S T A T E O F M I C H I G A N

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of **CONSUMERS ENERGY COMPANY** for accounting and ratemaking approval of depreciation rates for gas utility plant.	))))	Case No. U-12999

At the December 2, 2004 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. J. Peter Lark, Chair
Hon. Robert B. Nelson, Commissioner
Hon. Laura Chappelle, Commissioner

ORDER

On October 14, 2004, the Commission issued its order in this docket, Consumers Energy Company's (Consumers') application for accounting and ratemaking approval of revised depreciation rates for its gas utility plant, Case No. U-12999 (October 14 order). On October 19, 2004, Consumers filed its petition for rehearing of the October 14 order. On October 25, 2004, the Association of Businesses Advocating Tariff Equity (ABATE) filed its answer. On November 3, 2004, the Commission Staff (Staff) filed its answer; and on November 9, 2004, Attorney General Michael A. Cox (Attorney General) filed his answer.

In its request for rehearing, Consumers notes that it had voluntarily reduced its depreciation rates as of December 19, 2003, and the company asks that the Commission allow continued use of those rates, rather than a reversion to the company's prior authorized rates. In support, Consumers states that as part of interim rate relief in Case No. U-13730, the company proposed (and the

Commission acquiesced in) a reduction of the company's depreciation rates. Consumers states that the company has been recording depreciation on its books since December 19, 2003 using those lower, Commission-authorized depreciation rates. To switch back to the prior depreciation rates will cause inconsistency within its accounting records.

The company argues that the inconsistency in depreciation recording may only increase in the future because the Commission has required Consumers to file a new gas depreciation case in tandem with the company's next gas rate case, which should occur within roughly two years under the terms of the Commission's October 14, 2004 order in Case No. U-13730. In the company's view, a reduction in its depreciation rates at that time is likely given its prior voluntary reduction and questions regarding the level of negative net salvage contained within Consumers' depreciation rates. The company notes that the Commission has ordered the company to undertake a study of its negative net-salvage costs. Thus, the company may well return to the lower depreciation rates only a short time after it has returned to the prior authorized rates as a result of the October 14 order. In Consumers' view, consistency would be better served if the company continues the December 19, 2003 rates until the Commission formally re-establishes rates in the company's next gas depreciation case.

ABATE supports Consumers' request. In ABATE's view, it is reasonable to continue using the reduced depreciation rates to which Consumers' voluntarily agreed for interim rate purposes in Case No. U-13730.

The Staff also supports Consumers' request. In the Staff's view, the continuation of the reduced depreciation levels previously agreed to by Consumers is a reasonable course of action at present.

The Attorney General does not support Consumers' request, nor does the Attorney General agree with the Commission's determination in the October 14 order to conduct a generic review of the appropriate accounting and ratemaking for the retirement of long-lived assets and any associated asset retirement costs. He would re-establish depreciation rates for Consumers based upon the existing record. The Attorney General notes that returning Consumers' depreciation rates to December 19, 2003 levels will reduce the company's current depreciation expense. However, the Attorney General continues, a corresponding change in Consumers' retail rates will not occur and, most probably, the company's future depreciation rates and expense will increase when calculated on a remaining-life basis. The Attorney General would leave in place the rates re-established by the October 14 order.

Rule 403 of the Commission's Rules of Practice and Procedure, 1999 AC, R 460.17403, provides that a petition for rehearing may be based on claims of error, newly discovered evidence, facts or circumstances arising after the hearing, or unintended consequences resulting from compliance with the order. A petition for rehearing is not merely another opportunity for a party to argue a position or to express disagreement with the Commission's decision. Unless a party can show the decision to be incorrect or improper because of errors, newly discovered evidence, or unintended consequences of the decision, the Commission will not grant a rehearing.

