

1 STATE OF MICHIGAN
2 BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

3 In the matter of the application of
4 Consumers Energy Company for
5 authority to increase its rates for
6 the generation and distribution of electricity and for other relief

CASE NO: U-16794
VOLUME 2

6 _____/

7 Proceedings held in the above-entitled matter
8 before Sharon L. Feldman, Administrative Law Judge, at
9 525 West Allegan Street, 2nd Floor, Lansing, Michigan, on
10 Tuesday, November 22, 2011, at 1:31 p.m.

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1 Tuesday, November 22, 2011
2 Lansing, Michigan
3 1:31 p.m.

4 JUDGE FELDMAN: Good afternoon. This is the
5 self-implementation hearing set by the Commission's
6 October 20th, 2011, order in Case No. U-16794.

7 Can I ask the counsel present to place their
8 appearances on the record, please.

9 Mr. Robinson?

10 MR. ROBINSON: Jon Robinson appearing on
11 behalf of Consumers Energy Company.

12 JUDGE FELDMAN: Thank you.

13 Ms. Barone?

14 MS. BARONE: Patricia S. Barone, Assistant
15 Attorney General appearing on behalf of the Michigan
16 Public Service Commission Staff. Also appearing with
17 me today are Bob Beach and Brian Farkas.

18 JUDGE FELDMAN: Thank you.

19 And, gentlemen, feel free to move up if you
20 need to hear better. There's actually room at that
21 table.

22 Mr. Rosier?

23 MR. ROSIER: Leland Rosier of Clark Hill,
24 P.L.C., on behalf of the Municipal Coalition.

25 JUDGE FELDMAN: Thank you.

1 Mr. Whitfield?

2 MR. WHITFIELD: David Whitfield on behalf of
3 Midland Cogeneration Venture Limited Partnership.

4 JUDGE FELDMAN: Okay. Thank you.

5 Mr. Robinson, how did the Company want to
6 proceed this afternoon?

7 MR. ROBINSON: Well, Your Honor, the
8 Commission's order asked us to provide a witness for
9 this hearing today and to prefile some testimony.
10 We've done that. We filed the testimony of
11 Mr. Rasmussen. With your permission, I'll call him as
12 our witness.

13 JUDGE FELDMAN: Let's do that.

14 Mr. Rasmussen, you may come up and get
15 seated, and the court reporter will swear you in.

16 RONN J. RASMUSSEN,
17 a witness herein, was called for examination, and after
18 having been sworn, was examined and testified on his
19 oath as follows:

20 DIRECT EXAMINATION

21 BY MR. ROBINSON:

22 Q. Would you state your name and business address for the
23 record, please.

24 A. Ronn J. Rasmussen, One Energy Plaza, Jackson, Michigan.

25 Q. Mr. Rasmussen, in connection with your appearance here

1 today, did you cause to be prepared a document
2 consisting of 16 pages of questions and answers to
3 which is attached a cover sheet bearing the caption of
4 Case Number U-16794 and is labeled Direct Testimony of
5 Ronn J. Rasmussen on behalf of Consumers Energy
6 Company?

7 A. I did.

8 Q. Do you have a copy of that document with you today?

9 A. I do.

10 Q. Do you have any corrections, additions or modifications
11 to make in that testimony today?

12 A. I do not.

13 Q. If I were to ask you the questions contained in that
14 document this afternoon while you are under oath, would
15 you respond with the answers contained therein?

16 A. Yes.

17 Q. I'd like to show you what we have marked as Exhibits
18 SI-1, SI-2 and SI-3 and ask you if those are the
19 exhibits that your prefiled testimony refers to.

20 A. They are.

21 Q. And were those exhibits prepared by you or under your
22 supervision?

23 A. Yes, sir.

24 Q. Do you have any corrections to those exhibits today?

25 A. I do not.

1 MR. ROBINSON: Your Honor, I ask that
2 Mr. Rasmussen's prefiled direct testimony be bound into
3 the record, I offer for admission into evidence
4 Exhibits SI-1, SI-2 and SI-3, and Mr. Rasmussen is
5 tendered for cross-examination.

6 (Exhibit(s) SI-1 through SI-3 were
7 offered.)

8 JUDGE FELDMAN: Thank you.

9 Does anybody have any objection to the
10 binding in of Mr. Rasmussen's prefiled direct
11 testimony?

12 The prefiled direct testimony of Ronn J.
13 Rasmussen on behalf of Consumers Energy will be bound
14 into the record.

15 (The prefiled direct testimony
16 of Ronn J. Rasmussen consisting of 17
17 pages was bound into the transcript.)

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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
CONSUMERS ENERGY COMPANY)
for authority to increase its rates for the)
generation and distribution of)
electricity and for other relief)
_____)

Case No. U-16794

DIRECT TESTIMONY
OF
RONN J. RASMUSSEN
ON BEHALF OF
CONSUMERS ENERGY COMPANY

November 2011

RONN J. RASMUSSEN
DIRECT TESTIMONY

1 Q. Please state your name and business address.

2 A. My name is Ronn J. Rasmussen and my business address is One Energy Plaza, Jackson,
3 Michigan 49201.

4 Q. By whom are you employed and what is your present position?

5 A. I am employed by Consumers Energy Company ("Consumers Energy" or
6 "the Company") as Vice President Rates and Regulation.

7 Q. Please review your educational and business experience.

8 A. I was graduated from Ferris State College in May of 1978 with a Bachelor of Science
9 Degree in Accounting. I joined the Company in June 1978 and between June 1978 and
10 now I have held various positions in the Accounting, Gas Supply, Business Support, and
11 Rates Departments.

12 Q. What are your responsibilities as Vice President Rates and Regulation?

13 A. In my current position, I am responsible for coordinating the activities of the Company's
14 Rates, Regulatory Affairs and Business Support, which include revenue requirement, cost
15 allocation, rate design, tariff issues, and a variety of other regulatory activities. I am also
16 responsible for the coordination of the Company's planning, budgeting and forecasting
17 functions.

18 Q. Have you previously testified before this Commission?

19 A. Yes, on a number of occasions. I am the Company's policy witness and I am familiar
20 with Consumers Energy's June 10, 2011 filing made in Michigan Public Service
21 Commission ("MPSC") Case No. U-16794.

