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October 9, 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:

- Proof of Service; and
- Please find the Revised Direct Testimony of Richard Bunch on behalf of CUB, which corrects several internal inconsistencies and typographical errors, plus corrects two erroneous references, marked in redline and described as follows:

1. **Page 34, Table 4:** Delete 'to rate base' from column 4 header, new column heading → 'Proposed disallowance; 12 months ended 04/30/2027'; O&M disallowances do not impact rate base.
2. **Page 34, line 12:** Replace $51.5 with → $59.5 to reflect typographical error; Conforms to Table 4.
3. **Page 44, lines 7:8**: Replace 'Specifically, the Company asserts that its SAIDI, the same model' with → 'Further, the Reliability Roadmap model'; corrects sentence fragment.
4. **Page 47, line 9**: Replace $127.5 with → $102.5 to reflect typographical error; Conforms to Table 5.
5. **Page 51, line 3**: Replace Figure 4 with → Figure 3 to reflect typographical error.
6. **Page 51, line 9**: Replace 6.4 with → 11.3 to reflect typographical error; Conforms to page 51, line 5.
7. **Page 52, footnote 65**: Replace 6.4 with → 11.3 to reflect typographical error; Conforms to page 51, line 5.

8. **Page 57, footnote 73**: Replace footnote with → MPSC Distribution System Reliability Metrics, SAIDI All Weather Michigan Utilities and IEEE Quartile Benchmarks, https://www.michigan.gov/mpsc/consumer/electricity/distribution-system-reliability-metrics , Accessed 9/29/2025.
9. **Page 59, line 1:** Replace $59.9 with → $59.5 to correct typographical error; Conforms to Table 4.
10. **Page 59, line 21:** Replace 'six' with → 'ten'; Conforms to page 52, Table 9.

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

Sincerely,

Digitally signed by Tracy Jane Andrews
Date: 2025.10.09 14:25:18 -04'00'

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

REVISED

DIRECT TESTIMONY OF RICHARD J. BUNCH

ON BEHALF OF

CITIZENS UTILITY BOARD OF MICHIGAN

October 9, 2025

~~**September 30, 2025**~~

TABLE OF CONTENTS

I. INTRODUCTION & QUALIFICATIONS

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

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

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

Q. On whose behalf is this testimony being offered?

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

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

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

U-20713.

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

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

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

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

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

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

- NRRI Regulatory Training Institute, Regulating Public Utility Performance course, 2022.
- EUCI Advanced Rate Design for Cost Effective Tariffs course, 2024

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

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

- Case U-20530 (I&M PSCR Reconciliation case)
- Case U-20561 (DTE Electric Company Electric General Rate Case)
- Case U-20697 (Consumers Energy Company Electric General Rate Case)
- Case U-20836 (DTE Electric general rate case)
- Case U-20963 (Consumers Energy Company Electric General Rate Case)
- Case U-21087 (DTE Electric PrePay case)
- Case U-20836 (DTE Electric Company Electric General Rate Case)
- Case U-21224 (Consumers Energy Company Electric General Rate Case)
- Case U-21297 (DTE Electric Company Electric General Rate Case)
- Case U-21389 (Consumers Energy Company Electric General Rate Case)
- Case U-21534 (DTE Electric Company Electric General Rate Case)
- Case U-21860 (DTE Electric Company Electric General Rate Case)

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

Q. Are you sponsoring any exhibits?

A. Yes, I am sponsoring the following exhibits:

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

II. SUMMARY

Q. What topics are you addressing in your testimony?

A. I am addressing the following topics:

- General context of this rate case;
- Inflation and productivity offsets;
- Reliability Improvement Cost Recovery;
- Undergrounding; and
- Storm Cost Recovery Mechanisms.

