

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**
(e-file paperless)

**MICHIGAN PUBLIC SERVICE COMMISSION STAFF'S
INITIAL BRIEF**

**MICHIGAN PUBLIC SERVICE
COMMISSION STAFF**

Daniel E. Sonneveldt (P58222)
Alena M. Clark (P73252)
Nicholas Q. Taylor (P81020)
Amit T. Singh (P75492)
Michael J. Orris (P51232)
Adam Cozort (P78363)
Assistant Attorneys General
Public Service Division
7109 W. Saginaw Hwy., 3rd Floor
Lansing, MI 48917
Telephone: (517) 284-8140

DATED: December 5, 2025

Table of Contents

	Page No.
Index of Appendices	xii
Summary of Arguments	xiii
I. Introduction.....	1
II. Rate Base.....	3
A. Staff recommends a total rate base of \$15,208,892,000.	3
1. Staff recommends a total net utility plant of \$13,149,478,000.	4
a. Staff recommends a total utility plant of \$19,794,314,000.	4
b. Staff recommends a total accumulated depreciation and amortization reserve of \$6,644,836,000.....	4
2. Staff recommends customer advances for construction of \$66,473,000.	5
3. Staff recommends a total working capital of \$2,125,887,000.	5
B. Staff recommends several reductions to the Company’s capital expenditures.	6
1. The Commission should exclude \$140,963,000 from Consumers’ projected distribution capital expenditures.	7
a. Staff recommends reducing reliability – LVD lines – zonal health improvements capital expenditures by \$14,760,000.	7
b. Staff recommends reducing reliability – repetitive outages capital expenditures by \$10,287,000.	10
c. Staff recommends reducing reliability – LVD lines – right of way capital expenditures by \$12,776,000.....	11
d. Staff recommends reducing reliability – substation HVD capital expenditures by \$52,254,000.	13

e.	Staff recommends reducing reliability – transformer bank replacements and substation rebuilds capital expenditures by \$48,886,000.	13
f.	Staff recommends reducing reliability – metro rehabilitation capital expenditures by \$7,193,000.	13
g.	Staff recommends reducing demand failures – LVD substations capital expenditures by \$1,160,000.	13
h.	Staff recommends reducing demand failures – metro capital expenditures by \$971,000.	13
i.	Staff recommends reducing asset relocations – system control projects capital expenditures by \$258,000.	14
j.	Staff recommends reducing reliability – grid automation – asset performance management capital expenditures by \$3,410,000.	19
k.	Staff no longer recommends its adjustment to electric distribution – asset relocations – LVD – make ready work capital expenditures.	23
l.	Consumers conceded to Staff’s capacity – CVR adjustment in rebuttal.	25
m.	Consumers conceded to Staff’s capacity – LVD lines – overhead equipment adjustment in rebuttal.	26
2.	Staff recommends reducing generation capital expenditures by \$12,908,000.	28
a.	Staff recommends reducing steam generation – updated company forecast capital expenditures of \$6,641,000.	28
b.	Staff recommends reducing steam generation – class cost estimate capital expenditures by \$6,536,000.	30
c.	The Commission should increase hydro generation – updated company forecast capital expenditures by \$1,780,000.	35

d.	The Commission should reduce the hydro generation – class cost estimate capital expenditures by \$918,000.....	36
e.	The Commission should reduce the other generation – updated company forecast capital expenditures by \$592,000.....	37
3.	Staff recommends reducing information technology capital expenditures by \$7,933,000.	37
a.	Staff recommends reducing customer self-service mobile app capital expenditures by \$2,362,000.....	38
b.	Staff recommends reducing low moderate customer support enhancements capital expenditures by \$525,000.	40
c.	Staff recommends reducing low moderate customer support enhancements #2 capital expenditures by \$1,870,000.	41
d.	Staff recommends reducing web chat AI capital expenditures by \$473,000.....	44
e.	Staff recommends reducing ARP collaboration capital expenditures by \$435,000.....	47
f.	Staff recommends reducing ARP field device asset management capital expenditures by \$887,000.....	48
g.	Staff recommends reducing digital infrastructure automation project capital expenditures by \$382,000.	55
h.	Staff recommends reducing ARP workstation management capital expenditures by \$887,000.....	57
i.	Staff recommends reducing ISIS papyrus capital expenditures by \$395,000.....	60
j.	Consumers conceded to Staff's web dashboard redesign adjustment in rebuttal.....	63
k.	Consumers conceded to Staff's web rebate for personalization adjustment in rebuttal.	63

1.	Consumers conceded to Staff’s electric – service restoration artificial intelligence adjustment in rebuttal.....	63
4.	Staff recommends reducing Consumers’ operations support capital expenditures by \$10,184,000.....	64
a.	Staff recommends reducing facilities & shared services – control/dispatch centers capital expenditures by \$10,184,000.....	64
b.	Consumers conceded to Staff’s facilities & services – emergent repairs adjustment in rebuttal.	67
c.	Consumers conceded to Staff’s facilities & services – other equipment adjustment in rebuttal.	68
III.	Capital Structure and Rate of Return.....	68
A.	The Commission Should Adopt Staff’s Recommended 9.75% return on equity (ROE) and 50.00% Equity Layer in the Ratemaking Capital Structure.	68
B.	Capital Structure Component Balances.....	69
1.	Staff recommends a \$13,720,211,000 common equity balance that equates to 50.00% of the permanent capital structure.....	69
2.	Staff recommends a \$13,682,687,000 Long-Term Debt balance that equates to 49.86% of the permanent capital structure.....	69
3.	Staff recommends a \$148,300,000 Short-Term Debt balance.	70
4.	Staff recommends a Deferred Federal Income Tax (FIT) balance of \$4,629,000,000.....	70
5.	Staff recommends a Preferred Stock balance of \$37,315,000 and a Job Development Investment Tax Credit (JDITC) balance of \$148,000,000.	70
C.	Capital Structure Component Cost Rates.....	71
1.	Staff recommends a long-term debt (LT-debt) cost rate of 4.37%.	71

2.	Staff recommends a short-term debt (ST-debt) cost rate of 4.92%.	72
3.	Staff agrees with the Company’s cost rates for preferred stock, deferred income taxes and the blended cost rate methodology for JDITC.	72
4.	Staff recommends an ROE range of 9.25% - 10.25% and a ROE of 9.75%.	73
D.	Return on Common Equity Methodology and Development	74
1.	Legal Guidelines and Proxy Group Development.	74
2.	Cost of Equity Model Analysis	76
a.	Staff’s DCF model produced an average ROE of 9.76%	76
b.	Staff’s historical CAPM analysis produced an average ROE of 10.05%. Staff’s projected CAPM analyses yielded average ROE estimates of 7.85% and 9.04%.	76
c.	Staff’s Bond Yield + Risk Premium Analysis produced ROE estimates of 10.23% and 10.46%.	77
d.	Other state commission authorized electric utility ROE decisions from 2021 through June 2025	78
e.	Summary of Results and Staff’s Recommendation	78
E.	Consumers Energy’s rebuttal of Staff’s capital structure, LT-debt cost rate and future short-term debt facilities revision.	78
1.	The Commission should reject the Company’s erroneous arguments for an equity layer above 50.0% and adopt Staff’s common equity ratio.	79
a.	The Commission should reject the Company’s request for a higher equity balance due to credit rating and degraded regulatory environment concerns.	79
b.	The Commission should reject the Company’s request for a higher equity layer due to supposed	

	new circumstances and a potential reaction to a lower equity ratio.....	81
	c. The Commission should reject the Company’s notion that Staff erred in not considering the Company’s peer group equity ratios in its capital structure analysis.	82
2.	The Commission should reject the Company’s rebuttal argument for a higher LT-debt cost rate.	83
3.	The Commission should adopt Staff request to remove all costs associated with the Scotiabank Revolver from Consumers’ short-term debt cost rate in future rate cases and reject the Company’s rebuttal to include those costs.....	85
4.	Staff recommends the Commission reject portions of the Company’s DCF, CAPM and Bond Yield + Risk Premium ROE model analysis, as outlined in Staff witness Megginson’s direct testimony.....	87
	a. The DCF analysis.....	87
	b. The Projected CAPM & Empirical CAPM (ECAPM) analysis.....	88
	c. The Bond Yield + Risk Premium (BYRP) Approach	89
5.	The Commission should reject the Company’s rebuttal arguments against Staff’s ROE analysis and ROE recommendation.	90
IV.	Net Operating Income.....	93
	A. Staff recommends total adjusted net operating income of \$737,124,000.....	93
	1. Staff recommends total operating revenues of \$5,046,514,000.	94
	a. Staff recommends total sales revenue of \$4,784,306,000.	94
	i. Staff Recommends a test year deliveries forecast of 34,139,696 MWh and a test year average monthly customer count of 1,918,109 (exclusive of LTILRR/LED customers and	

	Grand Rapids Streetlighting customers and deliveries)	94
b.	Staff recommends total wholesale revenue of \$0.	104
c.	Staff recommends total other electric revenue of \$262,208,000.	105
B.	Staff recommends total operating expenses of \$4,325,416,000 for the projected test year.....	105
1.	Staff recommends total power supply costs expense of \$2,324,829,000.	106
2.	Staff recommends total other O&M expense of \$785,108,000.....	107
a.	Staff recommends reducing LVD lines reliability O&M expense by \$7,222,000.	108
b.	Staff recommends reducing HVD lines reliability O&M expense by \$821,000.	108
c.	Staff recommends reducing LVD substation reliability O&M expense by \$1,540,000.....	109
d.	Staff recommends reducing HVD lines demand O&M expense by \$2,451,000.	109
e.	Staff recommends reducing staking O&M expense by \$1,517,000.	109
f.	Staff recommends reducing alma equipment repair O&M expense by \$201,000.	109
g.	Staff recommends reducing field operations – tools O&M expense by \$1,057,000.	109
h.	Staff recommends reducing field operations – underground workforce O&M expense by \$1,633,000.	109
i.	Staff recommends reducing emergent repair O&M expense by \$2,849,000.	116
j.	Staff recommends reducing web chat AI O&M expense by \$20,000.	121

k.	Consumers conceded to Staff’s web rebate personalization O&M expense adjustment in rebuttal.....	122
l.	Staff recommends reducing digital – infrastructure automation project O&M expense by \$160,000.....	122
m.	Staff recommends reducing ISIS papyrus O&M expense by \$114,000.	123
n.	Staff recommends reducing IT program management tool O&M expense by \$51,000.....	124
o.	Staff recommends reducing incentive compensation O&M expense by \$193,000.	127
3.	Staff recommends a total depreciation and amortization expense of \$807,004,000.....	129
4.	Staff recommends total property tax expense of \$278,305,000.....	130
5.	Staff recommends total other (or local) income tax expense of \$1,230,000.....	130
6.	Staff recommends total state income tax expense of \$36,032,000.....	130
7.	Staff recommends total federal income tax expense of \$56,269,000.....	131
C.	Staff recommends total allowance for funds used during construction (AFUDC) of \$16,026,000.....	131
D.	Staff recommends a \$768,000 decrease to the return on Campbell regulatory asset.....	131
E.	Staff recommends approval of the confidential SAP deferral.....	133
F.	Staff recommends approval of the forestry ramp-up deferral.....	134
1.	Staff supports the Company’s proposal to recover LVD line clearing O&M spending in the test period as a regulatory asset.....	135
2.	Staff recommends Consumers remove 100% overhang in the first zone.....	139

3.	Staff recommends the Company spend all line clearing expenses requested in a rate case and clear all line miles being proposed each year.	140
4.	Staff witness Duell raised concerns in testimony regarding Consumers clearing fewer LVD miles in 2024 being accompanied to experiencing line clearing contractor shortages with moving towards a 5-year line clearing cycle.....	142
5.	Staff recommends Consumers file a new 4-year effective line clearing analysis.....	144
G.	Staff recommends a present revenue of \$4,759,698,037 in the test year.	145
V.	Revenue Deficiency	146
VI.	Cost of Service, Rate Design, and Tariff Issues.....	147
A.	Staff's recommends the Company run and present coincident-peak tests in its next rate case with the most recent available data	147
B.	The Commission should adopt Staff's recommendations concerning the State Reliability Mechanism (SRM), capacity charge revenue requirement, and true-up method.	148
C.	Staff's Recommendations Concerning the Company's proposal to update its Electric Asset Categorization (EAC) report process.....	153
D.	Rate GP should be closed to fast charging on June 1, 2028	157
E.	Investment Recovery Mechanism (IRM).....	161
F.	Tariff Changes.....	165
G.	The Commission Should Accept Consumers' Updated AMI Opt-out Upfront charge of \$168.07.	168
H.	The Commission Should Reject Consumers' Proposed AMI Opt-out Monthly Charge and Require the Company to Track the Cost of Reading AMI Opt-out Meters.	168
I.	The Commission should adopt the correction to the voltage calculation for class GSG-2 Standby-Service Production.	169

VII.	Distribution	170	
	A.	Staff recommends the Commission direct the Company to provide a thorough breakdown of the inspection associated costs applied across all capital programs/subprograms, support why the costs are appropriately classified as capital instead of O&M with reference(s) to accounting guidance, and amend the classification of these expenditures in the Company’s next rate case, where necessary, based on the analysis.	170
	B.	Staff recommends the Commission to require costs to be categorized and similarly trackable between any submitted DSP and any rate case which uses such DSP to justify cost recovery and require a comprehensible walkthrough of any expense programs, subprograms, and/or categories that have varied between the prior submitted DSP and the ongoing rate proceedings as an exhibit within that rate proceeding.....	171
	C.	Staff recommends the Commission require additional information regarding the Company’s projected SAIDI reliability capital investments and perform a detailed review of the compliance with the Liberty expanded timeline recommendations.	172
	D.	Staff recommends the Commission establish that any expenses in future rate cases based solely on avoiding financial penalties or gaining a financial incentive set by the Commission as imprudent.	177
VIII.	Deferral Mechanisms.....	178	
	A.	Distribution Deferral Mechanism.....	178
	B.	Staking and Locating Sub-Program	179
	C.	Extraordinary Storm Accounting	183
IX.	Other Issues	185	
	A.	The Commission and ALJ should adopt Staff’s recommendation and direct the Company to include detailed information on the Whole Home Optimization Demand Response Pilot in all relevant future filings.	185

B.	The Commission and ALJ should adopt Staff’s recommendation to defer decisions about changes to the DR regulatory construct to MPSC Case No. U-21637.	186
C.	Staff’s Position Regarding the Company’s Transportation Electrification Plan.	188
D.	Energy Assistance and Energy Affordability	190
E.	Streetlighting Recommendation	193
F.	Service Restoration Recommendations	195
	1. Staff recommends the ALJ and Commission not approve the Resiliency Fund.	195
	2. Staff recommends Consumers change their Caution Tape used for downed wires.	198
G.	Staff recommends the Commission approve the Weadock and Iosco Battery Energy Storage System projects	199
X.	Conclusion	201

INDEX OF APPENDICES

Appendix A – Revenue Deficiency (Sufficiency)

Appendix A.2 – Campbell Units Revenue Requirement Adjustment

Appendix A.3 – Forestry Ramp-Up Impact of O&M Deferral

Appendix B – Rate Base

Appendix C – Development of Adjusted Net Operating Income

Appendix D – Rate of Return Summary

Appendix E – Capital Expenditure and Rate Base Adjustments

Appendix F – Summary of Staff Position:

- Walk from Staff Direct Filing to Initial Brief Rate Base
- Walk from Staff Direct Filing to Staff Initial Brief O&M

Appendix G – Summary of Staff Position:

- Walk from Consumers Revenue Deficiency to Staff Initial Brief Revenue Deficiency
- Walk from Staff Direct Filing to Staff Initial Brief Revenue Deficiency

SUMMARY OF ARGUMENTS

Staff presents its specific recommendations in the brief below. However,

Staff provides the following summary of its foremost recommendations:

1. Staff recommends total rate base of \$15,208,892,000. This recommendation corresponds to several proposed reductions to the Company's capital expenditures, including projected distribution, generation, information technology, and operations support expenditures.
2. Staff recommends a 50.00% equity layer in the Company's ratemaking capital structure and a ROE of 9.75%.
3. Staff recommends total adjusted net operating income of \$737,124,000, total operating expenses of \$4,325,416,000 for the projected test year, and total allowance for funds used during construction (AFUDC) of \$16,026,000.
4. Staff proposes a total revenue deficiency of \$317,087,000, which is \$105,804,000 less than the revenue deficiency proposed by the Company in rebuttal. The main factors driving Staff's adjustment are Staff's lower rate base, higher net operating income, and lower required rate of return.
5. Staff makes several recommendations regarding cost of service, rate design, and tariffs in the brief below. These recommendations include, but are not limited to, the SRM calculation, the EV program, distributed generation (DG), electric rate design, demand response credits; approval of other various Staff recommendations; and rejection of various Company and Intervenor recommendations.
6. Finally, Staff proposes several other recommendations regarding topics such as, but not limited to, pole inspections, data collection, tree trimming, storm restoration, AMI, energy assistance, distribution deferral mechanism, IRM, electric vehicles; and other various Company and Intervenor proposals, mechanisms, and recommendations.

I. Introduction

Staff projects that Consumers Energy Company's (Consumers or the Company) total electric revenue deficiency will be \$317.087 million. (Appendix A to this Brief.) Consumers projects, in its rebuttal testimony position, that it will experience a total electric revenue deficiency of \$422.891 million for the test year ending April 30, 2027. (Exhibit A-208 (PDD-63).)

Staff's lower rate base and return on equity are primarily responsible for the difference:

- i. The Company's projected total rate base is \$15.330 billion, while Staff's total projected rate base is \$15.209 billion—\$121.466 million less than the Company's projection. (Appendix B to this Brief, Line 7.) It is lower primarily because Staff reduced the Company's total utility plant by \$126.185 million (including adjustments to distribution, generation, information technology, and operations support expenditures) and reduced the depreciation reserve (an offset to total utility plant) by \$4.718 million. (Appendix E to this Brief, Line 37.)
- ii. The Company's proposed ROE is 10.25%. (*See* 4 TR 2720.) Staff's recommended ROE is 9.75%. (Appendix D to this Brief.) Staff's lower ROE reduces the Company's projected revenue deficiency by approximately \$44.0 million. Staff's ROE differs from the Company's proposal by 50 basis points because Staff used several different ROE inputs. Additionally, Staff's

50.00% equity layer in comparison to Consumers' 50.75% equity layer reduces the revenue requirement another \$8 million.

Staff's disallowances are justified and well supported. Staff sought to strike the right balance between the Company's interests and its ratepayers' interests. Public utilities are entitled to earn a reasonable rate of return on their investments, *ABATE v Public Service Comm*, 430 Mich 33, 39 (1988), just like ratepayers are entitled to just and reasonable rates. The just-and-reasonable-rate doctrine is "aimed at navigating the straits between gouging utility customers and confiscating utility property." *Verizon Communications, Inc v FCC*, 535 US 467, 481 (2002). Staff's adjustments are well within these bounds.

Staff is recommending "just and reasonable rates that are fair to both ratepayers and the company." *In re Detroit Edison Co*, MPSC Case No. U-15244, 12/23/08 Opinion & Order, p 11. Although many of the Company's proposed rate increases are justified, many are not. In several instances, the Company has overreached by inflating its capital-expenditure and operating-expense projections beyond reasonable expectations. In other instances, the Company has ignored Commission precedent and asked to recover expenses that it has requested before and been denied. Staff has made adjustments to correct these excesses.

The Company has identified and supported considerable capital investments in its future that justify a rate increase. But the Company has not sufficiently supported, nor does it need, a \$422.891 million total Company electric rate increase. Staff's proposed \$317.087 million total electric revenue deficiency and

9.75% ROE gives the Company a reasonable opportunity to earn a fair rate of return and gives ratepayers access to safe and reliable energy at reasonable rates.

II. **Rate Base**

“Rate base consists of the capital invested in utility plant, less accumulated depreciation [i.e., net plant], plus the utility’s working capital requirement.” *In re Detroit Edison’s 2010–2011 Rate Case*, MPSC Case No. U-16472, 10/20/2011 Order, p 5. In this case, rate base also includes Customer Advances for Construction.

A. **Staff recommends a total rate base of \$15,208,892,000.**

The Company initially projected that its total electric rate base would be \$15,367,518,000 in the projected test year ending April 30, 2027. (Exhibit A-12, Schedule B-1.) Staff, however, in its direct testimony and exhibits, projected a total rate base of \$ 15,205,256,000, which was a decrease of \$162,262,000 from the Company’s initial projection. (6 TR 4602; Exhibit S-1, Schedule A-1; Exhibit S-2, Schedule B-1.)

In this brief, Staff has updated its total projected rate base to \$15,208,892,000, which is \$121,466,000 less than the Company’s updated projection of \$15,330,358,000 in its rebuttal testimony. (Exhibit A-209 (PDD-64); Appendix B, Line 7.) The difference is due to a \$121,466,000 reduction to net utility plant and no reduction to working capital.

1. **Staff recommends a total net utility plant of \$13,149,478,000.**

The first component of rate base is net utility plant. Net plant consists of total utility plant minus accumulated depreciation and amortization. The Company's proposed total net utility plant is \$13,270,944,000, while Staff's recommended total net utility plant is \$13,149,478,000. (Appendix B, Line 3.)

Staff's proposed net plant is \$121,466,000 lower than the Company's because of a \$126,185,000 reduction to total utility plant, offset by a \$4,718,000 reduction to accumulated depreciation and amortization. (Appendix B, Line 3 and Appendix E, Line 37.)

a. **Staff recommends a total utility plant of \$19,794,314,000.**

The first component of net utility plant is total utility plant. The Company's total utility plant is \$19,920,498,000; Staff's total utility plant is \$19,794,314,000. (Appendix B, Line 1.) Staff's total utility plant is \$126,185,000 less than the Company's because Staff reduced the Company's distribution, generation, information technology, and operations support expenditures. (See Section II.B of this brief and Appendix E for these capital expenditure adjustments.)

b. **Staff recommends a total accumulated depreciation and amortization reserve of \$6,644,836,000.**

The second component of net utility plant is the accumulated depreciation and amortization reserve. The Company projected that its total accumulated

depreciation and amortization reserve will be \$6,649,554,000 in the projected test year. Staff recommended a \$6,644,836,000 reserve. (Appendix B, Line 2.) Staff's recommendation is \$4,718,000 less than the Company's, after adjusting the Company's capital expenditure projections. (Section II.B of this brief and Appendix E.) Staff recommends the ALJ and the Commission recalculate accumulated depreciation and amortization reserve based on all the decisions in their respective PFD and final Order.

2. Staff recommends customer advances for construction of \$66,473,000.

The second component of rate base is customer advances for construction. Staff recommends the Administrative Law Judge (ALJ) and the Commission adopt the Company's customer advances for construction of \$66,473,000. (Appendix B, Line 4.)

3. Staff recommends a total working capital of \$2,125,887,000.

The third component of rate base is working capital. In its rebuttal testimony, the Company forecasted that its total working capital requirement for the projected test year will be \$2,125,887,000. (Exhibit A-209 (PDD-64), Line 5.) Staff recommends the ALJ and the commission adopt the Company's projection. (Appendix B.)

1. **The Commission should exclude \$140,963,000 from Consumers' projected distribution capital expenditures.**

The Commission should reduce the Company's projected distribution capital expenditures by \$140,963,000, which is a \$101,984,000 reduction to rate base. (Appendix E, Line 13.) The individual adjustments are described below.

a. **Staff recommends reducing reliability – LVD lines – zonal health improvements capital expenditures by \$14,760,000.**

References in the Record: Boutet 6 TR 4372-4373; Coppola 3 TR 2431-2432; Partlan 3 TR 1934-1941, 3 TR 2040-2041, 3 TR 2050.

The Commission should reduce the Company's projected distribution capital expenditures for its reliability – LVD lines – zonal health improvements capital expenditures by \$14,760,000, which is a \$14,247,000 reduction to rate base. (Appendix E, Line 2.)

Company witness Partlan provided support for the Zonal Health Improvements investment category as part of the Reliability program, proposing a 12-month bridge period projection of \$45.99 million, a 4-month bridge period projection of \$15.33 million, and a test year projection of \$34.917 million. (3 TR 1934-1941.)

Staff disputed the projected bridge period amounts, citing back to Commission remarks in MPSC Case No. U-21585 regarding the renaming of this category along with a lack of complete cost information and analysis of the most cost-effective opportunities to improve reliability performance, that combined with

a large increase in requested funding ultimately led to the investments being found unsupported and disallowed. (6 TR 4372, MPSC Case No. U-21585, 3/21/25 Order, p. 62-63.) Staff opined that while the Company did provide specific examples of test period projects in testimony, there was still a lack of analysis of the most cost-effective approaches as asked for by the Commission. (6 TR 4372.) Further, Staff opined that the Reliability Analytics engine used by the Company appeared to only prioritize projects within this category, as opposed to comparing them to true alternatives. (6 TR 4372.) Staff's proposed adjustment ultimately recommended approval of the Company's test year projection, as it was revealed in discovery that in calendar year 2024, the Company successfully spent approximately 98% of its current test year projection. (6 TR 4373.) Staff's proposal seeks to reduce the Company's bridge period spending to align with the annual level of spend proven in 2024 and projected for the test year. (6 TR 4373.)

AG witness Coppola also had a proposed adjustment to this investment category, though using a different methodology than Staff. AG witness Coppola analyzed the proposed unit costs in this case in comparison to those of the most recent historical year, 2024, to find that the proposed bridge period unit costs are nearly double that of 2024, and the proposed test year unit costs are nearly triple that of 2025. (3 TR 2431.) AG witness Coppola ultimately agreed with the Company's proposed number of work units but recommended adjusting the unit cost down to 2024 levels plus inflation. (3 TR 2432.)

Company witness Partlan provided rebuttal against both Staff witness Boutet and AG witness Coppola. Company witness Partlan provided an exhibit in rebuttal to Staff that reflected an internal project concept approval, revealing that the Reliability Analytics Engine does indeed consider alternative solutions to Zonal Health investments, and does not simply prioritize projects within the category. (3 TR 2040.) Company witness Partlan further identifies that the impact of this work is well understood, as it has been ongoing since 2013 and benefits are documented in testimony. (3 TR 2041.) Company witness Partlan further disputed AG witness Coppola, pointing to exhibits in direct testimony that exemplify the diverse range of work and associated units related to Zonal Health Improvements, supporting their stance that a unit cost approach is not appropriate for this category. (3 TR 2050.)

Staff maintains its bridge period adjustment to this investment category, insisting that the existence of this work is not simply tracked back to 2013, as this category was re-labeled just as recently as the Company's last rate case, MPSC Case No. U-21585. (6 TR 4372, MPSC Case No. U-21585, 3/21/25 Order, p 62.)

b. Staff recommends reducing reliability – repetitive outages capital expenditures by \$10,287,000.

References in the Record: Boutet 6 TR 4374; Coppola 3 TR 2451-2452; Partlan 3 TR 1960-1968, 3 TR 2041, 3 TR 2058; Kelly Exhibit A-219 (MPK-29).

The Commission should reduce the Company's projected distribution capital expenditures for its reliability – repetitive outages by \$10,287,000, which is a \$7,083,000 reduction to rate base. (Appendix E, Line 3.)

Company witness Partlan provided support for the Repetitive Outages sub-program as part of the Reliability program, proposing a 12-month bridge period projection of \$10.011 million, a 4-month bridge period projection of \$11.078 million, and a test year projection of \$30.344 million. (3 TR 1960-1968.)

Staff disputed the projected amounts, citing that the Company has underspent previous Commission-approved amounts in this sub-program by over fifty percent in calendar years 2023 and 2024. (6 TR 4374.) Company witness Partlan responded in rebuttal by providing up-to-date spending information showing that the Company is on track to reach its projected spend levels for calendar year 2025 despite the recent underspend trends. (3 TR 2041.)

AG witness Coppola also had a proposed adjustment to this sub-program, though used different methodology than Staff. AG witness Coppola used a unit cost based on a historical three-year average with inflation for this sub-program in combination with the Company's forecasted number of projects to create cost projections. (3 TR 2451-2452.) Company witness Partlan disputed this unit cost adjustment, citing large variance in the types of work completed under this sub-

program which therefore leads to a wide range of unit costs depending on the type of work commenced. (3 TR 2058.)

Staff maintains its position in light of the Company's rebuttal, as the provided 2025 spend levels are not consistent enough to suggest the Company can spend its entire projection. As seen in Exhibit A-219 (MPK-29), for the months of January through September in 2025, the Company has spent between \$242,000 and \$1.1 million per month on this sub-program but is projecting to spend between \$1.361 million and \$1.795 million for the months of October, November, and December. According to Exhibit A-219 (MPK-29), the Company has spent approximately \$6.367 million as of October 1st which is still less than Staff's suggested allowance of \$8.009 million for the 12-month bridge period .

c. Staff recommends reducing reliability – LVD lines – right of way capital expenditures by \$12,776,000.

References in the Record: Boutet 6 TR 4378; Partlan 3 TR 1953-1956, 3 TR 2043-2044; Coppola 3 TR 2435-2436.

The Commission should reduce the Company's projected distribution capital expenditures for its reliability – LVD lines – right of way by \$12,776,000, which is a \$6,293,000 reduction to rate base. (Appendix E, Line 4.)

Company witness Partlan provided support for the Right-of-Way investment category as part of the LVD Lines sub-program in the Reliability program, proposing a 12-month bridge period projection of \$4.641 million, a 4-month bridge period projection of \$1.547 million, and a test year projection of \$17.667 million. (3

TR 1953-1956.) The proposed bridge period aligns with the approved test year spend in the most previous electric rate case, Case No. U-21585. (6 TR 4378.)

Staff disputed the proposed test year projection based on the lack of details that linked spending to specific projects or line miles, the same reason for which the Company was disallowed its test year projection in its prior rate case, MPSC Case No. U-21585. (6 TR 4378, MPSC Case No. U-21585, 3/21/25 Order, p 55.) Witness Partlan rebutted with their methodology of projecting the test year expenditures, where the projection is based on a percentage of the Company's Targeted Circuit Improvement sub-program expenditures. (3 TR 2043-2044.) This methodology does not align with the specifics asked for in the previous rate case, including details that link spending to specific projects and line miles. (6 TR 4378.)

AG witness Coppola also proposed a disallowance to the Right-of-Way investment category, using a similar, but not identical, methodology to Staff. AG witness Coppola begins by identifying that basing Right-of-Way expenditures on capital projects may not be entirely accurate, providing the example that the proposed \$127 million capital investment in pole replacements will likely not require new Right-of-Way easements. (3 TR 2435-2436.) AG witness Coppola similarly agrees with the Company's bridge period projections but disputes the test year projection, as did Staff. (3 TR 2435-2436.) AG witness Coppola ultimately proposed a test year expenditure based on the highest level of approved Right-of-Way costs in the past four years, which was \$6.202 million in 2024. (3 TR 2435-2436.)

Company witness Partlan ultimately rebutted the adjustments of both Staff witness Boutet and AG witness Coppola, insisting that the Company's methodology for projecting spend in this investment category is reasonable. (3 TR 2043-2044.) Staff maintains that the Company has not provided the requested additional support for this investment category and recommends the Commission adopt Staff's stance on this topic. In the event that the Commission does not agree with Staff's stance, Staff would opine that AG witness Coppola's stance is more reasonable than the Company's projection.

- d. **Staff recommends reducing reliability – substation HVD capital expenditures by \$52,254,000.**

See Section II.B.1(i).

- e. **Staff recommends reducing reliability – transformer bank replacements and substation rebuilds capital expenditures by \$48,886,000.**

See Section II.B.1(i).

- f. **Staff recommends reducing reliability – metro rehabilitation capital expenditures by \$7,193,000.**

See Section II.B.1(i).

- g. **Staff recommends reducing demand failures – LVD substations capital expenditures by \$1,160,000.**

See Section II.B.1(i).

- h. **Staff recommends reducing demand failures – metro capital expenditures by \$971,000.**

See Section II.B.1(i).

i. **Staff recommends reducing asset relocations – system control projects capital expenditures by \$258,000.**

References in the record: Durfee, 6 TR 4417-4427, 4426-4434; Hayward, 3 TR 1343-1351, 1368; Coppola, 3 TR 2465-2468, 2573-2575, 2578-2579; Fitzhenry, 6 TR 3733-3735; Kelly, 3 TR 1580-1586, 1589, 1592-1593, 1603-1604; York, 6 TR 3679-3684;

With respect to sections II.B.1(d) thru (i), Staff makes the following recommendations.

The Commission should reduce the Company's projected distribution capital expenditures for its reliability – substation HVD by \$52,254,000, which is a \$38,868,000 reduction to rate base. (Appendix E, Line 5.) In rebuttal, Consumers reduced substation HVD capital expenditures by \$10,992,000. Staff rejects this smaller concession and continues to support its full adjustment. (Appendix E, Line 6.)

The Commission should reduce the Company's projected distribution capital expenditures for its reliability – transformer bank replacements and substation rebuilds by \$48,886,000, which is a \$36,660,000 reduction to rate base. (Appendix E, Line 7.)

The Commission should reduce the Company's projected distribution capital expenditures for its reliability – metro rehabilitation by \$7,193,000, which is a \$5,505,000 reduction to rate base. (Appendix E, Line 8.)

The Commission should reduce the Company's projected distribution capital expenditures for its demand failures – LVD substations by \$1,160,000, which is a \$846,000 reduction to rate base. (Appendix E, Line 9.)

The Commission should reduce the Company's projected distribution capital expenditures for its demand failures – metro by \$971,000, which is a \$780,000 reduction to rate base. (Appendix E, Line 10.)

The Commission should reduce the Company's projected distribution capital expenditures for its asset relocations – system control projects by \$258,000, which is a \$214,000 reduction to rate base. (Appendix E, Line 11.)

These recommendations for disallowances to several sub-programs within the Company's proposed HVD capital investments are based on the following.

Staff recommended disallowances to the Substation Reliability HVD, Transformer Bank Replacement and Substation Rebuilds, Metro Rehabilitation, System Control Projects, and Metro Failures sub-programs were appropriate based on the Company-provided year-to-date spend in those sub-programs being only a fraction of the projected spend for 2025. (6 TR 4417-4424.)

Staff also determined that the unit cost of transformers should not include an increase. This conclusion was based on the Company's historical transformer unit cost not consistently increasing over the past 5 years; therefore the Commission should adjust the spending in the Substation Failures-LVD sub-program. (6 TR 4423.)

Company witness Megan L. Hayward rebuts Staff, stating that many HVD capital sub-programs will not have a consistent month-by-month spending level, nor can future spending levels be projected linearly. Many HVD projects can only be undertaken during certain parts of the year, and many HVD projects are large and complex and may not have closely similar spending levels each month. (3 TR 1343.)

Company witness Hayward further rebuts Staff, stating that the Company has reevaluated its plan for the HVD Substations Reliability sub-program for the remainder of the bridge period and therefore proposes a lower disallowance than that sponsored by Staff. (3 TR 1344-1345.)

Company witness Hayward also rebuts Staff in stating that the Company faced limitations in its ability to take the planned outages needed over the summer and early fall and the Company also faced permitting delays early in 2025. Both of these caused the year-to-date spending in the Transformer Bank Replacement and Substation Rebuilds sub-program to be lower. (3 TR 1346.) Company witness Hayward claims the Company forecasts that it will be able to catch up and achieve the full projected bridge period amount by scheduling more planned work earlier in the year preceding the warmer months as well as ramping up when it is cooler later in the year. (*Id.*)

Company witness Hayward rebuts Staff's proposed disallowance to the Metro Rehabilitation sub-program, saying these projects are primarily executed once frost has receded, skewing the investments towards the later part of the year.

(3 TR 1347.) Company witness Hayward also states the Company's forecasted investments are still close to those projected in the Company's filing. (*Id.*)

Company witness Hayward also rebuts the Staff's proposed disallowance to the System Control Project sub-program, stating that, although the spending in the first half of 2025 was lower than the projections would indicate, the Company's projections for 2026 and 2027 are still reasonable due to the history of this sub-program being somewhat variable from year to year. (3 TR 1348.)

Company witness Hayward rebuts the Staff's proposed disallowance to the LVD Substation Demand Failures sub-program, stating that the Company spend \$13,357,103 over five years on 18 transformers, making the average \$742,061 vs \$700,000. (3 TR 1349.) Company witness Hayward also states that transformer costs are still generally increasing, as shown by recent market data. (*Id.*)

Company witness Hayward rebuts the Staff's proposed disallowance to the Metro Failures sub-program, stating that the sub-program is based on emergent needs and because of that projected investments are usually heavily based on historical actuals. (3 TR 1350.) Company witness Hayward also states that, if the Commission does authorize a bridge period disallowance, it should only do so in a way that aligns with the five-year average. (*Id.*)

With respect to HVD Capital Investments, AG witness Coppola states that the Commission should approve a disallowance in the HVD Substation Reliability sub-program. (3 TR 2466 – 2467.) AG witness Coppola determines the adjustment based on the Company's forecast replacement of circuit breakers/switches and

units of undefined Other Projects increasing significantly compared to the average annual replacements. (3 TR 2465-2468.)

Company witness Hayward rebuts AG witness Coppola's recommended disallowance, stating that the Company should not drag the process of replacing the Allis-Chalmers transformers out any further. (3 TR 1351.) Company witness Hayward states that the Company's projections were made by considering the Commission's approved spending levels from Case No. U-21585. (3 TR 1351.)

Continuing with HVD Capital Investments, ABATE Witness Colin T. Fitzhenry states that the Commission should approve a disallowance to the HVD Substation Reliability sub-program based on the Liberty audit not finding substantial need or benefit to increased investment in HVD lines or substations because most of the SAIDI minutes and projected SAIDI improvements are related to the LVD system. (6 TR 3733 – 3735.) ABATE witness Fitzhenry states that the Company's recent outage data confirms that most of the outage minutes are attributable to the LVD system. (6 TR 3733-3735.)