RONN J. RASMUSSEN
DIRECT TESTIMONY

1 Q. What is the purpose of your testimony in this proceeding?

2 A. The Michigan Public Service Commission issued an Order in Case No. U-16794 on
3 October 20, 2011 in which it directed Consumers Energy to file, by November 17, 2011,
4 the rates that the Company proposes to implement in this case pursuant to the 180 day
5 provision contained in MCL 460.6a(1). The Commission further directed the Company
6 to “provide one witness to support the reasonableness of the proposed tariffs and shall
7 provide evidence regarding the effect of the statutory rate design options and reasonable
8 alternatives thereto.” I am presenting this testimony in response to the direction of the
9 Commission. I was directly involved in the decision regarding the amount of rate relief
10 that Consumers Energy filed for in this case. I was also directly involved in the decision
11 regarding the amount of rate increase the Company intends to self-implement in this case.
12 Along with other officers of the Company, I reviewed the analysis the Company
13 performed in making the self-implementation decision and I approved the
14 recommendation to implement a \$147 million retail electric rate increase pursuant to the
15 180 day provision of Section 6a(1) of 2008 PA 286. In accordance with the
16 Commission’s October 20, 2011 Order in this case, the Company filed tariffs on
17 November 17, 2011 indicating its intention to implement a \$147 million increase.

18 Q. Are you sponsoring any exhibits?

19 A. Yes. I am sponsoring the following exhibits:

<u>Exhibit</u>	<u>Description</u>
20	
21	Exhibit SI-1 (RJR-1)
22	Tariff Sheet No D-2.00 - Showing Interim Electric
23	Rates Consumers Energy Proposes to
	Self-Implement

RONN J. RASMUSSEN
DIRECT TESTIMONY

1 Exhibit SI-2 (RJR-2) Calculation of Interim Surcharges to Recover \$147
2 Million

3
4 Exhibit SI-3 (RJR-3) Calculation of the Interim Rate Alternative

5 Q. Were these exhibits prepared by you or under your supervision?

6 A. Yes.

7 Q. What factors did Consumer Energy consider when determining whether to file a general
8 rate case?

9 A. Consumers Energy weighs many different factors when determining whether to file a
10 general electric rate case. Among those factors are the following: (i) the impact on
11 customers in terms of service quality, reliability and cost, (ii) the costs associated with
12 maintaining and improving generating plant and distribution system reliability, (iii) the
13 costs associated with complying with federal and state environmental requirements,
14 (iv) the costs associated with technology improvements including the Company's Smart
15 Grid (Advanced Metering Infrastructure), (v) the need to meet the new energy
16 optimization and renewable energy requirements of 2008 PA 295, (vi) the need to ensure
17 that plans are in place to meet future energy requirements, and that those plans can be
18 executed in a cost-effective manner, (vii) the need to assure that the Company is able to
19 attract and retain a competent workforce, (viii) the need to maintain access to capital
20 markets at a reasonable cost, and (ix) the need to provide shareholders with an adequate
21 return on investment.

22 In evaluating these various factors, I place great emphasis on the need to control
23 costs, and the importance of operating in the most efficient manner possible. I believe
24 that Consumers Energy does operate in a highly efficient manner, and this is borne out by
25 information comparing the Company's level of operation and maintenance costs and

RONN J. RASMUSSEN
DIRECT TESTIMONY

1 administrative and general costs with other companies in the utility industry. I am also
2 aware of the importance customers place on service quality and reliability. In that regard,
3 I need to emphasize that there is a direct relationship between the level of investment and
4 the reliability and quality of service. In developing the rate relief in this case the
5 Company has sought to achieve a balance between service quality and reliability
6 expectations and the costs required to meet those expectations.

7 Q. What are the major components of the \$195 million rate relief requested?

8 A. The \$195 million of rate relief requested by the Company in this case is primarily driven
9 by two items. The first of these items is the Company's continued investment in
10 Michigan. The Company continues to substantially invest in infrastructure necessary to
11 provide safe and reliable service to our customers. The largest portion of the requested
12 rate relief, approximately \$151 million, is related to the growth in rate base resulting from
13 these investments. The other primary driver of the requested increase is related to the
14 fact that this filing updates electricity sales, including sales associated with retail open
15 access, expected to occur during the test year. The sales and retail open access levels
16 reflected in the Company's rates were established in Case No. U-15645, filed with the
17 Commission on November 14, 2008, and have significantly changed since the issuance of
18 the Commission order in that case. The update for sales and retail open access levels
19 gives rise to approximately \$50 million of the relief requested in this case. There is a
20 mitigation of the relief requested due to a projected reduction in Other O&M expenses.

21 Q. What amount is the Company proposing to self-implement?

22 A. Consumers Energy is proposing to self-implement \$147 million. This is approximately
23 25% less than the final rate relief requested. Consumers Energy believes that this amount

RONN J. RASMUSSEN
DIRECT TESTIMONY

1 reasonably balances Consumers Energy's need for added revenues to serve its customers
2 with moderating the immediate impact on customers. In Consumers Energy's last
3 electric rate case, Case U-16191, Consumers Energy self-implemented an increase
4 designed to produce \$150 million annual electric revenues, which was approximately
5 20% less than the final relief requested in that case. The Commission authorized final
6 increase of \$145.8 million.

7 Q. Please identify Exhibit SI-1 (RJR-1).

8 A. Exhibit SI-1 (RJR-1) is the tariff sheet containing the electric interim surcharges by rate
9 schedule that Consumers Energy intends to self-implement pursuant to the provisions of
10 MCL 460.6a(1) for service rendered on and after December 8, 2011. The rates set forth
11 on the tariff sheet identified as Exhibit SI-1 (RJR-1) have been developed to produce
12 \$147 million of additional electric revenue on an annual basis and would be subject to
13 refund or additional increase following the Commission findings at the time of the
14 issuance of a final order by the MPSC approving final rates in this case. Without the
15 additional resources that will be provided by the rate increase, the Company cannot
16 responsibly make the investments and incur the costs necessary to achieve the desired
17 levels of service quality and reliability. Exhibit SI-2 (RJR-2) shows the interim
18 surcharges that were calculated based upon the equal percentage increase approach
19 specified in MCL 460.6a(1), and are the surcharges that the Company intends to
20 self-implement. Exhibit SI-3 (RJR-3) shows an alternative set of surcharges based upon
21 a different approach. These alternative calculations are discussed in more detail later in
22 my testimony.