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

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

III. GENERAL CONTEXT OF THIS RATE CASE

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

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

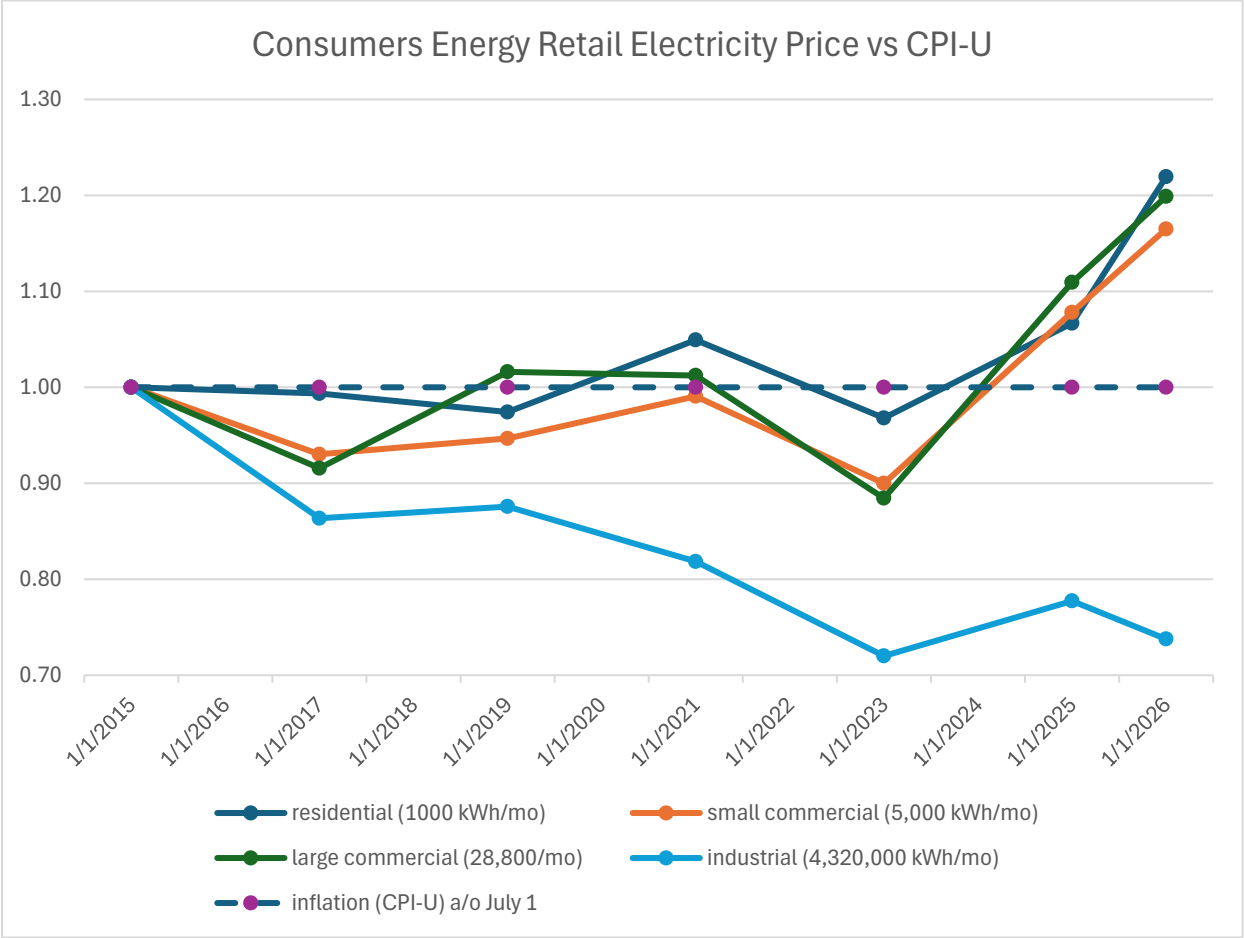
Many factors contribute to the Company's proposed increase. My 5 Lakes Energy colleague, Douglas Jester, and I address residential rates and reliability, both foundational to the statewide effort to transition to cleaner energy. Our analysis of the Company's rate request reveals that increases in distribution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