Company witness Hayward rebuts ABATE witness Fitzhenry's recommendation, stating that the Liberty audit was published in September 2024, yet on March 21, 2025 the Commission issued its final Order in MPSC Case No. U-21585 which authorized an increase in HVD reliability spending. (3 TR 1368.) Company witness Hayward also states that the recent outage data that ABATE witness Fitzhenry used is LVD-specific and that is why there are no outages shown with a fault higher than 24.9kV. (3 TR 1367.)

The Commission should approve Staff's disallowances to the Substation Reliability HVD, Transformer Bank Replacement and Substation Rebuilds, Metro Rehabilitation, System Control Projects, and Metro Failures sub-programs. The Company's data on year-to-date spend in 2025 does not support the Company's projected spending, and Company witness Hayward's rebuttal does not change this fact or make the disallowance less reasonable.

The Commission should also approve Staff's disallowance to the Substation Failures-LVD sub-program. The data provided by the Company does not show a consistent increase in the Transformer unit costs over the last five years.

j. **Staff recommends reducing reliability – grid automation – asset performance management capital expenditures by \$3,410,000.**

The Commission should reduce the Company's projected distribution capital expenditures for its reliability – grid automation – asset performance management by \$3,410,000, which is a \$2,044,000 reduction to rate base. (Appendix E, Line 12.)

Staff witness Jing Shi presents the Staff's review, analysis and recommended adjustments (6 TR 4483-4491) to Consumers Energy Company's (CE or the Company) projected Asset Performance Management (APM) expenditures within the Distribution Asset Management (DistAM) program, as described primarily in the testimony of Company witness Scott McPhail. (3 TR 1701-1712.)

The DistAM program focuses on lifecycle asset management rather than real-time operational management of assets, as Advanced Distribution

Management System (ADMS) would. As Company witness McPhail stated in direct testimony:

Asset management typically requires data that is collected and visualized over long-time scales. Consequently, DistAM informs decisions over the medium-to-long term as opposed to ADMS's short-term operational decision-making. [3 TR 1702.]

The Company has been developing a DistAM program since as early as 2021 and has a strategy with three key workstreams:

Asset Repository ("AR")
Asset Performance Management ("APM"), and
Asset Investment Planning ("AIP") - now complete.

The AR provides a single centralized database to store essential distribution asset data (3 TR 1704), and the APM encompasses the capabilities of data capture, integration, visualization and analytics tied together to improve the reliability and availability of physical assets. (3 TR 1708.)

As Company witness McPhail further describes:

APM encompasses the capabilities of data capture, integration, visualization, and analytics tied together to improve the reliability and availability of physical assets. The APM is a software tool that leverages the base of asset data made available from the AR to develop a health index or a health score for assets across electric distribution. This tool will use advanced algorithms to develop health and risk monitoring through a standard and common interface for Company employees to generate, monitor, and make decisions for identifying opportunities to address assets requiring attention based on asset health and risk. It is expected that these asset health and risk scores will be incorporated into the Company's Quarterly Operating Review ("QOR"). [*Id.*]

Company witness McPhail additionally notes that Company data scientists will design and test the necessary algorithms to produce a health score with its associated risk (3 TR 1710).

As of March 31, 2025, the Company has reported \$7.9 million in total investments under the DistAM program:

\$5.8 million for the AIP (launched in 2024), and
\$2.1 million for AR.

To date, no spending has occurred on the APM as of March 31, 2025. (3 TR. 1703.) Nevertheless, CE previously projected:

\$1,226,000 for the bridge period and \$6,248,000 for the test year in the prior case.
\$770,000 (bridge) and \$2,640,000 (test year) in the current case.

In Case No. U-21585, the Commission found the CE failed to support its projected DistAM cost:

The Commission agrees with the ALJ and finds that Consumers has not demonstrated that the projected costs for the DistAM program are reasonable and prudent. In the March 1 order, the Commission noted that its original approval of the DistAM program was based on a CAD from 2021 which projected total costs of \$12 million through 2024. As such, the Commission stated that it would require updated data, including total costs, for any future recovery. See, March 1 order, p. 41. The Commission finds that Consumers has not provided adequate data supporting recovery of the increased costs of the DistAM program. Accordingly, the Commission adopts the ALJ's recommendation and disallows \$5.558 million in expenditures for the program. [Order, p 110.]

The Commission originally approved DistAM in MPSC Case No. U-20697 and subsequently reaffirmed its approval in MPSC Case No. U-20963 (December 22, 2021). Thus, more than three years have passed without any expenditure on

the APM component. At the same time, Consumers Energy has not provided sufficiently detailed explanations regarding: 1) why previously authorized funds were not spent on APM; and 2) how projected funds will be used in the bridge and test year in the current case. This lack of transparency prevents Staff from validating whether the requested additional expenditures are reasonable and prudent. (6 TR 4490.)

In rebuttal, Company's witness McPhail stated that:

Each of the three workstreams (AR, APM, AIP) complement each other, providing greater value when used collectively. The APM is highly dependent upon the AR because the source data needed to calculate the asset health score will come from the AR. Funds have not yet been spent on the APM because the Company shifted focus to add more assets into the AR versus further development of the APM.

The resources being used to build the AR are skilled in database structure and data design. To leverage this unique skillset, it was more efficient to streamline this workload and keep these resources focused on adding assets into the AR. While there has not been spending on the APM, it is more appropriate to consider DistAM as a whole given the interdependencies between the three workstreams. Given that perspective, the Company has invested and made progress on the overall DistAM program with the AIP complete and on track to have seven electric assets in the AR by the end of 2025. [3 TR. 1744.]

Staff appreciates the additional structural information; however, the Company's explanation does not justify the lack of progress on APM nor the request for further spending. Staff concurs with the Attorney General witness Sebastian Coppola's position that more upfront research should have been performed prior to proceeding with this initiative and "the Asset Performance

Management system is still in the planning phase of development, and it would be premature to include its capital spending in rate base in this rate case.” (3 TR 2478.)

The Company’s rationale—that its own internal reprioritization caused the lack of APM investment—underscores significant deficiencies in overall program planning and execution. This cannot serve as a compelling basis for approving additional ratepayer-funded APM expenditures. If CE had approached DistAM holistically from the outset, it should have developed a more disciplined schedule, budget, and sequencing plan reflecting the interdependencies among AR, APM, and AIP.

Therefore, Staff keeps the recommendation that the Commission disallow the full amount of APM expenditure proposed for the bridge period, which is \$770,000, and the test year, which is \$2,640,000.

- k. **Staff no longer recommends its adjustment to electric distribution – asset relocations – LVD – make ready work capital expenditures.**

References in the Record: Boutet 6 TR 4375-4377, Exhibit S-13.6; Coppola 3 TR 2428-2429; Partlan 3 TR 1918-1922, 3 TR 2042-2043, 3 TR 2048-2050.

Company witness Partlan provided support for the Make Ready Work investment category as part of the Asset Relocations program, proposing a 12-month bridge period projection of \$34.378 million, a 4-month bridge period projection of \$11.459 million, and a test year projection of \$39.265 million. (3 TR 1918-1922.) The Company’s initial testimony filing suggested that work orders for

this investment category would grow from 1,640 in 2024 to 5,547 in 2025, and up to 6,816 work orders in 2027, suggesting a stark increase in work pace. (3 TR 1922.) It was revealed in discovery that the Company erred in its work order count, and these numbers were reduced to 2,689 in 2025, 3,119 in 2026, and 3,307 in 2027, though cost projections did not change. (6 TR 4375.)

Staff initially disputed the large increase in the apparent unit cost of these work orders in direct testimony, as it represented a nearly 60% increase relative to the unit cost that was most recently approved for this investment category in MPSC Case No. U-21585. (6 TR 4375-4377.) Company witness Partlan responded in rebuttal, stating that they only provided net unit costs in testimony that reflect a portion of customer contributions and therefore do not reflect the full cost of work. (3 TR 2042-2043.) It was made apparent that the 2023 unit cost that Staff relied upon from MPSC Case No. U-21585 to make its adjustment in this instant case was irregularly impacted by larger than normal customer contributions, where customers covered 65% of costs in 2023 whereas the average since 2020 is approximately 48% customer contribution. (3 TR 2042.) When evaluating the total unit cost of these work orders, and not the net costs to the Company, it is evident that unit costs have not increased significantly since 2022. (3 TR 2043.)

AG witness Coppola also proposed a disallowance to this investment category, though using a different methodology than Staff. AG witness Coppola relied on data from a discovery request to identify that the Company has experienced a 37% increase in Make Ready work orders between the first 8 months

of 2025 and the same time frame in 2024 and used this as rationale to forecast work order amounts instead of the Company's references to expanding federal grants for broadband access, proposing an adjustment on that basis. (3 TR 2428-2429.) Company witness Partlan disputed this adjustment, identifying that AG witness Coppola failed to use the Company's updated lower work order forecasts revealed in Staff discovery and did not acknowledge the additional support for the Company's projections that was also in discovery. (3 TR 2048-2050.)

1. Consumers conceded to Staff's capacity – CVR adjustment in rebuttal.

References in the Record: Boutet 6 TR 4367-4369, Exhibit S-13.3; Partlan 3 TR 2009-2014, 3 TR 2038.

Consumers conceded to Staff's capacity CVR adjustment in rebuttal.

Therefore, there is no delta between Staff and Consumers.

Company witness Jennifer Partlan provided support for the Company's proposed CVR investments through direct testimony, providing a 12-month bridge period projection of \$4.391 million, a 4-month bridge period projection of \$1.195 million, and a test year projection of \$4.070 million. (3 TR 2009-2014.)

Staff disputed the Company's projections, pointing to multiple recent years of the Company underspending its prior approved projections. (6 TR 4368.) Furthermore, as seen in Exhibit S-13.3, discovery revealed that the Company's projected benefits from the CVR sub-program in the MW Reduction category were overstated by a factor of roughly 2 in 2023 and a factor of 3 in 2024, revealing large inaccuracies in the Company's ability to project these benefits. (6 TR 4368.) Staff's

proposed adjustments will align projected spend with both historical actuals and the Company's current 5-year average spend for this sub-program. (6 TR 4369.)

No other parties wrote testimony on this sub-program, and Company witness Partlan agreed to this adjustment in rebuttal testimony of (3 TR 2038); therefore, Staff maintains that this adjustment should be applied.

m. Consumers conceded to Staff's capacity – LVD lines – overhead equipment adjustment in rebuttal.

References in the Record: Boutet 6 TR 4370-4371, Exhibit S-13.4; Partlan 3 TR 2003-2004, 3 TR 2038-2039, 3 TR 2055-2056; Coppola 3 TR 2444-2446.

Consumers conceded to Staff's capacity – LVD lines – overhead equipment adjustment in rebuttal. Therefore, there is no delta between Staff and Consumers.

Company witness Partlan provided support for the Company's proposed Overloaded Equipment investments within the LVD Lines sub-program of the Capacity program, supporting a 12-month bridge period projection of \$16.023 million, a 4-month bridge period projection of \$5.341 million, and a test year projection of \$53.103 million. (3 TR 2003-2004.)

Staff disputed the Company's test year projection by identifying the rapid increase in pace for this investment category in the light of minimal support for such an expansion in efforts, an issue that was present in the most recent electric rate case as well. (6 TR 4370-4371.) The proposed bridge period spending corresponds to 90 units a year, the rate that was approved by the Commission for the test year in the most recent rate case, MPSC Case No. U-21585. (6 TR 4370;

MPSC Case No. U-21585, 3/21/25 Order, p 88.) The Company's proposed test year projections suggest that 278 work units will be completed annually, a more than 3-fold increase over the recently approved rate. (6 TR 4370.) Staff's proposal would limit the Company to the funding associated with completing 180 work units in the test year, a doubling of the bridge period pace, as the Company did not provide enough new support in testimony to justify this increase, and year-to-date spending data for the Capacity program would suggest the Company would struggle to attain its proposed spend levels in the test year. (6 TR 4371.)

AG witness Sebastian Coppola also proposed a disallowance to this investment category, though using a different methodology. AG witness Coppola disputed the Company's methodology for identifying the need to invest in this sub-program, citing inconsistencies in how the Company categorizes risk in this sub-program. (3 TR 2444-2446.) AG witness Coppola proposed that the Commission should remove select funding that is directed at lower risk projects with overloads of less than 140%, instead focusing on the 83 bridge period projects and 85 test year projects that target equipment with overload conditions of 140% or more. (3 TR 2445.) Company witness Partlan responds in rebuttal, identifying that not all equipment classes face the same levels of risk at a given overload percentage, and therefore AG witness Coppola's assessment being based on equipment overload percentages is flawed. (3 TR 2055-2056.)

Company witness Partlan ultimately accepted Staff's proposed test year adjustments through rebuttal testimony (3 TR 2038-2039), and Staff maintains that this adjustment should be applied for this reason and those discussed above.

2. Staff recommends reducing generation capital expenditures by \$12,908,000.

[References in the Record: Maio 6 TR 4466-4469; Blumenstock 6 TR 3591-3597, 3598-3607, 3607-3614, 3616-3622; Coppola 3 TR 2479-2488; York 6 TR 3689-3696; Comings 6 TR 3882-3901; Staff Exhibits S-8.0, S-8.1, S-8.2, S-8.3, S-8.4; Company Exhibit A-12, Schedule B5.2]

The Commission should reduce the Company's projected generation capital expenditures by \$12,908,000, which is a \$8,680,000 reduction to rate base.

(Appendix E, Line 20.) The individual adjustments are described below.

a. Staff recommends reducing steam generation – updated company forecast capital expenditures of \$6,641,000.

The Commission should reduce the Company's projected steam generation – updated company forecast capital expenditures by \$6,641,000, which is a \$6,235,000 reduction to rate base. (Appendix E, Line 15.)

Staff recommended the reduction of \$6,641,000 based on the Company's updated capital expenditure projections for generation capital projects over \$1 million in the bridge period. (6 TR 4466.) In response to a discovery request, the Company provided an updated Exhibit A-12, Schedule B5.2, page 8, with actual

amounts as well as updated projections for all generation capital projects over \$1 million in the bridge period. (6 TR 4466; Exhibit S-8.0.) Staff explained that this information was used to calculate the project adjustments, which account for the difference between the amounts originally filed in this case compared to the actual updated amounts provided in response to the discovery for the bridge period. The total adjustment as well as the adjustments for the individual projects over \$1 million for the bridge period can be found in Staff's Exhibit S-8.1. (6 TR 4466.) Staff agrees with the Company's updated adjustments to the individual projects greater than \$1 million, identified on Exhibit A-12, Schedule B-5.2, page 8, presented in its rebuttal testimony. (6 TR 3607.)

Staff recommends reducing the capital expenditures for the steam projects addressed on Appendix E, line 15. This represents the reduction for 17 steam projects over \$1 million in the bridge period. (Exhibit S-8.1.) Staff will address the reductions for the remaining projects, over \$1 million, in the following sections of this brief, which should be adopted for the same reasons.

Additionally, regarding the discovery request mentioned above related to the provided and updated Exhibit A-12, Schedule B5.2, p 8, with actuals and updated projections (Exhibit S-8.0), the Company also included several new/additional projects, exceeding \$1 million, to the projects originally requested and filed in Exhibit A-12, Schedule B5.2, page 8. In rebuttal, the Company respectfully requested the Commission consider these new and additional projects based upon the Company's project re-prioritization. (6 TR 3607-3609.) Staff respectfully does

not support the Company's request related to the addition of new projects after the original case has been filed since new requests in discovery or rebuttal are inappropriate as they do not provide interested parties with proper justification and notice. This position aligns with the previous Commission order in Case No. U-21461. The Commission, in its July 2, 2024, Order in I&M's Electric Rate Case No. U-21461, stated "[i]t is also, in most cases, inappropriate to attempt to introduce new projects in discovery or rebuttal, because the case has often progressed to the point where it is no longer procedurally possible for all parties to complete a satisfactory review of the new evidence for reasonableness and prudence and mount a challenge to that evidence within the 10-month statutory timeline." (MPSC Case No. U-21461, July 2, 2024, Order, p 22.) For these reasons, the Commission should not accept the Company's request related to the addition of new projects after the original case has been filed.

b. Staff recommends reducing steam generation – class cost estimate capital expenditures by \$6,536,000.

The Commission should reduce the Company's projected steam generation – class cost estimate capital expenditures by \$6,536,000, which is a \$3,201,000 reduction to rate base. (Appendix E, Line 16.)

This negative adjustment in the test year is based on the updated class cost estimate assigned to certain projects, over \$1 million, in the test year. Upon review of the class cost estimate for projects over \$1 million, Staff determined that

17 (13 steam, and 4 Ludington) of the 22 total projects, in the test year, should be adjusted downward. (6 TR 4467-4469; Exhibit S-8.4.)

The Company provided Staff with its Enterprise Project Management Organization Cost Estimating Manual, which is adapted from the Association for the Advancement of Cost Engineering International estimating classes and describes the Company's internal cost class estimate standards associated with each project class. (6 TR 4467-4468; Exhibit S-8.2, p. 3.) The Company's project costs are classified from 1 to 5, with 1 being the most defined and 5 being the least defined. (*Id.*) Staff explained that the Company's cost class estimates for its capital projects allow Staff to have a better understanding of the level of development and certainty associated with each specific project cost estimate. (6 TR 4468.) Based on these guidelines, Staff concluded that the further into the future a projected amount is estimated for a project, the more uncertain the cost estimate is. For this reason, Staff adjusted projects over \$1 million in the test year for which the engineering component was not one hundred percent known, corresponding to projects with a class cost estimate of 2 through 5. (6 TR 4468-4469.) In addition, Staff explained that the adjustments for projects in the test period, shown on Exhibit S-8.4, were calculated by applying: 1) the lower bound of the expected accuracy range for each cost class estimate level and 2) the most up-to-date class cost estimate (Exhibit S-8.3). (*Id.*)

Furthermore, in previous orders, the Commission has ruled in favor of the inclusion of adjustments related to the Company's cost class estimates for some

projects over \$1 million in the test year. (6 TR 4468.) For instance, the order in MPSC Case No. U-21585 stated “[w]ith respect to the Staff’s proposed adjustments based on cost class estimates, the Commission agrees with the Staff’s analysis and adopts the findings and recommendations of the ALJ. The Commission finds that the Staff’s proposal to use the lower bounds of the cost class estimates’ ranges only applies to certain projects that exceed \$1 million dollars and finds that some proportion of the total projects is likely to land at the low end of the company’s class estimate ranges.” (MPSC Case No. U-21585, March 21, 2025, order, pp 128, 129; *Id.*)

In rebuttal, the Company disputed Staff’s analysis, disagreeing with the use of the lower end of the accuracy range for certain projects over \$1 million in the test year. (6 TR 3610-3614.) The Company Witness Blumenstock recommended that the proposed disallowance based upon the low end of the accuracy range should be rejected by the Commission. (6 TR 3613.) The Company stated that 1) each of the ranges by class level have an 80% confidence interval, as such, there is a very low to zero probability that 100% of the projects have an actual cost at the low end of the accuracy range, 2) the probability represented by the range suggests that some estimates will turn out to be low and some will turn out to be right on or nearly right on and 3) the assumption that every single Company estimate will turn out to be inaccurately high, such that the actual cost is at the very bottom of the accuracy range for the estimate, is unreasonable. (6 TR 3613-3614.)

Staff disagrees with the Company assessment since Staff's adjustment for the class cost estimate was not based solely upon the accuracy range of the estimate. First, Staff only adjusted some not all projects over \$1 million in the test year since, since as stated previously, Staff believes that the further into the future a projected amount is estimated for a project, the more uncertainty in the cost estimate. (6 TR 4468.)

Second, Staff adjusted only seventeen projects (13 steam projects, and 4 Ludington projects) addressed on Appendix E over \$1 million, in the test year, with a class cost estimate of 2 and 3, which corresponds to projects with engineering components not fully known. (6 TR 4468.) In this regard, Staff notes that the total capital expenditures of \$74,547,493 related to these seventeen projects in the test year is only 46% of the total generation capital expenditures request of \$162,245,908 in the test year, excluding the battery storage expense. The remaining 54% of this total generation capital expenditures (\$87,698,415) in the test year belongs to projects that were not adjusted by Staff in this rate case, of which 37% is related to projects over \$1 million and 17% is related to projects under \$1 million. (Exhibit A-12, Schedule B-5.2, p 3 and 9.)

Third, the lower end of the accuracy range of the estimate is a reasonable mechanism to quantify the uncertainty associated with each project cost estimate. This is the same mechanism with which Staff evaluated the uncertainty of some projected capital expenditures projects in their previous Consumers Energy Electric Rate Cases Nos. U-21389 and U-21585. As discussed above, the

Commission affirmed Staff's recommendations using this adjustment methodology in these previous Consumers' Electric Rate Cases.

Finally, Staff notes that the Company can request recovery of actual future amounts expensed related to these projects in its next rate case to the extent that these projections have changed or are higher than the amounts approved by the Commission.

Additionally, in rebuttal, the Company also recommended that, 1) to the extent that a disallowance is ordered by the Commission, the proposed disallowance amounts for the Covert spare GSU project and the Zeeland Phase II gas turbine advanced gas path replacement and axial fuel staging project should be removed, and 2) the disallowance for the remaining projects should be reduced by the 5% contingency amount that has already been removed by the Company.” (6 TR 3614.) Staff disagrees with these two Company's recommendations.

Regarding the first recommendation, in rebuttal, the Company explained that the Covert spare GSU project and Zeeland Phase II gas turbine advanced gas path replacement and axial fuel staging project, which are 2 of the 13 steam adjusted projects, are projected not to close during the test year and their revenue requirement will be offset by AFUDC. (6 TR 3612.) Staff's position is that the reasoning explained above for the adjustment based on the uncertainty of the projected costs in the test year, materialized through the class cost estimate, applies to these two projects as well regardless of being AFUDC projects.

With respect to the Company's second recommendation (the disallowance for the remaining projects that should be reduced by the 5% contingency amount), based on Company's testimony, Staff acknowledges that the Company has not included designated contingency amounts in projected capital expenditures in this rate case; however, given the rate case time constraints, Staff is not able to verify every single component that was included in the cost estimate for a project and how the total cost estimate for a project was projected, calculated, and determined. Consequently, Staff cannot be assured that the cost estimate for a project was not inflated within any of its components at any stage of the cost estimate process.

For these reasons, Staff recommends reducing the test year capital expenditures for the thirteen steam projects addressed on Appendix E, line 16. This represents the reduction for thirteen of the seventeen projects that Staff recommends reducing based on class cost estimates. Staff will address the reduction for the remaining four projects below, which should be adopted for the same reasons.

- c. **The Commission should increase hydro generation – updated company forecast capital expenditures by \$1,780,000.**

The Commission should increase the Company's projected hydro generation – updated company forecast capital expenditures by \$1,780,000, which is a \$1,748,000 increase to rate base. (Appendix E, Line 17.)

This increase of \$1,780,000 is related to the use of the Company's updated projections for capital projects greater than \$1 million in the bridge period. As

discussed above in section II.B.2.a of this brief, Staff determined that capital expenditures in the bridge period for projects over \$1 million should be adjusted based on the use of the Company's updated projections for these capital projects. (6 TR 4466; Exhibit S-8.1.) For the same reasons discussed above for the steam generation adjustment addressed on Appendix E, line 15, related to Company's updated projections, which Staff incorporates here by reference and to which the Company agreed, Staff recommends a capital expenditure increase of \$1,780,000 for the six pumped storage Ludington projects addressed on Appendix E, line 17.

d. The Commission should reduce the hydro generation – class cost estimate capital expenditures by \$918,000.

The Commission should reduce the Company's projected hydro generation – class cost estimate capital expenditures by \$918,000, which is a \$453,000 reduction to rate base. (Appendix E, Line 18.)

As discussed above in section II.B.2.b, Staff determined that 17 total projects (13 steam projects, and 4 Ludington projects) in the test year over \$1 million should be adjusted downward based on the uncertainty of the projected costs. (6 TR 4467-4469; Exhibit S-8.4.) For the same reasons discussed above regarding the 13-steam project cost estimate capital expenditure reductions addressed on Appendix E, line 16, Staff recommends a capital expenditure reduction of \$918,000 for the four pumped storage Ludington projects addressed on Appendix E, line 18.

- e. **The Commission should reduce the other generation – updated company forecast capital expenditures by \$592,000.**

The Commission should reduce the Company's projected other generation – updated company forecast capital expenditures by \$592,000, which is a \$540,000 reduction to rate base. (Appendix E, Line 19.)

This downward adjustment of \$592,000 is related to the use of the Company's updated projections for capital projects over \$1 million in the bridge period. As discussed above in section II.B.2.a of this brief, Staff determined that capital expenditures in the bridge period for projects over \$1 million should be adjusted based on the use of the Company's updated projections for these capital projects. (6 TR 4466; Exhibit S-8.1.) For the same reasons discussed above for the steam generation adjustment addressed on Appendix E, line 15, related to Company's updated projections, which Staff incorporates here by reference and to which the Company conceded, Staff recommends a capital expenditure reduction of \$592,000 for the 2 other projects addressed on Appendix E, line 19.

3. **Staff recommends reducing information technology capital expenditures by \$7,933,000.**

The Commission should reduce the Company's projected information technology capital expenditures by \$7,933,000, which is a \$4,548,000 reduction to rate base. (Appendix E, Line 33.) Staff supports adjustments to information technology capital expenditures in categories discussed below.

a. **Staff recommends reducing customer self-service mobile app capital expenditures by \$2,362,000.**

[References in the Record: Baker 3 TR 776-778, 782-783, Byrom 3 TR 967.8, 967.10-967.13, 967.22, 967.51-967.52, 967.54-967.55, 967.56-967.57, Company Exhibits A-20 (SHB-5), A-12 (SHB-4), Schedule B5.1; Klocke 6 TR 4324-4327, Staff Exhibits S-10.2, S-10.8, S-10.9, S-10.10, S-14.0.]

Staff recommends reducing customer self-service mobile app capital expenditures by \$2,362,000, which is a \$1,521,000 reduction to rate base.

(Appendix E, Line 22.) The customer self-service mobile application (mobile app or app) is part of the product family enhancements—customer—capital project, which contains a suite of customer information technology projects and their corresponding enhancements within it. In its rebuttal testimony, the Company claims that because the mobile app is in existence and daily use by customers, it should be supported. (3 TR 967.56.) However, it is Staff’s position that the mobile app offers technology that is redundant and duplicative of the Company’s website and its requested costs do not represent a prudent investment for ratepayers.

The mobile app offers technology that duplicates the Company’s website; in fact, everything a customer can do using the mobile app they can also do via the website, and the website can be accessed using a mobile device or computer. (6 TR 4326.) However, the app also does not include the entirety of the website’s information, so it essentially replicates what customers can do on the website while offering less information and functionality. (*Id.*) Contrary to what the Company claims in its rebuttal testimony, the mobile app does not show increasing interest

and use. (3 TR 967.57.) Indeed, usage of the app has plateaued at under 30% of the Company's digital traffic after many years of availability and the Company has never proven customers' strong interest in it. (6 TR 4326.)

Still, even if it is accepted that customers use the app and it should remain available to them, nothing the Company has presented in the instant case proves that the requested expenditures are essential to keep the app up and running. The Company states that the costs in the instant case should be allowed to "support and enrich the Mobile App experience" but do not prove *how* these expenditures will accomplish this. (3 TR 967.57.) As noted by the Company in its rebuttal testimony, the Commission in its Order for Case No. U-21389 stated that "[a]s technologies and customer preferences evolve, the Commission find that duly supported, reasonable, and prudent expenditures to meet those preferences are appropriate for recovery." (*Id.* at 967.52.) However, the Company does not meet the standard delineated by the Commission in Case No. U-21389 as the Company has not supported or proven the need for the continued requested expenditures for the mobile app in the instant case. Also, as support for the requested expenditures for the mobile app in the instant case, the Company stated that customer enhancement projects are often small and "allow for quickly-made changes or fixes, or stem from emergent work." (*Id.* at 967.55.) Given this, if any of the requested expenditures for the mobile app can potentially be used for emergent work, that alone is reason for disallowance of these projected expenditures. Emergent work expenses allow the Company to spend on projects without giving Staff and

intervenor the chance to fully analyze and understand where those expenditures are allocated to and evaluate them for reasonableness and prudence. It is critical that the Company does not recover more in costs than it actually needs and costs for emergent work present a risk of over-recovery. In its recent order in Case No. U-21806, the Commission agreed with Staff's recommendation to remove costs for the mobile app tied to emergent work, agreeing with the administrative law judge's reasoning that given the uncertainty around the requested costs for emergent work, the ALJ's recommended disallowance for those costs was appropriate. (See Case No. U-21806 Order, 9/30/2025, p 139.) In the instant case, there is a risk of the requested expenditures for the mobile app similarly being tied to emergent work, and thus those costs are not reasonable or prudent and should be disallowed.

b. Staff recommends reducing low moderate customer support enhancements capital expenditures by \$525,000.

[References in the Record: Baker 3 TR 776-777, 778-779, 782-783, Byrom 3 TR 967.26-967.38, 967.51, 967.53-967.54, 967.59, 967.61-967.67, 967.70, Company Exhibits A-20 (SHB-5), A-12 (JRB-1), Schedule B-5.3, A-12 (SHB-4), Schedule B-5.1; Klocke 6 TR 4324, 4327-4334, Staff Exhibits S-10.2, S-10.19, S-10.20, S-10.21, S-10.22, S-10.24, S-10.25, S-10.26, S-10.27, S-10.28; Cira-Reyes 3 TR 2310-2312, 2350-2352, 2353-2354.]

Staff recommends reducing low moderate income customer support enhancements capital expenditures by \$525,000, which is a \$385,000 reduction to rate base. (Appendix E, Line 23.) This adjustment is located within the larger product family enhancements—customer—capital project. More robust discussion

of the reasoning behind Staff's recommended disallowance for the low moderate income customer support enhancement project will be discussed below under section c.

c. Staff recommends reducing low moderate customer support enhancements #2 capital expenditures by \$1,870,000.

Staff recommends reducing low moderate income (LMI) customer support enhancements #2 capital expenditures by \$1,870,000, which is a \$8,42,000 reduction to rate base. (Appendix E, Line 24.) In its rebuttal testimony, the Company maintains its support of the LMI project and belief that the tool is useful and therefore worthy of support, maintenance, and additional development. (3 TR 967.61.) Staff does not support the expenditures for this project as it is unclear to Staff how this program will actually assist customers who are identified as low or moderate income.

As stated by the Company, the LMI customer support enhancement project is intended to provide “solutions that make interactions more accessible, supportive, and efficient, ultimately enhancing the overall customer experience and financial stability for LMI customers”; however, nothing this project provides has been shown to increase customers’ experience or enhance financial stability. (3 TR 967.27.) The four elements of the LMI customer support enhancement are Simplified Enrollment, Proactive Communications and Program Awareness, New and Improved LMI Offerings, and Continuous Improvement and Feedback. (6 TR 4328-4332.) Essentially, these four elements aggregate and reorganize information

on the Company's website to direct LMI customers in learning about and enrolling in various customer assistance programs. (6 TR 4332.) The main issue Staff has with this project is the spending of over \$2 million to direct customers to information, enrollment, and programs that were already available on the Company's website. (*Id.*) This project merely connects customers to payment plans, energy waste reduction programs, demand response, and renewable energy programs. (*Id.*) To be clear, the LMI creates nothing new, nor are the projects it connects customers to proven to actually help customers who are at or near crisis. The Company has never satisfactorily demonstrated why the requested expenditures for this project are necessary or prudent.

While the Company points to the amount of customers who have interacted with the LMI customer support enhancement since its launch, Staff finds it worrying that of the 78,000 customers who have engaged with the tool, just 25,000 customers completed the enrollment flow. (3 TR 967.64.) That means over 53,000 customers did not complete the enrollment flow, a large number that the Company has no answer for. Also, just 35% of customers completed the full eligibility assessment and identified one or more programs for which they qualify. (*Id.*) Staff would argue that these statistics show that the LMI tool is not, in fact, "reducing enrollment barriers, increasing program visibility, and helping LMI customers more easily access the support they need." (*Id.* at 967.65.) Staff is not convinced that meaningful relief will truly stem from this project and does not find the expenditures in the instant case to be reasonable or prudent. Therefore, the

requested expenditures for the LMI customer support enhancement project should be disallowed.

When the Company was directly asked by Staff how it foresees the LMI project as a long-term solution for customers either in crisis or on the verge of crisis, the Company offered a generic response that streamlining the process of finding and enrolling in assistance programs will enhance customers' overall experience, which will provide a robust and sustainable support system for those in need. (6 TR 4332.) This response does not actually answer Staff's question or provide an actual long-term solution for LMI customers. Also, the Company did not acknowledge that the information it is making available to LMI customers with the LMI tool is already available to those customers on various areas of the Company's website. (*Id.*)

Finally, the Company surveyed very few customers regarding the LMI project, conducting just six "usability tests" with a total of 104 participants, of whom just 54% were Michigan residents. (*Id.* at 4332-4333.) A total of just 13 LMI participants – none of whom were the Company's own customers – conducted a diary study that generated broad LMI insights. (*Id.* at 4333.) The Company claims that LMI customers account for more than 1 of every 3 customers in its service territory and for a Company with millions of customers, the amount of customer feedback solicited for this project is shockingly low. (3 TR 967.28-967.29.) The Company did not do its due diligence on this project and had many missed opportunities to seek information from its own low moderate income customers

regarding what will help them in the long run. For all the reasons discussed, the expenditures the Company is seeking for the LMI customer support enhancements project should be disallowed.

d. Staff recommends reducing web chat AI capital expenditures by \$473,000.

[References in the Record: Baker 3 TR 776-777, 779-780, 782-783, Byrom 3 TR 967.13, 967.22, 967.51, 967.53, 967.54, 967.55, 967.58-967.59, Company Exhibits A-20 (SHB-5), A-12 (SHB-4), Schedule B-5.1; Klocke 6 TR 4324, 4334-4336, Staff Exhibits S-10.2, S-10.15, S-10.12, S-10.13, S-10.14, S-10.15, S-10.16, S-10.17, S-10.18, S-14.0.]

Staff recommends reducing web chat AI capital expenditures by \$473,000, which is a \$278,000 reduction to rate base. (Appendix E, Line 25.) The costs for the web chat AI project are also located within the larger product family enhancements—customer—capital project. In its rebuttal testimony, the Company claims only that because the web chat AI tool is an alternative channel of interaction with the Company it offers customers value and should be supported. (3 TR 967.58.) Staff's position is that the web chat AI tool offers technology that is redundant, offers no cost savings, and brings little value to the Company's customers.

The web chat AI is an artificial intelligence-powered dialogue that is meant to provide instant, 24/7 customer support and offer customers quick responses to common, basic questions. (6 TR 4334-4335.) The web chat AI will draw its answers from information already available from the Company's website and data. (*Id.*) However, the Company already offers a Frequently Asked Questions page on

its website that answers questions regarding programs and other topics and Staff's analysis did not reveal that the web chat AI will offer customers anything that they cannot already access through those already-available means. (*Id.*)

In its rebuttal testimony, the Company claims that the web chat AI tool is necessary as not every customer has an issue or question that "rises to the level of calling the service center" and the web chat AI will provide needed information instantly. (3 TR 967.58.) However, the Company neglects to take into account the fact that customers already have access to answers to these common queries through a simple search on the Company's website. (6 TR 4335.) Also, a customer with a more complex question will likely need to reach out to a customer service representative, who are available only during the Company's regular business hours of Monday-Friday, 7:00am-6:00pm (for residential customers) and 8:00am-4:30pm (for business customers. (*Id.*) The 24/7 availability of the web chat AI tool will therefore be rendered moot for customers with questions beyond the most basic.

In addition, the Company anticipates no cost savings from the web chat AI and the Company states that its primary success metric for this toll would be an increase in customers' overall experience. (*Id.* at 4336.) In its rebuttal testimony, the Company claims that it is committed to the web chat AI as an alternative channel of interaction and that live chat has become a leading digital contact method for online customers, yet it offers no feedback or support of a tool such as

the web chat AI from its own customers, instead relying on generic, industry-wide JD Power findings. (3 TR 967.58-967.59.)

The Company also cites as support for the web chat AI two peer companies who offer similar tools and similar restrictions regarding customer service hours, DTE Energy and AEP Energy, yet a search on those companies' websites using the links provided by the Company simply direct to a Help Center/Frequently Asked Questions page on DTE Energy's website and a "404 Error - Page Not Found" on AEP Energy's website. (*Id.*) It is therefore unclear what the Company was trying to prove when directing to those companies' websites, except that they too have customer service agents available only during regular business hours and the ability to search their websites. Nothing the Company offered in its direct or rebuttal testimonies in the instant case provide persuasive evidence that the web chat AI represents a reasonable and prudent investment and therefore its costs should be disallowed.

The Company also claimed in its rebuttal testimony that Staff supported chat functionality as an alternative customer channel of choice, which is a mischaracterization of what was actually said in Staff's direct testimony, which is as follows: "[s]taff does see value in customers' ability to self-serve using the Company's website but is not persuaded that an AI chatbot is a prudent or useful avenue for this." (6 TR 4336.) As explicitly stated, Staff supports customers' ability to self-serve using the Company's website but does not see value in a chat option such as the web chat AI.

Finally, in its Order in Case No. U-21806, the Commission agreed with Staff's recommendation to disallow requested costs for the web chat AI tool in that case. (See Case No. U-21806 Order, 9/30/2025, p 136-137.) As stated by the Commission in that Order, the Commission "finds it paradoxical for the [C]ompany to request additional costs for similar online resources for customers to use when the company's website itself is not yet redesigned despite approved funding for such use almost three years ago now." (*Id.*) Given that there is no change in scope or benefits of the web chat AI project between what was presented in Case U-21806 and what is presented in the instant case, this is further support to disallow the costs in the instant case.

e. **Staff recommends reducing ARP collaboration capital expenditures by \$435,000.**

References in the Record: Zichi, 6 TR 4345, Ex. S-14.1, pages 1-4; Baker 3 TR 762.