RONN J. RASMUSSEN
DIRECT TESTIMONY

1 Q. Are customers protected if final rate relief is less than the amount that is
2 self-implemented?

3 A. Yes. The statutory refund and interest requirements will adequately protect customers in
4 this case if the final rate relief authorized is less than the amount self-implemented. The
5 Legislature contemplated that situations could arise in which the final relief was less than
6 the self-implemented amount and established a refund mechanism if recovered revenues
7 exceed what would have been recovered under final rates. The Legislature specified that
8 if refunds are required interest will be paid at a rate equal to 5% plus LIBOR for the
9 appropriate time period. If the refund amounts exceed a stated threshold, the interest rate
10 will increase to the authorized return on equity for the appropriate time period.

11 Q. Why is significant new investment necessary at this time?

12 A. The new investments included in the Company's filing can be segregated into three main
13 categories: environmental compliance investments required by law, generation and
14 distribution service reliability investments, and technology investments. The portion of
15 the new investment related to safety and environmental compliance is not discretionary
16 due to the requirements of regulations and law. In addition, a large portion of the new
17 investment is not discretionary in a practical sense, because that investment is necessary
18 to maintain, and improve generating plant and distribution system reliability. We have an
19 aging system that has performed well over its long life. To maintain and improve that
20 performance, however, requires continuing investment. I believe that eliminating or
21 cutting those investments would have negative service quality and cost consequences.

RONN J. RASMUSSEN
DIRECT TESTIMONY

1 Q. What is the economic impact of Consumers Energy's investment plan?

2 A. Consumers Energy is a major investor and jobs provider in the State of Michigan.
3 Consumers Energy alone has approximately 8,000 employees and utilizes the services of
4 another approximately 2,500 contractors. In addition, the Company has plans in place to
5 invest approximately \$6 billion in the State of Michigan over the next five years, making
6 it one of the largest investors in the state. These investments are not only necessary to
7 assure reliable and cost-effective electric service—I believe they also have important
8 positive economic impacts to the state's economy. Those investments cannot be made,
9 nor the jobs provided, unless the utility's financial metrics are healthy so that it has
10 access at reasonable cost to the financial markets.

11 Q. How does the self-implemented increase further Consumer Energy's investment plan?

12 A. In this regard, investors need assurance that Consumers Energy is able to earn a timely
13 return on its utility investments that is commensurate with investments of comparable
14 risk, that earnings are sufficient to assure the financial soundness of the utility, and that
15 the Company is able to earn a return sufficient to support its credit and raise required
16 capital. To carry out its public utility functions responsibly and reliably, Consumers
17 Energy needs to be able to attract capital sufficient to maintain its financial integrity and
18 overall credit position. I believe that these principles apply during good economic times
19 and bad economic times.

20 Q. How did the Company determine the amount it plans to self-implement out of the \$195
21 million requested in its June filing?

22 A. The Legislature stated that if the Commission has not issued an order within 180 days of
23 the filing of a rate case, the utility may implement up to the amount of the proposed rate

RONN J. RASMUSSEN
DIRECT TESTIMONY

1 increase. The Company carefully considered the amount to be self-implemented,
2 including recognition of the fact that it had already made a concerted effort to minimize
3 the increase set forth in its Application in this case. The Company concluded that
4 self-implementation in an amount approximately 25% below the final relief requested
5 would reasonably balance Company, customer, and investor considerations. As part of
6 its evaluation the Company considered: (i) the effect of not including certain expenses in
7 the determination of the amount that would be self-implemented and (ii) revenue
8 requirements the Company anticipates during the time self-implementation rates are in
9 effect.

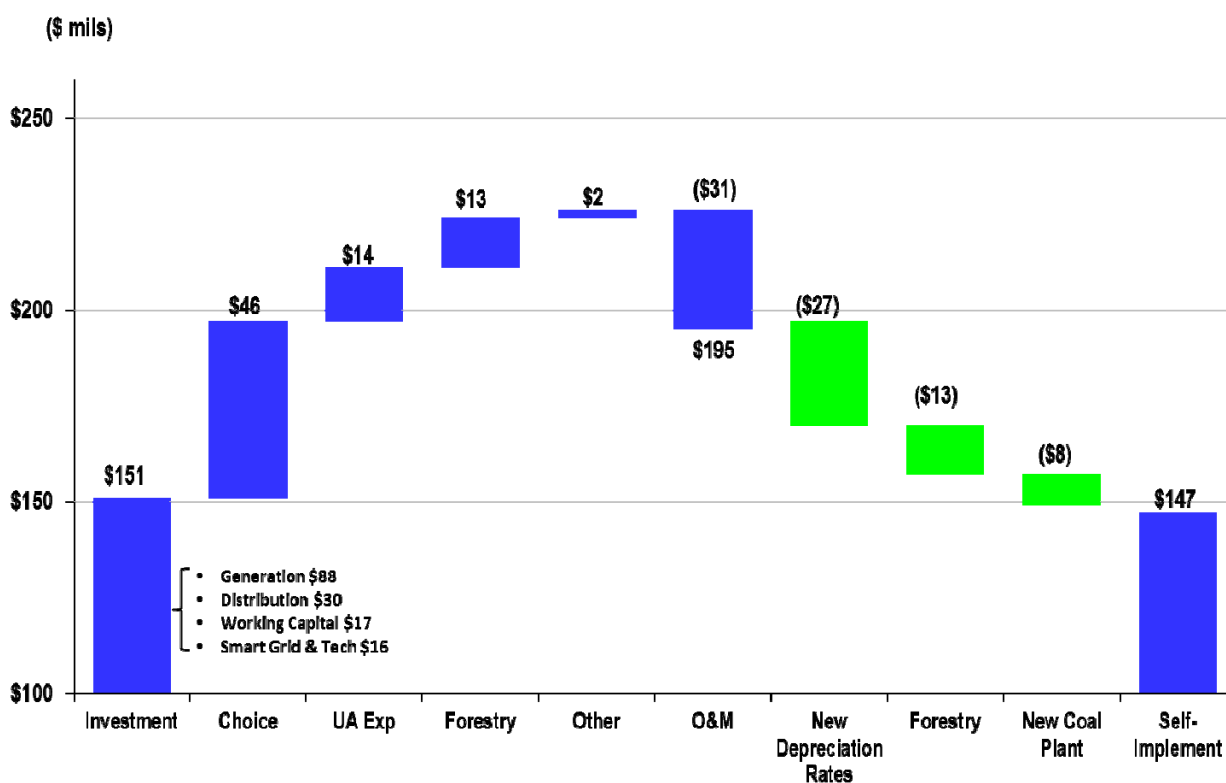
10 Q. Please discuss the first consideration.