The Commission has reviewed Consumers' request and will grant rehearing. The inconsistent treatment of depreciation rates on the company's books due to the relatively short time period until those rates will be re-established within the company's next gas depreciation case was an unintended consequence of the October 14 order. This inconsistent treatment would occur because of the timing of the company's next general gas rate case, which was unknown until October 18, 2004, when Consumers and CMS Energy Corporation filed their agreement consistent with the

Commission's order in Case No. U-13730, which requires the company to file a gas general rate case within two years of October 18, 2004. Accordingly, the Commission finds that Consumers should continue implementation of the depreciation rates authorized by the December 18, 2003 interim order in Case No. U-13730, which are attached to this order as Attachment A. Moreover, to ensure consistency within the company's books, the Commission further finds that Consumers should not reinstate the prior Case No. U-11509 rates and that ordering paragraph A of the October 14 order should be vacated. Consumers' next depreciation case will be filed with or prior to its next gas general rate case; that general rate case will be filed within less than two years from the date of this order. Accordingly, the Commission will be able to utilize properly established, revised depreciation rates when setting new general rates for the company's gas utility services.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1909 PA 300, as amended, MCL 462.2 et seq.; 1919 PA 419, as amended, MCL 460.51 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1999 AC, R 460.17101 et seq.

b. Consumers' request for rehearing of the October 14 order should be granted.

c. Consumers should continue implementation of the depreciation rates authorized by the December 18, 2003 interim order in Case No. U-13730, which are attached to this order as Attachment A, and those rates should be effective as of October 14, 2004.

c. Ordering paragraph A of the October 14 order should be vacated.

THEREFORE, IT IS ORDERED that:

A. The request of Consumers Energy Company for rehearing of the Commission's October 14, 2004 order in this docket, Case No. U-12999, is granted.

B. Consumers Energy Company shall continue the depreciation rates authorized by the December 18, 2003 order in Case No. U-13730, which are attached to this order as Attachment A, and those rates shall be effective on and after October 14, 2004.

C. Ordering paragraph A of the Commission's October 14, 2004 order in this docket, Case No. U-12999, is vacated.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days issuance and notice of this order, pursuant to MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ J. Peter Lark
Chair

(S E A L)

/s/ Robert B. Nelson
Commissioner

/s/ Laura Chappelle
Commissioner

By its action of December 2, 2004.

/s/ Mary Jo Kunkle
Its Executive Secretary

THEREFORE, IT IS ORDERED that:

A. The request of Consumers Energy Company for rehearing of the Commission's October 14, 2004 order in this docket, Case No. U-12999, is granted.

B. Consumers Energy Company shall continue the depreciation rates authorized by the December 18, 2003 order in Case No. U-13730, which are attached to this order as Attachment A, and those rates shall be effective on and after October 14, 2004.

C. Ordering paragraph A of the Commission's October 14, 2004 order in this docket, Case No. U-12999, is vacated.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

J. Peter Lark

Chair

Robert B. Nelson

Commissioner

Laura Chappelle

Commissioner

By its action of December 2, 2004.

Mary Jo Kunkle

Its Executive Secretary

Attachment A

CONSUMERS ENERGY COMPANY
Gas Utility Depreciation Study, Case U-12999
Comparison of Depreciation Rates Using ALG
Net Salvage Calculated Using a Five Year Average by Function
Based on December 31, 2002 Plant Balances