Staff recommends reducing ARP collaboration capital expenditures by \$435,000, which is a \$286,000 reduction to rate base. (Appendix E, Line 26.) In rebuttal, Consumers reduced ARP collaboration capital expenditures by \$185,000. Staff rejects this smaller concession, which appears to be an error omitting the 2025 capital expenditure concession and continues to support its full adjustment. (Appendix E, Line 27.)

In Staff's direct testimony, it recommended the Commission disallow \$250,023 in the 12-month bridge period ending 12/31/2025, \$46,300 in the 4-month

bridge period ending 4/30/2026 and \$138,902 in the projected test year ending 4/30/2027 of capital expenditures for the ARP-Collaboration to correct for an update in the cost projection. (6 TR 4345.) In an audit response from the Company, it provided an updated quote for the auditorium refreshes which was lower than the quote included in the Company's initial filing. (Exhibit S.14.1, p 1-4.) In the Company's rebuttal testimony, it agrees with Staff's adjustment for this project. (3 TR 762.) Staff would like to note an error in Company Exhibit A-211 (PDD-66), line 6, column e. The Company did not include the removal of the \$250,023 in capital expenditures for the 12-month bridge period ending 12/31/2025, as agreed by the Company in its rebuttal. (3 TR 762.) The Commission should disallow the \$435,225 in capital expenditures.

f. Staff recommends reducing ARP field device asset management capital expenditures by \$887,000.

References in the Record: Zichi, 6 TR 4345-4347, Ex. S-14.1, pages 5 and 6, Ex. S-21; Baker 3 TR 702-703, 3 TR 763-766, Exhibit A-22 (SHB-7), Exhibit A-183 (SHB-12); Tetrick, 3 TR 2248-2249, Exhibit A-178 (CMT-1), Exhibit A-179 (CMT-2).

Staff recommends reducing ARP field device asset management capital expenditures by \$887,000, which is a \$495,000 reduction to rate base. (Appendix E, Line 28.) In rebuttal, Consumers reduced ARP field device asset management capital expenditures by \$99,000. Staff rejects this smaller concession and continues to support its full adjustment. (Appendix E, Line 29.)

In Staff's direct testimony, it recommended the Commission disallow \$228,567 for the 4-month bridge year period ending 4/30/2026 and \$658,700 for the projected test year ending 4/30/2027 for all new field device purchases included in the ARP-FDAM project. (6 TR 4345 and 4356.) Staff recommended this disallowance because the Company failed to provide information regarding the methods used to calculate the total projected costs for new field device purchases in 2026 and 2027. (6 TR 4346.) This project will replace old and outdated field devices and purchase new field devices in anticipation of new employees/contractors hired in the future. (3 TR 702 - 703.) In the Company's initial filing it projected the cost for new field device purchases at \$1 million, annually. (3 TR 703.) The Company indicated that it "reviews actual historical new purchase costs for the past four years to ensure the \$1 million is reasonable and prudent," and that these costs cover field devices and associated accessories required for new employee/contractors. (3 TR 703.)

Through audit Staff inquired about the Company's new method for projecting new device purchases. In the previous gas case, U-21806, the Company included a breakdown of the projected number of new device purchases for the ARP-FDAM project in Exhibit A-22 (SHB-7). In later filings for that case, the Company abandoned this method for projecting new devices purchases. In its initial filing in the instant case and in audit responses, the Company indicated it is now using a new method for projecting these costs. (Exhibit S-14.1, p 5 - 6.) The Company only indicated the final total cost of \$1 million annually and did not

provide supporting information as to how they determined this projection. Staff asked the Company through audit to provide the breakdown of new device purchases for 2026 and 2027, similar to what has been previously provided by the Company in its initial filing, in U-21806. In response, the Company shared that it no longer uses this method for projecting new devices due to the uncertainty of knowing the exact number of devices needed each year. (6 TR 4346.) In a follow-up audit request, Staff asked the Company to provide the calculation used to support the projected cost of \$1 million annually. In response, the Company stated the projection for new device purchases is not based on a calculation, rather it has projected new purchases at \$1 million annually and reviewed the past four years of actual historical costs to ensure the projection is reasonable and prudent. (Exhibit S-14.1, p 15.) This is problematic because the Company did not specifically state in audit that it used the average of all four years of actual historical data to determine the final projected cost, instead this data was used only to validate it. (6 TR 4346.) There was uncertainty in the methods used to project these costs and the Company failed to provide any supporting information regarding calculations or methods used to support the projected cost of \$1 million annually. (6 TR 4346 and 4347). Additionally, Staff stated its understanding of the need for this project, and that it believes money will be spent on new devices purchases. However, without a clear explanation for how the project cost was determined by the Company, the costs are unsupported and Staff recommends full disallowance for the portion of this project that is stated to be for new purchases. (6 TR 4347.)

In rebuttal testimony, witness Baker states that the Company did provide Staff with the method used for projecting the new field device purchases costs. She states that in the Company's audit response it shared the projection of \$1 million annually for 2026 and 2027 is based on historical spend, and that the historical actuals used to validate this projection were provided. (3 TR 763.) Again, the Company states it based the project on historical spend and used the historical data to validate the costs. No further information was provided. The Company did not share how they calculated, or for that matter chose, the projected cost of \$1 million dollars annually for new device purchases. The Company asserts the position that Staff believes the Company "will spend the projected 2026 and 2027 costs for the ARP-FDAM project in rebuttal." (3 TR 764.) This is an incorrect assumption and not reflective of Staff's position regarding costs for new device purchases. Staff stated in its initial testimony that it "...does believe the Company will spend money in this area." (6 TR 4347.) Staff never stated it thinks the Company will spend the projected 2026 and 2027 costs, only that it believes money, in some amount, will be spent. In the Commission's order for Case No. U-21806, it stated the Company should provide more specific cost projections for new device purchases included in the ARP-FDAM and ARP-WAM project. (3 TR 763.) The Company addressed this recommendation by the Commission in its rebuttal and included historical actual data and the calculated four-year average for 2021-2024 in a new exhibit. (Exhibit A-183 (SHB-12).) The Company agreed with this recommendation from Staff and the Commission; however, the additional

information provided in rebuttal was the same information provided to Staff through audit, with the addition of the calculated four-year average value broken out by total Company and total electric allocation. (3 TR 765, Exhibit S-14.1.) The Company states in rebuttal that a four-year historical average should be used to project new device purchases and that this method is more specific. (3 TR 765.) Staff agrees with the Company that using a four-year average and providing the data used to calculate the average is a more specific method for projecting new purchases, however the Company failed to provide additional information to support why using a four-year average is a reasonable and prudent projection method. The Company did not provide more detailed information for its new projection method in rebuttal. It simply decided using a four-year average was the new method and provided the data to show this calculation. (*Id.*) This new projection method has not been fully supported by the Company. In rebuttal the Company provides an updated cost projection for the new field device purchases based on the new projection method, using the four-year historical average. (3 TR 765-766.) Exhibit A-182 (SHB-12) page 1 shows the electric allocation four-year historical average (\$611,611), which is lower than the initial Company projection of \$1 million annually. Based on this new number, the Company provides updated projected costs for the ARP-FDAM new field device purchases. (3 TR 766.)

After reviewing the Company's rebuttal, Staff sent the Company a discovery request regarding new employee data. (Exhibit S-21.) Specifically, Staff was interested in validating the reasonableness of using the four-year historical

average as a method for projecting the new device purchase costs. Staff asked the Company to provide the historical data for new employee hires from 2021-2024, the projected number of new hires for 2026 and 2027 and the method used to project future hires. Additionally, Staff asked the Company to clarify who falls into the category of “new employees/contractors” as stated in the Company’s testimony. (Exhibit S-21, p 7-12.) Through discovery, the Company provided a reference to another Company witness, Caitlin M. Tetrick, for information regarding new employee hiring estimates. Witness Tetrick provided testimony on the workforce demand needed to deliver the Company’s Reliability Roadmap. (3 TR 2249.)

Additionally, witness Tetrick has two exhibits that support historical and projected new employee and contractor needs for the Electric LVD and HVD Workplan. (3 TR 2248.) This new information provided Staff insight into the past and future employee needs. Staff inferred that employees discussed by this witness would be using field devices, so this information was applicable only to the ARP-FDAM project. This new information provided some insight into hiring trends and Staff was able to determine that the hiring of new employees and contractors does not follow a pattern and does not show the same number of projected employees and contractors needed for 2026 and 2027. According to these exhibits, the Company is projecting a total of 1,537 employees and contractors for 2026 and 1,742 in 2027 for LVD, or an additional 308 employees/contractors in 2026 (2026 projected number less 2025 projected number) and an additional 205 employees/contractors in 2027 (2027 projected number less 2026 projected number). (Exhibit A-178 (CMT-1), line

1 columns d, e and f.) As for HVD, the Company is projecting 539 in 2026 and 530 in 2027, or an additional 35 employees/contracts in 2026 (2026 projected number less 2025 projected number) and an overall net decrease of -9 in employees/contractors in 2027 (2027 projected number less 2026 projected number). The Company does indicate an increase in employees only, by 9 (line 2, column f less column e) with the overall decrease found in a lower number of contractors needed for 2027, which is 18 less compared to the 2026 projected number. (Exhibit A-179 (CMT-2), lines 1, 2 and 4, columns d, e and f.)

Additionally, Staff attempted to use this new information to compare historical and projected new device purchases to historical and projected hires in order to validate the use of the four-year historical average for projecting new device purchases. The information provided by the Company did not supply Staff with enough information to fully complete this analysis. Staff does not know if the employees included in the exhibits sponsored by Company witness Tetrick are the only employees who would require field devices. Additionally, Staff did not know if employee and contractor numbers for LVD and HVD should be combined when completing this analysis or if they should be kept separate. The Company has provided sufficient information to support the use of a four-year average when projecting new device purchases. This is evident through the lack of information to complete an analysis between new employee and contractor hires and purchases of new field devices. The Company has not supported their projections and thus Staff continues to recommend a full disallowance of all new purchases for 2026 and 2027

included in the ARP-WAM project. Staff does not find that the Company's method of selecting a number then simply validating it against historical expenditures demonstrates reasonableness and prudence of the projection. The number of new hires needing a new field device has not been demonstrated to follow the trend of historical averages. The Company has shown that in the past it has been capable of basing costs for new purchases off of anticipated People and Culture hiring estimates, and Staff found that to be a much more reasonable method of projecting costs. The Commission should disallow the \$887,267 in capital expenditures.

g. Staff recommends reducing digital infrastructure automation project capital expenditures by \$382,000.

References in the Record: Zichi, 6 TR 4350-4351, Ex. S-14.1, pages 10-12, Ex. S-14.1, page 18; Baker, 3 TR 736, 3 TR 770-771.

Staff recommends reducing digital infrastructure automation project capital expenditures by \$382,000, which is a \$172,000 reduction to rate base. (Appendix E, Line 30.)

In Staff's direct testimony, it recommended the Commission disallow \$382,043 of capital expenditures and \$159,902 of Investments O&M expense for the projected test year ending 4/30/2027 for the Digital-Infrastructure Automation project due to a lack of information provided by the Company supporting the prudence of this project. The Company identified various areas that would see a cost reduction due to this project but could not quantify these reductions when

asked by Staff. (6 TR 4350.) This project is intended to automate various processes used for cloud and data center services and reduce operational costs. (3 TR 736.)

Through audit, Staff asked the Company to provide the anticipated operational cost reduction, as addressed in its testimony. (6 TR 4350.) In response, the Company stated there will not be a reduction in operational costs as a result of this project. (Staff Exhibit S.14.1, pages 10-12.) In a follow-up audit request Staff asked the Company why there are no cost savings, considering the current solution is costly, and a reason for needing this project. The Company shared that there will not be hard cost savings from this project, but it does expect a reduction in the current manual process by 80%. (Staff Exhibit S.14.1, page 18.) Staff could not understand how the Company planned to reduce manual processes by 80% but could not quantify this reduction, nor realize a reduction to operational expenses. (6 TR 4351.)

In rebuttal, the Company clarified that the statement “reducing operation costs” used in its initial testimony, was actually supposed to say, “avoiding operational costs.” (3 TR 770.) Even with this change in language, Staff’s original argument still stands. Although the Company changed the word “reducing” to “avoiding” which mean two different things, they both have the same end result. A reduction implies the Company would see an immediate cost savings, avoiding implies that future spending in this area would not occur. In both situations, there is cost savings, they just occur at different times, and the Company should be able

to quantify this, especially when deciding to go ahead with the project. The change of terms used does not negate the expected end result, which is monetary cost savings. The Company further states that various sections of its testimony and supporting exhibits discussed operational efficiencies and avoided costs that are expected as a result of this project. (3 TR 770 - 771.) After reviewing these various references, Staff was able to conclude, like Ms. Baker stated, that the Company has discussed the anticipated operational efficiencies and avoided operational costs, but the Company continues to fall short in quantifying them, which is exactly why Staff made its recommendation in the first place. As shared through audit with Staff, the Company again states in rebuttal how it expects to reduce manual efforts by 80%, and again it fails to quantify this reduction. Staff finds it interesting that the Company can address cost avoidance in several areas of testimony, exhibits, and rebuttal yet it still fails to translate it into any monetary avoided costs. Staff maintains its original position, and recommends the Commission disallow \$382,043 in capital and \$159,902 in O&M expenses due to a lack of support for the prudence of the project.

h. Staff recommends reducing ARP workstation management capital expenditures by \$887,000.

References in the Record: Zichi, 6 TR 4348-4349, Ex. S-21; Baker, 3 TR 709, 3 TR 767-769.

Staff recommends reducing ARP workstation management capital expenditures by \$887,000, which is a \$495,000 reduction to rate base. (Appendix E, Line 31.)

In Staff's direct testimony, it recommended the Commission disallow \$228,567 for the 4-month bridge year period ending 4/30/2026 and \$658,700 for the projected test year ending 4/30/2027 for all new device purchases included in the ARP-WAM project. (6 TR 4348.) Staff recommended this disallowance because the Company failed to provide information regarding the methods used to calculate the total projected costs for new device purchases in 2026 and 2027. (6 TR 4348.) This project replaces and installs new desktops, laptops, and tablets as well as purchasing new PC devices for newly hired employees and contractors. (3 TR 709.) In the Company's initial filing it projected the cost for new device purchases was \$1 million, annually. (3 TR 709.) The Company indicated that it "reviews actual historical new purchase costs for the past four years to ensure the \$1 million is reasonable and prudent." And that these costs cover PC devices and associated accessories required for newly hired employees/contractors. (3 TR 709.)

As stated above regarding the ARP-FDAM project (Section II(B)(3)(f)), the Company did not specify that the projected cost was based on actual historical costs, just that it used them to validate the final projection. Additionally, the Company could not share any calculation used to show how the cost of \$1 million annual was determined, leaving Staff to question how it arrived at its projection. (6 TR 4349.)

In rebuttal, similar to arguments made for the ARP-FDAM project, the Company states it did provide the information and method used to project the total for new device purchases. (3 TR 767.) Again, the Company did not provide any

calculation used to determine the \$1 million annually for new purchases, it simply restated that actual historical costs were used to validate the reasonableness of this projection. Additionally, similar to what was discussed for the ARP-FDAM project, the Company noted in rebuttal the language included in the order for Case No. U-21806 directing the Company to include more clarity in cost projections for new device purchases. (3 TR 767.) Staff would again like to note that the Company incorrectly characterized Staff position on money being spent for new projects, as discussed above under the ARP-FDAM project. (3 TR 768.) (Section II(B)(3)(f).) The Company further discusses the four-year historical average for new device purchases under the ARP-WAM project. The Company notes an anomaly that accrued in 2021 where new device purchases were almost triple the original projected cost due to COVID-19 in-person work guidelines. Because of this, the Company states an adjustment was made when using the four-year average to project the total cost and believes that the original projection of \$1 million is still applicable, and no changes were made. (3 TR 769.)

As stated above regarding the ARP-FDAM project, Staff sent the Company a follow-up discovery to learn more about new employees to better understand the Company's hiring history and future projection. Staff planned to use this information to conduct an analysis to better understand if using a four-year average based on historical spend was applicable based on hiring trends. The Company only provided hiring estimates for the Electric LVD and HVD Workplan, so Staff was unable to analyze information regarding all employees past and in the

future who would use workstation equipment included under new purchases for the ARP-WAM project. (Exhibit S-21.) Staff was able to conclude from the historical and projected new employee data for LVD and HVD that hiring trends are not the same over a given year and can fluctuate based on various needs at any given time. Due to a lack of information on all employees hired in the past four years who require workstations, and projected new hires, Staff was unable to complete an analysis comparing hiring trends to the actual historical spend data for the ARP-WAM project. (6 TR 4348.) Additionally, as discussed above for the ARP-FDAM project, Staff does not know why the Company no longer used People and Culture hiring estimates as a part of their projection for new device purchases. Based on lack of information, Staff was unable to validate the reasonableness of the new projection method presented by the Company in rebuttal. Consistent with the ARP-FDAM project, the Company has not supported their projections and thus Staff continues to recommend a full disallowance of all new purchases for 2026 and 2027 included in the ARP-WAM project. (6 TR 4348.) The Commission should disallow the \$887,267 in capital expenditures.

i. Staff recommends reducing ISIS papyrus capital expenditures by \$395,000.

References in the Record: Zichi, 6 TR 4351-4353, Ex. S-14.1, page 9; Baker, 3 TR 722, 3 TR 772-773.

Staff recommends reducing ISIS papyrus capital expenditures by \$395,000, which is a \$232,000 reduction to rate base. (Appendix E, Line 32.)

In Staff's direct testimony, it recommended the Commission disallow \$164,499 in the 4-month projected bridge period ending 4/30/2026, \$263,199 in capital and \$114,044 in O&M expenditures for the 12-month projected test year ending 4/30/2027. (6 TR 4351.) In the Company's rebuttal testimony, it indicated that Staff did not use the ROM adjusted number (\$164,499 less 20%) for the 4-month bridge period capital disallowance. (3 TR 773.) Staff's corrected disallowances include \$131,600 in the projected 4-month bridge period ending 4/30/2026, \$263,199 in capital and \$114,044 in O&M expenditures for the 12-month test year ending 4/30/2027. Staff recommended this disallowance based on a lack of information provided by the company through testimony, exhibits, and audit responses supporting the immediate need for this project. (6 TR 4351.) This project is intended to upgrade the current version of Papyrus Objects to the newest available version. (3 TR 722.)

Through audit Staff learned that vendor support and cybersecurity patches for the current system will continue to be supplied to the Company by the vendor if they do not complete the upgrade now. (Exhibit S.14.1, p 9.) Staff also asked the Company if the vendor indicated when support would end for those who have not upgraded. In response, the Company shared that the vendor has not established a definitive end date for support and security patches of the current version. The Company also stated that the vendor has historically continued providing support if the Company maintained its annual maintenance agreement. Staff felt the Company simply provided reasoning for why this project could be necessary but

failed to support the immediate need for it. (6 TR 4351 - 4352.) Additionally, Staff notes this project has not previously been recommended for disallowance but believes that the new evidence learned in this case supports a change in Staff's position. (6 TR 4352 - 4353.)

In rebuttal, the Company did not agree with Staff's disallowance because it feels this project is important to mitigate risk for technological obsolescence. The Company further argues that maintaining a current software release ensures applications receive necessary security patches, vendor fixes and functional enhancements. (3 TR 772.) Staff agrees that these updates are necessary and that is why it asked the Company in audit if these services would continue to be provided by the vendor if the system is not upgraded now. Furthermore, the Company states in audit that the vendor has indicated it will continue to provide cybersecurity patches, but they *may* only apply to future releases. Additionally, the Company states it *may* be required to upgrade to a more recent version to apply certain patches from the vendor. (3 TR 772 - 773.) Again, the Company has not provided definitive information that the vendor will no longer support older versions and that the Company must upgrade or lose support by a given date. Staff believes that any use of the word "may" indicates the Company has failed to provide enough proof of the immediate need for this project. Finally, the Company notes that the application has not been updated in over two years but has not reported any problems or issues with receiving necessary support from the vendor with the current version over the past 2 years. (3 TR 772.) If there are no issues

reported with the current version, and the vendor has not given a definitive end date for support, Staff does not feel this project is reasonable and prudent at this time. The Commission should disallow \$394,799 in capital expenses and \$114,004 in O&M expenditure.

j. Consumers conceded to Staff's web dashboard redesign adjustment in rebuttal.

Consumers conceded to Staff's web dashboard redesign adjustment in rebuttal. Therefore, there is no delta between Staff and Consumers.

k. Consumers conceded to Staff's web rebate for personalization adjustment in rebuttal.

Consumers conceded to Staff's web rebate for personalization adjustment in rebuttal. Therefore, there is no delta between Staff and Consumers.

l. Consumers conceded to Staff's electric – service restoration artificial intelligence adjustment in rebuttal.

Consumers conceded to Staff's electric – service restoration artificial intelligence adjustment in rebuttal. Therefore, there is no delta between Staff and Consumers. However, Staff recommends disallowances to the bridge period and projected test year for the Artificial Intelligence Project.

Staff witness Duell recommends a disallowance towards the Company's Artificial Intelligence Project in the amount of \$31,082 for the bridge period and \$56,805 for the projected test year (6 TR 4402,4403). Staff recommends these

disallowances because the Company discovered, when replying to Staff's discovery question, that the Company miscalculated the Non-Labor other expense in both the bridge period and projected test year for the Artificial Intelligence Project. (6 TR 4402 - 4403).

Consumers witness Stacy Baker testified in rebuttal that the Company agrees with Staff's recommendation to disallow \$31,082 for the bridge period and \$56,805 for the projected test year for the Artificial Intelligence Project based off the Company's miscalculations for the requested expenses. (3 TR 784.)

Staff recommends that the ALJ and Commission adopt Staff's disallowance of \$31,082 for the bridge period and \$56,805 for the projected test year for the Artificial Intelligence Project. Consumers conceded to this adjustment in rebuttal, therefore there is no delta between Staff and Consumers.

4. Staff recommends reducing Consumers' operations support capital expenditures by \$10,184,000.

The Commission should reduce the Company's projected operations support capital expenditures by \$10,184,000. (Appendix E, Line 36.) One Staff adjustment and two Consumers concessions are described below.

a. Staff recommends reducing facilities & shared services – control/dispatch centers capital expenditures by \$10,184,000.

Staff recommends reducing facilities & shared services – control/dispatch centers capital expenditures by \$10,184,000, which is a \$6,254,000 reduction to

rate base. (Appendix E, Line 35.) This involves recommended disallowances to the bridge period and projected test year for the Control/Dispatch Center Project.

Staff witness Duell recommends a disallowance of \$2,435,500 to the bridge period for the control/dispatch center project. (6 TR 4400.) Staff reviewed the Control/Dispatch Center project, and, in MPSC Case No. U-21585, the Company projected spending \$4,400,000 in 2024. (6 TR 4400.) In this instance, the Company stated they spent \$2,406,000 in 2024. (6 TR 4400 - 4401.) Since the Company underspent by nearly half that which was requested and included in the calculation of rates previously, Staff recommends disallowing half, or \$2,435,500, of what the Company is requesting for the bridge period. (6 TR 4400 – 4401.) Staff witness Duell also recommends a disallowance of \$7,748,500 for the projected test year, or half of the projected expenditure. (6 TR 4401.)

Sebastian Coppola, a witness for the Attorney General, testified, stating that the Company has not made a compelling and convincing case that having two fully staffed control/dispatch centers is advantageous and in the best interest of customers. (3 TR 2491.) AG witness Coppola recommends the Commission reject the proposal and remove the forecasted capital expenditures of \$10,746,000 for the bridge period and \$15,497,000 for the projected test year. (3 TR 2491.). AG witness Coppola also states that, if the Commission decides to approve the Company's proposal for the control/dispatch center, then the forecasted savings of \$7.8 million should be included as a reduction to the Company's forecasted O&M for the projected test year. (3 TR 2491.)

Consumers witness Snider rebutted Staff's recommendation of disallowing \$2,435,500 for the bridge period and \$7,748,500 for the projected test year for the Control/Dispatch Center project, stating the proposal "to disallow half of the Company's requested \$4.871 million in bridge period capital expenditures is based solely on a comparison of projected versus actual 2024 spend." (3 TR 2179.) Company witness Snider goes on to state that the Commission denied prior projected spend that was requested for the Control/Dispatch Center in Case No. U-21585 and the Company should not be held to the amounts it had planned to spend that were not approved. (*Id.*)

Consumers witness Snider rebutted witness Coppola's recommendation, testifying that full staffing at both centers is essential for operational resilience and risk mitigation. (3 TR 2176.) Company witness Snider goes on to state that the Company has had to stand down operations at their Jackson location multiple times due to tornado warnings or other weather-related threats during which control was transferred to Grand Rapids. (3 TR 2176.) These scenarios warranted a back-up location so the Company can operate during a storm without any interruptions. (3 TR 2177.)

After reading and reviewing Consumers rebuttal testimony, Staff's opinion is still that the ALJ and Commission should adopt Staff's recommendation to disallow \$2,435,500 for the bridge period and \$7,748,500 for the projected test year for the Control/Dispatch Center project. Staff reviewed the U-21585 order (MPSC Case No. U-21585 03/21/2025 Order, p 181-182) and found that the ALJ and AG

both agreed that the Company was projecting expenses for both the bridge period and test year for which it hadn't even secured bids for design and engineering services for the project, and that the Commission denied the entire capital expenses requested by the Company for this reason. In addition, these capital expenses that were denied by the Commission were for the bridge period of 14 months ending 02/28/2025 and the projected test year of 12 months ending 02/28/2026. (*Id.*) For the Company to base their rebuttal on not having the funds to work towards completion of the Control/Dispatch because of the Commission's order in MPSC Case No. U-21585 which disallowed all capital expenditures for the Control/Dispatch center project is not accurate. The 2024 expenditures that were requested in the U-21585 rate case were not denied until March of 2025. In theory the Company should have been operating under its plan to spend \$4,400,000 in 2024, as it projected in U-21585. Instead, the Company only spent \$2,406,000. Therefore, Staff still recommends its disallowances.

b. Consumers conceded to Staff's facilities & services – emergent repairs adjustment in rebuttal.

References in the Record: Hansen, 6 Tr 4314-4316, Ex. S-12.0, Ex. S-12.1; Guinn, 3 TR 629, Ex. A-102 (QAG-3).

Consumers conceded to Staff's facilities & services – emergent repairs adjustment in rebuttal. Therefore, there is no delta between Staff and Consumers.

More specifically, the Commission should reduce the Company's Emergent Repairs capital expenditures by \$948,800. In rebuttal, the Company conceded this

adjustment, therefore, there is no delta between Staff and the Company for this project. (3 TR 629.)

c. Consumers conceded to Staff's facilities & services – other equipment adjustment in rebuttal.

References in the Record: Hansen, 6 Tr 4314-4316, Ex. S-12.0, Ex. S-12.1; Guinn, 3 TR 629, Ex. A-102 (QAG-3).

Consumers conceded to Staff's facilities & services – other equipment adjustment in rebuttal. Therefore, there is no delta between Staff and Consumers.

The Commission should reduce the Company's Other Equipment capital expenditures by \$98,200. In rebuttal, the Company conceded this adjustment, therefore, there is no delta between Staff and the Company for this project. (3 TR 629.)

III. Capital Structure and Rate of Return

A. The Commission Should Adopt Staff's Recommended 9.75% return on equity (ROE) and 50.00% Equity Layer in the Ratemaking Capital Structure.

Staff recommends the Commission adopt its 9.75% ROE and 50.00% equity layer in the permanent capital structure. (6 TR 4523.) Staff's request is more reasonable than the Company's elevated request for a 10.25% ROE and a 50.75% common equity ratio. (3 TR 811.) In rebuttal, Consumers disputed Staff's common equity ratio, long-term debt cost rate, proposed change to the Company's future

short-term debt cost rate, and ROE recommendation. (3 TR 868 – 896, 4 TR 2796 - 2916.) Staff stands behind its well-developed capital structure and ROE recommendation.

B. Capital Structure Component Balances

- 1. Staff recommends a \$13,720,211,000 common equity balance that equates to 50.00% of the permanent capital structure.**

Staff recommends a common equity layer of \$13.720 billion, which represents a 50.00% equity ratio in the permanent capital structure. (6 TR 4531.) Staff adopted the Company's equity balance request of \$13.916 billion but then modified it by \$180 million to \$13.720 billion to reflect Staff's 50/50 capital structure recommendation. (6 TR 4531.) Staff's balance is in line with the 50.00% equity layer agreed to in the Company's previous electric order in Case No. U-21585 and aligns with the Commission's preference for a balance.¹

- 2. Staff recommends a \$13,682,687,000 Long-Term Debt balance that equates to 49.86% of the permanent capital structure.**

Staff recommends a \$13.683 billion Long-Term Debt (LT-debt) that is 49.86% of the permanent capital structure. Staff adopted the Company's LT-debt balance of \$13.465 billion as shown on Exhibit A-14, Schedule D-2, but then

¹ See language in MPSC Case No. U-21585, 3/21/2025 Order, p 232-233; MPSC Case No. U-18124, 7/31/2017 Order, p 45-46.

modified it by adding \$217.6 million to arrive at the recommended \$13.683 billion balance. The modification supports Staff's 50/50 capital structure standard. (6 TR 4531.)

3. Staff recommends a \$148,300,000 Short-Term Debt balance.

Staff recommends a \$148.3 million Short-Term Debt (ST-debt) balance. Staff's ST-debt balance coincides with the Company's recommended ST-debt balance, thus no issue with this capital structure component. (6 TR 4530.)

4. Staff recommends a Deferred Federal Income Tax (FIT) balance of \$4,629,000,000.

Staff recommends a Deferred FIT balance of \$4.629 billion. Staff's Deferred FIT balance coincides with the Company's Deferred FIT balance, thus no issue with this capital structure component. (6 TR 4530.)

5. Staff recommends a Preferred Stock balance of \$37,315,000 and a Job Development Investment Tax Credit (JDITC) balance of \$148,000,000.

Staff recommends a preferred stock balance of \$37.315 million and a JDITC balance of \$148 million. Staff's balances coincide with the balances presented by the Company in this case, thus no issue with these two components. (6 TR 4530.)

C. Capital Structure Component Cost Rates

1. **Staff recommends a long-term debt (LT-debt) cost rate of 4.37%.**

Staff recommends an LT-debt cost rate of 4.37%, as shown on its Exhibit S-4, Schedule D-2 Alternative. (6 TR 4535.) The cost rate is seventeen basis points less than the Company's requested 4.54% cost rate. Staff initially recommended an LT-debt cost rate of 4.45%, based on lower cost rate projections attached to the Company's \$1.125 billion in May & August 2025 & \$1.325 billion in May & August 2026 new debt issuances, along with a lower issuance credit spread. However, in May 2025, the Company issued \$1.125 billion in debt, at a cost rate substantially lower than what it projected for its 2025 issuances but chose not to revise its case. In Staff's analysis, after taking the actual lower issuance rates into account, Staff's recommended LT-debt cost rate lowered from 4.45% to 4.37%. Staff adopted the Company's other long-term debt fees and expenses to arrive at its recommended cost rate. The Commission should adopt Staff's updated 4.37% LT-debt cost rate as shown on its alternative Schedule D-2 and reject the Company's wholly unreasonable 4.54% cost rate. The change in Staff's original Exhibit S-4, Schedule D-2, also prompted a change to Staff's Exhibit S-4, Schedule D-1. Therefore, Staff recommends the Commission adopt Staff's Exhibit S-4, Schedule D-1 Alternative. Despite the obvious required change in the LT-debt cost rate, the Company still disagreed with Staff's long-term debt cost rate in rebuttal.

2. Staff recommends a short-term debt (ST-debt) cost rate of 4.92%.

Staff recommends an ST-debt cost rate of 4.92%, which agrees with the Company's cost rate. (6 TR 4534.) However, Staff has requested that the Commission disallow all costs associated with the Company's Scotiabank Revolver in future rate cases. The \$250 million Scotiabank Revolver has never been used since its inception in 2018 and is substantially down in the pecking order of facilities to be used when necessary. (6 TR 4537.) The Company has a more than adequate \$1.1 billion JP Morgan Revolver at its disposal without the need for the unnecessary and expensive Scotiabank revolver. Disallowing costs associated with the Scotiabank Revolver would save ratepayers approximately \$1 million per year. The Company rebutted Staff's position.

3. Staff agrees with the Company's cost rates for preferred stock, deferred income taxes and the blended cost rate methodology for JDITC.

Staff agrees with the Company's preferred stock cost rate of 4.50%, the zero percent cost rate for deferred income taxes and the blended cost rate of the permanent capital structure with respect to JDITC. (6 TR 4534.) Staff did not agree to the Company's 10.25% cost rate for common equity.

4. **Staff recommends an ROE range of 9.25% - 10.25% and a ROE of 9.75%.**

Staff recommends a 9.75% ROE, which is the midpoint of Staff's 9.25% - 10.25% range for the Company in this case. (6 TR 4523.) Staff developed its ROE range and recommendation using traditional ROE methods such as DCF, CAPM and bond yield + risk premium models. Staff also considered other ROE recommendations rendered by other state commissions across the country for comparison purposes. Staff's recommended ROE is summarized below along with the ROE recommendations of the parties that either provided an ROE analysis in this case or suggested a ratemaking ROE for Consumers Energy's Electric Division. The chart below also shows the average ROE of electric rate cases authorized by various commissions across the country from years 2021– Dec. 2024.

<u>Organization</u>	<u>ROE Recommendation</u>
Consumers Energy Electric ²	10.25%
MPSC Staff	9.75%
Attorney General (AG) ³	9.80%
Association of Businesses Advocating Tariff Equity (ABATE) ⁴	9.50%
Citizens Utility Board of MI. (CUB) ⁵	9.22%
Average Electric Authorized ROEs across U.S. in 2021- 2024 ⁶	9.57%

² Consumers Energy Electric Division – (Bulkley 4 TR 2720)

³ Attorney General – (Coppola 3 TR 2537)

⁴ ABATE – (Walters 6 TR 3746)

⁵ CUB – (Bandyk 6 TR 3945)

⁶ Staff – (6 TR 4548)

From the summary, you can see Staff's ROE recommendation is higher than the 4-year U.S. national average of 9.57% and is slightly below the AG's recommendation. Staff's ROE recommendation is much higher than ABATE's and CUB's ROE recommendations. With Staff's ROE being only 15 basis-points below the Company's current authorized ROE of 9.90%, this signifies that Staff's ROE recommendation is not a radical departure from the Company's current ROE but represents a reasonable and prudent landing spot. (6 TR 4549.) The Commission should reject the Company's unreasonable 10.25% ROE request and adopt Staff's fair 9.75% ROE recommendation.

D. Return on Common Equity Methodology and Development

1. Legal Guidelines and Proxy Group Development.

In determining a reasonable ROE, Staff relied on the guidelines set forth by the Supreme Court's decisions in the *Federal Power Comm v Hope Natural Case Co*, 320 US 951 (1944) and *Bluefield Water Works & Improvement Co v Pub Serv Comm*, 262 US 679 (1923). (6 TR 4538.) Staff's ROE recommendation supports a return that is sufficient to assure confidence in the financial integrity of the enterprise while also allowing the enterprise to maintain its credit and attract capital. Staff's ROE is also commensurate with return on investments with enterprises having corresponding risks. Thus, considerable judgement is used, in conjunction with the results of the cost of equity models, when determining a fair and reasonable ROE. (6 TR 4538.)

Because Consumers Energy is not publicly traded, Staff used a group of eight publicly traded electric utility companies to help establish a reasonable cost of equity range for the Company. Staff developed its proxy group using six criteria; 1) net plant greater than \$10.0 billion but less than \$37 billion; 2) 50% or more of revenues from regulated utility operations; 3) investment grade credit rating within three-four notches of Consumers Energy's credit rating; 4) current dividend payment to shareholders; 5) followed by 2 or more analysts as noted by Yahoo's Financial website; and 6) not involved in mergers, major corporate buyouts or significant selloffs. (6 TR 4539.)

Staff discussed the differences between the Company's proxy group and its proxy group and explained why Staff's group was a good fit to arrive at a sensible ROE for Consumers Energy in this case. (6 TR 4540.) The Company's proxy group included several very large utilities, each substantially larger in footprint, customer base and PP&E than Consumers and made them poor fits as a reasonable proxy company. Staff used its proxy group to provide a reasonable approximation of the Company's required cost of equity through its Discounted Cash Flow (DCF) and Capital Asset Pricing Model (CAPM) analyses. Staff also reviewed the credit rating of Consumers Energy in relation to Staff's proxy group. Consumers Energy's credit rating at "A" for S&P and "A1" for Moody's is 2-3 notches above that of Staff's proxy group (S&P: "BBB+"; Moody's: "Baa1"). Thus, Consumers is considered a much safer company than that of Staff's proxy group. (6 TR 4540.)

2. Cost of Equity Model Analysis

- a. **Staff's DCF model produced an average ROE of 9.76%**

The DCF model is described by the equation $[K = D_1/P + g]$ where the first part of the equation is the dividend yield, and the second part is the expected growth in dividends. (6 TR 4542.) Staff obtained the data for its DCF analysis using stock price data from Yahoo Finance, and dividend and growth rate statistics from industry experts such as Value Line and Zack's. Staff's DCF analysis yielded an ROE estimate of 9.76%. (6 TR 4543.)