11 A. The Company calculated the impact of not including certain items in its filing until a final
12 order is rendered: Clean Coal Cost recovery, incremental forestry expense, and new
13 depreciation rates. See the table below for reconciliation between the Company's filing
14 and self-implementation requests.

RONN J. RASMUSSEN
DIRECT TESTIMONY

CHART 1

Electric Rate Case U-16794



Mitigation with \$54 million reduction in REP and \$23 million refund of DOE proceeds.

Q. How did Consumers Energy determine the level of rate increase to self-implement pursuant to the 180-day provision of 2008 PA 286?

A. The above chart illustrates, in summary form, the analysis the Company performed in evaluating the effect of not including certain expenses in determining the level of rate increase to implement pursuant to the 180-day provision of Section 6a(1) of 2008 PA 286. The Company has determined it would be reasonable to implement a \$147 million

RONN J. RASMUSSEN
DIRECT TESTIMONY

1 increase. The following provides a high level explanation of the basis for the decision to
2 self-implement \$147 million.

3 Investment: As I mentioned above, a major component of the rate increase at issue in
4 this case is the additional investment in environmental compliance, our generating plants
5 and distribution system reliability, and new technology. This investment is for the
6 benefit of customers and it is reasonable to include it in determining the
7 self-implementation amount. However, the revised book depreciation rates approved by
8 the Commission in June 2011 in Case No. U-16054 are not effective until a final order in
9 this proceeding and for this reason are excluded from our self-implementation amount.
10 Also, the coal plant expenditures discussed by Company witnesses Kehoe, Jones and
11 Rolling would not be amortized until approved by the Commission for rate recovery and
12 were excluded from our self-implementation amount.

13 Operating Costs: The Other O&M used in developing the revenue requirement is \$31
14 million less than what was authorized in U-16191, partially offset by increases in
15 uncollectible accounts and forestry. Given that the requested increase in forestry
16 expense will not occur until addressed by the Commission in a final order and was
17 excluded from the self-implemented amount.

18 Cost of Capital: The Company requested that the Commission authorize a 10.70% ROE
19 in this proceeding. This is the same amount the Commission authorized in U-16191.

20 Sales: The Company has included forecasted sales levels, including ROA sales. These
21 sales levels have changed significantly since the U-16191 order. As mentioned earlier,
22 current authorized sales are based on sales level established in U-15645.

RONN J. RASMUSSEN
DIRECT TESTIMONY

1 Q. How is the Company planning to allocate the self-implemented electric rate increase to
2 each customer class?

3 A. Consumers Energy is planning to self-implement an equal percent increase to all
4 customer classes, which will result in surcharge amounts for each rate schedule as shown
5 on Exhibit SI-2 (RJR-2) column (d).

6 Q. What is the rate impact of Consumers Energy's proposed electric interim increase on
7 each customer class?

8 A. Column (e) on Exhibit SI-2 (RJR-2) shows that the rate impact of the Company's
9 proposed interim increase based on the equal percent increase approach will increase
10 rates by 4.36% for all rate classes.

11 Q. Did you consider any other rate designs for self-implementing the \$147 million electric
12 increase?

13 A. Yes. Exhibit SI-3 (RJR-3) provides alternative electric interim surcharges, which largely
14 reflect surcharges based on the Company's final rates proposed in this case. Adjustments
15 were made to interim rates under this alternative approach to eliminate any negative
16 surcharges during the interim period. As a result, no interim surcharges would be
17 applicable to customers served under Rates GML and GSG-2. This alternative approach
18 results in interim surcharges that reflect rates customers would see if the Commission
19 approved the Company's proposed rate increase using the Company's proposed cost
20 allocation and rate design. Exhibit SI-3 (RJR-3), column (c), shows the costs allocated to
21 each rate class, while column (e) shows the percent increase on each rate schedule based
22 on the alternative surcharge approach.

RONN J. RASMUSSEN
DIRECT TESTIMONY

1 Q. Why is the Company proposing to implement the equal percent increase rate design
2 rather than the alternative?

3 A. The Company believes that using the equal percent rate design approach for the
4 self-implemented rates is an equitable approach, pending a final decision in this case.
5 Further, the Company believes this approach complies with the requirements of MCL
6 460.6a(1) which directs the use of an equal percent increase applied to all base rates.
7 Finally, by using an equal percent increase, the Company's approach postpones until the
8 final order Commission decisions regarding the appropriate cost of service allocation and
9 rate design, issues that are highly controverted in the parties' filings in this case.

10 Q. Please summarize the Company's position.

11 A. My understanding of the ratemaking process changes put in place by the amendment to
12 MCL 460.6a(1) is that, if the Commission has not acted within 180 days of the utility's
13 filing, the utility may self-implement a rate increase "up to" the amount of the proposed
14 increase. The Commission may, if it finds "good cause" to do so, prevent or delay the
15 self-implementation of revised rates by the utility. In my opinion, the inability of
16 Consumers Energy to implement rates as reflected in Exhibit SI-1 (RJR-1), page 1 of 1,
17 of this filing would be detrimental to the Company's ability to maintain and improve
18 generation and distribution system reliability, detrimental to the Company's financial
19 position, and negatively impact investor's opinions concerning the viability of future
20 utility investments in the state. I strongly recommend that the Commission not issue an
21 order preventing or delaying the implementation of the rates set forth in the Company's
22 proposed tariff contained in page 1 of Exhibit SI-1 (RJR-1).