Acct No.	Description	12/31/2002 Balance	Existing Depr. Rates: Rates	Existing Depr. Rates: Annual Accrual	5 Yr Average: Rates	5 Yr Average: Annual Accrual	Difference 5 Yr Average vs Existing
U.G. Storage Plant:							
350.2	Rights of Way	1,321,117	1.72%	22,723	1.16%	15,325	(7,398)
351.2	Compressor Station Structures	7,676,757	2.34%	179,636	2.47%	189,616	9,980
351.2	M & R Station Structures	4,607	1.73%	80	2.78%	128	48
351.4	Other Structures	3,337,803	2.87%	95,795	2.69%	89,787	(6,008)
352.1	Leaseholds & Rights	5,336,673	1.72%	91,791	1.16%	61,905	(29,886)
352.3	Well Construction	32,974,906	1.74%	573,763	3.57%	1,177,204	603,441
352.4	Well Equipment	16,388,907	4.08%	668,667	3.62%	593,278	(75,389)
353.0	Lines	22,020,894	2.88%	634,202	3.76%	827,986	193,784
354.0	Compressor Station Equipment	78,065,202	2.65%	2,068,728	3.04%	2,373,182	304,454
355.0	M & R Station Equipment	2,083,799	2.84%	59,180	2.89%	60,222	1,042
356.0	Purification Equipment	13,376,874	3.04%	406,657	3.77%	504,308	97,651
357.0	Other Equipment	3,153,829	4.05%	127,730	3.81%	120,161	(7,569)
	Subtotal U.G. Storage Plant	185,741,368	2.65%	4,928,952	3.24%	6,013,102	1,084,150
Transmission Plant:							
365.2	Rights of Way	15,624,024	1.22%	190,613	1.05%	164,052	(26,561)
366.0	Structures & Improvements	10,063,270	1.93%	194,221	1.23%	123,778	(70,443)
367.0	Mains	183,611,384	1.56%	2,864,338	1.45%	2,662,365	(201,973)
368.0	Compressor Station Equipment	35,038,304	2.01%	704,270	0.88%	308,337	(395,933)
369.0	Measuring & Regulating Equipment	23,684,196	1.99%	471,316	1.64%	388,421	(82,895)
370.0	Communication	7,579,322	6.01%	455,517	3.48%	263,760	(191,757)
371.0	Other Equipment	3,445,240	3.62%	124,718	2.53%	87,165	(37,553)
	Subtotal Transmission Plant	279,045,740	1.79%	5,004,993	1.43%	3,997,878	(1,007,115)
Distribution Plant:							
374.2	Rights of Way	6,960,315	1.54%	107,189	0.77%	53,594	(53,595)
375.0	Structures & Improvements	4,242,886	1.98%	84,009	0.67%	28,427	(55,582)
376.1	Mains - bare steel	4,327,468	3.46%	149,730	2.08%	90,011	(59,719)
376.2	Mains - coated & wrapped steel	350,910,853	3.16%	11,088,783	2.45%	8,597,316	(2,491,467)
376.3	Mains - cast iron	9,358,954	3.90%	364,999	1.67%	156,295	(208,704)
376.4	Mains - copper	16,968	3.05%	518	2.61%	443	(75)
376.5	Mains - plastic	541,424,815	3.72%	20,141,003	3.31%	17,921,161	(2,219,842)
378.0	Measuring & Regulating Equipment	32,498,407	2.75%	893,706	1.93%	627,219	(266,487)
380.1	Services - bare steel	224,035	10.29%	23,053	6.99%	15,660	(7,393)
380.2	Services - coated & wrapped steel	72,006,386	6.49%	4,673,214	5.12%	3,686,727	(986,487)
380.4	Services - copper	27,245,781	9.29%	2,531,133	5.49%	1,495,793	(1,035,340)
380.5	Services - plastic	392,981,530	9.61%	37,765,525	6.89%	27,076,427	(10,689,098)
380.5	Services - Risers (Formerly in C&W)	109,424,669	6.49%	7,101,661	6.89%	7,539,360	437,699
381.0	Meters	174,926,601	2.82%	4,932,930	0.50%	874,633	(4,058,297)
382.0	Meter Installations	151,913,431	3.68%	5,590,414	3.01%	4,572,594	(1,017,820)
383.0	House Regulators	18,415,248	2.38%	438,283	0.99%	182,311	(255,972)
	Subtotal Distribution Plant	1,896,878,347	5.05%	95,886,150	3.84%	72,917,971	(22,968,179)
General Plant:							
389.2	Rights of Way	1,516	0.00%	0	2.50%	38	38
390.0	Structures & Improvements	23,627,456	2.97%	701,735	1.27%	300,069	(401,666)
391.0	Office Furniture & Equipment	1,717,346	7.61%	130,690	17.78%	305,344	174,654
391.2	Computer Equipment	7,356,574	9.37%	689,311	4.80%	353,116	(336,195)
393.0	Stores Equipment	53,713	30.18%	16,211	11.20%	6,016	(10,195)
394.0	Tools, Shop & Garage Equipment	4,900,533	4.49%	220,034	8.74%	428,307	208,273
395.0	Laboratory Equipment	1,006,056	2.26%	22,737	17.41%	175,154	152,417
396.0	Power Operated Equipment	119,819	8.72%	10,448	28.38%	34,005	23,557
397.0	Communication Equipment	8,194,971	4.51%	369,593	11.50%	942,422	572,829
398.0	Miscellaneous Equipment	260,787	5.77%	15,047	17.73%	46,238	31,191
	Subtotal General Plant	47,238,771	4.61%	2,175,806	5.48%	2,590,709	414,903
	Total Gas Utility Plant	2,408,904,226	4.48%	107,995,901	3.55%	85,519,660	(22,476,241)