- b. **Staff's historical CAPM analysis produced an average ROE of 10.05%. Staff's projected CAPM analyses yielded average ROE estimates of 7.85% and 9.04%.**

Staff provided three CAPM analyses, an historical CAPM analysis and two projected CAPM analyses. (6 TR 4544.) The CAPM equation is described by the formula $\{K = R_f + \beta*[E(R_m) - R_f]\}$ where the first part of the equation represents the risk-free return, and the second part is the return based on the riskiness of the security (reflected by beta β) as it relates to the overall market (called the market risk premium). To estimate the cost of equity using CAPM, one needs a risk-free rate, an estimate of beta for the proxy group, and a market return for a wide portfolio of assets. (6 TR 4544.) Staff used 30-year U.S. Treasury bond yield

forecasts as its risk-free rate⁷, the proxy group betas from Value Line and a historical market return from the Damodaran Online Stock, Bonds, and Bills website. (6 TR 4545.) For the projected CAPM analysis, Staff used projected market risk premium (MRP) data provided by Professor Aswath Damodaran from his Damodaran Online Finance website.⁸ The historical model produced an average ROE estimate of 10.05% and the projected models produced average ROE estimates of 7.85% and 9.04%. (6 TR 4546.)

c. Staff's Bond Yield + Risk Premium Analysis produced ROE estimates of 10.23% and 10.46%.

Staff provided two bond yield + risk premium analyses, an historical utility bond spread approach, and a historical Treasury-bond spread approach. (6 TR 4547.) Staff used a return period of 1931 through 2024 to obtain its historical electric market risk premium data and projected A-rated utility bond yield data from Value Line. Staff also incorporated an historical Treasury-Bond yield analysis roughly over the same period. The risk premium model produced an ROE estimate of 10.23% for the projected A-rated utility bond approach and a ROE estimate of 10.46% for the Treasury-Bond yield approach. (6 TR 4548.)

⁷ Staff used a 10% weight for the 2025 and 2027 risk-free rate estimates and a 80% weight for the 2026 estimate.

⁸ Damodaran On-line Home Page (nyu.edu)

d. **Other state commission authorized electric utility ROE decisions from 2021 through June 2025**

Staff reviewed the authorized return on equity decisions for electric utilities established by other state commissions across the United States for the years 2021 through June 2025. The average authorized ROE from those decisions was 9.38% for 2021; 9.54% for 2022; 9.60% for 2023; 9.74% for 2024; and 9.68% through June 2025. (6 TR 4548.) The full 4-year average ROE, from 2021-2024, was 9.57%. The data was derived from the RRA database, which provides up to date electric and gas ROE authorizations from utility rate cases across the United States.

e. **Summary of Results and Staff's Recommendation**

<u>Method</u>	<u>Range</u>	<u>ROE Result</u>
DCF		9.76%
Historical CAPM		10.05%
Projected CAPM using Damodaran – Trailing 12-month cash yield ERP		7.85%
Projected CAPM using Damodaran - 10-yr cash yield (smoothed) ERP		9.04%
Historical Risk Premium (Projected A-Rated Utility Bond)		10.23%
Historical Treasury Bond + Risk Premium		10.46%
<u>Average Electric Utility ROE Decisions Across the U.S. (2021 – 2024)</u>		<u>9.57 %</u>
ROE Recommendation	9.25% - 10.25%	9.75%

E. **Consumers Energy's rebuttal of Staff's capital structure, LT-debt cost rate and future short-term debt facilities revision.**

Company witness Bleckman rebutted Staff's common equity balance ratio, Staff's LT-debt cost rate recommendation, and proposed revision to Consumers future ST-debt cost rate. (3 TR 868.) Staff disagrees with the Company and will address the equity layer rebuttal first.

1. **The Commission should reject the Company's erroneous arguments for an equity layer above 50.0% and adopt Staff's common equity ratio.**

Company witness Bleckman argues that Staff's 50.00% common equity balance recommendation is understated for the Company in several ways. Mr. Bleckman alleges that Staff erred in its common equity balance development by 1) failing to correctly interpret the Company's credit rating and current regulatory environment; 2) not properly considering the impacts of a lower equity ratio and new circumstances that justify a change in the equity ratio; 3) not properly considering the average equity ratio of the Company's peer group in the development of Staff equity ratio. (3 TR 868.) The Company's arguments are not well-taken and Staff will briefly address each argument below.

- a. **The Commission should reject the Company's request for a higher equity balance due to credit rating and degraded regulatory environment concerns.**

The Company noted that Moody's revised its credit rating down a notch in May 2021 and suggested that Staff did not properly consider the Company's downgrade in its equity recommendation. The Company also noted that Staff's assessment of Michigan's regulatory environment was incomplete, and that Staff failed to consider the recent declines by S&P and other agencies in their rankings of the state's utility regulation. (3 TR 869 - 877.) Staff finds the Company's arguments unconvincing.

As Staff correctly pointed out, Moody's revision put the Company's credit rating more in line with the other two major ratings agencies credit rating. Additionally, both Moody's and S&P's most recent ratings reports affirmed their positive outlook on the Company and Michigan's proactive regulatory environment. (6 TR 4525.) Staff pointed out that the Company has both traditional and new regulatory mechanisms in place that address annual expenses and unforeseen hazards and business expenses that lower the Company's financial risk. (6 TR 4528.) All three ratings agencies indicated that the Company's FFO-to-Debt ratio, one of the primary factors in the consideration of a potential ratings action, was expected to maintain ratios above the downgrade threshold in the foreseeable future. (6 TR 4529.) Nonetheless, Mr. Bleckman asserts that the ratings agencies' projections of the Company's FFO-to-Debt ratio and regulatory environment were just assumptions that should be disregarded if market changes occur. (3 TR 876.) The Commission should disregard the Company's pessimistic view of the ratings agencies' assessment of the credit quality of Consumers Energy because, as Staff noted in its testimony, the ratings agencies have held Consumers credit rating steady much longer than they have altered it over the years. (6 TR 4524.) The Commission should reject the Company's erroneous arguments that either an increased ROE and/or an increased equity layer should be authorized due to potential regulatory environment or credit rating downgrade concerns.

- b. **The Commission should reject the Company's request for a higher equity layer due to supposed new circumstances and a potential reaction to a lower equity ratio.**

The Company argues that a lower equity ratio could cause harm to the Company in these economic times and that high degree of volatility and economic uncertainty has emerged in recent months due to revised U.S. trade policy, fears of an economic downturn, the federal government shutdown, and elevated negative geopolitical events happening across the globe. (3 TR 879.) The Company notes that this increased volatility calls for an equity layer to be above 50 percent to account for this instability and uncertainty. Again, the Company's arguments are erroneous.

To start, Staff is not requesting a lower equity layer for Consumers, but the same 50% equity layer that the Company is currently authorized. Thus, the notion that Staff is looking to decrease the equity layer is false. Second, market instability, uncertainty and increased economic adversity are macro in nature and impact the United States as a whole, not just Consumers Energy. With that said, economic uncertainty does not call for more financial burden to be placed on ratepayers, but less. The Company's request for a higher equity layer in this case, even with potentially turbulent times ahead, will only add to household costs and increase their burden. The Commission should reject that notion in full and authorize an equity layer at 50% and any argument for a higher equity layer needs to meet a very high standard to be even considered by the Commission.

- c. **The Commission should reject the Company's notion that Staff erred in not considering the Company's peer group equity ratios in its capital structure analysis.**

The Company alleges that Staff did not consider its peer group's average equity ratio when determining a reasonable equity ratio for the Company. (3 TR 883.) The Company calculated its peer group's average equity ratio at 51.85%, which they said was 185 basis points higher than Staff's 50.00% equity ratio request. (3 TR 883.) The Company also noted that Staff's proxy group's average equity ratio was 51.07%, which was 107 basis points higher than Staff's recommendation and 32 basis points higher than the Company's equity ratio recommendation. (3 TR 884.) Again, the Company's arguments are unconvincing.

Staff notes that the Company's peer group was not the Company's proxy group, so its analysis was not an apples-to-apples comparison. Additionally, the Attorney's General provided substantial push-back against the Company's peer group equity ratio analysis. (6 TR 2531.) The AG noted that several of the equity layers shown in the chart on the Company's Exhibit A-29 (MRB-10) were from gas decisions, which were improperly included and improperly inflated the equity ratio in this electric rate case. Second, the AG also noted that several utilities used in the analysis were exceptionally small utilities, i.e. not remotely comparable to Consumers, and thus were not only ill-suited as comparable companies to Consumers but also had the tendency to inflate the equity ratio in the Company's exhibit. (6 TR 2532.) Hence, there are several issues with the Company's peer group equity ratio analysis, from cherry-picked companies to potentially stale data

inputs, that suggest it is unsuitable for consideration as a reasonable comparison to Consumers equity layer requirement.

Third, Staff did not include its proxy group's average equity ratio or ROE in its analysis. Thus, the Company's notion that Staff's proxy group's average equity layer should have been considered in its recommendation, only because it was above 50%, does not hold up to scrutiny. The Commission should dismiss the Company's myriad equity-layer increase arguments and support Staff and the other intervenors 50/50 capital structure recommendations. The Commission's adoption of a balanced capital structure in this case, as in the Company's last rate case, sends the message that equilibrium going forward should be the preferred capital structure for Consumers Energy.

2. The Commission should reject the Company's rebuttal argument for a higher LT-debt cost rate.

In rebuttal, the Company rejected Staff's LT-debt cost rate of 4.37%, arguing that Staff's 30-year U.S. Treasury rate for the Company's projected 2026 debt issuances was stale, and the credit spread Staff used in its analysis was understated. (3 TR 886.) Staff disagrees with the Company's conclusions.

To start, the Company accepted Staff's inclusion of the actual cost rates for Consumers debt issuances in May 2025, which the Company failed to update in its case though it had ample time to do so. The Company then complains that Staff's 2026, 30-year U.S. Treasury bond forecast was understated based on a Company suggested update of the 30-year bond rate projections. However, the Commission

should maintain Staff's 2026 cost rate for the Company's 2026 projected 30-yr bond issuances because the rates could be viewed as favorable. To explain, the Company inputs 30-year debt issuances as standard projected debt in all of its rate cases. Staff does not dispute this position and projects the Company's debt as 30-yr debt accordingly. However, the Company has not issued 30-year debt since August 2022 and appears to not be abandoning that practice. For instance, in this case, the Company forecasted \$1.125 billion in 30-year debt for 2025. However, in May 2025, the Company issued \$1.125 billion in 5-yr and 10-yr debt installments. The actual cost rate of the 5-yr and 10-yr debt was substantially less, hundreds of basis points less, than what Staff and the Company had projected for the 30-yr debt issuances in the rate case. Thus, Staff stands behind its original 2026, 30-yr debt issuance cost rate used in its analysis as reasonable.

Staff also stands behind its credit spread of 1.00%. The Company claims that Staff's analysis of its credit spread was not an apples-to-apples comparison because Staff considered spreads of different debt maturities in its cost rate analysis. (3 TR 888.) However, Staff relied on credit spreads from the Company's most recent debt issuances in May 2025 and the Company's last 30-yr debt issuance in August 2022. The Company's 2025 average debt issuance credit spread was 77 basis points for the 5 & 10-yr debt maturity and 125 basis points for the August 2022 30-yr issuance. Thus, 100 basis points spread is a reasonable middle ground. Even more compelling, the Company's request for a 138 basis-point credit spread on the issuance of 30-year debt, suggests that 60+ basis points in financing

spread is required to issue 30-yr debt as opposed to 5-10-yr debt in 2025. That level of spread increase is simply overblown and unreasonable, and Staff's 100 basis-points credit spread is very sensible. The Commission should reject the Company's arguments for a higher LT-debt cost rate and adopt Staff's reasonable cost rate of 4.37%.

3. **The Commission should adopt Staff request to remove all costs associated with the Scotiabank Revolver from Consumers' short-term debt cost rate in future rate cases and reject the Company's rebuttal to include those costs.**

Staff argued that the Commission should remove all costs associated with the \$250 million Scotiabank Revolver in the Company's ST-debt cost rate in future rate cases. In rebuttal, the Company argues that the revolver is necessary, has been used recently and multiple letters of credit are currently issued against the facility. (3 TR 890.) Staff disagrees.

First, the Company makes numerous novel and unsubstantiated claims in its rebuttal. In Staff witness Megginson's direct testimony, Mr. Megginson suggested that any letter of credit issued against the Scotiabank Revolver facility could be redirected to the Company's \$1.1 billion JP Morgan revolver. (6 TR 4536.) However, in rebuttal, the Company claims that the JP Morgan revolver has a \$100 million limit for letters of credit, and a current maximum of only \$50 million. (3 TR 892.) This claim is not only novel and unsubstantiated but is the first time the Company has brought up or even mentioned a so-called letter of credit limitation

with the JP Morgan facility. The Company then fails to explain why the so-called \$100 million limitation in letters of credit to the JP Morgan facility is currently maxed out at \$50 million. The Company then claims that the letters of credit are customary and directly related to MISO compliance requirements in their energy markets. The Company made no mention of this financial obligation to MISO in direct testimony and again, these arguments are new, wholly unsubstantiated and unsupported. The Company then claims that since the letters of credit exceed \$100 million, the JP Morgan revolver is unusable, and the Scotiabank revolver is necessary. Again, the Company's arguments are novel and unsupported, especially since the Company only shows approximately \$86 million in letters of credit. The Company does not explain why there is a limit to letters of credit being issued against the JP Morgan revolver or point to language that explains or shows the \$100 million limitation. Second, the belief that the \$250 million Scotiabank revolver has more letter of credit capacity than the \$1.1 billion JP Morgan revolver seems dubious at best. Even with \$500 million of the JP Morgan revolver being used as a financial backstop to the Company's \$500 million commercial paper facility, that leaves \$600 million in open capacity. That is well over double the open capacity of the \$250 million Scotiabank revolver, yet the Scotiabank facility has more letters of credit legroom than the JP Morgan facility. That seems implausible.

The Company also points to its Exhibit A-39, (MRB-20) that supposedly shows that its credit facilities are in line with its peer utility companies. However,

the Commission should view this exhibit with caution and primarily focus on one company in that exhibit. Though the Company shows revolver capacities for several companies, the Commission should pay primary attention to the DTE Energy Company, Consumers primary competitor here in Michigan. According to the exhibit, DTE Energy has ST-debt revolver capacity of \$1.1 billion, covering a net PP&E base of approximately \$30 billion. Consumers shows a ST-debt revolver capacity of 1.35 billion covering a PP&E base of approximately \$26 billion. Thus, DTE Energy has less short-term revolver capacity than Consumers Energy, even though it covers more PP&E. Therefore, Consumers Energy's ST-debt capacity appears to be excessive, and with the Company's utilization of its revolvers being woefully inefficient, the Commission should disallow all costs associated with the Scotiabank Revolver in future rate cases.

4. **Staff recommends the Commission reject portions of the Company's DCF, CAPM and Bond Yield + Risk Premium ROE model analysis, as outlined in Staff witness Megginson's direct testimony.**

- a. **The DCF analysis**

Staff disagrees with aspects of the Company's DCF analysis, namely the unreasonableness of some of the growth rates the Company used. Staff noted that the growth rate used for Dominion Resources, Inc. had growth rates well over 13.0% from S&P and Zacks, while Value Line showed a growth rate of 3.5%. (6 TR

4551.) This suggested wildly divergent growth rates used in the Company's analysis that had the consequence of unduly boosting the Company's average and median ROE estimate. The Commission should view the Company's DCF analysis with caution.

b. The Projected CAPM & Empirical CAPM (ECAPM) analysis

Staff disagrees with the Company's Projected CAPM approach and the ECAPM approach in general. (6 TR 4553.) The Company's Projected CAPM analysis uses an over-inflated projected market risk premium (MRP) that renders the ROE estimate unreasonable. (6 TR 4552.) Staff indicated that the Company used a projected overall market return of 12.58% in its CAPM analysis. That return appears elevated because, after subtracting out risk-free rates of 4.30% - 4.61%, the return produces market risk premiums of 7.97% - 8.28%. Staff noted that those MRPs were substantially higher than the historical MRP of around 7.0% and substantially higher than Professor Damodaran's MRPs of 4.2 - 6.2%. (6 TR 4552.) Those high MRPs produce overblown CAPM ROE estimates that are outliers and unacceptable for consideration.

With respect to the ECAPM, Staff disagrees with the Company's ECAPM analysis in general. (6TR 2555.) Staff maintains that the inputs used in the traditional CAPM analysis already account for most of the shortcomings that the ECAPM is purportedly designed to capture. Staff notes that the use of long-term risk-free rates and adjusted betas in its model, incorporates much of the desired

effect of the ECAPM adjustment. (6 TR 4554.) Staff provided a mathematical illustration highlighting the use of adjusted betas in the ECAPM equation that rendered the ECAPM approach unnecessary. (6 TR 4554.) Staff, the Company and intervenors all use long-term risk-free rates and adjusted betas in their ROE analyses. Thus, the traditional CAPM analysis provides a reasonable ROE estimate without the need for an ECAPM adjustment. The Commission, as it has in the past, should reject all ECAPM estimates.

c. The Bond Yield + Risk Premium (BYRP) Approach

Staff notes that the Company's BYRP approach is complicated and circular and should be given very little weight by the Commission. The Company uses average authorized electric ROEs from 1980 through the first quarter of 2025 as an input into its BYRP analysis. The Company then conducts several more steps to arrive at an average equity risk premium of 5.44%. However, the Company does not use that figure but elevates that figure to 6.06% - 6.19% in its final analysis. (6 TR 6555.) The Company asserts that due to the inverse relationship between interest rates and the equity risk premium, in this environment where projected interest rates are lower than historical rates, the Company had to increase its equity risk premium. (4 TR 2903.) Staff asserts that reviewing other authorized ROEs from across the country is reasonable to use in a comparable fashion. However, to use authorized ROES as a market return input into a cost of equity model, and then to massage the data with confusing rationale to get the Company's

desired result, is circular, abstract and a nonstarter. (6 TR 4556.) The Commission should give very limited to no weight to the Company's BYRP approach.

5. The Commission should reject the Company's rebuttal arguments against Staff's ROE analysis and ROE recommendation.

The Company's ROE witness, Ann Bulkley, rebutted Staff's 9.75% ROE recommendation in favor of the Company's over-inflated and unreliable 10.25% recommendation. (4 TR 2797.) To summarize the Company's ROE rebuttal, Ms. Bulkley provides an updated cost of equity analysis as of September 2025, that supposedly reinforces the Company's support of its over-inflated 10.25% ROE. Ms. Bulkley's rebuttal then readjusts Staff's and the other intervenors cost of equity analyses with inputs of her own choosing that supposedly show an increase in the intervenors cost of equity that mirrors the Company's 10.25% recommendation. Ms. Bulkley then rehashes the Company's disagreement with Staff, and the other intervenors supposed non-consideration of current market and economic conditions in their analyses. The Company then rebuts Staff's proxy group development and portions of Staff's model analysis and emphasizes approval of the Company's unreliable inputs into its CAPM and Risk Premium analyses, as well as the Company's erroneous ECAPM approach. (4 TR 2798 - 2916.) Staff stands behind its analysis and finds the Company's rebuttal unconvincing.

There are some interesting outtakes in Ms. Bulkley's rebuttal. On pages 10 through 12 of Ms. Bulkley's rebuttal, she notes her agreement in recognizing that current and past authorized returns from other jurisdictions are relevant to investors and important in the recommendation of a utility's authorized ROE. (4 TR 2802 – 2804.) That sentiment aligns with Staff's position. Ms. Bulkley's then conducts her own evaluation of average ROEs from rate cases around the country in the past five years, applying her own screening criteria. (4 TR 2803.) From Ms. Bulkley's own analysis, the average 5-yr ROE from her study is 9.71%. This average ROE is less than Staff's 9.75% recommendation in this case and completely undermines the Company's request for a 10.25% ROE. Most importantly, the Company's own analysis considered only vertically integrated electric utilities much like Consumers Electric, excluded limited-issue rider cases, excluded formula-based ROE jurisdictions, and excluded certain utilities and jurisdictions that made fair-value adjustments to their ROEs or provided utility-specific penalties to the ROE that didn't reflect market-based forces. With an average ROE of 9.71% from the analysis, Staff's 9.75% ROE stands out as favorable and should be adopted.

With respect to the Company's rebuttal of Staff's proxy group, the Company makes a novel suggestion to Staff's proxy selection criteria. The Company primarily disputes Staff's use of a net plant size criterion of \$10.0 billion to \$37.0 billion, claiming Staff's net plant criteria was arbitrary and unsupported. (4 TR 2817-2821.) The Company then hypothetically applied Staff's net plant criteria to

its own proxy group and came up with a list of eight utility companies, the same number of proxy utilities as Staff. (4 TR 2819.) Nonetheless, the Company then argues that instead of using a net plant screen that Staff applied to its proxy group, Staff should have applied the Company's novel size premium adder from a study conducted by *Kroll* as shown in Ms. Bulkley's Figure 6 on page 29 of her rebuttal. (4 TR 2821.) Consumers concludes that Staff should have adopted the Company's proxy group and then just adjusted its DCF and CAPM analysis results by the size premium figures shown in the *Kroll* study. (4 TR 2820.) However, Staff disagrees with that methodology and concludes that there is no merit to the erroneous size premium adder approach. Staff made clear in its testimony that its net plant criterion was used to better reflect comparable companies to the size and footprint of Consumers Electric division. The Company's unreasonable and arbitrary size premium adjustment approach is erroneous and should be rejected in its entirety by the Commission.

With respect to the Company's rebuttal of Staff's ROE analysis, any potential data changes the Company suggests that should be inputted into Staff's analysis, does not alter Staff's recommendation. The bottom line is Staff's 9.75% ROE is very reasonable in this current economic environment, along with Staff's 50-50 capital structure recommendation. The Commission's previous approval of risk-reducing cost recovery mechanisms and regulatory upgrade programs, as well as surcharge authorization for the various programs, practically gives the Company 100% risk-free investment. This reduced risk, as well as the Company's

annual request for revenue increases, both in its electric and gas divisions, calls for a more balanced ROE along the lines of Staff's recommendation. The Company's rebuttal of Staff's ROE analysis and recommendation is unpersuasive, and the Commission should adopt Staff's 50.00% equity-based capital structure and 9.75% ROE recommendations.

IV. Net Operating Income

Reduced to its essence, Adjusted Net Operating Income (NOI) is the difference between a company's operating revenues and operating expenses for the projected test year. *In re Detroit Edison's 2010–2011 Rate Case*, MPSC Case No. U-16472, 10/20/2011 Order, p 41.

A. **Staff recommends total adjusted net operating income of \$737,124,000.**

Staff witness Nichols testified that Staff's initially filed total company net operating income (NOI) was \$ 737,882,000. (6 TR 4565.) The main factors driving Staff's overall adjustment to the Company's initially filed NOI were, and continue to be, its increase to sales with offsetting PSCR expense, its reductions in O&M expense, depreciation expense, and property tax expense.

In this brief, Staff has decreased its proposed total NOI to \$737,124,000. (Appendix C, Line 35.) Staff's total adjusted NOI is now \$29,479,000 more than the Company's total adjusted NOI, as revised in its rebuttal testimony, of

\$707,646,000. (Exhibit A-213 (PDD-68); Appendix A, Line 2.) Staff's adjustments are detailed below.

1. **Staff recommends total operating revenues of \$5,046,514,000.**

a. **Staff recommends total sales revenue of \$4,784,306,000.**

Consumers projects that its total sales revenue will be \$4,758,415,000 in the projected test year, while Staff's projection is \$4,784,306,000. (Appendix C, column b.) Staff's sales revenue is \$25,891,000 greater than Consumers' because of Staff's \$25,891,000 increase for sales projection, which increases the PSCR offsetting expense by \$11,587,000. (Appendix C, column f.)

i. **Staff Recommends a test year deliveries forecast of 34,139,696 MWh and a test year average monthly customer count of 1,918,109 (exclusive of LTILRR/LED customers and Grand Rapids Streetlighting customers and deliveries)**

Background

The Company recorded total calendar month deliveries of 36,780 GWh in 2024, composed of 33,197 GWh of bundled sales and 3,583 GWh of choice sales in 2024. (Exhibit A-5, Schedule E-1, page 1, column (e), lines 5, 10, and 15). After being adjusted for the effect of weather, 2024 total sales amounted to 36,776 GWh, of which 33,207 GWh were bundled deliveries and 3,569 GWh were choice deliveries. (Exhibit A-5, Schedule E-1, page 2, column (e), lines 20, 25, and 30). Weather normal 2024 commercial bundled sales amounted to 12,653 GWh,

composed of 11,711 GWh of bundled deliveries and 942 GWh of commercial choice deliveries.

Company witness Eugène M.J.A. Breuring sponsors the forecast of electric deliveries⁹ in the May 2026 – April 2027 test year¹⁰ which is projected to be 38,662 GWh on a calendar month basis. (Exhibit A-15, Schedule E-1, Page 1, column (e), line 3). This sales total is comprised of 12,599 GWh sold to residential customers, 12,454 GWh sold to commercial customers, 13,464 GWh sold to industrial customers, and 145 GWh sold to all other¹¹ customer classes. (*Id.*, columns (a-d)). Bundled deliveries in the projected test year sum to 35,115 GWh, and are comprised of 12,599 GWh of deliveries to residential customers, 11,554 GWh of deliveries to commercial customers, 10,817 GWh of deliveries to industrial customers, and 145 GWh of deliveries to all other customer classes. (*Id.*, line 9, columns (a-e)). Choice deliveries are expected to be 3,548 GWh in the test year, and consist of 901 GWh sold to commercial customers, and 2,647 GWh sold to industrial customers. When sales to long term industrial load retention rate (LTILRR) customers, large economic development (LED) customers, and Grand Rapids streetlighting sales are removed from the test year sales forecast, according to Commission approved practice, the sales projection for the test year amounts to

⁹ i.e. sales, measured in gigawatt-hours, GWh, or megawatt-hours, MWh.

¹⁰ The projected test year in this case.

¹¹ “Other” is comprised of sales to the streetlighting and interdepartmental customer classes.

33,918,733 MWh on a cycle billed basis. (Exhibit A-15, Schedule E-3, Page 1, column (d), lines 44 and 46).

A distinction must be made between the Company's forecast for deliveries on a calendar month basis, and the Company's forecast of deliveries on a billing cycle basis. Sales data is recorded according to the billing cycle for a given period of time. Often, this period does not correspond neatly with the beginning and end of a calendar month. To produce an estimate of sales recorded within the bounds of each calendar month, the Company must adjust the cycle-billed sales. Cycle-billed sales are the inputs to the Company's forecasting regression models and are used as rate determinants as well.

Staff witness Paul Ausum recommends that the Company's forecast of electric deliveries to commercial customers sponsored by Company witness Eugène M.J.A. Breuring be increased by 204,656 MWh for commercial customers receiving bundled¹² service, and 16,308 MWh for commercial customers receiving choice¹³ service. Staff's adjustment is the result of modifications made to the Company's own econometric regression models used to predict energy demand. (6 TR 4271-4272.) Witness Ausum describes how Staff's incremental adjustment to the commercial class forecasts is allocated amongst the rate schedules according to the Company's 2024 P-521 Annual Report. When Staff's adjustment is added to the sales forecast shown in Exhibit A-15, Schedule E-3, the projection for the test year

¹² Also referred to as "full service".

¹³ Also referred to as "retail open access".

amounts to 30,570,765 MWh for bundled customers, and 3,568,931 MWh for choice customers, for a total test year forecast of 34,139,696 MWh. (Exhibit S-15.0, Page 1, column (f), lines 41-46).

Witness Ausum describes the modifications Staff made to the Company's commercial models in their native format. (6 TR 4275-4281.) The Company forecasts commercial customer load with two separate regression models. One model has total commercial load (in MWh) as a dependent variable, and the other model places commercial kWh use per customer (upc) as the dependent variable, which is then multiplied by the forecasted number of commercial customers (derived from separate model entirely) to arrive at a total MWh forecast. The Company combines the forecasts giving 60% weight to the output of the model of total commercial load, and 40% weight to the commercial use per customer model output, before adding in an exogenous forecast of electric vehicle load and adding back in forecasted energy efficiency gains. (6 TR 4275-4276, Exhibit S-15.2). The principal difference in Staff's modeling approach and resulting adjustment is a total emphasis on the use per customer modeling framework as opposed to a combination of total delivered MWh and use per customer. Witness Ausum shows that, with no other modifications, placing 100% weight on the Company's commercial upc model alone gives more accurate forecasts of load over a recent timeframe¹⁴ than the total commercial load model. (*Id.*, Exhibit S-15.7). Beyond the fact that the upc model is more accurate and has better explanatory power

¹⁴ July 2024 – March 2025.

than the total commercial load model, Staff's preference for a upc model is due to the fact that the commercial class is comprised of over 200,000 customers, and with so large a class of customers, it is useful to differentiate between fluctuations in sales that are due to individual customer energy consumption versus growth in the number of customers taking service. (6 TR 4278.)

Staff's adjustment is largely due to the sole use of a upc model, as described above, but is also attributable to other small changes made to the model inputs. Witness Ausum describes how the Company models both bundled and choice customer load together. (6 TR 4276.) After viewing the models in their native format, Staff realized that monthly historical choice customer counts as well as the projected number of choice customers were seemingly omitted from the commercial upc model. If bundled and choice customers belonging to the commercial class are to be modeled together in a upc framework, Staff believes it important that choice customer counts be included, so as not to distort the model's output. Thus, the second major difference in Staff's approach when compared to the company's is a higher number of customers (choice customers) added to both historic and projected customer counts such that choice customers are properly considered within the model. (6 TR 4277-4278.)

Staff's model differs from the Company's in other, more nuanced fashions: while the same degree day¹⁵, cycle billing day, pertinent binary and COVID-19

¹⁵ Degree days capture customer consumption behavior related to changes in outside temperature.

variables are included in Staff's model, Staff elected to utilize an economic variable¹⁶ with a broader measure of commercial sector employment than the Company, with the rationale that Staff's chosen economic indicator would correspond with commercial customers that would otherwise go unconsidered. (6 TR 4278-4279.) Staff also elected to include an intercept (constant) term within its model, as it is standard practice to include in an ordinary least squares regression model, unless a special set of circumstances warrants its omission. (6 TR 4279.)

After all aforementioned changes were made to the Company's upc model, Staff estimated the regression equation. The in sample adjusted R^2 (which measures the model's ability to explain variation in the dependent variable within the training dataset) and mean absolute percentage error¹⁷ statistics corresponding with Staff's model are preferable to both the upc and total commercial load models used by the Company. (Exhibit S-15.10.) Staff's approach takes the upc model output and multiplies it by the output of the Company's commercial customer forecast (with choice customers added). In order to produce a comparable cycle billed test year forecast, added to this product are the exact external forecasts of electric vehicle load and commercial sector specific energy efficiency that the Company uses.

¹⁶ Total Non-manufacturing employment.

¹⁷ MAPE, which describes the average absolute percentage distance between the model's estimate for in-sample data and actual values for the variable the modeler is trying to forecast.

A test of Staff's chosen model on actual and weather normalized data from July 2024 – March 2025 reveals that the predictions from Staff's model are more accurate than the Company's, for both bundled and choice load. (Exhibit S-15.11, p 2-3, lines 50-53.)

Beyond the modifications made to the Company's models in their native format, Staff made additional adjustments to the output of its models to align with the forecast of commercial load included in the rate case filing attachments. Attachment 016 of the Part III filing attachments includes 60 months of forecasted load and customer counts. Staff observed a difference between the forecasts in Attachment 016 and the Company's modeling software. The response Staff received after inquiring about the difference did not include an explanation on the source of the adjustment. To remain consistent with the Company's forecasting methods, Staff calculated the difference between the Company's forecast in its native format and the attachment and applied that same difference to its model outputs to arrive at a final forecast of commercial deliveries in the test year.

Response to Company Rebuttal

In rebuttal, Company witness Breuring disagrees with Staff's recommended adjustment. (3 TR 957-966.) Staff responds to each point of contention in kind:

Historic Trend Analysis

The first criticism of Staff's approach that witness Breuring introduces is the fact that Staff's forecast adjustment would produce a growth rate for commercial bundled load that has not been experienced since the year immediately following the economic recovery from COVID-19. (3 TR 958.) The Company claims that the

growth rate resulting from the adoption of Staff's model output "would only be plausible under conditions of substantial expansion in EV adoption, economic activity, commercial customer counts, or a combination thereof." (3 TR 959.) The Company compared the economic indicator selected by Staff to the economic indicator it selected, and because growth rates in both indicators are comparable, the level of economic activity in the Company's service area is not a sufficient driver of the growth Staff expects. (3 TR 960.) The Company claims that Staff uses the same customer count projections in the revised model, so customer counts are not an adequate explainer of the increased load projections. (*Id.*)

Witness Breuring then warns the Commission not to rely too heavily on regression modeling as a tool for forecasting.¹⁸ Forecasters, witness Breuring claims, should also utilize the "human factor" and "judgment" to adjust forecast outputs to "reflect current conditions more accurately". (3 TR 960-961.) The hybrid regression and judgment-based approach utilized by the Company is superior to Staff's method. Even though Staff adjusted the regression output, the Company takes issue with the manner in which this adjustment was applied. (3 TR 962.)

First, it should be noted that Staff incorporated the same electric vehicle load forecast as the Company and *increased* the number of customers in the

¹⁸ Staff admits that this testimony is perplexing given the Commission has noted the Company's past advocacy for reliance on regression models over other methods for forecasting. See MPSC Case No. U-21585, 3/21/2025 p 253-261.

Company's customer forecast, which reduces the estimated upc¹⁹. Staff agrees that the economic indicator it chose has a similar growth rate to the Company's chosen variable. The primary driver of Staff's adjustment is **complete** emphasis on a upc model, which Staff believes is the more accurate and reasonable way to model commercial load. A hybrid forecasting approach could be useful as long as it produces more accurate forecasts, but the Company has not demonstrated that this is true. Staff inquired as to the post-regression, exogenous adjustments conducted by the Company to arrive at the sales projections shown in the Part III Attachment 016²⁰, and received no explanation as to the procedure and magnitude that would allow anything other than the application of the "same fixed value[s]" to its model outputs.

Statistical Significance of Intercept Term

Witness Breuring criticizes Staff's addition of an intercept (constant)²¹ term in the model on the basis that it does not meet the measures of statistical

¹⁹ kWh use per customer = (kWh total commercial load / customers). All else equal, a higher number of customers will lower the upc.

²⁰ Included as Exhibit S-15.3

²¹ In a **linear** regression model, the variable of interest is assumed to be a linear function of the parameters that are theorized to affect it. Most linear equations include an intercept term, β_0 , that describe the estimated level of the dependent variable, y , when the values of all other independent variables are zero. If the intercept term is omitted from the estimated model, it forces the regression line to go through the origin of the multi-dimensional model plane.

significance required for inclusion²². (3 TR 963.) Staff continues to maintain that the intercept term should be included in the model as long as there is no reason to omit it. If the Company's own criteria for variable selection were applied to some of its other models, then it would only be logical to remove the population variable from its commercial customer count model. (Exhibit S-15.1, p 2.) While statistical significance is a desirable feature of any econometric model, the models in question are being used to forecast future values for load and customers. The goal of any forecast model is to predict future values with the highest degree of accuracy that is reasonably attainable. Statistical significance, while important, is not the primary concern of a forecasting model. An ideal model is one that is both highly accurate and uses variables explain what causes variation in either load or customers with a high degree of certainty (as measured by t-statistics and p-values).

Usage of two commercial regression models

Witness Breuring maintains that the weighted model approach “does not inherently reduce accuracy; rather, it introduces a valuable level of flexibility” and “allows for cross-validation between different forecasting perspectives.” (3 TR 964.) Staff does not disagree that the weighting of two different models offers flexibility, but that the practicality of that flexibility is unapparent when the goal of any

²² A t-statistic with absolute value ≥ 2 and p-value less than 0.05. These statistics are used to gauge extent of the linear relationship between the independent and dependent variables and the contribution an individual independent variable has in explaining variation in the dependent variable.

forecast model is accuracy. If anything, a upc model offers *more* flexibility than any combination of models, because the effects of changes in end-uses can be included in the upc model to estimate the effects of changes in end-use stock and intensities with much more visibility than a model that places total load as the variable it seeks to explain variations in.

Conclusion

Staff's commercial forecasting model has better in-sample measures of model fit, and most importantly, proves more accurate than the Company's model in the time leading up to the test year. The Company's forecast should be increased to reflect these facts.

Staff is not persuaded by the Company's criticism of its modeling approach and continues to recommend to the ALJ and Commission that the test year deliveries forecast should be increased by 204,656 MWh for commercial customers receiving bundled service, and 16,308 MWh for commercial customers receiving choice service.

b. Staff recommends total wholesale revenue of \$0.

The Company projected that it would receive \$0 in wholesale revenue during the projected test year. (Appendix C, column c.) Staff recommends the Commission adopt the Company's projection.

c. **Staff recommends total other electric revenue of \$262,208,000.**

The Company projected that it would receive \$262,208,000 in total other electric revenue during the projected test year (Appendix C, column d.) Staff recommends the Commission adopt the Company's projection.

B. **Staff recommends total operating expenses of \$4,325,416,000 for the projected test year.**

Staff's recommended total operating expenses of \$4,325,416,000 is \$3,587,000 less than the Company's projection of \$4,329,004,000. (Appendix C, column n.) Staff breaks down this \$3,587,000 difference here, by category, and explains the difference below:

Power Supply Costs Expense	\$ 11,587,000
Other O&M Expense	\$(19,151,000)
Depreciation and Amortization Expense	\$ (4,790,000)
Property Tax	\$ (1,684,000)
Other (or local) Tax	\$ 64,000
State Income Tax	\$ 2,170,000
Federal Income Tax	<u>\$ 8,217,000</u>
Total Adjustments to Operating Expenses	\$ (3,587,000)

Staff takes no issue with the Company's recommended general taxes of \$36,638,000. (Appendix C, columns j.)

1. **Staff recommends total power supply costs expense of \$2,324,829,000.**

[References in the Record: Maio 6 TR 4472; Jerore 3 TR 1800]

Staff recommends total power supply costs expense of \$2,324,829,000, which is \$11,587,000 greater than the Company's projection of \$2,313,242,000. (Appendix C, column f.) (Appendix C, Line 4.)

Staff's direct testimony supported a \$12,228,000 PSCR cost. In rebuttal Consumers recommended that if the ALJ and the Commission adopt the Staff sales forecast, the PSCR cost should be updated to \$11,587,000. Staff accepts the Company's recommendation and has updated the PSCR cost to \$11,587,000 in this initial brief.