RONN J. RASMUSSEN
DIRECT TESTIMONY

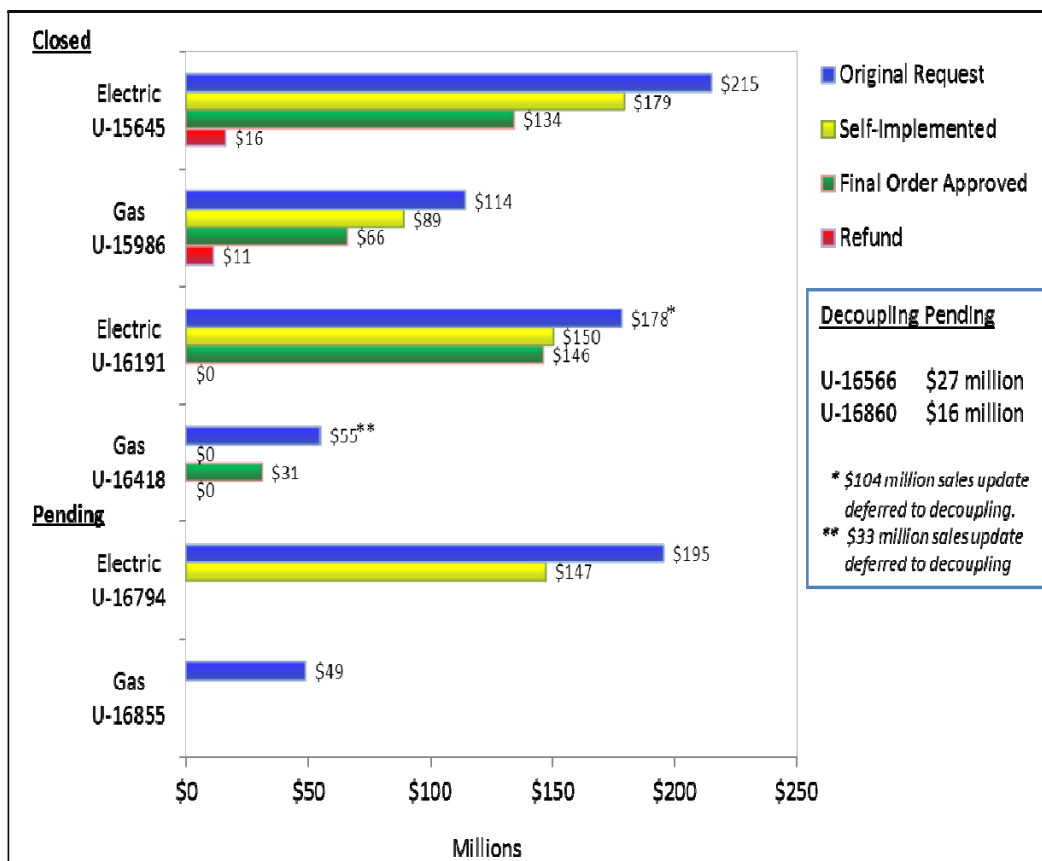
1 Q. What has been the Company’s experience with self-implementation under Public Act 286
2 of 2008 (“PA 286”)?

3 A. Chart 2 illustrates the Company’s experience in 4 dockets completed since PA 286 was
4 enacted.

5 Chart 2

Rate Cases Since PA-286 

Closed Dockets:	
Requested:	\$562 million
Self-Implemented:	\$418 million
Approved:	\$377 million
Refunds:	\$ 27 million



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RONN J. RASMUSSEN
DIRECT TESTIMONY

1 Q. Please summarize the results presented in Chart 2.

2 A. The self-implementation process under PA 286 has generally worked well. The small
3 differences between final orders and self-implemented amounts in Consumers Energy's 4
4 completed dockets, (2 electric and 2 gas), have resulted in timely cost recovery and
5 minimal refunds to customers.

6 Q. Did the Company consider the impacts on customers that the self-implemented rates
7 would have on low income and other vulnerable customers?

8 A. Yes, the Company considers the rate impact on all customers as one important factor in
9 determining the amount the Company should self-implement. The Company recognizes
10 that the amount of federal and state low income assistance funds may be reduced, and is
11 taking steps to address this concern.

12 Q. What is the Company doing in response to the needs of its most vulnerable customers?

13 A. The Company recognizes that the challenges facing its vulnerable customers are
14 significant in light of the proposed Federal assistance funding cuts, which will reduce the
15 availability of Federal Low Income Home Energy Assistance Program (LIHEAP) funds,
16 and the current uncertainty of State assistance surrounding the funding of the Low
17 Income Energy Efficiency Fund (LIEEF). These challenges are compounded by
18 continued slow economic recovery in the state. The Company fully supports efforts by
19 the Michigan legislature to address the assistance need of vulnerable customers this
20 winter, and is cooperating with parties to assist with that effort. In addition, the Company
21 is also participating in legislative work groups to review and redesign the manner in
22 which energy assistance is provided to those in need, which we fully expect to provide an
23 effective long-term solution for these customers.

RONN J. RASMUSSEN
DIRECT TESTIMONY

1 Considering the challenges facing Michigan's most vulnerable citizens, the Company is
2 taking a proactive step to ensure that there is supplemental assistance available to
3 customers this winter. Even if legislative action eventually mitigates the LIEEF impact,
4 the need for additional measures will still exist, and that need will be even greater in the
5 event that a legislation solution does not come to fruition. To assist customers in the
6 short-term, the Company has proposed to modify and expand its existing low income
7 assistance programs to assist vulnerable electric and gas customers this winter. The
8 proposal was filed with the Michigan Public Service Commission on November 16, 2011.
9 The Company believes that a proactive operational response to the extraordinary
10 circumstances for this heating season is necessary and will provide protection for
11 customers until a more permanent solution can be codified.

12 Q. Have you reviewed the November 15, 2011 Staff and intervenor's recommendations for
13 final relief in this proceeding?

14 A. Yes.

15 Q. How does your self-implementation amount compare to the Staff and intervenor
16 recommendations?

17 A. The Staff and intervenor recommendations for final relief are less than our
18 self-implementation amount. Based on my initial review, certain Staff and intervenor
19 recommendations, if adopted by the Commission, would be indicative of new policies
20 that vary considerably from recent Commission orders and not in the best interest of our
21 customers or investors.