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

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

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

Figure 1



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

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

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

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

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

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

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

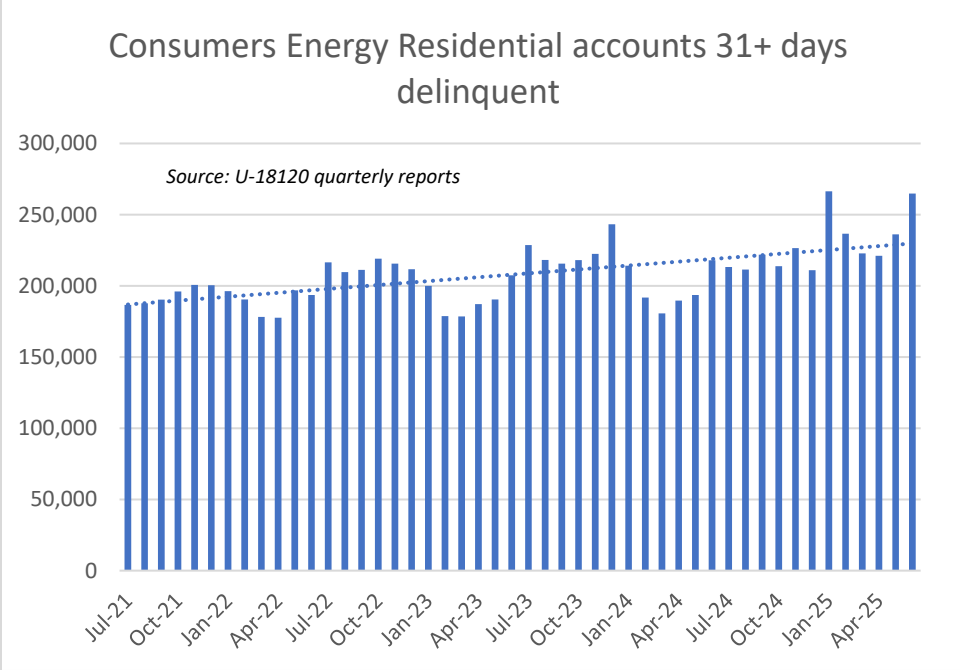
[1] CUB of Michigan 2025 Utility Performance Report, p.36, available at https://cubofmichigan.org/our-work/reports/, last checked September 18, 2025

[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.

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

Figure 2



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

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

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

[4] Exhibit A-90 (MJF-4) p. 2.

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

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

A. It is fair to expect that Consumers can and should deliver electricity at similar prices and with similar reliability as utilities in nearby states. But the Company's customers are already paying more while getting worse service. The average Consumers customer went 913 minutes without power in 2023.[5] The US average that year was 342 minutes without power, meaning that the average Consumers customer went about 9-1/2 hours more than, or 2.67 times longer than, the average US customer, while already paying a 17.5% comparative premium for that electricity.[6]

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

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

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

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

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

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

Q. What else should the Commission do to reduce the energy burden on Consumers' residential electric customers?

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

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

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

IV. INFLATION AND PRODUCTIVITY OFFSETS

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

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

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

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

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

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

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

Q. Please preview your recommendation.

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

Q. Please briefly describe the basis for your recommendation.

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

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

1. Impact of Inflation and Productivity on Costs and Prices

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

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

Q. How can a company mitigate inflationary cost increases?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. Has the Commission addressed the Company's use of inflation factors before?

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

MNC argued that the Company's inflation rates should be reduced by an appropriate productivity factor for labor and non-labor costs, as regulated utilities don't face the same pressures to improve efficiency as companies in competitive markets, and a productivity factor would simulate that effect.[8] The Company countered that reducing the inflation rates by a productivity factor would not be reasonable or appropriate because "(i) not all O&M 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.*

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

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

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

A. Yes, it has. A similar issue arose in the Company's most recent gas rate case, U-21806, 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.