Staff witness Laura Maio recommended a positive adjustment of \$12,228,000 to the Company's power supply costs due to an increase in the Company's sales forecast, supported by Staff witnesses Madison Todd and Paul Ausum. (6 TR 4472.) The Company's power supply costs were calculated by multiplying the Staff's sales adjustment (excluding the Choice sales adjustment) by the PSCR base at sales level ($\$12,228,188 = 204,655.87 \text{ MWh} * \$59.75/\text{MWh}$). (*Id.*) This adjustment was necessary since the increase in the Company's sales forecast results in an increase in power supply revenues that must be offset with a corresponding increase in fuel and purchased power expenses to keep power supply costs equal to power supply revenues so that the power supply expenses do not have any impact on the revenue deficiency in this rate case. The power supply costs are reviewed and reconciled in the power supply cost recovery cases. (*Id.*)

In rebuttal, the Company proposed a total power supply cost increase of \$11,587,000. (3 TR 1800.) The Company explained that the updated power supply costs were determined through the Company's PSCR modeling software, Aurora. (*Id.*) The Company stated that this software calculated a more accurate power supply cost than the power supply cost adjustment of \$12,228,000 calculated by Staff, since the Aurora software utilizes additional inputs to calculate the power supply cost including but not limited to the sales forecast input, which was the only input used in Staff's PSCR cost adjustment calculation. The Company stated that the Staff witness Laura Maio's power supply cost calculation is a fair approximation of the increased Power Supply Cost Recovery ("PSCR") expense, however, for purposes of accuracy, it is overly simplified. (*Id.*)

Based on this explanation and for the purpose of this rate case, Staff accepts the Company's power supply cost increase of \$11,587,000 as opposed to the power supply cost increase of \$12,228,000 supported by Staff witness Laura Maio.

2. Staff recommends total other O&M expense of \$785,108,000.

Staff recommends total other O&M expense of \$785,108,000, which is \$19,151,000 less than the Company's rebuttal projection of \$804,259,000. (Appendix C, column g.) Staff has adjusted the following Other O&M Expense categories by the amounts listed (Appendix C):

Electric Division – Electric & Common

(a) LVD lines reliability	\$ (7,222,000)
(b) HVD lines reliability	\$ (821,000)
Reject Consumers concession	\$ 677,000
(c) LVD substation reliability	\$ (1,540,000)
(d) HVD lines demand	\$ (2,451,000)
(e) Staking	\$ (1,517,000)
(f) Alma equipment repair	\$ (201,000)
(g) Field operations – tools	\$ (1,057,000)
(h) Field ops – underground workforce	\$ (1,633,000)

Generation

(i) Emergent reliability funding	\$ (2,849,000)
----------------------------------	----------------

Information Technology

(j) Webchat AI	\$ (20,000)
(k) Digital infrastructure automation	\$ (160,000)
(l) ISIS papyrus	\$ (114,000)
(m) Program management	\$ (51,000)

<u>Incentive Compensation</u>	<u>\$ (193,000)</u>
-------------------------------	---------------------

Total Adjustments to Other O&M Expense	\$(19,151,000)
--	----------------

- a. **Staff recommends reducing LVD lines reliability O&M expense by \$7,222,000.**

See Section IV.B.2(h).

- b. **Staff recommends reducing HVD lines reliability O&M expense by \$821,000.**

See Section IV.B.2(h).

- c. **Staff recommends reducing LVD substation reliability O&M expense by \$1,540,000.**

See Section IV.B.2(h).

- d. **Staff recommends reducing HVD lines demand O&M expense by \$2,451,000.**

See Section IV.B.2(h).

- e. **Staff recommends reducing staking O&M expense by \$1,517,000.**

See Section IV.B.2(h).

- f. **Staff recommends reducing alma equipment repair O&M expense by \$201,000.**

See Section IV.B.2(h).

- g. **Staff recommends reducing field operations – tools O&M expense by \$1,057,000.**

See Section IV.B.2(h).

- h. **Staff recommends reducing field operations – underground workforce O&M expense by \$1,633,000.**

Staff will address the previous subsections (a) through (h) in a consolidated manner as follows.

Staff recommends reducing LVD lines reliability O&M expense by \$7,222,000. (Appendix C, Line 7.)

Staff recommends reducing HVD lines reliability O&M expense by \$821,000. (Appendix C, Line 8.) In rebuttal, Consumers reduced HVD lines reliability O&M expense by \$677,000. Staff rejects this smaller concession and continues to support its full adjustment. (Appendix E, Line 8.)

Staff recommends reducing LVD substation reliability O&M expense by \$1,540,000. (Appendix C, Line 9.)

Staff recommends reducing HVD lines demand O&M expense by \$2,451,000. (Appendix C, Line 10.)

Staff recommends reducing staking O&M expense by \$1,517,000. (Appendix C, Line 11.)

Staff recommends reducing alma equipment repair O&M expense by \$201,000. (Appendix C, Line 11.)

Staff recommends reducing field operations – tools O&M expense by \$1,057,000. (Appendix C, Line 13.)

Staff recommends reducing field operations – underground workforce O&M expense by \$1,633,000. (Appendix C, Line 14.)

Staff recommended these disallowances to the Lines Reliability LVD (\$7,222,000), Lines Reliability HVD (\$821,000), Substation Reliability LVD (\$1,540,000), Lines Demand HVD (\$2,451,000), Alma Equipment Repair, Tools (\$201,000), and Undergrounding Workforce sub-programs based on the Company provided year to date spend in those sub-programs being only a fraction of the projected spend for 2025 (\$1,633,000). (6 TR 4426-4434.)

Staff also recommends a disallowance of \$1,517,000 to the staking sub-program based on a reduction in the proposed staking volume increase. (6 TR 4430-4431.) This can be found below in Section VIII(B).

Company witness Michael P. Kelly rebuts Staff's recommendations, stating that many programs do not follow a linear monthly spend. (3 TR 1582.)

Company witness Kelly states that the Company constrained its O&M spending in the first half of 2025 following the catastrophic ice storm and subsequent severe weather in March and April of 2025. (3 TR 1580 – 1581.) After the Commission approved the deferral of the O&M expenses associated with the storm the Company has again focused on additional O&M and the Company is fully planning to spend at the projected amounts for LVD Lines Reliability O&M in the test year. (3 TR 1580.)

Company witness Kelly states in rebuttal that, while the Company's filed test year position for the HVD Lines Reliability sub-program is too high after further review, the test year's spending level should be set at the five-year average rather than the amount recommended by Staff. Company Witness Kelly refers to his rebuttal to AG Witness Coppola for further discussion. (3 TR 1581.)

Company witness Kelly rebuts Staff's proposed disallowance to the Substation Reliability LVD sub-program, stating that spending in this sub-program is not linear throughout the year. (3 TR 1582.) Company witness Kelly states that the Company is on track to spend significantly closer to its projected amount. (Id.)

Company witness Kelly rebuts Staff's proposed disallowance to the Lines Demand HVD sub-program, stating that the workforce that completes the work in this sub-program is also engaged in the HVD Lines Reliability capital projects and must balance the work between the programs. (e TR 1582 – 1583.) The Company is projecting a modest increase in HVD Lines Reliability capital work which will allow for more balance. (3 TR 1582.)

Company witness Kelly rebuts the Staff's proposed disallowance to the Staking and Locating sub-program, stating that looking at the Company's recent actual history is not sufficient. (3 TR 1583 - 1584.) The Company anticipates greater than normal growth in staking requests due to expansion of rural broadband infrastructure. (3 TR 1583.)

Company witness Kelly rebuts the Staff's proposed disallowance to the Alma Equipment Repair O&M sub-program, stating that it is incorrect to consider a single six-month period when assessing likely spending levels in the test year. (3 TR 1584.) Company witness Kelly states that the Company's test year projection is effectively in line with the Company's five-year average for this sub-program. (*Id.*)

Company witness Kelly rebuts the Staff's proposed disallowance to the Tools sub-program, stating that it is more appropriate to consider the Company's five-year average rather than just looking at one six-month period. (3 TR 1585.) According to Company witness Kelly, the Company's projected test year spending is essentially in line with the five-year average. (*Id.*)

Company witness Kelly rebuts the Staff's proposed disallowance to the Undergrounding Workforce sub-program, stating that the Company was not performing a significant amount of undergrounding work during the first half of 2025. (e TR 1585 – 1586.) However, the Company is planning to complete 50 miles of overhead to underground conversions in the test year according to Company witness Kelly. (*Id.*)

AG Witness Coppola states that the Commission should approve a disallowance to Staking and Locating based on the buildup in service requests and the move to a dedicated contractor approach instead of a shared contractor model. (3 TR 2574-2575.) AG witness Coppola states that the Company's proposed 7% growth rate for service requests is not reflective of the Company's own numbers and proposes use of the Company's actual rate of 2%. (3 TR 2574.) AG witness Coppola also states that no evidence has been presented by the Company in this case that supported a dedicated contractor approach be adopted throughout the Company's service territory. (3 TR 2573 - 2575.)

AG witness Coppola states that the Commission should approve a disallowance to the Lines Demand HVD sub-program and Lines Reliability LVD based on the Company's spending in the first eight months of 2025 along with a disallowance to the Lines Reliability HVD based on the Company re-evaluating their position. (3 TR 2578-2579.)

Company witness Kelly rebuts AG witness Coppola's proposed disallowances, stating that using historical actual levels does not sufficiently

represent the anticipated staking growth. (3 TR 1589.) Company witness Kelly also states that the Company operates a single Staking and Locating program for both its electric and gas businesses, that it would not be practical to use a dedicated contractor model for gas and a shared model for electric, and that the Commission approved the dedicated contractor model in the most recent gas rate case. (3 TR 1590-1591.)

Company witness Kelly refers to his rebuttal to Staff Witness Durfee in regard to AG witness Coppola's disallowance to the Line Reliability LVD and Lines Demand HVD Sub-program, agreeing that AG witness Coppola's recommendation is in line with the Company's revised position on Lines Reliability HVD sub-program. (3 TR 1592-1593.)

ABATE Witness Jessica York states that the Commission should approve a disallowance to the LVD Lines Reliability, HVD Lines Reliability and LVD Substation Reliability based on the lack of adequate support in this case for the increase in spending in these sub-programs. (6 TR 3679-3681.)

ABATE witness York states that the Commission should approve a disallowance to the HVD Lines Demand sub-program based on a lack of historical actual or projected work orders to support the increase in spending, along with a disallowance to the Staking sub-program based on claim that the historical data used to determine the Company's 7% increase in volume shows significant volatility and no apparent trend. (6 TR 3682-3684.)

Company witness Kelly rebuts York's recommended disallowances to LVD Lines Reliability, HVD Lines Reliability, LVD Substation Reliability and HVD Lines Demand stating that the Company supported the total Sub-program expenditures and also refers to his rebuttal to Staff witness Durfee and AG witness Coppola. (3 TR 1603-1604.) Company witness Kelly also states that the Company provided detailed unitized information that supports the projected increase in spending. (*Id.*) Company witness Kelly also refers to his rebuttal to Staff witness Durfee and AG witness Coppola regarding ABATE witness York's disallowance to the Staking sub-program. (*Id.*)

The Commission should approve Staff's disallowances to the Lines Reliability LVD, Lines Reliability HVD, Substation Reliability LVD, Lines Demand HVD, Alma Equipment Repair, Tools, and Undergrounding Workforce sub-programs. The Company's data on year-to-date spend in 2025 does not support the Company's projected spending.

The Commission should also approve Staff's disallowance to the Staking sub-program. The data provided by the Company does not support a 7% increase in requests.

i. **Staff recommends reducing emergent repair O&M expense by \$2,849,000.**

[References in the Record: Maio 6 TR 4469-4472; Blumenstock 6 TR 3614-3616; Staff Exhibits S-8.5, S-8.6, S-8.7, S-8.8; Company Exhibit A-43 (RTB-4)]

Staff recommends reducing emergent repair O&M expense by \$2,849,000.

(Appendix C, Line 17.)

This downward adjustment of \$2,849,000 is related to the removal of the Emergent Reliability Funding expense from the Admin/Generation Commons O&M expense since this Emergent Reliability Funding expense is an increase to the Emergent Reliability Fund expense already built into the 2024 historical expense and, consequently, included in the total projected test year generation O&M expense. (6 TR 4469-4472.)

The Company provided Staff with the breakdown of the Admin/Generation Commons O&M expense as well as an explanation of the Emergent Reliability Funding Expense which is a new and additional expense contained in the Admin/Generation Commons expense breakdown. (6 TR 4470; Exhibit S-8.5.) The Company stated that 1) the Emergent Reliability Funding is not a new funding item, rather, it is budgeted annually and is necessary in the test year to fund emergent issues as they arise, 2) there are no actual costs in the historical year of 2024 because those funds, when spent, are allocated to specific plants/units upon investment in the Operations areas and 3) the amount of the Emergent Reliability Funding utilized for the prior three years (2022 through 2024) was \$6.094 million, \$3.246 22 million, and \$8.346 million respectively. (6 TR 4470; Exhibit S-8.6 p 1.)

Additionally, the Company confirmed that the Emergent Reliability Funding expense of \$8.346 million, spent in 2024, is included in the 2024 historical expense in Exhibit A-43 (RTB-4). (6 TR 4470; Exhibit S-8.7.) Based on Company's explanation, Staff concluded that 1) the Emergent Reliability Funding expense of \$2.849 million is an increase to the Emergent Reliability Fund expense of \$8.346 million already built in in the 2024 historical expense, 2) the Emergent Reliability Fund expense of \$8.346 million, spent in the historical year, was already considered and inflated to forecast the total projected test year generation O&M expense, as explained by the Company, 3) the Emergent Reliability Fund expense of \$8.346 million is the highest Emergent Reliability Fund expense for the prior three years (2022 through 2024), and 4), finally, there is no guarantee that the Company will spend an additional \$2.849 million on Emergent Reliability Funding in the test year. (6 TR 4471.)

In rebuttal, the Company disputed Staff's position, disagreeing with the inclusion of the Emergent Reliability Fund expense of \$8.346 million, spent in the historical year, on the total projected test year generation O&M expense. (6 TR 3614-3616.) On this matter, the Company stated that it is a true statement that the actual emergent reliability expense was included in the historical expense for each plant that incurred this expense in 2024, however, it is not true that the historical amount of emergent reliability expense was included in the forecasted O&M expense for any of the plants in the projected test year. (6 TR 3614.)

Staff disagrees with the Company since Staff's conclusion regarding the inclusion of the historical Emergent Reliability Fund expense of \$8.346 million in the total projected generation O&M expense in the test year was based on the Company's explanations about its projected test year generation O&M expense forecast.

First, the Company's Exhibit A-43 (RTB-4), page 2 of 3, column (i) – Other Adjustments, shows a reduction of \$31.625 million in the total projected test year generation O&M expense when compared to the total escalated/inflated historical generation O&M actual expense. In this regard, the Company stated that 1) the Other Adjustments simply reflect the difference between the test year amounts by subcategory that were calculated using the inflation rate and the test year amounts that were developed based upon the future maintenance needs of each unit and the supporting organizations, and 2) the Company's generating fleet is in a period of significant change with the retirement of coal units and the addition of Covert and renewables. (Exhibit S-8.8.) In addition, in rebuttal, the Company also stated that the O&M expense for the projected test is developed based on maintenance needs at each site or on specific units, rather than a simple escalation of historical year actual expenses. (6 TR 3614-3615.)

Therefore, with respect to the O&M expense for the projected test year being developed based on maintenance needs, Staff's position is that the historical emergent reliability expense for each plant is part of the total plant maintenance and operation expense; therefore, the historical emergent reliability need/expense

is included when the Company projects the future maintenance and operations need/expense for each plant. The Company explained that the Emergent Reliability expense is 1) budgeted annually, 2) it is necessary to fund emergent issues that arise in the test year and 3) when spent, it is allocated to specific plants/units upon investment in the operations areas. (6 TR 4470; Exhibit S-8.6 p 1.) Thus, Staff understands that if the projected test year is developed based on the future maintenance and operations needs for each plant, the future emergent reliability need for each plant is included and considered in the development of the projected test year.

Second, based on the Company's statement about the retirement of coal units (Campbell), Staff found that the total projected generation O&M expense of \$103.453 million in the test year, excluding the projected Campbell O&M expense of \$0.279 million, is 1) \$16.359 million, approximately 19%, higher than the total historical generation O&M expense of \$87.094 million, excluding the historical Campbell O&M expense of \$41.340 million not inflated, and 2) \$11.667 million, approximately 13% higher compared to the total historical and inflated generation O&M expense of \$91.786 million, excluding the historical Campbell O&M expense as well. These calculations were based on the figures and inflation method in Exhibits S-8.5 pp. 4-5 (copy of the WP-RTB-24, p 1 and 2) and Exhibit A-43 (RTB-4) p 2. Thus, not including Campbell O&M expense, the total projected generation O&M expense in the test year exceeds the total historical and inflated generation

O&M expense, in which the total historical emergent reliability expense of \$8.346 million is included and inflated.

Lastly, regarding the historical Emergent Reliability Fund expense of \$8.346 million, the Company provided a breakdown by plant of this total expense. (6 TR 3615.) The table below shows a breakdown of the 2024 emergent reliability expense by plant as well as the respective historical/actuals, inflated historical/actuals and projected test year O&M expenses for each plant. (6 TR 3615; Exhibit S-8.5 p 4-5; Exhibit A-43 (RTB-4) p 2.)

	(a)	(b)	(c)	(d)		
	(\$/1000)	(\$/1000)	(\$/1000)	(\$/1000)	(\$/1000)	(\$/1000)
	2024 Emergent Reliability Expense spent by plant	Actuals (with the Emergent Reliability expense included)	Inflated Actuals (with the Emergent Reliability expense included)	Projected Test Year	Delta (d-b)	Delta (d-c)
	12 Months Ending	12 Months Ending	12 Months Ending	12 Months Ending		
Plant	12/30/2024	12/31/2024	4/30/2027	4/30/2027		
Covert	\$ 3,987	\$ 13,508	\$ 14,235	\$ 14,858	\$ 1,350	\$ 622
Jackson	\$ 1,057	\$ 11,616	\$ 12,242	\$ 10,269	\$ (1,347)	\$ (1,973)
Karn	\$ 1,530	\$ 14,653	\$ 15,442	\$ 14,829	\$ 176	\$ (613)
Ludington	\$ 844	\$ 9,399	\$ 9,905	\$ 11,661	\$ 2,263	\$ 1,756
Hydros	\$ 463	\$ 12,121	\$ 12,774	\$ 16,295	\$ 4,173	\$ 3,520
Zeeland	\$ 465	\$ 11,199	\$ 11,803	\$ 12,518	\$ 1,318	\$ 715
Total	\$ 8,346	\$ 72,496	\$ 76,401	\$ 80,429	\$ 7,933	\$ 4,028

Table - O&M expenses breakdown for plants with Emergent Reliability Fund expenses included in 2024 and test year.

The table above shows that, for the plants identified in respective table with emergent reliability expense included in 2024 and test year, the total projected generation O&M expense of \$80.429 million in the test year is 1) \$7.933 million, approximately 11%, greater than the total historical/actuals generation O&M expense of \$72.496 million, and 2) \$4.028 million, approximately 5%, greater compared to the total inflated historical/actuals generation O&M expense of

\$76.401 million. Therefore, for the plants identified in the table above, the total projected generation O&M expense in the test year surpasses the total inflated historical/actuals generation O&M expense, in which the total historical emergent reliability expense of \$8.346 million was included and inflated.

Given these explanations, Staff reiterates that 1) the incremental Emergent Reliability Funding expense of \$2,849,000 is in addition to the Emergent Reliability Fund expense of \$8.346 million incorporated into the 2024 historical expense as well as in the total projected test year generation O&M expense, and 2) there is no assurance this additional requested amount is needed or will be spent in the test year. (6 TR 4471.) Therefore, the additional Emergent Reliability Funding O&M expense of \$2,849,000 should be removed from the total generation O&M expense. (*Id.*) Staff recommends a generation O&M expense reduction of \$2,849,000 as addressed on Appendix C, line 17.

j. **Staff recommends reducing web chat AI O&M expense by \$20,000.**

Staff recommends reducing web chat AI O&M expense by \$20,000. (Appendix C, Line 20.) Consistent with Staff's recommendation to disallow the requested capital expenditures for the web what AI project, Staff recommends the Commission and ALJ disallow the requested O&M expenditures for this project, in the amount of \$19,896 for the test year.

k. **Consumers conceded to Staff's web rebate personalization O&M expense adjustment in rebuttal.**

Consumers conceded to Staff's web rebate personalization O&M expense adjustment in rebuttal with a correction to the calculation. Staff adopts Consumers recalculation. Therefore, there is no delta between Staff and Consumers.

l. **Staff recommends reducing digital – infrastructure automation project O&M expense by \$160,000.**

References in the Record: Zichi, 6 TR 4350-4351; Baker, 3 TR 770-771.

Staff recommends reducing digital – infrastructure automation project O&M expense by \$160,000. (Appendix C, Line 22.)

As the infrastructure automation project was previously addressed in section II(B)(3)(g), the Commission should disallow \$159,902 in investment O&M expense associated with the Digital-Infrastructure Automation project because the company failed to provide the expected cost avoidances and reduction in manual efforts by 80% in a quantifiable and monetary form. (6 TR 4350 and 4351.) In rebuttal the Company corrected wording choices to clarify that it meant “avoid” instead of “reduce.” Even so, the Company pointed Staff to its testimony and exhibits showing the cost avoidance and operational efficiencies, which Staff already understood. (3 TR 770 and 771.) It failed to provide any new information showing these changes in a quantified manner, which was the reason for Staff's disallowance. Staff does not understand how an avoidance and reduction will occur,

but the Company is unable to quantify either one. The Commission should disallow the \$159,902 in O&M expenses.

m. **Staff recommends reducing ISIS papyrus O&M expense by \$114,000.**

References in the Record: Zichi, 6 TR 4352, Ex. S-14.1, page 9 and 16; Baker, 3 TR 772-773.

Staff recommends reducing ISIS papyrus O&M expense by \$114,000.

(Appendix C, Line 23.)

As addressed in section II.A.iii., the Commission should disallow \$114,044 of O&M expenses associated with the ISIS Papyrus project because the Company failed to provide evidence supporting the need for this upgrade at this time. Staff learned new information through audit that the vendor has not told the Company they definitively will not provide standard support and/or security patches to users who do not upgrade. (Exhibit S.14.1, p 9 and 16.) Staff did not see the immediate need for this upgrade considering the vendor would still provide support and no end date for this support has been communicated to the Company by the vendor. (6 TR 4352.) In rebuttal, the Company shared similar information stating the vendor may continue providing support. (3 TR 772 - 773.) The Company has still not proven this project is reasonable and prudent at this time. The Commission should disallow the \$114,044 in O&M expenses.

n. **Staff recommends reducing IT program management tool O&M expense by \$51,000.**

References in the Record: Zichi, 6 TR 4353-4355, Ex. S-14.1, page 13 and 17; Baker, 3 TR 751-752, 3 TR 775-776.

Staff recommends reducing IT program management tool O&M expense by \$51,000. (Appendix C, Line 25.)

In Staff's direct testimony, it recommended the Commission disallow \$50,579 in investment O&M expenditures for the 12-month projected test year ending 4/30/2027 for the Business Continuity – Program Management tool project due to new information learned regarding past decisions made by the Company that contradict the immediate need for this project. (6 TR 4353.) This project is intended to implement a new SaaS solution to replace the current business continuity and disaster recovery program management tool. (3 TR 751 and 752.)

Through audit Staff asked the Company about the current system, Riskconnect. Specifically, how long the current system has been in place and why the Company has decided it is no longer the best option. In response the Company shared that the current system has been in place since 2023 and that it does not meet standards adopted by the Company. (Exhibit S-14.1, p 13.) In a follow-up audit request from Staff the Company stated that it adopted these internal standards in 2013 and that implementing a new system is not the only way for it to meet these internal standards. (Exhibit S-14.1, page 17.) Staff felt if these internal standards, adopted in 2013, were important to meet the Company would have ensured that the new system, implemented in 2023, would have met them. Based on past decisions made by the Company, and a lack of new supporting

information showing a change in this priority to now meet these standards, Staff does not believe the Company has proven this project is reasonable and prudent. (6 TR 4353 - 4354.) Staff does note that this project has not previously been recommended for disallowance but feels the new information learned through audit supports a change in Staff's position. (6 TR 4354.) Additionally, Staff calls attention to the constant changes with this project over past cases. The project has been shifted to different years across cases and the total company expected O&M cost has continuously decreased, starting in Case No. U-21490. (6 TR 4354 - 4355.) Finally, on top of these continuous changes, Staff notes the Company has not yet selected a vendor for the new solution. (6 TR 4355.)

In Rebuttal the Company does not agree with Staff and stated it does not believe Staff's conclusion that the current system implemented in 2023 should have included necessary elements that would allow the Company to comply with the standards adopted in 2013. (3 TR 775.) This confirms that the Company did not believe it was a priority to meet these standards back in 2023 when the new system was implemented, and it does not provide additional information supporting why it is important now. The Company further explains what Business Continuity (BS) Disaster Recovery (DR) and incident response are. It states that the current system has BS and DR but not incident response and that this is what is needed to meet its internal standards. Furthermore, the Company states that they currently do not have an incident response tool in place and this was also the case in 2023. In 2023 the Company had a BC/DR tool that was outdated. Due to

this the Company chose to replace the current solution and did not elect to also implement a separate incident response tool at that time. The Company states that there is not a comprehensive tool with all three areas and in 2023 the Company made the decision to only replace the BC/DR given its needs and capabilities available then. (3 TR 775 - 776.) What the Company did not provide in its rebuttal testimony was any additional information supporting the need for this project. It simply provided information about the various systems and did not directly address Staff's concerns. Staff's position remains the same, the Company has not proven why implementing a new system is necessary now because it has not addressed why its position on complying with internal standards, adopted in 2013, has changed. The Company further confirmed in rebuttal that implementing an incident response tool was not a priority back in 2023 and did not provide additional information supporting its priority now or why it has chosen to now call upon these internal standards as a reasoning for this project. The Commission should disallow the \$50,579 in O&M expenditures for the Business Continuity – Program Management Tool project.

o. Staff recommends reducing incentive compensation O&M expense by \$193,000.

References in the record: Staff Witness Nichols, Appendix C, Col. g, Lines 43-45; Company Witness Conrad 3 TR 1004, 1014; Exhibit A-72 (AMC-2), and A-73 (AMC-3); Staff Witness McMillan-Sepkoski 6 TR 4512-4515; Exhibits S-9.1 and S-9.2; Attorney General Witness Coppola 3 TR 2591; Consumers Energy Company, MPSC Case No. U-18124, 7/31/2017 Order, pp 87-88.

Staff recommends reducing incentive compensation O&M expense by \$193,000. (Appendix C, Line 28.)

Staff witness Theresa McMillan-Sepkoski recommends reducing incentive compensation O&M expense by \$192,600. (Appendix C, line 28). In its initial filing, the Company proposed that the Commission approve approximately \$2.2 million for incentive compensation O&M expense in the revenue requirement. (3 TR 1014; Exhibit A-73 (AMC-3, p 1.))

Staff recommends a disallowance resulting in a decrease to the Company's projected EICP O&M expense for the projected test year of the amount paid to the top five officers. The Company explains that its compensation target is the market median or 50th percentile. (3 TR 1004.) In Exhibit A-72, AMC-2, the Company gives examples of average salary versus market for non-officer employees that receive incentive compensation. When Staff requested the average salary versus market information for the top five officers, the Company declined to provide this information stating that it is confidential, proprietary, and that the Company is contractually prohibited from sharing this information. (Exhibit S-9.2, p 1.)

In rebuttal, Company witness Conrad maintains the decision to withhold the market median information for officers. Company witness Conrad states in rebuttal testimony, it is not a perfect representation of the compensation of the top five (5) officers. (3 TR 1031.) The Commission has stated previously “To be clear, the Commission expects a more thorough presentation of compensation levels and metrics for the company’s employee compensation plans.” *In re Consumers Energy Company*, MPSC Case No. U-18124, 7/31/2017 Order, pp 87-88.

In Exhibit S-9.2 pg. 2 of 2, the Company offered for Staff to review the Pay Governance report extracts under certain conditions. The conditions were the same as offered in the previous CE rate case U-21806. Staff reviewed these report extracts, which were anonymous to each executive, and only disclosed how Pay Governance calculates market data. No financial presentation of compensation data was provided for review. Staff believes the Company should have provided the market information so that Staff had the necessary information to do a proper analysis of the top five officers’ incentive compensation inclusion in the revenue requirement.

The Attorney General’s position in direct testimony recommends that the Commission only approve \$1,459,000 for EICP related to the operational measures based on the Company only achieving 66% of the measures and disallow the remaining \$752,000 from the EICP O&M expense for the projected test year. (3 TR 2591.)

Staff continues to support the adjustment of \$192,600 to EICP O&M expense for the cost of the incentive compensation paid to the top five officers. In Staff's testimony, it is stated that Staff supports the request for operational measures EICP in the amount of \$2,018,400. (6 TR 4513.) Staff does not believe that there is evidence to support that the cost should be borne by the ratepayers for highly compensated officers' incentive compensation and therefore recommends that the ALJ and Commission should disregard the Company's request to include the EICP O&M expense for the top five highly compensated officers.

For the reasons presented above, Staff recommends the ALJ and Commission approve \$2,018,400 in EICP expense in the revenue requirement and disallow the \$192,600 EICP expense for the top five officers.

3. Staff recommends a total depreciation and amortization expense of \$807,004,000.

In rebuttal, Consumers projected that its total depreciation and amortization expense would be \$811,793,000. Staff decreased this projection by \$4,790,000 for a total depreciation and amortization expense of \$807,004,000. (Appendix C, column h.) The difference stems from Staff's capital expenditure adjustments; fewer capital expenditures reduced the total being depreciated and, thus, the depreciation expense. (See Section II.A.1.b. and Appendix E.) Staff recommends the ALJ and the Commission recalculate depreciation and amortization expense based on all the decisions in their respective PFD and final Order.

4. Staff recommends total property tax expense of \$278,305,000.

Consumers projected a total property tax of \$279,989,000, which is \$1,684,000 more than Staff's \$278,305,000 projection. (Appendix C, column i.) Again, the difference stems from Staff's capital expenditure adjustments, which reduce real and personal property taxes. (See Section II.B. and Appendix E.) Staff recommends the ALJ, and the Commission recalculate property tax expense based on all the decisions in their respective PFD and final Order.

5. Staff recommends total other (or local) income tax expense of \$1,230,000.

Consumers projected a total other (or local) income tax expense of \$1,167,000, which is \$64,000 less than Staff's projection of \$1,230,000. (Appendix C, column k.) Staff's adjustments to the Company's projected revenues and expenses led to the difference between Staff's and the Company's other (or local) income tax expense. Staff recommends the ALJ, and the Commission recalculate other (or local) income tax expense based on all the decisions in their respective PFD and final Order.

6. Staff recommends total state income tax expense of \$36,032,000.

Staff recommends total state income tax expense of \$36,032,000, which is \$2,170,000 more than the Company's rebuttal projection of \$33,863,000. (Appendix C, column l.) The difference between Staff's and the Company's state income tax expense is the result of various Staff adjustments to the Company's projected

revenues and expenses. Staff recommends the ALJ and the Commission recalculate state income tax expense based on all the decisions in their respective PFD and final Order.

7. Staff recommends total federal income tax expense of \$56,269,000.

Staff recommends total federal income tax (FIT) expense of \$56,269,000, which is \$8,217,000 more than the Company's rebuttal projection of \$48,052,000. (Appendix C, column m.) Staff's adjustments to the Company's projected revenues and expenses are responsible for the difference. Staff recommends the ALJ, and the Commission recalculate federal income tax expense based on all the decisions in their respective PFD and final Order.

C. Staff recommends total allowance for funds used during construction (AFUDC) of \$16,026,000.

Consumers projection included \$16,026,000 in total AFUDC. Staff's projection is equal to the Company's. (Appendix C, column p.) The Commission should update total AFUDC to correspond with its capital expenditure decisions.

D. Staff recommends a \$768,000 decrease to the return on Campbell regulatory asset.

Staff recommends a \$76,216,000 return on Campbell regulatory asset, which is \$768,000 less than Consumers \$76,984,000 rebuttal projection. (Appendix A, Line 9; Appendix A.2, Line 5.)

Staff witness Nichols' direct testimony recommends a Campbell regulatory asset – return on revenue requirement is \$76,568,000, which was \$917,000 less than the Company's direct testimony projection of \$77,486,000 revenue requirement. (6 TR 4564; Exhibit S-1, Schedule A-2; Exhibit A-81 (PDD-57).) Staff projected a lower Campbell revenue requirement because Staff has applied its proposed cost of capital from Exhibit S-4, Schedule D1 with a 9% return on equity (ROE) applied for Campbell per the Order in MPSC Case No. U-21090 in lieu of the Company's projection. Staff and the Company have both applied 9% ROE per the U-21090 Order.

In this initial brief, Staff and Consumers updated each of their respective overall cost of capital, which impacts the return on Campbell regulatory asset. Staff now recommends a \$76,216,000 return on Campbell regulatory asset, which is \$768,000 less than Consumers \$76,984,000 rebuttal projection. (Appendix A, Line 9; Appendix A.2, Line 5.)

Staff recommends the Campbell revenue requirement adjustment should be updated by the Commission to reflect its final authorized cost of capital in this case, but with the ROE set at 9% per the Commission's previous Order in MPSC Case No. U-21090.

E. Staff recommends approval of the confidential SAP deferral.

References in the Record: Zichi, 6 TR 4355-4356; Baker, 3 TR 740-741, 3 TR 776.

Staff supports adopting Consumers proposed confidential SAP deferral, which reduces the revenue deficiency and allows for a SAP deferral. This is not included in Staff revenue deficiency or cost of service and if approved would reduce the ordered revenue deficiency by about \$14 million. (See Staff Confidential Exhibit S-7.)

Referring to Company witness Myers' testimony at page 16 and Confidential Exhibit A-86 (PDD-62), Staff supports the requested accounting treatment to defer SAP S/4HANA Implementation Project O&M expense, which would reduce the revenue requirement by approximately \$14.6 million. (6 TR 4566.) Staff has recalculated the revenue deficiency impact by applying the Staff's recommended cost of capital and calculates a revenue deficiency reduction that is slightly different than the Company, which can be on Confidential Exhibit S-7. Staff recommends that if the Commission approves the deferral, that it recalculates the revenue deficiency impact based on its final decisions. If approved, Staff notes that this is an additional incremental revenue deficiency reduction that is not reflected in the Staff's \$322,731,000 revenue deficiency found on Exhibit S-1, Schedule A-1.

As part of this, the SAP S/4 HANA project will modernize the current SAP ERP database by migrating over to the newest version, S/4 HANA. This migration involves updating software to the latest version, transferring existing data, connecting other systems to S/4 HANA, and setting up user access. The Company

also plans to update reports and analytics by migrating current ones over or using new built-in options. (3 TR 740 and 741.)

In Staff's direct testimony, it recommended that the Commission direct the Company to meet with Staff quarterly to provide progress updates on the SAP S/4 HANA migration. (6 TR 4355.) Additionally, Staff recommends the Company keep record of costs for this project and report any over or under spend, relevant to the 80% base ROM projection, and include this in future rate cases until implantation is completed. (6 TR 4356.)

In its rebuttal, the Company agrees with Staff on the two recommendations presented above. (3 TR 776.)

F. Staff recommends approval of the forestry ramp-up deferral.

References in the record: Company witness Sara E. Stewart, 3 TR 2183-2234; Company witness Marc R. Bleckman, 3 TR 805-931; Staff witness Jessica Duell, 6 TR 4382-4406; Attorney General Witness Seb Coppola, 3 TR 2408-2623; CUB Witness Rick Bunch, 6 TR 4012-4073.

Staff supports adopting Consumers proposed forestry ramp-up deferral, which reduces the revenue deficiency and allows for a Forestry Ramp-up deferral. This is not included in Staff revenue deficiency or cost of service and if approved would reduce the ordered revenue deficiency by about \$21.7 million. (*See Exhibit S-1, Schedule A-3.*)

Referring to Company witness Daly's testimony at page 34-36 and Exhibit A-82 (PDD-58), Staff supports the requested accounting treatment to defer

\$21,365,000 forestry ramp-up O&M expense. (6 TR 4564-4565.) Staff recalculated the revenue deficiency impact by applying the Staff's recommended short-term debt rate as supported by Staff witness Evans (Exhibit S-4, Schedule D-1) and calculates a revenue deficiency reduction of \$21,691,000 as found on Exhibit S-1, Schedule A-3. Staff recommends that if the Commission approves the deferral, that it recalculates the revenue deficiency impact based on its final decisions. If approved, Staff notes that this is an additional incremental revenue deficiency reduction that is not reflected in the Staff's \$322,731,000 revenue deficiency found on Exhibit S-1, Schedule A-1.

The Forestry Ramp-Up includes multiple recommendations regarding line clearing. Staff witness Duell supports the Companies proposal to spend \$186,684,000 in Base O&M expenses for the projected test year in line clearing (6 TR 4388.)

1. **Staff supports the Company's proposal to recover LVD line clearing O&M spending in the test period as a regulatory asset.**

Company witness Sara Stewart testified requesting regulatory asset treatment for the test period in line clearing above baseline expenditures in the amount of \$22,238,107. (3 TR 2231.) Staff witness Duell supports the Company's proposal to recover LVD line clearing O&M spending in the test period as a regulatory asset. (6 TR 4389.) Staff, however, recommends the rate of return be at Staff's short-term debt rate of 4.92% and not the Company's pre-tax weighted

average cost of capital (“pre-tax WACC”) because Consumers has shown it has not invested in line clearing like it should have and has continued to operate on longer cycle lengths than other peer utilities. (6 TR 4389.)