RONN J. RASMUSSEN
DIRECT TESTIMONY

1 Q. Please continue.

2 A. For example, the exclusion of significant environmental investments that address
3 anticipated federal and state clean air act requirements would, if work was delayed or
4 stopped, likely result in a higher likelihood of non-compliance or eventually more costly
5 compliance. The exclusion of investments and operating costs related to older, smaller
6 coal units prior to their planned retirement dates may result in premature and unplanned
7 closures, with undesirable power market, employee and financial impacts. The extremely
8 low return on equity (ROE) recommendations may give investors pause when making
9 choices between investing in Michigan and other locales. In summary, certain
10 recommendations put forth by other parties in this proceeding are very much inconsistent
11 with recent Commission actions. These matters and many others will be sorted out
12 during the remainder of the hearing process. In the meantime, customers will be
13 protected by the statutory refund provisions described above in the event the final order
14 approves rates that produce revenues lower than what is collected by the Company
15 through the self-implemented rates. The statutory framework established by the
16 legislature protects all interests, and should be allowed to work as designed.

17 Q. Does this conclude your testimony in this proceeding?

18 A. Yes, it does.

1 JUDGE FELDMAN: Does anybody have any
2 objections to the admission into evidence of Exhibits
3 SI-1, SI-2 or SI-3?

4 Hearing none, those exhibits are admitted.
5 (Exhibit(s) SI-1 through SI-3 were
6 admitted.)

7 JUDGE FELDMAN: Does anybody have cross for
8 Mr. Rasmussen?

9 MR. ROSIER: I have some.

10 JUDGE FELDMAN: All right. Mr. Rosier, when
11 you're ready.

12 MR. ROSIER: Let the record reflect I'm
13 handing the witness what has been marked Exhibits
14 MC-SI-1 and MC-SI-2.

15 CROSS-EXAMINATION

16 BY MR. ROSIER:

17 Q. Mr. Rasmussen, in reviewing the Company's application
18 in this matter, are you generally familiar with the
19 financial exhibits filed with the application?

20 A. Yes.

21 Q. If you look at Exhibit MC-SI-1, which is the Company
22 Exhibit A-1, Schedule A-1, are you familiar with that
23 exhibit?

24 A. Yes.

25 Q. Under the column labeled Jurisdictional Electric

1 Amount, can you indicate what that column shows?

2 A. That column shows data from 2010 and a number of
3 financial-related metrics numbered 1 through 8, rate
4 base, net income down the page through line 8 which
5 would show that for that period of time the Company
6 would have had a slight revenue deficiency looking back
7 at the actual performance in the year 2010.

8 Q. And just on the exhibit, it appears that there are two
9 columns labeled (b).

10 A. Oh.

11 Q. Was that intended to be (c) and (d), do you know? Or
12 (c) for that column and then (d) for the source column?

13 A. It probably should be (b), (c) and (d) over to the
14 right, then.

15 Q. Okay.

16 A. All right. What I was referring to was the
17 Jurisdictional Electric Amount column.

18 Q. The second column labeled (b)?

19 A. Second column, yep.

20 Q. Okay. Has profitability declined or risen in 2011 from
21 2010?

22 A. There are probably many ways to talk about
23 profitability. In the regulated proceeding on a rate
24 of return basis for a utility, I wouldn't say that it's
25 increased. On a purely net income basis, I believe

- 1 that the net income has increased.
- 2 Q. Are you familiar with the Company's 10-Q filings?
- 3 A. Generally familiar.
- 4 Q. I've had marked and shown to you Exhibit MC-SI-2 --
- 5 A. Yes, sir.
- 6 Q. -- which is an excerpt from the Company's third quarter
- 7 2011 10-Q filing?
- 8 A. Yes.
- 9 Q. The middle page of the exhibit is page 16 of the 10-Q?
- 10 A. Okay.
- 11 Q. Well, first, do the form 10-Qs contain a compilation of
- 12 data kept in the course of regularly conducted business
- 13 activity?
- 14 A. Yes, they're a reflection of financial performance for
- 15 CMS Energy.
- 16 Q. Is there any reason that you know to indicate that the
- 17 data in the 10-Q was not trustworthy?
- 18 A. No reason.
- 19 Q. Okay. On page 16 of the report, please look at the
- 20 Nine Months Ended column showing 2011, 2010, and the
- 21 change. I'm referring to the net income available to
- 22 common shareholders at the top of the page.
- 23 A. Yes, sir.
- 24 Q. Am I correct that this report shows a \$75 million
- 25 increase from 2010 to present?

- 1 A. Yes, it does.
- 2 Q. And earnings per share also increased during that time
3 period; is that correct?
- 4 A. Yes, they did, for the corporation.
- 5 Q. Okay. If you look at the second table on that page, do
6 you see a row showing the breakdown for electric
7 operations?
- 8 A. I'm sorry, where are you referring to?
- 9 Q. In the second table on the page under September 30th
10 where it says Electric Utility on the far left?
- 11 A. Yes, I see that.
- 12 Q. Does that indicate that net income available to common
13 shareholders from electric utility operations is
14 309 million?
- 15 A. Yes, it does.
- 16 Q. And that is part of the 374 million shown in the first
17 table above for Company-wide operations; is that
18 correct?
- 19 A. Yes, it is.
- 20 Q. Okay. Does the report show an increase in net income
21 available to common shareholders for electric
22 operations from 2011 to -- from 2010 to 2011?
- 23 A. Yes, it does.
- 24 Q. And that amount is 26 million; is that correct?
- 25 A. \$26 million, yes.

1 MR. ROSIER: Thank you. I have no further
2 questions. And I would move for the admission of
3 Exhibits MC-SI-1 and MC-SI-2.

4 (Exhibit(s) MC-SI-1 and MC-SI-2 were
5 offered.)

6 JUDGE FELDMAN: All right. Let me ask, are
7 there any objections to the admission of MC-SI-1 or
8 MC-SI-2?

9 Hearing none, those exhibits are admitted.

10 (Exhibit(s) MC-SI-1 and MC-SI-2 were
11 admitted.)

12 JUDGE FELDMAN: Ms. Barone?

13 MS. BARONE: Thank you, Your Honor.

14 CROSS-EXAMINATION

15 BY MS. BARONE:

16 Q. Good afternoon, Mr. Rasmussen.

17 A. Good afternoon.

18 Q. On page 1 of your testimony you indicate that you're
19 the vice president rates and regulations; is that
20 correct?

21 A. Yes.

22 Q. Now, does that mean you're in charge of the rates and
23 regulations department of the utility, or is there
24 someone who is superior in that portion of the Company?