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

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

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

A. Company witness Daly proposes inflation factors of 2.1%, 2.4% and 2.4% for years 2025, 2026, and 2027, respectively. The 2027 factor is pro-rated to 0.8% for the 4-month period ending April 30, 2027.[16]

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

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

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

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

For example, in Exhibit A-97 (KKG-1) p. 2, witness Grob seemingly applies witness Daly's sponsored inflation rate to capture inflation-related changes to the Company's Defined Company Contribution Plan (DCCP) and Savings Plan costs (line items 13 and 14 of Exhibit A-13, Schedule 5.1). However, witness Grob's direct testimony states that the Company is using a merit salary factor of 3.2% for 2024 through the 12 months ending April 30, 2027, to arrive at the projected test-year costs for the Company's DCCP[17] and Savings Plan[18] costs. This merit salary factor exceeds the inflation factor recommended by witness Daly. Further clarification through discovery reveals that the portion of merit increases in excess of inflation is captured in the 'Other Adjustment' in column (i).[19]

In another instance, witness Byrom testifies that Exhibit A-53 (JRB-2), page 4, which provides information for lines 9 and 10 of Exhibit A-13 (PDD-42), Schedule C-5.1, is a hypothetical illustration of projected Customer Experience and Operations O&M expenses 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.

arrive at her projections, and column (g), Other Adjustments, captures any difference between her projections and the Company-sponsored inflation-adjusted numbers.[21] Projected costs for Customer Experience & Operations are expected to increase by 5.1% annually in the bridge period and the projected test year, compared to a decline of 7.5% annually between 2019 and 2024.[22] Witness Byrom notes increases in labor and contractor costs as one of the reasons for cost increases across multiple workstreams under Customer Experience and Operations; however, it is unclear whether these are driven by unit cost increases, necessary resource increases or both, and at what rates, and if the Company-sponsored inflation correctly captures it.

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

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

Yes. Company witness Stewart sponsors the total O&M costs for Forestry Operations in line 2 of Exhibit A-13 (PDD-42), Schedule C-5.1, with no amounts identified for inflation adjustments. However, in her direct testimony, witness Stewart states that "[t]he Company's internal labor expenses for Forestry Operations shown in Figure 14 and Exhibit 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.

and new hiring, merit increases, and contracted planning resources,"[23] which includes the impact of labor inflation, even though no corresponding merit and inflation increases are reflected.

Q. Does the Company's presentation accurately reflect how inflation is impacting its cost projections?

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

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

Witness Daly does not provide a similar breakdown of inflation adjustments for capitalized costs summarized in Exhibit A-12 (PDD-35), Schedule B-5. However, similar to O&M expenses, each of the sponsoring witnesses' testimony and exhibits provides more details 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.

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

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

Table 1: Comparing growth in Consumers' electric costs vs inflation

	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%**

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

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

[25] Exhibit CUB-25, Labor Costs Adjustments.

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

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

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

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

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

While it may be a challenging exercise to implement, it is the Company's burden to present evidence showing *how* it is incorporating cost containment and productivity into its 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.

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

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

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

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

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

  Response: Zero-based budgeting is simply an alternative budgeting method and 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.

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

- **Company claim:** "Company witness Foster describes how Adjusted Corporate Services O&M expense was calculated and describes a reduction to projected test year O&M due to insurance distributions."[30]

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

- **Company claim:** "Company witness Blumenstock describes how Generation O&M is projected and discusses efficiencies that have limited cost increases in the projected test year."[32]

  Response: In his testimony, witness Blumenstock states that, "Total O&M expense for the years 2024 through the projected test year demonstrates average annual decreases of approximately 9.0%. As discussed later in this direct testimony, this average annual decrease primarily reflects a change in the mix of the Company's 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.