Mr. Sebastian Coppola, a witness for the Attorney General and Rick Bunch, a witness for CUB, both testified against the Company’s proposed O&M test year spend projection, regulatory asset amount, and the pre-tax WACC for the line clearing regulatory asset. AG witness Coppola states in direct testimony:

I recommend that the Commission approved the 2024 line clearing expense amount of \$110,225,000 as the baseline amount and direct the Company to defer all expenses above that amount beginning in 2026 to the regulatory asset. For the projected test year, the Company forecasted \$186,684,000 in O&M expense for line clearing (Forestry), as shown in Exhibit A-170 and Exhibit A-13, Schedule C-5.1. Based on this amount and the baseline of \$110,225,000, the difference of \$76,459,000 should be removed from O&M expense in this rate case and included the regulatory asset account. [3 TR 2582.]

AG witness Coppola further states that he recommends the Commission approve the use of the short-term debt rate approved in this rate case and that it be revised going forward for any changes to the short-term interest rate in future rate cases. The short-term debt rate AG witness Coppola states should be at 4.92%. (3 TR 2593.) CUB witness Bunch supports the Company’s plan and spending level but does not agree with the Company’s calculation of the surge amount, as stated in direct testimony. (6 TR 4405.) CUB witness Bunch goes on to further state in direct testimony:

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. [6 TR 4405.]

Consumers witness Bleckman testified in rebuttal regarding Staff's recommendation to have the rate of return be at the short-term debt rate of 4.92%, stating:

This deferral has the effect of increasing long-term financing needs for the Company without creating cash flow the way traditional capital does via non-cash depreciation expense in rates. This makes the application of a pre-tax WACC on this particular regulatory asset balance all the more important. The credit metric degradation associated with using a short-term debt rate for ramp up expenditures described on pages 53 to 54 of my direct testimony would result in a credit metric strain in addition to these expense deferral mechanisms. [3 TR 858.]

Consumers' witness Bleckman testified in rebuttal regarding AG witness Coppola's and CUB witness Bunch's proposals for a lower baseline O&M expense for line clearing, stating:

The Company's approach to calculating the baseline expense for the test year is reasonable, well supported by the evidence in this case, and aligned with long-term resiliency objectives. The baseline methodology proposed by Mr. Coppola and Mr. Bunch are without merit and should be rejected by the Commission. [3 TR 867.]

Company witness Stewart disagrees with Staff witness Duell's opinion that the Company did not prioritize their line clearing program highly enough in the past which warrants the return on the line clearing regulatory asset to be set at Staff's short-term debt rate, stating in rebuttal testimony:

No, the Company has demonstrated its commitment to its Line Clearing Program consistently since Case No. U-20697 where the Company first proposed the seven-year effective cycle for its LVD system. In that case and subsequent cases, the Company has been transparent with its current state of backlog circuits and its plan to eliminate the backlog, with a commitment to prioritize poorly performing circuits for line clearing. With the support of the Commission and Staff, the Company began working toward the seven-year effective cycle in the 2021 test period and continued with this strategy through Case No. U-21585. As outlined in my direct testimony in Figure 20 on page 43, the Company has exceeded its authorized spending levels in all cases since Case No. U-20697. In the instant case, the Company is pursuing a path of continuous improvement in its proposal to ramp-up LVD line clearing to a five-year cycle, showing continued prioritization of this program. [3 TR 2237-2238.]

After reviewing Consumers' rebuttal testimony and other parties' testimony, as outlined above, Staff maintains its position that the ALJ and Commission approve Company recovery of \$22,238,107 in a regulatory asset for line clearing, but at Staff's short-term debt rate of 4.92%, not the Company's pre-tax WACC. In each rate case the Commission reviews the record and orders the short-term debt rate it finds reasonable based on the record. Similarly, in DTE's last rate case, MPSC Case No. U-21534, the Commission ordered the Company's ROR on their Surge regulatory asset be set at Staff's short-term debt rate of 5.73%. (MPSC Case No. U-21534 01/23/2025 Order, p 227.) Since the Commission previously ordered DTE's Surge regulatory asset be set at Staff's short-term debt rate, then the Commission should follow suit and order the same for Consumers. Staff also maintains its position that the Company has not prioritized their line clearing program in the past, which further supports the short-term debt rate being used.

By having circuits not cleared in over 30 years such treatment is warranted, and Staff will continue to hold the Company accountable if they fall behind in their line clearing program.

2. Staff recommends Consumers remove 100% overhang in the first zone.

Staff witness Duell recommends Consumers clear all canopy in the first zone and supports the Company's recommendation to clear 10%, or 5,500 miles, of three phase overhead primary tree overhang removal in everything outside of the first zone. (6 TR 4391 – 4392.)

Company witness Stewart disagreed with Staff recommendation and stated in her rebuttal testimony:

No, I do not agree the Company should begin clearing all canopy in the first zone starting in the instant case test period. The scope of the Company's proposal for canopy removal is defined in my direct testimony on page 23, lines 1 through 16. While this proposed scope includes some three-phase mileage in first zones, it does not include 100% of first zones (e.g. it does not include single and two-phase unfused laterals off three-phase first zone). The funding level needed to execute canopy removal for both the Company's scope and Ms. Duell's recommendation of all first zones is not reflected in the revenue requirement for the Line Clearing Program in the instant case. [3 TR 2239 – 2240.]

Company witness Stewart addresses concerns regarding removal of 100% of overhang in the first zone because the funding level needed to execute such plan is more than what the Company has requested in the instant case. (3 TR 2240 – 2241.) For the instant case the Company is requesting \$186,684,000 in base O&M

for the projected test year for line clearing. (6 TR 4388.) Staff recommends approval of the full amount requested for line clearing and maintains this substantial increase can cover the Company moving towards a 5-year line clearing cycle and removal of 100% of overhang in the first zone.

After reviewing Consumers' rebuttal testimony as outlined above, Staff maintains its position that the Commission recommend the Company clear 100% of canopy in the first zone (everything up to the first protective device) and supports the Company's proposal to clear 10% or 5,500 miles of three phase overhead primary tree overhang removal in everything outside of the first zone.

3. Staff recommends the Company spend all line clearing expenses requested in a rate case and clear all line miles being proposed each year.

Staff witness Duell recommends the Company spend the entire amount of line clearing expenses approved in each rate case they file and complete all line miles that are proposed to be trimmed each year. (6 TR 4393 - 4394.)

Company witness Stewart disagreed with Staff's recommendation and stated in rebuttal testimony:

No, I do not agree. The Company met and exceeded its authorized line clearing expense level for the 2024 test period (12 months ending 2/28/2025), which was authorized in the Order for Case No. U-21389. In comparison to the Case No. U-21389 test period (12 months ending 2/28/2025) authorized funding of \$118,889,334, the Company spent \$119,189,032 toward the Line Clearing Program. While the Company forecasts calendar year spend, the authorized line clearing expense level is associated with the test period, and not to a calendar year. As discussed in my direct testimony on page 44, lines 14 through 20, it is operationally challenging to meet both a projected calendar year

spending level and test year spending level that do not directly overlap in timeframe, especially when expense levels are increasing from one test period to the next test period. [3 TR 2238.]

Staff disagrees with Company witness Stewart's assertion that the Company spent over what was authorized in the U-21389 rate case for 12 months ending 02/28/2025. When Staff stated that the Company underspent for the calendar year 2024, Staff was not referring to March 2024-February 2025 amounts referred to in Figure 20 of Company witness Stewart's direct testimony. This time frame does not include the full calendar year of 2024, which is provided in Exhibit A-170 (SES-1). Staff reviewed the Company's Exhibit A-47 (PLB-1), p 1 in MPSC Case No. U-21585 and Exhibit A-170 (SES-1) in MPSC Case No. U-21870 and found that, for the calendar year 2024, the Company underspent in LVD line clearing in the amount of \$5,876,252 and cleared 695 less miles than what was proposed in MPSC Case No. U-21585. (6 TR 4394.) When Staff asked the Company where the remaining \$5,876,252 in spend was allocated to, the Company continued to reply with the answer of "[t]he Company did not redeploy these funds. The Company has spent in excess of its authorized spend for its Line Clearing Program as shown in Figure 20 on page 43 of [Company witness Stewart's] direct testimony." The Company does not define the parameters of Staff's review. Staff is well within its rights to analyze costs on a historical calendar year basis, and if the Company is asked questions regarding said expenses the Company should be able to answer fully and transparently where approved funds are reallocated to if underspent.

After reviewing Consumers' rebuttal testimony as outlined above, Staff maintains its position that the Company spend the entire amount of line clearing expenses approved in each rate case they file and complete all line miles that are being proposed to be trimmed each year. If the Company is unable to spend the full amount approved for each program, the Company should explain where unspent amounts in certain programs are being reallocated to when asked. If the Company cannot provide Staff with detailed information regarding where unspent funds are being reallocated to then Staff may recommend disallowances in future rate cases.

4. **Staff witness Duell raised concerns in testimony regarding Consumers clearing fewer LVD miles in 2024 being accompanied to experiencing line clearing contractor shortages with moving towards a 5-year line clearing cycle.**

Staff expressed their concerns that the Company is clearing fewer miles than planned due to experiencing contractor shortages. (6 TR 4394,4395.) Staff also expressed their concerns regarding the Company not having enough contracts secured for line clearing contractors to start the 5-year line clearing cycle. (6 TR 4395.)

Company witness Stewart disagreed with Staff witness Duell's concerns and stated in rebuttal testimony:

No, the Company is not experiencing contractor shortages. In discovery response U21870-ST-CE-0117, as shown in Exhibit S-18, page 9, I stated the Company cleared fewer miles in 2024 than projected due to execution of new LVD contracts in May 2024,

resulting in a higher unit cost per mile. This is not synonymous with a contractor shortage. [3 TR 2239.]

Staff is unsure why Company witness Stewart states the Company is not experiencing contractor shortages for the LVD line clearing program. Consumers witness Stewart testified in direct testimony that “at the time of the filing the Company has not yet secured the personnel and other resources required to execute the full requested spending level for LVD line clearing work.” (3 TR 2232.) Company witness Stewart goes on to state:

While the Company will not execute its plans to secure additional personnel and other resources until certainty is attained, the Company is preparing to do so for the test period. The Company has identified three focus areas for this preparation: (i) line clearing contractors; (ii) contract planning and supervision; and (iii) internal staffing. To ensure the necessary crewing is attained, the Company is working with established line clearing contractors to upskill current and hire additional employees to increase the local crew baseline resourcing level. Additionally, the Company is pursuing contracts with supplemental line clearing contractors to provide out-of-state tree crews to meet the increased crew resourcing level needed to execute the ramp-up plan. Figure 24 below outlines actual crewing from 2020 through 2024 and the projected crewing plan for 2025 through 2030. [3 TR 2232.]

Staff interprets the quoted testimony of a Consumers witness and a discovery response to mean there is uncertainty that the Company has enough line clearing contracts secured in place to move towards a 5-year effective cycle. (6 TR 4394,4395, Staff Exhibit S-18.) This inherently means Consumers is experiencing line contractor shortages to meet their needs for the LVD line clearing program and the demand of moving towards a 5-year line clearing cycle by 2030/2031.

In Consumers' next rate case Staff will follow up with the Company in discovery to determine if the Company has secured enough contractors to meet the goal of completing the 5-year cycle by 2030/2031. If the Company has not secured enough contractors in place to meet such deadline, then Staff and the Company can discuss further actions that may need to take place to meet the goal of completing a 5-year cycle by 2030/2031.

5. Staff recommends Consumers file a new 4-year effective line clearing analysis.

Staff witness Duell recommends the Company file a new analysis of the costs and benefits of a four-year cycle within its next rate case. (6 TR 4395.) In the analysis Staff the Company should be required to provide an O&M exhibit sheet showing the costs of moving to a 4-year cycle, provide contractor costs associated with moving towards a 4-year effective cycle, provide detailed information on the availability and securing contracts for line clearing contractors with a 4-year cycle, and cost savings associated with moving towards a 4-year effective line clearing cycle. (6 TR 4395 - 4396.)

Company witness Stewart disagreed with Staff witness Duell's recommendation and testified in rebuttal that the Company did not utilize the Formal Optimization Analysis of Line Clearing when considering benefits of shifting to a four-year fixed line clearing cycle. (3 TR 2242.) Company witness Stewart goes on to testify that the Company used the same methodology to evaluate a four-year line clearing cycle in the same ramp-up strategy period. (3 TR

2242.) Company witness Stewart does not agree that the Company should provide a new cost benefit analysis of a four-year effective line clearing cycle and believes the next steps should be focusing on the Company moving towards a 5-year effective cycle. (3 TR 2242.)

After reviewing Consumers' rebuttal testimony as outlined above, Staff still recommends Consumers file a new analysis of the costs and benefits of a four-year cycle with its next rate case. Staff's opinion is that the Company did not provide enough detailed information regarding moving towards a 4-year effective line clearing cycle in the current rate case. Staff recommends the Company be required to provide a new analysis and follow Staff's recommendation on what should be in the analysis. In the analysis the Company should be required to provide an O&M exhibit sheet showing the costs of moving to a 4-year cycle, provide contractor costs associated with moving towards a 4-year effective cycle, provide detailed information on the availability and securing contracts for line clearing contractors with a 4-year cycle, and cost savings associated with moving towards a 4-year effective line clearing cycle.

G. Staff recommends a present revenue of \$4,759,698,037 in the test year.

References in the Record: Connoly, 3 TR 148-164, Exhibit A-16 (LMC-1); Jerone, 3 TR 1800, Todd, 6 TR 4592-4596, Exhibit S-6, Schedule F-2.0

Staff recommends present revenue of \$4,759,698,037 as detailed in Exhibit S-6, Schedule F-2.0 versus the Company's recommendation of \$4,733,806,753 as detailed in Exhibit A-16 (LMC-1), Schedule F-2.0. (6 TR 4595.) Staff recommended

an increase in present revenue of \$25,891,284 due to an increase in Staff sales forecast for lighting, primary and commercial secondary customers. (*Id.*; Appendix C, column f, line 4.) The PSCR revenue portion of the adjustment, sponsored by Staff witness Laura Maio, has been updated to \$11,587,168 based on the Company's rebuttal. (3 TR 1800.) The update in the PSCR revenue portion does not affect Staff's recommended present revenue.

V. Revenue Deficiency

Staff witness Nichols testified that Staff's initial projected total company revenue deficiency was \$322,731,000. (6 TR 4563.) The main factors driving Staff's overall adjustment were, and continue to be, Staff's lower rate base, its higher net operating income, and its lower required rate of return. (6 TR 4564.) In this brief Staff decreased its proposed total company revenue deficiency to \$317,087,000. (Appendix A, Line 10.) Staff's Appendices F and G walk through its adjustments from its initial filing to this brief.

There is now a \$105,804,000 difference between the Company's proposed total revenue deficiency of \$422,891,000, as updated in its rebuttal testimony, and Staff's proposed total revenue deficiency of \$317,087,000, which is due to the following adjustments (in millions):

Rate base (revenue requirement impact)	\$ (9.474) ²³
Change in rate of return	\$ (55.632) ²⁴
Depreciation adjustment	\$ (4.790) ²⁵
Property tax	\$ (1.684) ²⁶
Sales Revenue (rev. req. impact)	\$ (14.304) ²⁷
O&M adjustment	\$ (19.151) ²⁸
AFUDC (rev. req. impact)	\$ 0.000 ²⁹
Campbell Revenue Requirement	\$ <u>(0.768)</u> ³⁰
Total Staff adjustments (Rev. Req. Impact)	\$ (105.804)³¹

VI. Cost of Service, Rate Design, and Tariff Issues

A. Staff's recommends the Company run and present coincident-peak tests in its next rate case with the most recent available data

References in the Record: Pung, 6 TR 4574.

Staff recommended in its direct testimony that the Company be required to run and present what it called “the standard coincident-peak tests” in its next rate

²³ Change in rate base of (\$121,466,000) x pre-tax rate of return 7.80% = (\$9.474 million) revenue requirement impact. (Appendix G, Line 11.)

²⁴ Change in pre-tax rate of return of (0.37%) x \$15,208,880,000 rate base = (\$55.632 million) revenue requirement impact. (Appendix G, Line 12.)

²⁵ Appendix C, Line 34. Appendix E, Line 37.

²⁶ Appendix C, Line 34. Appendix E, Line 37.

²⁷ Appendix C, Line 34 Column f less Column b.

²⁸ Appendix C, Line 34.

²⁹ Appendix C, Line 34.

³⁰ Appendix A, Line 9. Appendix A.2

³¹ Appendix A, Line 10. Appendix G, Line 23.

case with the most recent available data and then provide insight as to how it views seasonal or monthly loads growing in the future. (6 TR 4574.) The nature of production provided by the utility could change in the future and new loads, such as data centers and transportation electrification (*see* 3 TR 1701; 6 TR 3926,) could result in a leveling of load throughout the year. Staff's recommended coincident-peak tests will allow it to analyze the Company's coincident-peak data to verify that the most appropriate production allocator is still being applied. The Company did not refute this recommendation in rebuttal testimony. Therefore, the Commission should adopt Staff's recommendation to direct the Company to run and present coincident-peak tests in its next rate case with the most recent available data.

B. The Commission should adopt Staff's recommendations concerning the State Reliability Mechanism (SRM), capacity charge revenue requirement, and true-up method.

References in the Record: Metz, 3 TR 1782-1786, Exhibit A-161 (MLM-2); Davis, 3 TR 2662-2663, Exhibit A-87 (EAD-3); Pung, 6 TR 4575-4579, Exhibit S-6, Schedule F1.5; Zakem, 6 TR 4082-4114, Exhibits EM-2 (AJZ-2), EM-3 (AJZ-3), EM-4 (AJZ-4); Zakem, 6 TR 4116-4119, Exhibit EM-5 (AJZ-5).

The Company filed a SRM capacity revenue requirement and charge calculation in compliance with the Commission Order in Case No. U-21585. (3 TR 1786.) As part of this request, and consistent with the U-21585 Order, the Company proposed a true-up calculation that is included in the Company's proposed capacity charge in this case. *See* MPSC Case No. U-21585, 3/21/2025 Order, p 378.

Staff witness Pung filed direct testimony addressing the SRM true-up provision. Staff begins by explaining that the purpose of the true-up provision is to reconcile the Company's projected amounts included in the capacity charge net of projected fuel costs for energy market sales, off-system energy sales, ancillary services and energy sales under unit-specific bilateral contracts with the actual amounts that occur within the period. (6 TR 4575.) Staff then highlights that the Company has previously interpreted the true-up provision as only being required if the SRM capacity charge was actually paid by a customer. (6 TR 4576.) Under this interpretation, there are only amounts subject to be trued up if the capacity charge is actually administered and actual revenue collected. (*Id.*) Absent such charge, there is nothing to be "trued up." Staff witness Pung also notes that Michigan's other large electric utility, DTE Electric (DTE) also shifted its interpretation of the SRM true-up provision in its previous rate case, Case U-21534. (6 TR 4576-4577.) In Case No. U-21534, DTE provided an SRM calculation that did not include the formulaic true-up as it had previously. (6 TR 4577.) This was a shift to the interpretation that the SRM true-up provision is only necessary if a customer pays the capacity charge. (*Id.*)

In this case, Staff witness Pung expressed Staff's concerns about the "formulaic true-up method." (6 TR 4577.) Staff points out that up to this point no customer has ever been charged the capacity charge, and therefore, no revenue has been collected as a result. (*Id.*) Staff also states that the formulaic true-up method has the potential to throw the capacity and non-capacity revenue requirements far

off the cost-to-serve and points to the current DTE electric case, Case No. U-21860 as an example. In that case, the formulaic SRM true-up method is shifting \$1.12 billion of power supply revenue requirement from non-capacity to capacity. (*Id.*) Staff then presents that in the instant case, the formulaic true-up calculation is actually reducing the capacity revenue requirement by \$461 million, artificially lowering the capacity charge. (6 TR 4578.) The reason these large shifts occur is due to discrepancies that occur between the Companies forecasted amounts in Section 6w(3) of PA 341, and the actual amounts that occur. (6 TR 4577.) The current formulaic true-up method is not producing a reasonable result that adheres to cost-of-service principles. (6 TR 4578.) Based on the Commission's discretion to set the true-up mechanism under MCL 460.6w(4), Staff recommends the Commission determine that a true-up is only necessary if a customer is actually subject to the capacity charge and there is actual revenue to reconcile. (*Id.*)

Energy Michigan witness Zakem, in his direct testimony, addresses the SRM calculation and true-up method. Concerning the true-up mechanism, witness Zakem testified that the true-up is intended to help ensure that neither the utility collecting the SRM charge, nor a customer paying it, are at risk to forecast errors in the projecting of the revenues from the market price of energy and other electric services which serve as offsets to the capacity charge. (6 TR 4087.) Witness Zakem also explains that, due to timing flaws in the SRM statute and a formulaic method for true-ups, all future true-ups using the present method will be in error. He states that under the present true-up method, the customer and the utility can be

trued-up only if the customer pays an SRM charge in one year and also pays the charge in later years. Even then, the later SRM charge also has to be trued up. (6 TR 4097-4098.)

Next, witness Zakem argues that there is flexibility in the SRM statute to allow for workable true-up methods and that the Commission is also guided by the cost-of-service statute, MCL 460.11(1). (6 TR 4105-4107.) For these reasons, witness Zakem recommends the Commission suspend the current formulaic true-up method in this proceeding. (6 TR 4108.) He also recommends that a customer specific true-up be implemented only when and if a customer is subject to the SRM charge. (6 TR 4109-4111.) This would be done by determining the difference between what the customer initially paid with projected energy market sales net of fuel compared to what the customer should pay with actual amounts. When actual amounts became available, they would be substituted for projected amounts in recalculating the SRM capacity charge and the customer would be billed for or refunded the difference between the two calculated charges. (6 TR 4109.)

In rebuttal, Energy Michigan witness Zakem clarifies how the calculation of Exhibit S-6, Schedule F-1.5 would take place if no true-up were included. (6 TR 4117.) Staff only provided a version of the exhibit that included a true-up. (*Id.*) No other party to this case provided testimony on this issue.

Staff recognizes that the formulaic true-up method has significant flaws. Up to this point, no customer has ever been charged the capacity charge as a result of a load serving entity failing to meet its capacity obligations, and therefore, no

associated revenue has been collected. There are no actual revenues to true-up. However, the formulaic true-up method is throwing the capacity and non-capacity revenue requirements far off the cost-to-serve. Approximately \$461 million of revenue requirement is being shifted from capacity to non-capacity related due solely to the formulaic true-up method, which relies on accurate energy market sales forecasting. This is producing a result that does not adhere to cost-of-service principles.

Cost-of-service based ratemaking is a cornerstone of electricity regulation.

In Michigan, MCL 460.11 provides, in part,

Except as otherwise provided in this subsection, the commission shall ensure the establishment of electric rates equal to the cost of providing service to each customer class. In establishing cost of service rates, the commission shall ensure that each class, or subclass, is assessed for its fair and equitable use of the electric grid. [MCL 460.11]

The Commission has repeatedly acknowledged the requirement that ratemaking must reflect cost-of-service principles and be consistent with the requirements of MCL 460.11. *See* MPSC Case No. U-21389, 3/1/2024 Order, p 248; MPSC Case No. U-20162, 5/2/2019, p 129. Staff submits that these same principles support rejecting the formulaic true-up method in this case.

MCL 460.6w(4) clearly authorizes the Commission to provide for the true-up mechanism, which can be done using multiple methods. This is evidenced by the fact that other than DTE Energy, no other Company had an approved formulaic true-up in its SRM calculation until the Commission Ordered the Company to include one in the instant case. Staff also agrees that the Commission is also

guided by the cost-of-service statute MCL 460.11(1) which requires the establishment of electric rates equal to the cost of providing service to each customer class. For these reasons, Staff agrees and recommends that the current formulaic true-up method should be discontinued and removed in this case. The Commission should order the Company to perform a true-up only if a customer is actually subject to the capacity charge and there is actual revenue to reconcile.

Concerning Energy Michigan's proposal to implement a customer-specific SRM true-up, Staff does not oppose Energy Michigan's proposed calculation. Apart from calculating an entirely separate rate design with actual energy market sales figures for the express purpose of an SRM reconciliation, Energy Michigan's proposal is a reasonable method. Staff agrees that any reconciliation should be done in a customer-specific manner to avoid capacity and non-capacity revenue requirements in subsequent years that do not reflect the cost-to-serve. Therefore, Staff recommends the Commission Order that any necessary SRM reconciliation be done on a customer-specific basis.

C. Staff's Recommendations Concerning the Company's proposal to update its Electric Asset Categorization (EAC) report process.

References in the Record: Davis, 3 TR 2650-2656;
Palmer, 6 TR 3917-3921; Davis, 3 TR 2669-2671;
Andrews, 6 TR 3829-3831; Robertson, 6 TR 3420-3424.

The Company is proposing to update and expand its Electric Asset Categorization (EAC) report process. (3 TR 2650-2651.) The Company explains that the previous EAC report was built decades ago and it had become very

difficult to maintain and run. (3 TR 2651.) The Company worked with PowerPlan, a third-party consultant, to create a module built into the existing property accounting reporting system to map assets to the COSS categories. (*Id.*) The new EAC report and resulting COSS provide a more detailed breakout of distribution plant and related depreciation accounts than the previous COSS. (3 TR 2652.)

Michigan Environmental Council, Natural Resources Defense Council, Sierra Club, and Citizens Utility Board of Michigan (MNSC) witness Palmer claims in direct testimony that the Company's COSS disproportionately and inappropriately assigns distribution costs to lower voltage customers. (6 TR 3917.) Concerning the Company's proposal to update its property accounting reporting system that produces the EAC report, MNSC states that the update now allows the Company to isolate lower-voltage infrastructure costs and assign them specifically to downstream customers. (6 TR 3918.) MNSC further states that historically customers taking service at higher voltage levels were excluded from cost allocation for infrastructure at lower voltage levels. (6 TR 3919.) MNSC bases this claim on the theory that higher voltage customers do not benefit from the lower voltage distribution network because power flows in one direction from high to low voltage. (*Id.*) MNSC then states that due to bidirectional power flows from distributed generation that lower voltage assets are now being used to serve some of the requirements of higher voltage customers and, therefore, higher voltage customers are benefiting from and helping to cause costs related to the low voltage system. (6 TR 3920.) MNSC claims the higher voltage customers should pay a fair

share of these costs. (*Id.*) MNSC then recommends the Commission reject the Company's proposed new distribution COSS allocations to downstream-voltage customers based on the updated EAC report. (6 TR 3921.) Finally, MNSC adds that as the Company develops analysis of bidirectional flow on its system, it should incorporate such empirical data into the EAC report to identify the extent to which higher-voltage customers utilize and should pay for downstream assets. (*Id.*)

Company witness Davis provides rebuttal testimony to MNSC's recommendations. Witness Davis states that the EAC report did not change the categorization of LVD energized lines, line equipment or batteries from the Companies last rate case nor did it fundamentally change how distribution costs are allocated. (3 TR 2670.) The updated EAC report simply serves to provide more robust detail on the Company's substation, land and High Voltage Distribution (HVD) line distribution assets. (*Id.*) Concerning MNSC's claims of bidirectional power flows, witness Davis points out that the extent of bidirectional power flows between the LVD and HVD system is "de minimus" or very small and insignificant. (3 TR 2671.) Witness Davis adds that the rare occasion when bi-directional power flow occurs does not fundamentally change what has caused the Company to build out and maintain the infrastructure on its LVD system. (*Id.*) Finally, the Company points out that the bidirectional power flow argument is not new and is not any more relevant because of the updated EAC report, which only serves to provide more transparent information about the Company's land, substation and HVD line facilities. (*Id.*)

ABATE witness Andrews also provides rebuttal testimony in response to MNSC's recommendations. Witness Andrews argues that MNSC provides no engineering analysis, empirical data, or system studies to demonstrate that higher voltage customers actually use, depend upon, or benefit from the lower-voltage distribution network. (6 TR 3829-3830.) Witness Andrews then expounds that while distributed generation can cause limited instances of reverse flow at the local level, neither MNSC nor the Company have presented any evidence that flows are significant or system wide. (6 TR 3830.) Finally, witness Andrews argues that adopting MNSC's proposals would improperly shift costs away from low voltage customers which cause them and on to higher voltage customers despite the higher voltage customers requiring no use of the lower-voltage distribution system. (6 TR 3831.) ABATE recommends that until measurable data demonstrates that higher-voltage customers are materially served by lower-voltage assets, the long-established method should remain unchanged. (6 TR 3830.)

Rebuttal testimony on this issue was also provided by Kroger witness Robertson. Witness Robertson explains that traditional cost allocation principles indicate that the customer who causes the need for the utility to incur certain costs should be allocated those costs. (6 TR 3422.) This is not the same thing as allocating embedded costs based on an alleged benefit. (*Id.*) Witness Robertson also argues that the Company's response to discovery acknowledging the possibility that power may sometimes flow from lower-voltage to higher-voltage distribution equipment does not constitute evidence that such flows occur. (6 TR 3422-3423.)

Witness Robertson then recommends the Commission reject MNSC's recommendations to not utilize updated cost categories from the EAC report, stating that regardless of any bi-directional power flows, higher voltage customers clearly do not cause the Company to invest in low-voltage distribution infrastructure. (6 TR 3424.)

Staff takes no issue with the Company's updated EAC report process and expanded COSS cost categories, as it provides more detail and accuracy in assigning costs throughout its distribution system. Concerning bidirectional power flows and purported benefits to higher voltage customers, Staff agrees that these supposed power flows have not been quantified and are very minimal and also that costs are not assigned based on benefit. Costs are assigned based upon cost causation, which for the distribution system is peak demand by voltage level. Bidirectional power flows have not been shown to affect these peak demands in any significant way and should not be considered when allocating distribution system costs.

D. Rate GP should be closed to fast charging on June 1, 2028

Staff, through witness Krause, proposed closing Rate GP to fast charging stations on June 1, 2028. (6 TR 4505-4506.) Staff's principal reasoning is that allowing customers onto Rate GP is a subsidy (6 TR 4505.) In conjunction with this proposal, Staff also proposed a related item, that the Company file a fast-charging tariff in its next rate case. (6 TR 4506.) MEIU witness Sophia Schuster testified on fast EV charging rates, (6 TR 4178-4191) as did Walmart witness Matthew T.

Lyon. (6 TR 2622-2623.) The Company, through the rebuttal of Jeffrey Myrom and Laura Connolly, responded that it was premature to propose a rate for fast charging. (3 TR 1880,3 TR 172-173.) Each will be discussed in turn.

In rebuttal, MEIU witness Schuster disagreed with Staff, saying that there is no subsidy “in the aggregate.” (5 TR 4180.) Staff responds that this is akin to saying industries hire people that are residential customers, therefore low industrial rates help utilities because more residential customers pay rates that lead to increased revenue in the aggregate. This line of thought should be rejected. Each class should be evaluated on its own merit and in this case that means evaluating DC fast charging separately from at home charging. Witness Schuster continues:

However, DCFC are more expensive to install and, at least until utilization rates are high, the return on investment for this equipment will remain low, making it difficult to establish a workable business case for these investments. Demand charges based on peak usage can add to these costs and further erode the business case for DCFC, especially where utilization is currently low. (6 TR 4181.)

During this discourse, witness Schuster ignores the rebates for fast charging, which are intended to address the capital expense and also help with return on investment. As for difficulty establishing a business case, that is not the role of the Commission. When rates are appropriately based on cost of service, there may or may not be a business case, or the business case may need to be modified. In the case of modification, it may be the case that the charging provider needs to raise their rates to collect more revenue. Most are familiar with out of the way gas stations charging more for gas. Witness Schuster also stated, “I

recommend that the Commission require the Company to conduct a comprehensive evaluation of best practices as it relates to DCFC tariffs being implemented in other states and countries.” (6 TR 4189.) Staff comments that all tariffs being implemented in other states are not necessarily based on cost-of-service, and to the extent that they are not based on cost-of-service, Staff would recommend that those tariffs would either need to be modified or rejected. Witness Schuster states, ‘At minimum, the Commission should not establish a “demand charge holiday” sunset date until the Company has filed the findings of an accurate DCFC COSS and interested stakeholders have had the opportunity to review and comment on the study’s findings.’ (6 TR 4187.) Staff agrees, however, Staff believes this filing and review should take place in the next rate case. The recommendation of June 1, 2028, is only to be in alignment with the proposal in DTE energy (U-21860), and provides ample time to implement a DCFC charging tariff, if not in the next case, then possibly in the one after.

Walmart witness Matthew T. Lyons also discusses a DC fast-charging tariff in direct testimony. (3 TR 2622-2623.) Witness Lyons states, “Walmart understands how EV charging rates can either promote or impede EV charging investment and user experience”. (3 TR 2623.) After many years of a demand charge holiday, Staff is less concerned about promotion or impedance of fast charging through rates. Staff’s focus is to ensure that rates are based on cost of service. To the extent that fast-charging tariffs are based on cost of service, the levels of adoption or non-adoption will be appropriate. MEIU witness Schuster has

a similar concern, which should also be rejected. (6 TR 4185.) In recommendations, Walmart witness Lyons states “Walmart recommends that the Commission require the Company to work with interested stakeholders to develop a new EV tariff that encourages investment...” (3 TR 2623.) Again, Staff recommends that the right amount of investment is informed by tariffs that reflect cost of service. Additionally, Walmart seemingly believes that rates are the only way to promote adoption, as it does not discuss fast charging rebates in testimony.

The Company rebuttal is very brief in regards to a fast-charging tariff, with both witness Myrom and witness Connolly saying that there is not enough data. (3 TR 1880, 3 TR 172.) Witness Connolly mentions that this has been addressed in previous proceedings. While this is indeed true, time has passed since those proceedings took place and more time will pass before the next rate case.

Furthermore, witness Connolly mentions that rate GP closed to all but new customers on January 1, 2021. (3 TR 173.) That means any new customers on that rate are fast-charging customers and by now in late 2025, may have significant amounts of charging data. It is also likely that some charging customers on this rate joined before that date. Also, the Company recently implemented a tariff for large users based on potential data centers, despite not yet serving a data center customer. The idea that there should be more time to collect data before designing a tariff should be rejected. The tariff need not be set in stone, as the rates would still be subject to the typical cost allocation and rate design process that occurs in

every rate case for every customer class. Terms and conditions could further be altered in a typical ex parte tariff case.

Staff would also like to point out that the end of the demand charge holiday does not necessarily have to coincide with the implementation of a new fast-charging tariff. Fast-charging customers could be moved from Rate GP to Rate GPD or Rate GPTU when the demand charge holiday ends. There would not necessarily need to be a new fast-charging rate at that time. This is not Staff's recommended approach, however.

Staff's recommendation remains that the demand charge holiday firmly conclude on June 1, 2028, as proposed in DTE Electric case U-21860. Whether or not a new tariff is in place at that time is of limited concern for Staff, however, what is a concern for Staff is that any proposed rate be based on cost-of-service. All other elements of the rate can be open to further discussion.

E. Investment Recovery Mechanism (IRM)

The Company is proposing to extend the IRM for two years, from May 1, 2026 to April 30, 2028, with the following sub-programs and investment categories included:

- LVD Lines Reliability, specifically the Targeted Circuit Improvements and Pole Replacements investment categories. The Company proposes to spend \$276,191,000 per year on these investment categories.

- Resiliency – Fractionalization, with \$11,647,000 proposed per year.

- System Protection, with \$4,098,000 proposed per year.

- LVD Repetitive Outages, with \$30,344,000 proposed per year.

-Vulnerable Communities, with \$30,000,000 proposed per year. (6 TR 4448-4449.)

Staff recommends approving the two-year extension of the IRM, covering

May 1, 2026 – April 30, 2028, but with the following changes:

- 1) Due to a recommended adjustment from Staff to the Repetitive Outages sub-program for the test year, \$6,068,800 should be removed from the IRM each year. The test year adjustment is discussed elsewhere in this brief. Staff recommending that \$6,068,800 be removed from the IRM for the following 12-month period as well because Staff's concerns about underspending in the test year apply to the following year as well. [6 TR 4449, 4450.]
- 2) The Vulnerable Communities sub-program should be removed from the IRM and the associated \$30,000,000 of proposed IRM expenditures placed into rate base for the test year. On a systemwide basis, the Company's Environmental Justice (EJ) communities have comparatively good reliability, even though particular EJ communities do face reliability challenges. The Company should invest in these communities, but recovery of those expenditures does not need to occur through the IRM. [6 TR 4449, 4450.]
- 3) For May 1, 2027 – April 30, 2028, the rate of return associated with the IRM surcharge should be lower than the pretax rate of return (ROR) as ordered in this instant case, but no lower than the short-term debt rate (STD) ordered in the instant case. Once these investments are found to be prudent and reasonable for inclusion in base rates in a future rate case, Staff intends for the normal ROR to apply. [6 TR 4449.]

Staff recommends a lower ROR for the 2027-2029 IRM because, for numerous years, it appears the Company under-invested in its distribution system. (6 TR 4450 - 4451.) This is evident when comparing Company spending in the 2010s to the higher amounts it is projecting to spend now and over the next several years. (6 TR 4451 – 4452.) While Staff is not claiming the projections for the late 2020s are the correct amounts, they are probably closer in magnitude to what the distribution system requires than the amounts that were spent in the 2010s, his

indicating past under-investment in the distribution system that the Company has only recently begun to turn around. (6 TR 4452.) This recommendation is similar to what Staff is recommending in Case No. U-21860, the ongoing DTE Electric rate case. (6 TR 4450 – 4453.)

Staff has additional recommendations for the Commission regarding the IRM: 1) if the Commission believes two years is too long a time period to approve, it can always approve just one year; and 2) Staff is of the opinion that the Commission can reduce a year's approved amounts later in a subsequent rate case prior to that year occurring. (6 TR 4453.)