25 A. No, that's my responsibility.

1 Q. Okay.

2 A. There's certainly someone superior to me, but I am
3 responsible for the rates and regulation department.

4 Q. Thank you.

5 Now, on page 3 of your testimony at line 7
6 the question is posed, "What factors did Consumers
7 Energy consider when determining whether to file a
8 general rate case," and then you list various factors
9 there. Would another factor that the Company considers
10 in whether to file a general rate case relate to
11 whether the rate increase would be needed in order for
12 the Company to operate successfully?

13 A. Yes, to operate successfully and to deliver the
14 services that we need to deliver to customers,
15 absolutely.

16 Q. Now, on page 4 of your testimony beginning at line 8
17 you indicate, "The \$195 million of rate relief
18 requested by the Company in this case is primarily
19 driven by two items. The first of these items is the
20 Company's continued investment in Michigan."

21 Now, with respect to the Company's investment
22 in Michigan, would you agree that in order for an item
23 of investment in Michigan to be included in rates, that
24 that investment should be a reasonable investment for a
25 provision of service to ratepayers?

1 A. Yes, a reasonable investment to provide service, comply
2 with laws and regulations, all the things that the
3 utility is tasked with as a service provider,
4 absolutely.

5 Q. Now, on page 4 of your testimony again, starting on
6 line 11, you indicate, "The largest portion of the
7 requested rate relief, approximately \$151 million, is
8 related to the growth and rate base resulting from
9 these investments."

10 Isn't it true that to the extent that
11 Consumers has allowed the costs associated with
12 infrastructure improvements in rates, Consumers will
13 begin to collect the costs of those improvements and a
14 return on those improvements regardless of whether the
15 infrastructure improvement is made or not? And would
16 you please confine your answer to a yes or no if you
17 can.

18 A. I'm going to ask you to repeat that, please.

19 MS. BARONE: Could we have the court reporter
20 read that back, please?

21 (The record was read back by the court
22 reporter as requested.)

23 THE WITNESS: Yes or no?

24 Q. (MS. BARONE) Yes or no, if you can.

25 MR. ROBINSON: Your Honor, I guess I'm having

1 the same trouble the witness is having. I want to
2 object just on a formulation ground. It strikes me
3 that it's a completely circular question. It says if A
4 happens did A happen. And so I think any answer,
5 certainly if it's restricted in the way counsel is
6 requesting, is going to be misleading. So I object.

7 MS. BARONE: Well, Your Honor, if it's so
8 self-evident, I'm sure the witness can indicate the
9 answer is yes to the question. So I think he's capable
10 of deciding.

11 If he can't answer it yes or no, he's capable
12 of saying that as well.

13 JUDGE FELDMAN: I believe that Mr. Robinson
14 may have a point in terms of the use in the question of
15 the phrase "allowed costs."

16 Do you mean in the context of this -- simply
17 this proceeding and what costs would go into the
18 self-implementation rates, or did you mean in terms of
19 costs that had already been approved by the Commission?

20 MS. BARONE: No, I'm talking context of this
21 self-implementation, not costs -- previous costs.

22 JUDGE FELDMAN: So if you could put that
23 context in the question, I think that would help. And
24 then if the witness cannot answer it yes or no, he's to
25 merely so state.

1 MS. BARONE: Okay.

2 Q. (MS. BARONE) Mr. Rasmussen, to the extent that your
3 request for self-implementation is not prevented or
4 delayed by the Commission, would the investment that
5 you're referring to there be recoverable by the Company
6 whether they have already made or are -- the
7 infrastructure improvement or not?

8 A. I would actually answer no.

9 Q. Okay. I'd like to refer you to page 5 of your
10 testimony. At that portion of your testimony on lines
11 14 to 17 you discuss the needs of the Company to
12 achieve levels of service quality and reliability.

13 Does Consumers have an ongoing responsibility
14 as a public utility in Michigan to provide safe and
15 reliable utility service to its customers?

16 MR. ROBINSON: I'm going to object if that's
17 calling for a legal opinion about that.

18 MS. BARONE: Well, Your Honor, I'm not going
19 to ask for his legal opinion because he's not an
20 attorney I don't believe, and I'm just asking it as a
21 utility policy witness.

22 JUDGE FELDMAN: His understanding.

23 MS. BARONE: His understanding, yes.

24 JUDGE FELDMAN: In that context,
25 Mr. Rasmussen, can you answer the question?

1 THE WITNESS: Yes. One of our primary
2 focuses is safe and reliable service provided to
3 customers.

4 Q. (MS. BARONE) Now I'd like to refer you to page 6 of
5 your testimony at lines 12 through 16. You indicate,
6 "The new investments included in the Company's filing
7 can be segregated into three main categories," and then
8 you list one of the categories as being "environmental
9 compliance investments required by law," and you also
10 indicate, "The portion of the new investment related to
11 safety and environmental compliance is not
12 discretionary due to the requirements of regulation and
13 law." Is that your testimony there --

14 A. Yes.

15 Q. -- in part?

16 Is it your testimony that each environmental
17 expenditure that the Company includes in its
18 investments that you referred to earlier are being
19 planned to be done pursuant to a regulation or law that
20 has been enacted or finalized?

21 A. Tremendous majority of the expenses are. Like, by
22 tremendous majority, I mean 99 percent.

23 Q. Can you specify the law and/or regulations you're
24 referring to there?

25 A. Primarily, they're going to be the Michigan mercury

1 rule and a variety of clean air requirements over a
2 period of time related to our generating fleet.

3 Q. Now, when you say there are going to be, is that you're
4 anticipating that they will be final?

5 A. Actually, it's my understanding that they are final.

6 Q. And can you provide any more specific statutory or
7 regulation reference to what you're referring to there?

8 A. Well, I think the -- well, the Michigan mercury rule, I
9 don't know the legal references to it, but that's an
10 existing requirement. And the most recent of the
11 federal requirements are the Cross-State -- is the
12 Cross-State Air Pollution Rule that is final and
13 effective January 1 of 2012.

14 Q. Any others that you can mention now?

15 A. No, those are the two main drivers in this case.

16 Ms. Barone, when I talked about a number of
17 requirements, I think we've gone through Clean Air Act,
18 the Clean Air Interstate Rule, the Clean Air Transport
19 Rule to the CSAPR or Cross-State Air Pollution Rule.
20 The CSAPR requirements are highly consistent with
21 previous rules, and so when they become effective --
22 even though they're final rules now -- when they become
23 effective on January 1, that's why I'm indicating that
24 the investments we're making will be compliant with the
25 Cross-State Air Pollution Rule.