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

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

Q. Has the Company, per the Commission's order in Case No. U-21585, presented "more detailed evidence to demonstrate that it is in fact offsetting inflation by productivity in the Company's next rate case?"[35]

A. No. The Company has essentially resuscitated the same arguments it presented in U-21585, which the Commission found lacking then. As quoted above, in U-21585, the Company stated that: "(i) not all O&M expenses are projected by the Company using inflation; and (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.

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

4. Recommendations to the Commission Regarding Inflation and Productivity

Q. Should the Commission accept Consumers' assurances that it is incorporating productivity gains?

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

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

[36] *Id.* at 474.

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

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

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

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

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

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

Q. Should the Company's costs never exceed PAI growth rates?

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

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

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

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

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

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

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

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

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

Q. The Company has previously rejected this approach, calling it overly simplistic.[37] Is this method too simplistic?

A. No. As previously noted, in the Company's last electric rate case, U-21585, the Commission issued the Company a clear directive to provide evidence demonstrating how it offsets productivity improvements to mitigate the impact of inflation on costs in its next rate case – i.e., this case.[38] The Company's position is that productivity gains are embedded 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.

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

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

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

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

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

[39] *Id.* at 355.

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

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

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%**

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

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

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

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%**

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

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

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

		CUB proposals		
Description	Company Projected; 12 Months Ended 4/30/2027	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**

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

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

A. For this case, I recommend the Commission use the PAI-adjusted cost approach to limit growth in O&M spending, by completely disallowing ~~$51.5~~ $59.5 million in proposed O&M costs. The Commission should approve forestry surge costs in the additional amount of

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

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

V. RELIABILITY IMPROVEMENT COST RECOVERY

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

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

Q. Please summarize the recommendations you will make here.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. Witness Stewart establishes the Company's forestry "baseline" spending for the test year by taking the current projection for the annual expense to maintain the five-year cycle after 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.

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

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

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

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

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

[47] *Id.* at 35, 12:14.
[48] *Id.* at 48, Figure 23.

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

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

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

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

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

A. Once again, I start with historical annualized costs and apply the PAI factor to arrive at a 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.

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

Table 5: CUB Proposed PAI adjustments to LVD pole replacement [51]

					Total costs and adjustments					
		Historical			Bridge period projections and adjustments		Test-year projections and adjustments			
Description	Source	12 Months Ended 12/31/2024	16 Months Ending 4/30/2026	12 Months Ending 4/30/2027	CUB projected bridge-year target = (h) + (i) + (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 $s 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 Rounded to 25,000	127,500		102,500 (127,500 - 25,000)

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 8 - Distribution of Monetized Reliability Benefits[52]

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%**

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

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

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

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

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

The Company's modeling reflects this difference by putting the average cost of interruption (COI) at $0.04 per minute with a standard deviation of $0.05 per minute for residential 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.

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

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

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

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

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

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

Second, I propose that the Commission allow $25 million associated with the LVD Lines pole replacement program to be included in the rate base and treat the remaining ~~$127.5~~ $102.5 million as a surge. Witness Jester recommends treating these surge costs as a regulatory asset, potentially eligible for securitization.

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

VI. UNDERGROUNDING

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

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

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

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

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

A. The Company proposes undergrounding 50 miles in the test year.[57] The Company projects a per-mile cost of $400,000 for the projects it has identified, a lower unit cost than what was achieved in its pilot.[58] It believes that cost savings will occur due to better identification of economically competitive projects and being able to perform the work at scale. The Company also intends to scale the program to underground 400 miles per year by 2028.[59] Exhibit A-167 (JMP-21) page 21 outlines the 28 undergrounding projects the Company includes in the instant case.

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

A. No, it does not. Witness Kelly does not assess the costs and benefits of individual 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.