Other parties had different recommendations regarding the IRM. ABATE witness Colin T. Fitzhenry recommended the Commission reduce the Company's proposed annual authorized capital expenditure amount for the LVD Lines Reliability sub-program for both years. (6 TR 3719-3723.) METC witness Michael Fleck supports Consumers' inclusion of vulnerable communities in the IRM. (4 TR 3191-3192.) The Urban Core Collective's witness Sergio Cira-Reyes has concerns about approving another increase in IRM spending before reconciliation of the current two-year IRM has been completed and recommends the Company report more thoroughly on the linkage between the percentage of the investments in EJ communities relative to the needs of those communities. (5 TR 2333-2334.)

Staff disagrees with most these recommendations. Staff witness Nicholas M. Evans stated the following in his rebuttal testimony:

In contrast to the large IRM reductions being recommended by ABATE and UCC, Staff recommends the reductions be more modest.

Staff also does not support the Vulnerable Communities program being added to the IRM. However, Staff does not oppose the Company being required to report more thoroughly on the linkage between the percentage of the investments in EJ communities relative to the needs of those communities. [6 TR 4458.]

The Company did not agree with all of Staff's recommendations, particularly regarding the lower rate of return. Company witness Myers' testified that applying anything less than the pretax ROR to the IRM investments would be punitive. (3 TR 1843 – 1844.) Company witness Myers also argues that recommending a lower ROR due to past under-investment is inconsistent with Staff's positions in previous rate cases, when Staff proposed distribution capital spending disallowances. (3 TR 1844 – 1846.)

Staff disagrees that applying less than the pretax ROR to the IRM investments is punitive. The lower return is not permanent; again, once these investments are found to be prudent and reasonable for inclusion in base rates in a future rate case, the normal ROR would apply. Staff also disagrees with the notion that because Staff recommended disallowances to distribution capital spending in previous cases, it somehow cannot criticize the Company for past distribution system under-investment and consequently recommend a temporary lower ROR for IRM investments. In those previous cases, Staff was recommending disallowances to spending that it believed was not reasonable or prudent to be placed into customers' rates. Had the Company proposed larger spending amounts, and those amounts were found, in Staff's judgement, to be reasonable and prudent, Staff would have supported their inclusion in rates.

F. Tariff Changes

For new service connection fees, the Company is proposing several tariff changes which were summarized by Staff witness Nicholas M. Evans in his direct testimony:

1. For original installations of underground service connections from underground distribution systems, for mobile home parks, the non-refundable contribution in aid of construction (CIAC) shall be a flat fee of \$1,300, which is change from the current \$4.50 per foot of required trench.
2. For installations of overhead service connections for residential customers, the developer or customer shall make a non-refundable contribution of \$1,300. There currently is no fee for these connections.
3. For installations of overhead service connections for general service customers, the developer or customer shall make a refundable contribution of \$2,200. There currently is no fee for these connections.
4. For the installation of underground service connections for residential customers, the developer or customer shall make a non-refundable contribution of \$1,300. The current contribution is \$350 for the first 150 feet and \$4.50 for each additional foot.
5. For the installation of underground service connections for general service customers, the developer or customer shall make a refundable contribution of \$2,200. The current contribution is \$6.50 per trench foot. [6 TR 4453-4454.]

Consumers witness Brittani A. Gray, through Company Exhibit A-16 (BAG 2), Schedule F-5, proposes in each case that the flat fee applies to the route selected by the Company, and for an alternate route requested by the customer and mutually agreed upon by the Company and the customer, the contribution shall be

the flat fee plus any additional costs in excess of those associated with the route specified by the Company. (6 TR 4454.)

Staff agrees that the costs need to be updated, overhead service connections should require the customer or developer to pay a fee, and the Company can charge additional costs for alternate routes that are longer and more challenging. (6 TR 4454.) However, Staff does not agree with the flat fee structure, because it could lead to customers with short service connection lengths subsidizing customers with longer service connection lengths. (*Id.*) Therefore, Staff recommends the Company maintain the existing fee structure in which there is a per foot charge for each type of connection. (*Id.*) For installations of overhead service connections for residential and general service customers, which currently do not have fees, the Company should propose fees or contributions that include per-foot charges in its next rate case. (*Id.*)

Company witness Partlan disagrees with Staff's recommendation, for several reasons. Company witness Partlan states that a significant portion of installing a new service involves fixed costs, and those costs are included in the Company's proposed fee structure. (3 TR 2045.) Second, the current fee for new residential underground services already includes a flat fee component of \$350 for the first 150 feet. (*Id.*) Third, flat fees create billing efficiencies, because the customer can pay earlier in the process and they prevent the need for any rebilling if the actual footage differs from what is originally quoted. (3 TR 2045 – 2046.)

Fourth, Company Partlan argued that since the flat fee depends on the customer accepting the Company's proposed route, which Consumes witness Partlan asserts is usually the shortest reasonable one and the most cost-effective one, other customers will be protected because if the customer opts for a different route, then he or she will be assessed any additional costs incurred by the Company in addition to the flat rate. (*Id.*) This, according to Company witness Partlan, protects other customers from subsidizing routes for a given customer that are unnecessarily long or expensive. (*Id.*)

In response, Staff stands by its initial recommendation. Flat fees are not justified just because a significant portion of installing a new service involves fixed costs; not all costs are fixed, and the fee structure should reflect the variable costs to some degree. For new residential underground services, Staff is willing to accept a fee structure that has a fixed fee component, similar to the \$350 for the first 150 feet that is currently in place. However, there should be a per foot charge component that would apply past a certain distance. Staff is open to applying this structure to other types of services. This should help the Company capture at least some of the billing efficiencies it touts as a benefit; in general, though, Staff's opinion is that the Company's proposal puts too much emphasis on efficiency and not enough on fairness. Finally, the degree to which the Company's proposal protects customers from subsidization is not enough, and per-foot charges are necessary for sufficient protection.

G. The Commission Should Accept Consumers' Updated AMI Opt-out Upfront charge of \$168.07.

References in the Record: Hansen, 6 Tr 4316-4318, Ex. S-12.0; Kelly, 3 Tr 1578.

In Staff's direct testimony, it recommended that the Commission adopt the Company's proposed AMI opt-out upfront charge, which was updated to \$168.07 by the Company through audit. (6 TR 4317.) In rebuttal, the Company agreed with this recommendation. (3 TR 1578.)

H. The Commission Should Reject Consumers' Proposed AMI Opt-out Monthly Charge and Require the Company to Track the Cost of Reading AMI Opt-out Meters.

References in the Record: Hansen, 6 Tr 4316-4318, Ex. S-12.0; Kelly, 3 TR 1578-1579.

In Staff's direct testimony, it recommended that the Commission reject the Company's proposed monthly AMI opt-out charge. (6 TR 4318.) Based on the calculation of the monthly charge provided to Staff by the Company, Staff testified that the proposed charge is not reflective of cost-of-service. (*Id.*) The calculation of the monthly charge used the cost of all non-AMI reads, not just AMI opt-out reads. (6 TR 4317.) The Company divided the cost of all non-AMI reads by the total number of reads to get the average read cost, however, 13.9 million out of 14.2 million of these reads were AMR gas reads, leading Staff to believe that this calculation is not reflective of the cost-of-service of reading AMI opt-out meters. (*Id.*) The Company did not take issue with this in rebuttal. Staff also testified that the Commission should require the Company to track the costs of reading opt-out AMI meters in order to be able to provide an updated calculation for the opt out fee

that is cost-of-service based in a future rate case. (6 TR 4318.) In rebuttal testimony, the Company states, “it is not clear whether Mr. Hansen is arguing that there should be no monthly charge at all until the Company performs this new analysis, or if the existing monthly charge should remain in effect until that time.” (3 TR 1579.) Nowhere in testimony did Staff argue that there should be no monthly charge, the existing monthly charge should remain until a new charge is accepted by the Commission. Regarding tracking the costs of reading non-AMI meters, the Company stated that it will look into that possibility but noted that there are challenges to tracking these costs separately because the Company does not have a dedicated electric meter reader team that only reads non-AMI meters. (*Id.*) The Commission’s order in Case No. U-21585 stated that a re-evaluation of AMI opt-out charges is prudent to ensure alignment with the cost-of-service³², therefore, the Commission should require the Company to track the costs of reading non-AMI meters and to propose an updated monthly charge in a future rate case.

I. The Commission should adopt the correction to the voltage calculation for class GSG-2 Standby-Service Production.

References in the Record: Todd, 6 TR 4592-4597, Exhibit S-6, Schedule F-3.0

In direct testimony, Staff witness Todd testified that Staff had corrected an error that the Company had found in its voltage level calculation for class GSG-2

³² MPSC Case No. U-21585, 3/21/2025 Order, p 98.

Standby-Service Production. (6 TR 4595.) This correction is reflected in Staff's rate design. (Exhibit S-6, Schedule F-3.0). The Company did not refute this correction in rebuttal. Staff, therefore, recommends the Commission adopt this correction.

VII. Distribution

- A. **Staff recommends the Commission direct the Company to provide a thorough breakdown of the inspection associated costs applied across all capital programs/subprograms, support why the costs are appropriately classified as capital instead of O&M with reference(s) to accounting guidance, and amend the classification of these expenditures in the Company's next rate case, where necessary, based on the analysis.**

Company witness Jennifer Partlan presented the Company's LVD Lines Demand Failures as a subprogram under the unplanned distribution capital investment. (3 TR 1903-1914.) The Company categorized approximately \$1.2 million annual LVD line inspections as capital expenses and included the costs as components of engineering and supervision of the construction work, referring to the Electric Plant Instructions, Section 3, subsection 11 of the FERC Uniform System of Accounts (USOA). (Exhibit S-19.0.) Staff in its review assert that the annual LVD line inspections under this subprogram would be more appropriately classified under the Operating Expense Instructions, Section 2 operating expenses under the USOA. (6 TR 4289-4290.)

Staff witness Anna Schiller recommended that the Company provide additional support as to why the Company believes the costs should be classified as

capital instead of O&M in its next rate case. (6 TR 4290-4291.) Company witness Partlan asserted in rebuttal that the Company's categorization was proper but did not contest Staff's recommendation and agreed to review its capitalization policies around "line inspections and security assessment work" in accordance with Staff's proposal and propose any necessary changes. (3 TR 2044-2045.) Staff is concerned that the Company's understanding of Staff's recommendation is misunderstood to apply to line inspection and security assessment work only. Staff's recommendation encompasses inspection costs applied across all capital programs. No other parties offered rebuttal to Staff's position; therefore, the Commission should adopt Staff's recommendation.

- B. Staff recommends the Commission to require costs to be categorized and similarly trackable between any submitted DSP and any rate case which uses such DSP to justify cost recovery and require a comprehensible walkthrough of any expense programs, subprograms, and/or categories that have varied between the prior submitted DSP and the ongoing rate proceedings as an exhibit within that rate proceeding.**

Company witness Michael Kelly and Jennifer Partlan present various distribution system costs, with witness Kelly providing tracking overview between the Company's latest distribution system plan (DSP) and the current case. Staff, in the testimony of witness Schiller, acknowledges that while some deviation may exist due to typical business operations, the costs and spend programs are very difficult to review between cases. Staff provided examples of two such instances within its testimony (6 TR 4294-4296) and recommended that the Commission

require costs to be categorized and similarly trackable between any submitted DSP and any rate case which uses such DSP to justify cost recovery and require a comprehensible walkthrough of any expense programs, subprograms, and/or categories that have varied between the prior submitted DSP and the ongoing rate proceedings as an exhibit within that rate proceeding. (6 TR 4308). Staff stated that the Company's next DSP filing date was in 2027. (6 TR 4294)

Company witness Kelly offered a correction in the Company's rebuttal testimony to the filing date of the Company's next DSP, which occurs in 2026. (3 TR 1567.) Staff agree that the next DSP is to be filed in 2026. The rebuttal conceded that the Company would endeavor to present planned investments in an easier format for comparison in subsequent DSPs. (3 TR 1568.) No other parties offered rebuttal to Staff's position; therefore, the Commission should adopt Staff's recommendation.

- C. **Staff recommends the Commission require additional information regarding the Company's projected SAIDI reliability capital investments and perform a detailed review of the compliance with the Liberty expanded timeline recommendations.**

The June 12, 2025 order in Case No. U-21305 adopted recommendations of the Liberty Third-Party Audit report, conducted by the Commission the year prior. One recommendation suggested that the aggressive pace of the Company's SAIDI improvement mechanisms that may lead to more costly programs and initiatives. The Company committed to analyzing a slower investment pace in its comments

responding to the Liberty report in U-21305. This is summarized in the testimony of Staff witness Anna Schiller. (6 TR 4298.)

Within the testimony of Company witness Michael Kelly, the Company projects its SAIDI investments on a five-year glidepath. Kelly's testimony provided the results of two runs of its SAIDI model process for additional seven-year and ten-year investment glidepaths and argued that the results would reduce investment in several of its SAIDI reliability programs. (3 TR 1412-1415.)

Witness Kelly also demonstrated that, out of the three analyzed, only the five-year glidepath would allow the Company financial incentives under the Commission's proposed performance-based ratemaking framework. None of the proposed glidepaths resulted in a financial penalty. (3 TR 1416.) Witness Kelly stated that performance-based ratemaking mechanism was a contributing factor to relying on a five-year glidepath. (3 TR 1415.)

In its testimony, Staff argued that the Company did not meaningfully examine an extended timeline for those investments given model constraints and a lack of additional examination of the subject. (6 TR 4302.) Regarding the SAIDI model, Staff testimony argued that the Company, through discovery, was unable to produce error margins or accuracy metrics for its model. The historical SAIDI trend, an input for the model, varied considerably when Staff and Liberty included additional data. (6 TR 4299-4304.) Regarding additional examination, Staff testimony notes that the Company provided no analysis on how an extended timeline could contribute to cost effectiveness, affordability, or decreased rate

impacts. (6 TR 4304-4305.) Staff also criticized the Company's use of a rolling average trendline as potentially misleading and likely to lag the data. (6 TR 4300.) Staff recommended that the Commission require additional examination of extended SAIDI improvement timelines before the Company's investment strategy was considered reasonable by the Commission. It also recommended additional assessment the cost effectiveness, affordability, and potential rate impact of any SAIDI performance forecast related to the U-21305 order. (6 TR 4307-4308).

ABATE's witness Colin Fitzhenry also testified that the Company's reliability investment forecasting was flawed. ABATE compared the Company's distribution plant additions – rising 49% in the previous 5 years – with the Company's SAIDI with MEDs metric and determined that the increase in spending has not translated into meaningful reliability gains for customers. Witness Fitzhenry also argued that by focusing selectively on SAIDI without MEDs the Company's position relies on “cherry-picked” data. Witness Fitzhenry concludes that the Commission should view further capital investment with extreme skepticism and that it should demand the Company first demonstrate a clear link between investments and quantifiable reliability improvements. (6 TR 3717-3719.)

In rebuttal, the Company asserts that its SAIDI figures are correct and show that SAIDI is clearly improving based on witness Kelly's graphs. (3 TR 1595.) In contrast to Witness Fitzhenry's testimony, the Company argues that SAIDI excluding MEDs is an IEEE industry standard metric to normalize performance

data for unusually severe weather and that witness Fitzhenry's analysis has multiple flaws from not addressing all the evidence on record. (3 TR 1598-1599.)

In the same rebuttal Company witness Kelly reiterated that the linear regression performed by witness Schiller does not address annual variability in the same way a rolling average does and attests such an average is better for identifying trends. (3 TR 1568-1569.) The Company argued that Staff's and Liberty's historical trendline was invalid as the starting date was arbitrary, and that the selection of a different date results in changes from both his direct testimony and witness Schiller's testimony. (3 TR 1569.) Additionally, the Company states in rebuttal that there are few categories the Company can make alterations to slow its SAIDI investment due to other mandates, such as increased Line Clearing investments. (3 TR 1571-1572.) Witness Kelly also avers that it is not realistically possible to guarantee the accuracy of a predictive model and that most peer utilities look at past performance instead. (3 TR 1575.) The Company did not provide any other analysis on how an extended timeline could influence the total cost of programs on customers.

To these points, Staff notes that SAIDI including MEDs is also an IEEE industry standard metric and, as discussed by the Company in its rebuttal, SAIDI excluding MEDs can still show impacts from weather events. (3 TR 1574.) Additionally, the Company does not refute any other arguments from Staff regarding the rolling average, including its tendency to lag the data. The Company's arguments on the volatility of the trendline based on the modification of

the start date reinforces the lack of accuracy in the SAIDI model. Staff agrees with the Company's statement that accuracy in predictive models is not guaranteed and opines that basing future system capital investment recovery on the results of such forecasting instead of solely past performance may lead to unintended results and potential over or underspend.

Staff maintains that the Company has not meaningfully demonstrated in this case what programs could be reduced, rearranged, extended, or cut; it did not meaningfully engage with the idea that slower investment periods could provide benefit for customers and potentially lower costs over time as suggested in the Liberty recommendations.

Staff agrees with ABATE's recommendation to the Commission that it should request the Company to demonstrate a clear link between distribution capital investments and reliability improvements. The Commission should adopt Staff's recommendations in this matter presented in witness Schillers testimony, including requiring other methods to examine potential extended timelines for SAIDI improvements and requiring the Company to assess cost-effectiveness, affordability, and potential rate impact of any SAIDI performance forecasts related to the U-21305 order.

D. Staff recommends the Commission establish that any expenses in future rate cases based solely on avoiding financial penalties or gaining a financial incentive set by the Commission as imprudent.

Company witness Kelly stated in direct testimony that “[t]he Company must be allowed to invest at a level that will allow the Company to avoid financial penalties established by the Commission”, in response to the examination of other SAIDI investment timelines. (3 TR 1417.) The Company demonstrated in its testimony that none of the alternative SAIDI investment timelines would result in a proposed financial penalty under the Commission’s draft performance-based ratemaking mechanism. (3 TR 1416.) Staff, in the direct testimony of witness Schiller, stated that the “[r]emoval of financial penalties or the acquisition of incentives may be a priority of Consumers, but that does not mean that recovery of related costs is inherently reasonable.” (6 TR 4306.) Staff recommended the Commission establish that any expenses in future rate cases based solely on avoiding financial penalties or gaining a financial incentive set by the Commission as imprudent. (6 TR 4309.)

The Company voiced no objections to this recommendation in its rebuttal, and no other parties offered rebuttal to Staff’s position. The Commission should, therefore, adopt Staff’s recommendations.

VIII. Deferral Mechanisms

A. Distribution Deferral Mechanism

For March 1, 2024 – February 28, 2025, Consumers Energy had actual capital spending for new business, reactive demand failures, and asset relocations that exceeded the amounts included in rates, and this spending is shown in Company Exhibit A-84 (PDD-60), page 2. The return on, return of, and property tax related to the additional capital spending for these three programs is \$24.3 million, the calculation of which is shown in Company Exhibit A-84 (PDD-60). Staff considers this amount to be reasonable and prudent. (6 TR 4446.)

The Company requested continuation of the deferral mechanism proposed in Case No. U-21585, and Staff supports this request, as the capital spending associated with the distribution deferral mechanism was reviewed and found to be prudent. (6 TR 4446-4447.) However, Staff recommends continuing the following conditions:

1. The Company shall provide a list of sub-programs and investment categories within each of the five programs of New Business, Demand Failures, Asset Relocation, Reliability, and Line Clearing and communicate any significant changes to these sub-programs and investment categories to Staff while the changes are still in the planning stages and prior to the implementation of the proposed changes.
2. The Company shall provide quarterly spend reporting in each of the five programs throughout the test year and notify Staff of any anticipated spending above 110% of the approved spend amount for New Business, Demand Failures, and Asset Relocation programs. Each notification must include an explanation for the overspend.

3. The Company shall spend the full amounts approved by the Commission in the Line Clearing programs. If the Company spends the approved amounts in the Line Clearing programs, deferred accounting treatment shall be authorized for both the overspend and the underspend (two-way tracker). If the Company fails to spend the approved amounts in the Line Clearing program, deferred accounting treatment shall only be authorized for the underspend (one-way tracker).

4. Deferred accounting treatment, if sought by the Company again in the future, must be requested in a future rate case. [6 TR 4447.]

The Company stated that recovery of any resulting regulatory asset balance, should the Company's proposal be approved, would be requested in a future rate case and the Company would request that a 12-month surcharge be established to collect any resulting regulatory asset balance. (6 TR 4447-4448.)

The Company agreed with Staff's position on the distribution deferral mechanism, and believes the conditions are reasonable. (3 TR 1576.) For these reasons, the Company's proposed distribution should be approved with the listed conditions.

B. Staking and Locating Sub-Program

Per the direct testimony of Company witness Michael P. Kelly, large, externally driven broadband programs introduce potential for the experienced test year staking volume to deviate significantly from the projected volume. Hence, the Company requests a regulatory deferral mechanism for the Staking and Locating Sub-program to refund or recover any O&M expenses below or above amounts included in rates for the test year. A similar request was made in the Company's most recent Gas Rate Case in Case No. U-21806. (2 TR 1072-1073.)

Per the direct testimony of Staff witness Jacob G. Martus, Staff supports the use of a regulatory deferral mechanism for the Staking and Locating subprogram due to the new broadband programs. However, to ensure the regulatory deferral mechanism is coupled to the staking volume fluctuations, Staff witness Jacob G. Martus recommends for the deferral amount to be calculated by Equation 1 below where r_amount is the recovery/refund amount, e_volume is the experienced ticket volume during the test year, p_volume is the projected volume during the test year, and p_cost is the projected ticket unit cost during the test year.

$$\text{Eq. 1: } r_amount = (e_volume - p_volume) * p_cost$$

Staff witness Jacob G. Martus also provides Exhibit S-17.0, the Company's audit response providing possible year-over-year staking volume growths, which led to Staff recommending for r_amount to be capped by -9.13% to +3.77% of the total projected test year ticket cost . A similar recommendation was given by Staff in the Company's previous Gas Rate Case in Case No. U-21806. (6 TR 4479-4480.)

Per the direct testimony of witness Jessica A. York, the Company projects a 7% increase in staking volume, despite historical data showing significant volatility with no apparent trend. With an adjustment to the staking volume, a \$7,469,000 disallowance to the Staking and Locating subprogram is recommended. (6 TR 3683-3684, 3688.)

Per the direct testimony of Staff witness Ally Durfee, the Company's anticipated staking volume increase of 7% is calculated using MISS DIG 811 statewide annual growth. The Company, however, has consistently experienced

lower growth than the statewide average. Using a historical projection of 2.28%, the test year projected staking volume is adjusted to 456,522 and a \$1,517,000 disallowance to the Staking and Locating subprogram is recommended. (6 TR 4430-4431.)

Per the direct testimony of AG witness Seb Coppola, the anticipated staking volume increase of 7% is not reflective of the historical volume from 2021 to 2024. Using the actual rate of growth of 2%, the test year projected staking volume is adjusted to 453,640 and an \$866,000 disallowance to the Staking and Locating subprogram is recommended. (2 TR 2048-2049.)

Per Company witness Michael P. Kelly's rebuttal testimony, the Company agrees that the equation presented by Staff witness Jacob G. Martus is reasonable for calculating the regulatory deferral mechanism recovery/refund amount. However, because the uncertainty in staking volume is in large part due to new rural broadband programs, there should be no cap indexed to historical variability. In addition, the +3.77% upper cap to the equation is shown to be out of date due to the Company experiencing a 22.5% year-over-year increase in staking volume from January-September 2024 to January-September 2025. If the Commission does decide to implement a cap to the recovery and refund amount, it should also be symmetrical, such as +/- 10% in each direction, because it's unreasonable to create an unbalanced mechanism with nearly three times as much risk as potential benefit as witness Jacob G. Martus proposes. (2 TR 1126 -1127.)

Per Company witness Michael P. Kelly's rebuttal testimony, the Company disagrees with Staff witness Ally Durfee's and AG witness Seb Coppola's recommended adjustments to the projected test year staking volume. The Company is on track to have a staking volume in 2025 of over 520,000 which exceeds any of the annual amounts originally projected through 2027 in this case. In addition, the requested deferral mechanism provides a way to refund customers if staking volumes end up lower than projected for any reason, and since Staff supports the deferral mechanism, Staff should be confident that customers will be protected if staking volumes are lower than projected. (2 TR 1132-1133, 1138-1139.)

Since the Company agrees with Staff that Equation 1 is appropriate for calculating the regulatory deferral mechanism amount and no other witnesses have provided testimony regarding the regulatory deferral mechanism, Staff maintains its approval of using a regulatory deferral mechanism for the Staking and Locating program and for Equation 1 to be used to calculate the amount (a Commission order for the Company's most recent Gas Rate Case in Case No. U-21806 also gave approval for Staff's similar recommendation regarding its regulatory deferral mechanism for the Staking and Locating subprogram on September 30, 2025). However, since there is also no contention regarding the ticket unit cost in the test year, Staff is updating Equation 1 to reflect the agreed projected unit cost. The projected staking volume for the test year, p_volume , is

contested between witnesses Kelly, York, Coppola, and Durfee, so it won't be assigned a value until the Commission approves an amount.

$$\text{Eq. 1: } r_amount = (e_volume - p_volume) * \$27.22/unit$$

Staff is also clarifying that it supports the regulatory deferral mechanism with the intent of alleviating unpredictable staking volume fluctuations due to the new, large, and externally driven broadband programs. Any adjustment to the projected staking volume for the test year is a prediction, and hence, Staff does not support the deferral mechanism being used as a reason to reject adjustments. In addition, the mechanism is recommended because of uncertainty regarding the new broadband programs, not to address the Staking and Locating subprogram's general ticket volume fluctuations. Because of this, Staff does not support the expansion of Equation 1's caps, but Staff finds the Company's desire for a symmetrical cap reasonable. Therefore, Staff recommends for Equation 1 to be capped by the adjusted amount shown in Equation 2.

$$\text{Eq. 2: } cap = (+/-) 0.0377 * p_volume * \$27.22/unit$$

C. **Extraordinary Storm Accounting**

References in the record: Staff Witness McMillan-Sepkoski 6 TR 4515-4517; Company Witness Snider 3 TR 2147-2152, 2172-2173; Attorney General Witness Coppola 3 TR 2572-2573; CUB Witness Bunch 6 TR 4071; Consumers Energy Company, MPSC Case No. U-21914, Order 6/12/25, pp. 3-5.

Staff Witness McMillan-Sepkoski recommends to the ALJ and Commission that the Company's request for the proposed Extraordinary Storm Accounting

deferral for future storm restoration costs be denied (6 TR 4516-4517.). Staff believes it is not in the best interests of ratepayers for the Company to request a deferral of costs with no dollar amount presented for deferral. The Company has the option to file an ex-parte case to recover costs through deferred accounting, such as it did in Case No. U-21914. This case was settled in seven (7) weeks from the initial application filing. *In re Consumers Energy Company*, MPSC Case No. U-21914, Order 6/12/25, p 3-5.

The Attorney General states that it is premature to adopt this proposal and recommends that a deeper analysis and study of this proposal is needed (3 TR 2572.).

CUB states that this proposal transfers the risk of the restoration costs from the Company and its shareholders to the ratepayers and recommends to the ALJ and Commission to deny the Company's request for the Extraordinary Storm Accounting deferral of costs (6 TR 4069.).

For the reasons presented above, Staff urges the ALJ and Commission to disallow the proposal by the Company for the Extraordinary Storm Accounting deferred recovery request.

IX. Other Issues

- A. **The Commission and ALJ should adopt Staff's recommendation and direct the Company to include detailed information on the Whole Home Optimization Demand Response Pilot in all relevant future filings.**

References in the record: Towslee 6 TR 4494-4499; Gast 3 TR 1109-1111, 1113; Exhibit A-182 5-8.

Staff witness Joshua S. Towslee summarized Staff's position regarding the Company's proposed Whole Home Optimization Demand Response Pilot. While not recommending any disallowances related to the pilot at this time, Staff requests that in future filings the Company provide detailed information about the pilot, including the following: pilot costs, allocation of remaining funds, energy savings, technologies that will be tested and evaluated, cost-effectiveness assessments, and plans for participants once the pilot period ends. (6 TR 4494-4497, 4499.)

In its filing, the Company proposes this pilot to explore how in-home resources and analytics detailing energy usage and demand may impact customer-controlled responses and influence load management behavior. The Company identifies customer-owned smart home energy management systems, battery storage, and load management devices as focuses of the pilot. CE requests \$1M to support the pilot, consisting of \$750,000 in capital and \$250,000 in O&M. (3 TR 1109-1111.)

Mr. Towslee explains that Staff is generally supportive of this type of pilot, but more detail about the technologies Consumers plans to test in the pilot and

how each will be evaluated, progress reporting during the pilot, and discussion of transition for participants once the pilot ends are all necessary for Staff's continuing assessment. (6 TR 4497.)

In rebuttal, Company witness Gast expresses the Company's support of Staff's recommendation and its intent to include the requested information in its future DR reconciliation filings. (3 TR 1113.)

B. The Commission and ALJ should adopt Staff's recommendation to defer decisions about changes to the DR regulatory construct to MPSC Case No. U-21637.

References in the record: Towslee 6 TR 4494-4499; Gast 3 TR 1099-1101, 1114; July 10, 2025 Order in Case No. U-21637 41.

Witness Towslee provides Staff's response to CE's requests regarding changes to the current three-phase approach for handling DR. Staff recommends consideration of the regulatory construct be handled exclusively in MPSC Case No. U-21637. In the matter, on the Commission's own motion, to investigate opportunities for improving the process by which it reviews applications filed under MCL 460.6a, which is currently before the Commission. (6 TR 4494-4499.)

Witness Gast explains the Company's proposal that DR be considered entirely outside of rate cases and handled instead in a single annual DR filing which would operate as both a forward-looking plan and a reconciliation of prior DR expenditures, beginning with a filing in 2026 to reconcile CE's 2025 DR costs and propose new spending for 2027. (3 TR 1009-1101.)

Potential modifications to the three-phase approach are already under consideration by the Commission in Case No. U-21637. In its July 10, 2025, Order in that case, the Commission requested comments on three specific topics, one of which was a new DR process. Comment periods in that case have closed, and the case is pending. (6 TR 4498.)

In rebuttal, Witness Gast explains the Company's concerns about timing. Mr. Gast suggests that if the Commission declines to make a change to the regulatory treatment of DR in the instant case or in the Company's current DR reconciliation, MPSC Case No. U-21906, CE may not be able to file its 2027 planned DR costs in 2026 and would have to defer doing so until filing a subsequent electric rate case. (3 TR 1114.)

Staff maintains its assertion that Case. No. U-21637 is the appropriate venue for consideration of this topic. While the Commission could make a change to the way it handles CE's DR programs in either this case or U-21906, doing so would create a situation in which DR is handled through mechanisms that differ by utility. DR is an important capacity resource and is expected to become even more so over the course of Michigan's energy transition, so a standardized process for all electric utilities to seek approval and recovery of DR-related costs is more appropriate than devising strategies specific only to individual utilities. Thus, any changes to the regulatory framework by which DR is evaluated should be made universally through a Commission order in the case explicitly considering such matters.

C. Staff's Position Regarding the Company's Transportation Electrification Plan.

Staff through witness Freeman discusses the Company's Transportation Electrification Plan (TEP) (6 TR 4246-4253) and Company witness Jeffery Myrom's proposed enhancements to improve the customer experience. (3 TR 1868-1885.) The TEP focuses on the Company's long-term strategies to optimize EV charging load so that it benefits all customers. Additionally, the TEP identifies investments, incentives, programs, and expenditures that are reasonably expected to increase transportation electrification in the Company's footprint. The company will file its next TEP by July 1, 2026.

Witness Freeman notes that the Company is not seeking any budgetary increases from prior MPSC approvals. (6 TR 4250.) Witness Freeman recommends that the Company address the impact of the One Big Beautiful Bill Act changes on EV registrations and EV adoption in Michigan in its upcoming TEP. (6 TR 4251.) Company witness Myrom agrees to this suggestion in his rebuttal testimony. (3 TR 1978.)

Company witness Myrom proposes two EV program enhancements. (3 TR 1870-72.) First, the Company wants to use weatherized and EV-rated National Electric Manufacturers Association ("NEMA") 14-50 outlets across all Level 2 rebate categories and NEMA 5-20 outlets across all duration Level 1 rebate categories. (3 TR 1870-71.) Staff supports this enhancement for two reasons. (6 TR 4253.) First, reducing EV infrastructure costs is an excellent rationale.

Secondly, increased utilization of multifamily charger locations is a worthwhile goal.

Next, the Company's proposes a series of alternations to its existing Direct Current Fast Charging ("DCFC") rebate program on a time-limited and selective basis. (3 TR 1871-73.) Consumers is proposing four changes to its existing program. First, the Company is proposing a DCFC rebate of up to \$50,000 per 150 kW port. Next, Consumers wants to limit the DCFC rebates to communities that do not have at least four 150 kW DCFC ports across two or more different host sites. Third, the DCFC rebate application will only be available for two years after approval by the Commission. Lastly, the Company will look to select host sites that offer a quality customer experience. Staff supports these changes. (6 TR 4253.) These proposed changes are consistent with Staff's prior positions that DCFC incentives should work to create a skeleton charger network and not become a permanent program. These proposed enchantments are consistent with this approach. Additionally, these enchantments will steer DCFC rebates towards current charging deserts and avoid subsidizing in areas already with DCFC infrastructure.

Staff witness Freeman also addresses Direct Current Fast Charger (DCFC) Rebates in his rebuttal testimony. (6 TR 4255-56.) In Natural Resources Defense Council, the Sierra Club, and the Citizens Utility Board (NRDC/SC/CUB) witness Douglas Jester's testimony, he proposes two changes to the Company's DCFC rebates. (6 TR 4002-03.) His first request is that applicants should be able to

request variable rebate amounts. Secondly, he wants to extend rebate availability to seven years.

Regarding the first proposal, Staff is open to it. (6 TR 4255-56.) The federal EV incentive landscape has shifted dramatically this year. Giving the Company the flexibility to determine rebate amounts on specific project need may allow for better utilization of the rebate budget. However, Staff strongly recommends that the overall DCFC rebate budget should remain unaltered. Increasing the budget at this time would make the future evaluation of this program and the Company's transportation electrification program more difficult.

Staff does not support Jester's second recommendation. (6 TR 4255-56.) This proposal is an interesting one and a suggestion worthy of consideration. Staff would like this proposal raised in the Company's next rate case. Doing so would allow the Company to present the financial and programmatic impacts of a seven-year rebate window in detail. This would allow for a fuller vetting of the proposal by both the Company and intervenors.

D. Energy Assistance and Energy Affordability

References in the record: Byrom 3 TR 967, Cira-Reyes 3 TR 2310-2311, 2321; Williams 3 TR 2403; Byrom 3 TR 967.73-967.75; Braunschweig 6 TR 4611-4612

In the direct testimony of Company witness Byrom, the Company requested approval of "an increase in the LIA credit, from \$30 to \$42 per meter for 2026, with an annual scaled increase through 2029. The Company is also requesting the number of customers receiving the credit in 2026 be increased to 6,200, with

increases of 1,000 per year through 2029.” (3 TR 967.38.) The LIA credit is the low-income assistance credit.

In direct testimony of intervening parties, Urban Core Collective (UCC) witnesses Sergio Cira-Reyes and Tabitha Williams made proposals to approve a percentage of income payment plan (PIPP) for Consumers Energy customers.³³ (3 TR 2321; 3 TR 2403.) UCC witness Cira-Reyes also provided a copy of the Consumers Energy PIPP pilot report as an exhibit and summarized the Company’s recommendation to not continue a PIPP, with which he disagrees. (3 TR 2310-2331.) The exact recommendation from that report pending before the Commission in MPSC Case No. U-21021 states: “Based on the comprehensive data analysis, the Company recommends not proceeding with the PIPP pilot. [...] Instead, the Company advocates maintaining the existing programs, striving for stability and continued efficiency, and continuing to seek opportunities to better serve ALICE and moderate-income customers.” (Exhibit No. UCC-38, p. 83).

Staff witness Elaina Braunschweig presented evidence in rebuttal testimony that the Commission requested energy assistance reform be effectuated through the MPSC Staff’s energy affordability report process. (*MPSC Case No. U-21534, 1/23/25 Commission Order, p. 405; MPSC Case No. U-21585, 3/21/25*

³³ UCC witness Cira-Reyes sponsored 97 direct testimony exhibits. In total, the UCC exhibits exceed 1,800 pages. Yet, not all of this material is addressed in witness Cira-Reyes’s direct testimony. Instead, a number of the exhibits are briefly referenced or quoted for a limited purpose. (*Compare, e.g. Exhibit UCC-55 with 3 TR 2335; compare, e.g. Exhibit UCC-61 with 3 TR 2344.*) For this reason, Staff recommends the ALJ and Commission give those portions of the expansive UCC exhibits that are not pertinent to the sponsoring testimony no weight.

Commission Order, p. 391.) (6 TR 4611.) Staff submitted its energy affordability report to MPSC Case No. U-20757 on September 10, 2025. Staff witness Braunschweig's rebuttal testimony stressed that the report includes many recommendations that could overlap, conflict, or agree with recommendations made in the instant case. (6 TR 4612.) Staff recommends the Commission consider all recommendations and dockets currently addressing energy assistance programming and funding as it comes to a decision in the instant case. (6 TR 4612.) Staff recommends the Commission take a consistent approach and align its decisions with the Staff energy affordability report as it addresses recommendations in the instant case relating to energy assistance. (6 TR 4612.)

Company witness Jessica Byrom also rebutted UCC witness Cira-Reyes' proposal to implement a PIPP by summarizing its conclusions and analysis of its PIPP pilot filed on May 15, 2025 in MPSC Case No. U-21021 that led the Company to recommend not continuing the PIPP as a permanent program offering and instead continue its current assistance offerings. (3 TR 967.73-967.75.)

For the reasons stated in this brief, the Commission should continue its plan to modify energy assistance programs through the MPSC Case No. U-20757 case docket and Staff's energy affordability report and align its decisions on energy assistance across all relevant open dockets.

