856)	0.0%	1.9%	2.4%
23	Small C&I	2032	231.0	17.22	11.43	171	115	(75,258)	(223,635)	(372,012)	89.6%	90.4%	90.5%
24	Medium / Large C&I	2032	1.2	273.79	148.67	171	115	(8,706)	(19,051)	(29,396)	10.4%	7.7%	7.1%
25	Residential	Terminal Value						\$ -	\$ (92,592)	\$ (194,313)	0.0%	1.9%	2.4%
26	Small C&I	Terminal Value						(1,483,680)	(4,408,851)	(7,334,022)	89.6%	90.4%	90.5%
27	Medium / Large C&I	Terminal Value						(171,636)	(375,583)	(579,531)	10.4%	7.7%	7.1%
28	Total							\$ (2,073,030)	\$ (6,107,573)	\$ (10,153,537)			

LVD Trimming Costs Projections						
Year	O&M Full-Circuit Clearing Miles	O&M Subprogram Clearing Miles	O&M Subprogram Spray Miles	O&M Expense (\$M)	Capital Clearing Miles	Capital (Contractor) Costs (\$M)
2020	3,679	294	238	\$ 46.10	258	\$ 5.67
2021	4,647	238	395	\$ 75.83	252	\$ 6.07
2022	5,653	247	488	\$ 91.02	221	\$ 6.71
2023	5,758	244	443	\$ 97.79	168	\$ 5.59
2024	5,400	244	421	\$ 99.49	258	\$ 9.69
2025	6,108	244	413	\$ 113.20	325	\$ 14.01
2026	7,891	199	405	\$ 152.97	325	\$ 14.29
2027	10,885	149	454	\$ 201.75	325	\$ 14.57
2028	12,814	137	501	\$ 226.28	325	\$ 14.87
2029	13,588	75	491	\$ 230.43	325	\$ 15.16
2030	14,837	75	508	\$ 236.81	325	\$ 15.47

2025 - 2030 O&M Total (\$M): \$ 1,161.44

Line No.	Project	Test Spending (\$000s)	Miles	Outage Mins Avoided	8-Year PVRR (\$)	8-year PV (\$)	PV Net of PVRR (\$)
1	BASS LAKE/KISTLER/168	440	1.1	49,426	397,767	16,709	(381,058)
2	BLUE STAR/PIER COVE/622	480	1.2	35,686	433,927	12,064	(421,863)
3	BUTTERFIELD/LINDEN/60	480	1.2	25,080	433,927	8,479	(425,449)
4	CONCORD/SWAINS LAKE/581	400	1.0	28,866	361,606	9,759	(351,848)
5	DEAN ROAD/HARTLAND/951	800	2.0	75,471	723,212	25,514	(697,698)
6	ELEVENTH STREET/BASELINE/268	1,120	2.8	53,410	1,012,497	18,056	(994,441)
7	HALLS LAKE/HALLS LAKE/173	920	2.3	61,463	831,694	20,778	(810,916)
8	LAKE LEANN/LAKE LEANN/282	400	1.0	47,318	361,606	15,996	(345,610)
9	MERSON/MERSON/412	800	2.0	64,148	723,212	21,686	(701,526)
10	PECK ROAD/M-91/473	840	2.1	98,091	759,373	33,161	(726,212)
11	PENINSULA/MAPLETON/124	440	1.1	55,599	397,767	18,796	(378,971)
12	SPRUCE ROAD/EAST BAY/693	200	0.5	51,908	180,803	17,548	(163,255)
13	SPRUCE ROAD/EAST BAY/868	280	0.7	37,643	253,124	12,726	(240,399)
14	YORKVILLE/HIGHLAND PARK/182	440	1.1	47,581	397,767	16,085	(381,681)
15	BALCOM/BANKERS/736	600	1.5	30,819	542,409	10,419	(531,990)
16	BLACKMAN/SANDSTONE/404	1,080	2.7	181,206	976,336	61,259	(915,077)
17	KOLASSA/MATTESON/187	320	0.8	47,956	289,285	16,212	(273,073)
18	TRUFANT/GOWEN/847	440	1.1	64,962	397,767	21,961	(375,806)
19	CASCO/HAWKHEAD/516	280	0.7	22,005	253,124	7,439	(245,685)
20	HANOVER/PULASKI/532	1,680	4.2	117,839	1,518,746	39,837	(1,478,909)
21	LAKE LEANN/LAKE LEANN/159	480	1.2	49,381	433,927	16,694	(417,233)
22	WHITTEMORE/SAND LAKE/28	360	0.9	436,554	325,445	147,582	(177,863)
23	ALGER/SKIDWAY/606	600	1.5	61,365	542,409	20,745	(521,664)
24	ALGER/SKIDWAY/819	320	0.8	35,483	289,285	11,995	(277,290)
25	BRICKER/STOREY ROAD/228	2,040	5.1	86,953	1,844,191	29,396	(1,814,795)
26	HARVARD LAKE/HARVARD LAKE/986	2,120	5.3	92,753	1,916,512	31,356	(1,885,156)
27	SHERMAN/SHERMAN/304	1,480	3.7	50,822	1,337,942	17,181	(1,320,761)
28	BROOKLYN/BROOKLYN/811	160	0.4	30,448	144,642	10,293	(134,349)
					18,080,304	689,727	(17,390,577)

Line No.	Miles	8-Year Present Value/Mile	Cumulative Miles	Cumulative Benefit/Mile
22	0.9	163,981	0.9	163,981
12	0.5	35,096	1.4	199,077
28	0.4	25,733	1.8	224,810
16	2.7	22,689	4.5	247,499
17	0.8	20,265	5.3	267,764
18	1.1	19,965	6.4	287,728
13	0.7	18,180	7.1	305,908
11	1.1	17,087	8.2	322,995
8	1.0	15,996	9.2	338,992
10	2.1	15,791	11.3	354,782
1	1.1	15,190	12.4	369,973
24	0.8	14,994	13.2	384,967
14	1.1	14,623	14.3	399,590
21	1.2	13,912	15.5	413,501
23	1.5	13,830	17.0	427,331
5	2.0	12,757	19.0	440,088
9	2.0	10,843	21.0	450,931
19	0.7	10,627	21.7	461,559
2	1.2	10,053	22.9	471,612
4	1.0	9,759	23.9	481,371
20	4.2	9,485	28.1	490,856
7	2.3	9,034	30.4	499,890
3	1.2	7,066	31.6	506,955
15	1.5	6,946	33.1	513,901
6	2.8	6,449	35.9	520,350
26	5.3	5,916	41.2	526,266
25	5.1	5,764	46.3	532,030
27	3.7	4,644	50.0	536,673



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 generation
 and distribution of electricity and for other
 relief.

Case No. U-21870

PROOF OF SERVICE

On the date below, an electronic copy of **Direct Testimony and Exhibits of Richard J. Bunch on behalf of Citizens Utility Board of Michigan (CUB-21 through CUB-30)** was served on the following:

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

Troposphere Legal, PLC
Counsel for CUB

Date: September 30, 2025

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