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

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

A. On page 21 of Company Exhibit A-167 (JMP-2), the Company outlines the benefits that each undergrounding project is expected to yield. The benefits are customer outage minutes avoided and range from about 22,000 minutes to 436,500 minutes per year depending on the project. The Company also provides yearly estimates of the average cost of interruption to its customers for 2025 through 2032. For the residential class, this shakes out to be about $0.04 per minute in 2025 growing to $0.05 per minute in 2032.[60] Applying the Company's discount rate of 1.5%,[61] I can then calculate the net present value (NPV) of avoided outages for each project through 2032.

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

A. For the entire proposed program, the eight-year present value of avoided outages for 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.

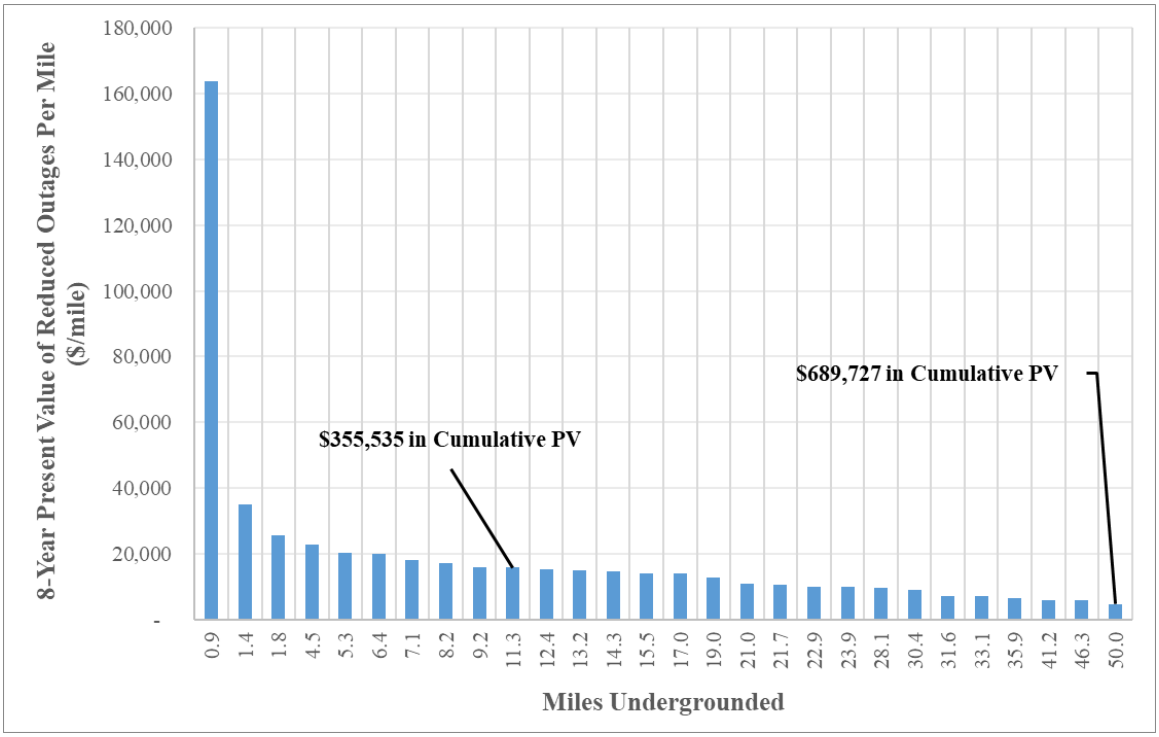
[62] Exhibit CUB-29, Present Value of Each Undergrounding Project.

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

Q. Please explain how you determined this scope.

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

Figure 3 - Economic Benefits of Proposed Undergrounding[63]



As ~~Figure 4~~ Figure 3 shows, the benefits per mile exhibit diminishing returns. The cumulative present value for the entirety of the program is $689,727. Over half of this value – $355,535 – is met by undergrounding only 11.3 miles worth of projects and additional benefit gains continue to diminish thereafter. Whereas the proposed program would underground 50 miles of cable at a cost of $20 million, the reduced scope I recommend would create fully half of the projected customer benefits for only about 13% of the projected cost.