E. Streetlighting Recommendation

References in the record: Company witness Daniel A. Schmoekel, 3 TR 2069-21441; Staff witness Jessica Duell, 6 TR 4382-4406;

Staff makes the following recommendations regarding Streetlighting that the Commission and ALJ should adopt. In addition, as seen below, Staff also recommends that the Company be more descriptive and detailed when replying to discovery questions sent from Staff.

In discovery response U21870-ST-CE-0131, shown in Exhibit S-18, page 2, Staff had asked the Company where the remaining \$1,056,000 in spend for streetlighting had gone for year 2024. The Company replied stating the Company's total 2024 distribution capital spending (\$920,439,000) exceeded the 2024 portion of the bridge period that was projected (\$870,911,000) in case U-21585. (6 TR 4396.) Staff recommends the Company keep track of their underspend in programs related to distribution expenditures. If the Company were to underspend in any program it is requesting in a rate case the Company could then provide Staff detailed information on where those underspent expenses were allocated or shifted to when such information is requested. If the Company cannot provide Staff with detailed information regarding where unspent funds are being reallocated to then Staff may recommend disallowances in future rate cases. (6 TR 4397.)

Consumers witness Schmoekel rebutted Staff's recommendation of being more detailed in discovery questions and more descriptive regarding where these expenditures are going if not all spent in streetlighting. Company witness

Schmoekel testified in rebuttal that the Company spent the remaining \$1,056,000 of the streetlighting budget for year 2024 on distribution capital investments. (3 TR 2117.) Company witness Schmoekel further states the Company generally returns budgeted program funds that are unused to an Electric Distribution department level account and funds are then reallocated to fund programs with additional capital needs in other parts of the electric distribution organization and are not traced. (3 TR 2117.) Company witness Schmoekel recommends the Commission reject Staffs claim that the Company failed to follow the Commission Order in Case No. U-21585 because the Company explained as much as they could on where the unspent funds were allocated to. (3 TR 2117 - 2118.)

After reading and reviewing Consumers Energy's rebuttal testimony, Staff still recommends the Company keep track of their underspend in programs related to distribution expenditures. If the Company were to underspend in any program it is requesting in a rate case the Company should provide Staff detailed information on where those underspent expenses were allocated or shifted to when such information is requested. If the Company cannot provide Staff with detailed information regarding where unspent funds are being reallocated to then Staff may recommend disallowances in future rate cases.

F. Service Restoration Recommendations

References in the record: Company witness Andrew R. Snider, 3 TR 2120-2166; Company witness Stacy H. Baker, 3 TR 638-803; Staff witness Jessica Duell, 6 TR 4382-4406; Attorney General Witness Seb Coppola, 3 TR 2408-2623; CUB Witness Rick Bunch, 6 TR 4012-4073.

Staff has two recommendations regarding Service Restoration that the Commission and ALJ should adopt, each of which is discussed below. Staff supports the Company's proposal to spend \$165,200,000 for the projected test year O&M expense in service restoration. (6 TR 4398.)

1. **Staff recommends the ALJ and Commission not approve the Resiliency Fund.**

Company witness Andrew Snider proposes the Commission approve a service restoration mechanism called the Resiliency Fund. (3 TR 2144.) The Resiliency Fund is a mechanism that allows the Company to put any service restoration expenses they don't spend in any year into the Resiliency Fund to be able to use for any year the Company overspends in service restoration expenses. (3 TR 2144.) Once the fund is capped at \$30.7 million dollars then any dollar exceeding this amount would be refunded to customers through a bill credit. (3 TR 2144.) Staff witness Duell does not support the Resiliency Fund. (6 TR 4399.) This mechanism should not be approved because: 1) Staff is supporting the full service restoration expense for the test year; 2) the Commission rejected other service restoration mechanisms in prior cases (MPSC Case Nos. U-20963, U-20697, U-21389, and U-21585); 3) Staff's position is that customers will not see any benefit

from this proposal due to the increase in storm restoration expenses in the past five years; 4) instead of putting unspent storm restoration expenses into a pool the Company could re-allocate the expenses to other distribution programs to further improve reliability; 5) the Company can request deferred accounting for any catastrophic storm that crosses their service territory in any year, as recently it did in MPSC Case No. U-21914. (6 TR 4399.)

Sebastian Coppola, a witness for the Attorney General and Rick Bunch, a witness for CUB, both do not support the Resiliency Fund. CUB witness Richard Bunch recommends the Commission reject the Resiliency Fund because there is very little that is new with this proposal compared to past proposals offered by the Company in previous rate cases which the Commission has denied, as stated in direct testimony. (6 TR 4071.) CUB witness Bunch also states that:

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. [6 TR 4071.]

AG witness Coppola states in direct testimony that the Resiliency Fund is a complex proposal that require more research and study to assess how it would work in practice and implications on cost recovery. (3 TR 2572). AG witness Coppola also states that the Commission should open up a new generic docket to review various proposals that could be applied to the Company and other electric utilities in Michigan. (3 TR 2572,2573.)

Consumers witness Snider rebutted Staff's recommendation of not supporting the Resiliency Fund. (3 TR 2170.) Company witness Snider states the Company disagrees with the characterization that customers will not benefit from the proposal because there are no extra costs to customers to implement the Resiliency Fund. (3 TR 2171.) Company witness Snider also states customers can only benefit from the proposal because the funds will either supplement existing service restoration resources or be refunded to customers. (3 TR 2171.) Company witness Snider goes on to state that the Resiliency fund is different from other proposals the Company has proposed in past rate cases because it deals with only underspent expenses. (3 TR 2171.)

Consumers witness Snider rebutted witness Bunch's recommendation of not supporting the Resiliency Fund, stating the Resiliency Fund is not overly complex or similar to previous Company proposals such as the Service Restoration Cost Sharing Mechanism. (3 TR 2171.) The Resiliency Fund captures underspent service restoration dollars from prior years and saves them for future use if actual spending exceeds authorized amounts. (3 TR 2171.) Consumers witness Snider also rebutted AG witness Coppola's recommendation to not approve the Resiliency Fund, stating states:

If the Company experiences a year when its service restoration expense is lower than its projected expense – what AG witness Coppola describes as a “valley” – then the difference would be deposited in the Resiliency Fund and would be available to offset expenses in the following year if it is what AG witness Coppola describes as a “peak” year when service restoration expenses are higher than projected. [3 TR 2171.]

After reading and reviewing Consumers rebuttal testimony and other parties' testimony, Staff's position remains that the Resiliency Fund should not be approved by the ALJ and Commission. This mechanism should not be approved because: 1) Staff is supporting the full service restoration expense for the test year; 2) the Commission rejected other service restoration mechanisms in prior cases (U-20963, U-20697, U-21389, and U-21585); 3) customers will not see any benefit from this proposal due to the increase in storm restoration expenses in the past five years; 4) instead of putting unspent storm restoration expenses into a pool the Company could re-allocate the expenses to other distribution programs to further improve reliability; 5) the Company can request deferred accounting for any catastrophic storm that crosses their service territory in any year, as recently they did in MPSC Case No. U-21914. (6 TR 4399.) AG witness Coppola recommended the Commission open a separate docket to discuss and review different service restoration proposals that could be applied to electric utilities around the State of Michigan. Staff's opinion is that at this time there is no need to open a separate docket and Staff will continue to analyze service restoration proposals offered by the utility companies in future rate cases.

2. Staff recommends Consumers change their Caution Tape used for downed wires.

Staff witness Duell recommends the Company change their caution tape to one that states, "Caution Live Wire" or "Danger Live Wire Keep Away." (6 TR 4405.) Staff found through discovery responses received from the Company that

the caution tape the Company uses for downed wires only states “Caution Do Not Enter.” (6 TR 4405.) Staff was concerned with tape the Company uses and recommends the Company change the tape to one that states, “Caution Live Wire” or “Danger Live Wire Keep Away.” (6 TR 4405.)

Consumers witness Snider agreed with Staff’s recommendation to change their caution tape for downed wires to one that states, “Caution Live Wire” or “Danger Live Wire Keep Away”, stating in rebuttal testimony “the Company appreciates and will adopt the recommendation to utilize caution tape that indicates the potential of a live wire.” (3 TR 2175.)

Staff recommends the ALJ and Commission adopt Staff’s recommendation that Consumers change their wire down tape to one that states “Caution Live Wire” or “Danger Live Wire Keep Away” when the Company is securing a wire downs.

G. Staff recommends the Commission approve the Weadock and Iosco Battery Energy Storage System projects

In its filing, Consumers Energy Company presented two Battery Energy Storage System (BESS) projects and associated contracts. (3 TR 972-980.)

Company witness Thomas P. Clark provided the supporting testimony. Both projects are responsive to the June 23, 2022, settlement agreement in Case No. U-21090, in which the Company agreed to the addition of 75 MW of energy storage resources between 2024 and 2027. Weadock BESS is a Company-owned, 45 megawatt (MW) 4-hour lithium-ion battery energy storage project to be located at

the Weadock Substation in Bay County, with an expected commercial operations date (COD) of December 21, 2026. (3 TR 976.) It has a total projected cost of \$67.45 million. (3 TR 978.) Iosco BESS is a Company-owned, 30 MW 4-hour lithium-ion battery energy storage project to be located at the Iosco Substation in Iosco County, with an expected COD of December 21, 2026. (3 TR 978-979.) It has a total projected cost of \$49.9 million. (3 TR 980.)

In addition to the project and associated contracts, the Company also presented significant changes to its Major Procurement Contract with Our Next Energy. Due to Our Next Energy's inability to provide sufficient project financial risk mitigation, as required under the terms of the Battery Storage Agreement (BSA), it contacted Energy Vault to assume the BSA. (3 TR 977.) The Company evaluated Energy Vault and agreed to the change. (3 TR 977.)

Staff witness Marceline A. Champion provided supporting testimony and Staff's review and recommendations regarding Weadock and Iosco. (6 TR 4262-4264.) Staff provided a cost comparison to the modeled energy storage proxy resource from the Company's most recent IRP and Lazard Inc.'s analysis of Levelized Cost of Storage costs for comparable energy storage resources. (6 TR 4263-4264.) Weadock and Iosco were found to fall within Lazard Inc.'s Utility-Scale Standalone (100 MW, 4-Hour) 4 category. (6 TR 4264.) Staff Recommended the Commission approve the Weadock and Iosco contracts. (6 TR 4264.) No other interveners filed testimony regarding the Weadock BESS project or the Iosco BESS project.

X. Conclusion

Staff recommends that the Commission find that Consumers Energy's total electric revenue deficiency will be \$317,087,000 in the projected test year. Staff recommends that the Commission adopt Staff's lower rate base, return on equity, and operating expenses, higher sales revenue, as well as Staff's proposed cost of service, rate design, and tariff revisions. Staff's recommendations strike the right balance between the Company's interests and its ratepayers' interests.

Respectfully submitted,

**MICHIGAN PUBLIC SERVICE
COMMISSION STAFF**

Daniel E. Sonneveldt (P58222)
Alena M. Clark (P73252)
Nicholas Q. Taylor (P81020)
Amit T. Singh (P75492)
Michael J. Orris (P51232)
Adam Cozort (P78363)
Assistant Attorneys General
Public Service Division
7109 W. Saginaw Hwy., 3rd Floor
Lansing, MI 48917
Telephone: (517) 284-8140

DATED: December 5, 2025

APPENDIX A

Appendix A

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

Case No.: U-21870
 MPSC Staff Initial Brief
Appendix A

Line No.	(a) Description	(b) Source	(c) (Rebuttal) Applicant Projection	(d) Staff Adjustment	(e) Staff Projection
1	Rate base	Exhibit No.: A-12 (PDD-31)	15,330,358	(121,466)	15,208,892
2	Adjusted net operating income	Exhibit No.: A-13 (PDD-36)	707,646	29,479	737,124
3	Overall rate of return	Line 2 / Line 1	4.62%	0.23%	4.85%
4	Required rate of return	Exhibit No.: A-14 (MRB-1), Schedule D-1	6.30%	-0.27%	6.03%
5	Income requirement	Line 1 * Line 4	966,156	(49,019)	917,137
6	Income deficiency (sufficiency)	Line 5 - Line 2	258,510	(78,497)	180,013
7	Revenue conversion factor	Exhibit No.: A-13 (PDD-38)	1.3381	-	1.3381
8	Revenue Deficiency / (Sufficiency)	Line 6 * Line 7	345,907	(105,036)	240,872
9	Return On - Campbell Regulatory Asset	Exhibit No.: A-81 (PDD-57)	76,984	(768)	76,216
10	Revenue Deficiency / (Sufficiency) - Total	Line 8 + Line 9	422,891	(105,804)	317,087

MICHIGAN PUBLIC SERVICE COMMISSION
Consumers Energy Company
 Campbell Regulatory Asset - Return On
 For the Projected 12-Month Period Ending April 30, 2027
 (\$000)

Case No.: U-21870
 MPSC Staff Initial Brief
Appendix A.2

Line No.	(a) Description	(b) Source	(c) Amount
<u>Return on Campbell Regulatory Asset</u>			
1	Campbell 1-2 Regulatory Asset - Average Balance	Ex. A-77 (PDD-53), Line 4	314,639
2	Campbell 3 Regulatory Asset - Average Balance	Ex. A-77 (PDD-53), Line 8	773,030
3	Total Campbell Average Regulatory Asset Balance Test Year	Line 1 + Line 2	<u>1,087,669</u>
 <u>Cost of Capital</u>			
4	Pre-tax Weighted Average Cost of Capital ¹	Note 1	7.01%
5	Return on Campbell Regulatory Asset	Line 3 * Line 4	76,216

Notes

- | | | |
|---|--|-------|
| 1 | Pre-tax WACC as proposed in this case was recalculated using 9% ROE in accordance with U-21090 order dated June 23, 2022 | 7.01% |
|---|--|-------|

MICHIGAN PUBLIC SERVICE COMMISSION
 Consumers Energy Company
 Forestry Ramp-Up
 Revenue Deficiency Impact of O&M Deferral
 (\$000)

Case No.: U-21870
 MPSC Staff Initial Brief
Appendix A.3

Line No.	Description	(a)	(b)	(c)	Source	(d)
<u>Revenue Requirement included in the Case</u>						
1	Total O&M Expense LVD Line Clearing			174,844	A-170 (SES-1), Line 12 column (o)	
2	Baseline O&M Expense of LVD Line Clearing			152,606	A-170 (SES-1), Line 12 column (p)	
3	Increase in O&M Expense In Excess of Baseline			<u>22,238</u>	Line 1 - Line 2	
<u>Revenue Requirement under Deferred O&M</u>						
4	Deferred O&M Expense		22,238		Line 3	
5	Average test year working capital		11,119		Line 4 / 2	
6	Short-term Debt Rate		<u>4.92%</u>		S-4, Schedule D1	
7	Revenue Requirement of Deferred O&M			<u>547</u>	Line 5 x Line 6	
8	Revenue Deficiency Impact of O&M Deferral			(21,691)	Line 7 - Line 3	

APPENDIX B

Appendix B

MICHIGAN PUBLIC SERVICE COMMISSION

Consumers Energy Company

Rate Base

For the Projected 12-Month Period Ending April 30, 2027

(\$000)

Case No.: U-21870

MPSC Staff Initial Brief

Appendix B

	(a)	(b)	(c)	(d)	(e)
Line No.	Description	Source	(Rebuttal) Applicant Projection	Staff Adjustment	Staff Projection
1	Total utility plant	Exhibit No.: A-12 (PDD-32)	19,920,498	(126,185)	19,794,314
2	Depreciation reserve	Exhibit No.: A-12 (PDD-33)	6,649,554	(4,718)	6,644,836
3	Net utility plant	Line 1 - Line 2	13,270,944	(121,466)	13,149,478
4	Customer advances for construction	Exhibit No.: A-2 (PDD-7)	(66,473)	-	(66,473)
5	Utility plant rate base	Sum Lines 3 - 4	13,204,471	(121,466)	13,083,005
6	Working capital	Exhibit No.: A-12 (PDD-34)	2,125,887	-	2,125,887
7	Total rate base	Line 5 + Line 6	15,330,358	(121,466)	15,208,892

APPENDIX C

Appendix C

Case No.: U-21870
 MPSC Staff Initial Brief
 Appendix C

MICHIGAN PUBLIC SERVICE COMMISSION

Consumers Energy Company
 Development of Adjusted Net Operating Income
 For the Projected 12-Month Period Ending April 30, 2027
 (\$000)

Line No.	(a) Description (Witness)	Revenue				Expenses								NOI			
		(b) Sales Revenue	(c) Wholesale Revenue	(d) Other Electric Revenue	(e) Total	(f) Power Supply Costs	(g) Operations &	(h) Depreciation & Amort.	(i) Property Taxes	(j) General Taxes	(k) Other (Local) Taxes	(l) State Income Tax	(m) FIT	(n) Total	(o) NOI	(p) AFUDC	(q) Adjusted NOI
Company Filed																	
	Operating Income (Direct)	4,758,415	-	262,208	5,020,623	2,313,242	804,952	813,088	280,500	36,638	1,150	33,324	46,009	4,328,903	691,720	16,026	707,746
	Rebuttal Concessions																
	HVD Lines Reliability						(677)				1	35	134	(506)	506		506
	Web Rebate for Personalization						(17)				0	1	3	(12)	12		12
	Depreciation							(1,294)			2	68	257	(967)	967		967
	Property Tax Expense								(511)		1	27	101	(382)	382		382
	Income Tax Effect of Interest										12	406	1,538	1,957	(1,957)		(1,957)
	Interest Synchronization Adjustment										0	2	8	11	(11)		(11)
1	Operating Income (Rebuttal)	4,758,415	-	262,208	5,020,623	2,313,242	804,259	811,793	279,989	36,638	1,167	33,863	48,052	4,329,004	691,619	16,026	707,646
Staff Adjustments																	
2	Sales Revenue (Todd)	25,891			25,891						41	1,357	5,144	6,542	19,350		19,350
3																	
4	PSCR Offset (Todd)					11,587					(19)	(607)	(2,302)	8,660	(8,660)		(8,660)
5																	
6	Electric Division - Electric & Common																
7	Non-Forestry Reliability - LVD Lines Reliability (Durfee)						(7,222)				12	378	1,435	(5,397)	5,397		5,397
8	Non-Forestry Reliability - HVD Lines Reliability (Durfee)						(821)				1	43	163	(614)	614		614
	Reject CE Concession. Continue to support Staff adj.						677				(1)	(35)	(134)	506	(506)		(506)
9	Non-Forestry Reliability - LVD Substation Reliability (Durfee)						(1,540)				2	81	306	(1,151)	1,151		1,151
10	Electric Operations, Maintenance & Metering O&M - HVD Lines Demand (Durfee)						(2,451)				4	128	487	(1,832)	1,832		1,832
11	Electric Operations, Maintenance, & Metering O&M - Staking (Durfee)						(1,517)				2	79	301	(1,134)	1,134		1,134
12	Electric Operations, Maintenance, & Metering O&M - Alma Equipment Repair (Durfee)						(201)				0	11	40	(150)	150		150
13	Field Operations - Tools (Durfee)						(1,057)				2	55	210	(790)	790		790
14	Field Operations - Underground Workforce (Durfee)						(1,633)				3	86	324	(1,220)	1,220		1,220
15																	
16	Generation																
17	Emergent Reliability Funding (Maio)						(2,849)				5	149	566	(2,129)	2,129		2,129
18																	
19	Information Technology Investments																
20	Product Family Enhancements-Customer-Capital*Web Chat AI						(20)				0	1	4	(15)	15		15
21	Product Family Enhancements-Customer-Capital* Web Rebate Personalization																
22	Digital-Infrastructure Automation Project (Zichi)						(160)				0	8	32	(120)	120		120
23	ISIS Papyrus (Zichi)						(114)				0	6	23	(85)	85		85
24																	
25	Information Technology - Security Investment																
26	Business Continuity - Program Management Tool (Zichi)						(51)				0	3	10	(38)	38		38
27																	
28	Incentive Compensation (McMillan-Sepkoski)						(193)				0	10	38	(144)	144		144
29																	
30																	
31	Cap Ex Adj Impact on Prop. Tax & Depr. (Witt)						(4,790)		(1,684)		10	339	1,286	(4,839)	4,839		4,839
32	Proforma Interest (Nichols)											76	278	354	(354)		(354)
33	Interest Synchronization (Nichols)											2	6	8	(8)		(8)
34	Total Adjustments	25,891	-	-	25,891	11,587	(19,151)	(4,790)	(1,684)	-	64	2,170	8,217	(3,587)	29,479	-	29,479
35	Staff NOI - Test Year	4,784,306	-	262,208	5,046,514	2,324,829	785,108	807,004	278,305	36,638	1,230	36,032	56,269	4,325,416	721,098	16,026	737,124

APPENDIX D

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

Case No.: U-21870
 MPSC Staff Initial Brief
Appendix D

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
		Capital Structure			Weighted Cost				
Line No	Description	Amount	Percent Permanent Capital	Percent of Total Capital	Cost Rate % {1}	Permanent Capital	Total Cost %	Conversion Factor	Pre-Tax Return
1	Long term debt	13,683	49.86%	42.19%	4.37%	2.18%	1.85%		1.85%
2	Preferred stock	37	0.14%	0.12%	4.50%	0.01%	0.01%	1.3381	0.01%
3	Common equity	13,720	50.00%	42.31%	9.75%	4.88%	4.13%	1.3381	5.52%
4	Permanent Capital	<u>27,440</u>							
5	Short term debt	148		0.46%	4.92%		0.02%		0.02%
6	Deferred federal income taxes	4,692		14.47%	0.00%		0.00%		0.00%
7	Deferred JDITC - long term debt	74		0.23%	4.37%		0.01%		0.01%
8	Deferred JDITC - preferred stock	0		0.00%	4.50%		0.00%	1.3381	0.00%
9	Deferred JDITC - common equity	74		0.23%	9.75%		0.02%	1.3381	0.03%
10	Total	<u><u>32,428</u></u>					<u><u>6.03%</u></u>		<u><u>7.43%</u></u>

APPENDIX E

MICHIGAN PUBLIC SERVICE COMMISSION

Appendix E

Consumers Energy Company

Capital Expenditure Adjustments - Increase/(Decrease)
 For the Projected 12-Month Period Ending April 30, 2027
 (\$000)

MPSC Staff Brief
 Case No. U-21870
 Page 1 of 1

Line	Adjustment Description	(a)	(b)	(c)	(d)	(e)	(f)	(g)
		Total	Cap Ex Adj.	Plant	Accum Depr.	Rate Base	Depreciation	Property Tax
1	Electric Distribution:							
2	Reliability - LVD Lines - Zonal Health Improvements		(14,760)	(14,760)	(513)	(14,247)	(440)	(197)
3	Reliability - Repetitive Outages		(10,287)	(7,252)	(169)	(7,083)	(216)	(97)
4	Reliability - LVD Lines - Right of Way		(12,776)	(6,388)	(95)	(6,293)	(190)	(85)
5	Reliability - Substation HVD		(52,254)	(39,971)	(1,103)	(38,868)	(1,192)	(534)
6	Reject CE Concession - Substation HDV - Reliability		10,992	10,992	437	10,555	328	147
7	Reliability -Transformer Bank Replacements and substation rebuilds		(48,886)	(37,761)	(1,101)	(36,660)	(1,126)	(504)
8	Reliability - Metro Rehabilitation		(7,193)	(5,673)	(167)	(5,505)	(169)	(76)
9	Demand Failures - LVD Substations		(1,160)	(870)	(24)	(846)	(26)	(12)
10	Demand Failures - Metro		(971)	(806)	(26)	(780)	(24)	(11)
11	Asset Relocations - System Control Projects		(258)	(221)	(7)	(214)	(7)	(3)
12	Reliability - Grid Automation - Asset Performance Management (APM)		(3,410)	(2,090)	(46)	(2,044)	(62)	(28)
13	TOTAL: ELECTRIC DISTRIBUTION		(140,963)	(104,799)	(2,815)	(101,984)	(3,125)	(1,399)
14	Generation:							
15	Steam - Updated Company Forecast		(6,641)	(6,641)	(406)	(6,235)	(275)	(89)
16	Steam - Class Cost Estimate		(6,536)	(3,268)	(68)	(3,201)	(135)	(44)
17	Hydro - Updated Company Forecast		1,780	1,780	31	1,748	49	24
18	Hydro - Class Cost Estimate		(918)	(459)	(6)	(453)	(13)	(6)
19	Other - Updated Company Forecast		(592)	(592)	(52)	(540)	(14)	(8)
20	TOTAL: GENERATION		(12,908)	(9,181)	(500)	(8,680)	(388)	(123)
21	Information Technology:							
22	Customer - Product Family Enhancements-Customer Self Service Mobile App		(2,362)	(2,362)	(841)	(1,521)	(472)	(32)
23	Customer - Product Family Enhancements-Low Moderate Customer Support Enhancements		(525)	(525)	(140)	(385)	(105)	(7)
24	Customer - Product Family Enhancements-Low Moderate Customer Support Enhancements		(1,870)	(935)	(94)	(842)	(187)	(12)
25	Customer - Product Family Enhancements-Web Chat AI		(473)	(315)	(37)	(278)	(63)	(4)
26	IT/Digital Foundation - ARP-Collaboration		(435)	(366)	(80)	(286)	(73)	(5)
27	Reject CE Concession - ARP Collobaration - CE forgot 2025 piece.		185	116	13	103	23	2
28	IT/Digital Foundation - ARP-Field Device Asset Management (FDAM)		(887)	(558)	(63)	(495)	(112)	(7)
29	Reject Ce Concession - ARP Field Device Asset Management (FDAM)		99	62	7	55	12	1
30	IT/Digital Foundation - Digital-Infrastructure Automation Project		(382)	(191)	(19)	(172)	(38)	(3)
31	IT/Digital Foundation - ARP- Workstation Asset Management (WAM)		(887)	(558)	(63)	(495)	(112)	(7)
32	IT/Digital Foundation - ISIS Papyrus		(395)	(263)	(31)	(232)	(53)	(4)
33	TOTAL: INFORMATION TECHNOLOGY		(7,933)	(5,896)	(1,348)	(4,548)	(1,179)	(79)
34	Operations Support:							
35	Customer - Product Family Enhancements-Customer Self Service Mobile App		(10,184)	(6,310)	(56)	(6,254)	(98)	(84)
36	TOTAL: OPERATIONS SUPPORT		(10,184)	(6,310)	(56)	(6,254)	(98)	(84)
37	TOTAL CAPITAL EXPENDITURE ADJUSTMENTS		(171,987)	(126,185)	(4,718)	(121,466)	(4,790)	(1,684)

APPENDIX F

Appendix F

Michigan Public Service Commission
 Consumers Energy Company
 Summary of Staff Position
 For the Projected 12-Month Period Ending April 30, 2027

Case No. U-21870
 MPSC Staff Initial Brief
Appendix F

Line	(a) Description	(b) Source	(c) Rate Base	(d) Pre-Tax	(e) Revenue Requirement Impact (million \$)
<u>Walk from Staff Direct Filing to Initial Brief Rate Base</u>					(million \$)
1	Staff Direct Filing - Rate Base	Exhibit S-2, Schedule B-1			\$ 15,205.256
2					
3	<u>Adopt CE Concessions to Intervenors</u>				
4	EGLE-MIEJ Grant Work				(3.479)
5	HVD New Business - Cancelled Project				(10.310)
6	Peer-Peer Automation				(1.030)
7	Accumulated Depreciation				0.267
8					
9	<u>Staff Updates</u>				
10	Asset Relocations - LVD - Make Ready Work				19.592
11	Accumulated Depreciation				(0.603)
12	Customer - Product Family Enhancements-Low Moderate Customer Support Enhancements				(0.935)
13	Accumulated Depreciation				0.094
14	IT/Digital Foundation - ISIS Papyrus				0.033
15	Accumulated Depreciation				(0.004)
16	IT/Digital Foundation - Digital-Infrastructure Automation Project				0.380
17	Accumulated Depreciation				(0.046)
18	IT/Digital Foundation - ARP- Workstation Asset Management (WAM)				(0.367)
19	Accumulated Depreciation				0.044
20					
21	Staff Initial Brief - Rate Base	Appendix B			\$ 15,208.892

<u>Walk from Staff Direct Filing to Initial Brief O&M</u>					(million \$)
22	Staff Direct Filing - O&M	Exhibit S-2, Schedule B-1			\$ 785.113
23					
24	Update: Web Chat AI O&M correction				(0.020)
25	Update: Adopt CE Concession for Web Rebate Personalization O&M				0.014
26					
27	Staff Initial Brief - O&M	Appendix C			\$ 785.108

APPENDIX G

Appendix G

Michigan Public Service Commission
 Consumers Energy Company
 Summary of Staff Position
 For the Projected 12-Month Period Ending April 30, 2027

Case No. U-21870
 MPSC Staff Initial Brief
Appendix G

Line	(a) Description	(b) Source	(c) Rate Base	(d) Pre-Tax	(e) Revenue Requirement Impact (million \$)
Walk from Consumers Revenue Deficiency to Staff Initial Brief Revenue Deficiency					
1	Company Revenue Deficiency (Direct Filing)	Exhibit A-11, Schedule A1			\$ 435.881
2	Rate Base (Cap Ex)		(37.159)	7.85%	(2.916)
3	Depreciation & Amortization (Cap Ex Adj)				(1.294)
4	Property Tax (Cap Ex Adj)				(0.511)
5	Change in ROR		15,330.358	-0.05%	(7.074)
6	HVD Lines Reliability O&M				(0.677)
7	Web Rebate for Personalization O&M				(0.017)
8	Reg Asset - Return on Campbell				(0.502)
9	Rounding				-
10	Company Revenue Deficiency (Rebuttal Filing)				422.891
11	Change in Rate base	Appendix B * CE Pre-Tax (Rebuttal)	(121.466)	7.80%	(9.474)
12	Change in rate of return	Appendix B * (Appendix D less CE Pre-Tax)	15,208.892	-0.37%	(55.632)
13	Depreciation adjustment	Appendix C, line 33			(4.790)
14	Property Tax adjustment	Appendix C, line 33			(1.684)
15	Sales Revenue	Appendix C, line 33			(14.304)
16	O&M adjustment	Appendix C, line 33			(19.151)
17	AFUDC	Appendix C, line 33			
18	Campbell Revenue Requirement	Appendix A, line 9			(0.768)
19	Total Staff adjustments (rev. req. impact)	Appendix A, line 10			(105.804)
20	Rounding				
21	Staff Initial Brief - Revenue Deficiency	Appendix A			\$ 317.087

Walk from Staff Direct Filing to Initial Brief Revenue Deficiency						(million \$)
22	Staff Direct Filing - Revenue Deficiency	Exhibit S-1, Schedule A-1				\$ 322.731
23	<u>Staff Updates</u>					
24	Rate Base (Cap Ex)	See Appendix F	3.636	7.47%	0.272	
25	Change in ROR	See Appendix D	15,208.892	-0.03%	(4.932)	
26	Depreciation Expense	See Appendix C			(0.035)	
27	Property Tax	See Appendix C			0.052	
28	PSCR Expense	See Appendix C			(0.641)	
29	O&M	See Appendix F			(0.006)	
30	Campbell Revenue Requirement	See Appendix A.1			(0.353)	
31	Rounding					
32	Staff Initial Brief - Revenue Deficiency	Appendix A				\$ 317.087

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**
(e-file paperless)

/

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss
COUNTY OF EATON)

Cherie A. R. Shea, being first duly sworn, deposes and says that on **December 5, 2025**, she served a true copy of **Michigan Public Service Commission Staff's Initial Brief** upon the parties on the attached service list **via email only**:

Cherie A. R. Shea

Subscribed and sworn to before me
this **5th** day of **December, 2025**.

De Ann M. Payne, Notary Public
State of Michigan, County of Eaton
Acting in the County of Eaton
My Commission Expires: 11-29-31

SERVICE LIST - CASE NO. U-21870

Party	Email Address
Administrative Law Judge	
Jonathan F. Thoits	thoitsj@michigan.gov
Counsel for Consumers Energy Company	
Gary A. Gensch, Jr., Esq. Bret A. Totoraitis, Esq. Anne M. Uitvlugt, Esq. Spencer A. Sattler, Esq. Evan B. Keimach, Esq. Mark R. Ruskiewicz, Esq.	gary.genschjr@cmsenergy.com bret.totoraitis@cmsenergy.com anne.uitvlugt@cmsenergy.com spencer.sattler@cmsenergy.com evan.keimach@cmsenergy.com mark.ruskiewicz@cmsenergy.com mpsc.filings@cmsenergy.com
Counsel for the Michigan Public Service Commission Staff	
*Amit B. Singh, Esq. *Michael J. Orris, Esq. *Adam M. Cozort, Esq. *Nicholas Q. Taylor, Esq. *Alena M. Clark, Esq. *Daniel E. Sonneveldt, Esq.	singha9@michigan.gov orrism@michigan.gov cozort1@michigan.gov taylorn10@michigan.gov clarkA55@michigan.gov sonneveldt@michigan.gov
Michigan Public Service Commission Staff	
*Mike Byrne *Bill Stosik *David Chislea *Bob Nichols *Nick Revere *Lori Mayabb	byrneM@michigan.gov stosikb@michigan.gov chislead@michigan.gov nicholsb1@michigan.gov reveren@michigan.gov mayabbl@michigan.gov
Counsel for Attorney General Dana Nessel	
*Lucas Wollenzien, Esq. *Celeste R. Gill, Esq. *Amanda Churchill	wollenzienl@michigan.gov gillc1@michigan.gov AG-ENRA-Spec-Lit@michigan.gov
Consultant for the Attorney General	
*Sebastian Coppola	sebpcoppola@corp.lytics.com
Counsel for the Michigan Cable Telecommunications Association (“MCTA”)	
Sean P. Gallagher, Esq. Jon Austin	sgallagher@fraserlawfirm.com jaustin@fraserlawfirm.com
Counsel for the Michigan Environmental Council, Natural Resources Defense Council, Sierra Club, and Citizens Utility Board of Michigan (collectively “MNSC”)	
*Holly L. Hillyer, Esq. *Christopher M. Bzdok, Esq. *Tracy Jane Andrews, Esq. *Natasha Fowles *Tanya Stasio *Jordan Burt *Tyler Comings *Caroline Palmer *Rick Bunch *Julielyn Gibbons *Matt Bandyk *Sean Clark	holly@tropospherelegal.com chris@tropospherelegal.com tjandrews@tropospherelegal.com natasha@tropospherelegal.com tanya.stasio@aeclinic.org jordan.burt@aeclinic.org Tyler.comings@aeclinic.org cpalmer@synapse-energy.com rbunch@5lakesenergy.com jgibbons@5lakesenergy.com mbandyk@synapse-energy.com sean@tropospherelegal.com
Counsel for the Citizens Utility Board of Michigan (“CUB”)	
John Liskey, Esq.	john@liskeypllc.com

* Receives Confidential

SERVICE LIST - CASE NO. U-21870

Counsel for The Kroger Co. (“Kroger”)	
Kurt J. Boehm, Esq. Jody Kyler Cohn, Esq. Michael L. Kurtz, Esq.	kboehm@bklawfirm.com jkylercohn@bklawfirm.com mkurtz@bklawfirm.com
Consultant for Kroger	
Justin Bieber	jbieber@energystrat.com
Counsel for Energy Michigan, Foundry Association of Michigan, Michigan Energy Innovation Business Council (“Michigan EIBC”), Institute for Energy Innovation (“IEI”), Advanced Energy United (“United”), Energy Michigan Inc., and The Foundry Association of Michigan.	
*Timothy J. Lundgren, Esq. Laura A. Chappelle, Esq. *Justin K. Ooms, Esq.	tjlundgren@varnumlaw.com lachappelle@varnumlaw.com jkooms@varnumlaw.com
Counsel for The Ecology Center, The Environmental Law & Policy Center (“ELPC”), Union of Concerned Scientists (“USC”), and Vote Solar (Collectively referred to as “CEO”)	
*Daniel Abrams, Esq. *Katie Duckworth, Esq. *Alondra Estrada *Katie Toolan	dabrams@elpc.org kduckworth@elpc.org aestrada@elpc.org ktoolan@elpc.org mpscdockets@elpc.org
Counsel for Michigan Electric Transmission Company, LLC (“METC”)	
*Richard J. Aaron, Esq. *Olivia R.C.A. Flower, Esq. *Hannah Buzolits, Esq. *Courtney F. Kissel, Esq.	raaron@dykema.com oflower@dykema.com HBuzolits@dykema.com ckissel@dykema.com mpscfilings@dykema.com
Counsel for Urban Core Collective (“UCC”)	
*Mark Templeton, Esq. *Jacob R. Schuhardt, Esq. *Emma Young *Alexandria Miskho *Heidi Peng *Willow Perlick *Aashney Shah	templeton@uchicago.edu jschuhardt@uchicago.edu eyoung28@uchicago.edu amiskho@uchicago.edu hhpeng@lawclinic.uchicago.edu willowperlick@lawclinic.uchicago.edu aashney@lawclinic.uchicago.edu aelc_mpsc@lawclinic.uchicago.edu
Counsel for the Association of Businesses Advocating Tariff Equity (“ABATE”)	
*Stephen A. Campbell, Esq. *Michael J. Pattwell, Esq. *Benjamin J. Holwerda, Esq. Lauren Degnan	scampbell@clarkhill.com mpattwell@clarkhill.com bholwerda@clarkhill.com ldegnan@clarkhill.com
Consultants for ABATE	
*James Dauphinais *Jessica York *Christina Hildebrandt	jdauphinais@consultbai.com jyork@consultbai.com childebrandt@consultbai.com
Counsel for Hemlock Semiconductor Operations LLC (“HSC”) and Solar Technology LLC	
*Jennifer Utter Heston, Esq.	jheston@potomaclaw.com
Counsel for Great Lakes Renewable Energy Association (“GLREA”)	
Don L. Keskey, Esq.	donkeskey@publiclawresourcecenter.com
Counsel for Walmart, Inc. (“Walmart”)	
Melissa M. Horne, Esq.	mhorne@hcc-law.com

* Receives Confidential