I show which of the projects constitute the ~~6.4~~ 11.3 miles in Table 9.

[63] Exhibit CUB-30, Sorted Benefits.

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

Q. Please summarize your recommendations for the undergrounding program.

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

[64] Company Exhibit A-167 (JMP-2), p. 21
[65] (50 miles – ~~6.4~~ 11.3 miles) * $400,000 per mile

VII. SERVICE RESTORATION FUNDING MECHANISMS

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

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

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

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

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

2. **Extraordinary Storm Accounting (ESA):** The Company also proposes a deferred accounting mechanism that would allow for deferred recovery of restoration costs associated with certain 'extraordinary storms,' subject to reasonableness and prudence review, when the total service restoration costs exceed the authorized base amounts. The Company defines "extraordinary storms" as storms that cause at least 300,000 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.

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

Q. Has the Commission addressed similar proposals previously?

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

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

In addition to U-21585, the Company has proposed similar cost-sharing or reserve mechanisms in several prior proceedings. Taken together, the Commission has rejected at 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.

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

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

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

- SRRF, like SRCSM would have done, creates a mechanism for the Company to retain ratepayer-paid dollars in years when the Company underspends on service restoration. While under SRCSM, 50% of the underspend would have been refunded to ratepayers, SRRF weakens that threshold even further. Under SRRF, 100% of the underspent funds would be earmarked for future service restoration, effectively reducing the Company's risk in the future, with no upside to the ratepayers, until the fund reaches its cap of $30.7 million, when refunds would be issued. While the Company claims that the likelihood of underspending should increase in the future, it provides no evidence to support it. On the contrary, witness Snider acknowledges that extreme weather conditions will become more frequent in the coming years[71] and "are the main cause of increased service restoration 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.

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

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

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

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

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

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

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

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

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

[73] ~~https://cubofmichigan.org/reports/utility-performance-report-2025-edition/, Energy Costs tab, SAIDI with MEDS data (last accessed September 18, 2025).~~ MPSC Distribution System Reliability Metrics, SAIDI All Weather Michigan Utilities and IEEE Quartile Benchmarks, https://www.michigan.gov/mpsc/consumer/electricity/distribution-system-reliability-metrics , Accessed 9/29/2025 .

Q. What is your recommendation?

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

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

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

VIII. RECOMMENDATIONS

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

A. I recommend that the Commission:

1. Completely disallow ~~$59.9~~ $59.5 million of O&M costs beyond the 2024 historical actuals plus PAI baseline.

2. Allow recovery of an additional $72.7 million of forestry surge costs related to its LVD and HVD Line Clearing programs; witness Jester recommends securitizing these costs.

3. Allow recovery of $127.5 million of capital expenditures related to the LVD Lines Reliability-pole replacement program; $25 million of this amount should be added to rate base and witness Jester recommends treating the remaining $102.5 million as a regulatory asset potentially eligible for securitization.

4. Direct the Company, in its next rate case, to present its O&M costs and capital expenditure projections against historical actuals plus PAI benchmark and require it to justify any spending above this benchmark as driven by sales, statutory, or performance requirements, with evidence that such expenditures will produce measurable improvements in service.

5. Require the Company, in its next rate case, to present an analysis of its current allocation methodology for distribution costs, particularly those justified on the basis of reliability improvements and propose alternative mechanisms for allocation of reliability costs that are more closely aligned with principles of cost causation.

6. Reduce the scope of the Overhead-to-Underground conversion program to ~~six~~ ten projects proposed in Table 9.

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

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

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

Q. Does that complete your testimony?

A. Yes.

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 **Revised Direct Testimony of Richard J. Bunch on behalf of Citizens Utility Board of Michigan** was served on the following:

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[signature page below]

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

Troposphere Legal, PLC
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Date: October 9, 2025

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