1 Q. And when you refer to that the rules will be effective
2 on January 1, is it the rules you just referred to is
3 your understanding that the rules will not be changed
4 between now and -- or that they cannot be changed
5 between now and January 1? If you know.

6 A. I believe it would require a court order to change the
7 rule.

8 Q. On page 7 of your testimony you indicate in response to
9 the question, "How does the self-implemented increase
10 further Consumer Energy's investment plan," you say,
11 "In this regard, investors need assurance that
12 Consumers Energy is able to earn a timely return on its
13 utility investments."

14 Now, in this case, is Consumers asking for a
15 return of and on its proposed investments before the
16 investments or a portion of them is even made?

17 A. No.

18 Q. Not on the investments?

19 A. What Consumers has included in this case is a fully
20 projected test year that accumulates the investments to
21 be made over a 12-month period of time and for
22 ratemaking purposes determines the average of those
23 investments. And then rates in that same 12-month
24 period of time should be set to recover that investment
25 with a fair return on it. That's what I'm indicating

1 in that response.

2 Q. So at the time that the Company files in the manner you
3 just described, the investment, the actual building of
4 a plant or whatever, has not necessarily been started;
5 is that correct? For some of the costs?

6 A. That's possible but not necessarily would be the
7 circumstance every time. For example, in this case
8 we're almost three months into the test period already,
9 so some of the investments that we're talking about in
10 this case have already been made.

11 Q. Now, on page 14 of your testimony you discuss the
12 Company's vulnerable customers that you refer to on
13 line 7 there of that page.

14 Now, the application that you reference in
15 that portion of your testimony is with respect to the
16 case you filed on November 15th with the number 16929;
17 would that be correct?

18 A. Yes, it would.

19 Q. And in that application, if the application is granted
20 by the Commission, would Consumers receive revenue
21 associated with its proposed or then approved
22 uncollectible expense mechanism for the period part of
23 which would include the self-implementation period?

24 A. Could I have that repeated, please?

25 Q. Let me rephrase it to try and make it more clear.

1 In Case No. U-16929, the Company has made a
2 request for an uncollectibles mechanism; is that
3 correct?

4 A. That's one aspect of that request, yes.

5 Q. And to the extent that the Company -- it's determined
6 that the Company should receive some revenue pursuant
7 to that mechanism if it were approved by the
8 Commission, would it be true that the Company would
9 receive revenues for the time period during which
10 self-implemented rates in this docket would be in
11 effect?

12 And I guess my question, is it possible, not
13 necessarily definite but possible.

14 A. I think the answer is no, but I'm not trying to be
15 argumentative. What would happen under the Company's
16 proposal is a variety of activities would occur that
17 would be likely to increase uncollectible accounts
18 expense. The Company would ultimately make a filing to
19 recover those expenses, but that filing would likely be
20 made in 2013. So there would be no revenues during the
21 self-implementation period.

22 Q. But part of the expense that the Company experienced
23 would be associated with the self-implementation time
24 period; would that be correct?

25 A. Part of the expense would be associated with part of

1 the self-implementation period.

2 Actually, Ms. Barone, I'm not functioning as
3 an accountant here, but I want to be real careful,
4 because the accountants have a strict set of rules.

5 I think the deferral of the impacts on the
6 books of the Company ultimately turns into expense and
7 revenue in 2013, assuming Commission approval. So they
8 actually defer expenses on the books of the Company.
9 So there would be no expense or revenue during the
10 self-implementation period.

11 Q. But the activities that gave rise to the deferral may
12 occur --

13 A. That's true.

14 Q. -- during the period?

15 A. That's true.

16 MS. BARONE: Thank you. I have nothing
17 further.

18 THE WITNESS: Thank you.

19 JUDGE FELDMAN: Any further cross from
20 anybody?

21 Mr. Whitfield?

22 MR. WHITFIELD: No, Your Honor.

23 JUDGE FELDMAN: Mr. Robinson, any redirect?

24 MR. ROBINSON: Just a couple, Your Honor.

25

REDIRECT EXAMINATION

1

2 BY MR. ROBINSON:

3 Q. Mr. Rasmussen, I've got a couple questions about
4 Exhibits MC-SI-1 and MC-SI-2 that Mr. Rosier questioned
5 you about.

6 A. Yes, sir.

7 Q. First question is what test year are the parties using
8 in this 16794 case?

9 A. Our projected year is October 1, 2011, September 30,
10 2012.

11 Q. Okay.

12 A. I believe.

13 Q. Now, do these two exhibits, MC-SI-1 and 2, reflect
14 financial results for any portion of that test year?

15 A. No, they don't.

16 Q. Do these two exhibits, MC-SI-1 and 2, reflect solely
17 historical financial results?

18 A. That's true.

19 Q. Does the test year data that the Company presented in
20 this case reflect investments that are projected to be
21 made during that test year?

22 A. Yes, the entirety of the case is projected in that
23 period of time, revenue, expense, investments.

24 Q. Do Exhibits MC-SI-1 and 2 reflect in any way the impact
25 of those projected investments?

1 A. No.

2 Q. If rates were set based on financial results as
3 depicted in MC-SI-1 and 2, would that be consistent
4 with the setting of rates on a projected test year?

5 A. No, those rates would include no projections.

6 Q. Okay. Ms. Barone asked you a couple questions at the
7 end of her cross that had to do with your testimony at
8 page 14 and specifically referred to the implementation
9 of a UETM ratemaking tracking mechanism for
10 uncollectibles expense and how that relates to the -- a
11 period of self-implemented rates in this case. And
12 that's a long lead-in to my question, which is would
13 the base for the uncollectibles tracker be affected in
14 any way by the self-implementation of rates in this
15 general electric rate case?

16 A. That is possible that given that the tracking mechanism
17 compares to a base in Company rates it could be
18 affected by the self-implementation order and/or the
19 final order of the Commission in this case.

20 Q. And so the tracking mechanism, should it be adopted and
21 applied to some period of time that coincided with the
22 period self-implemented rates were in effect, it would
23 be comparing to a different base than was in effect
24 during other periods of time, right?

25 A. That is possible, yes.

1 MR. ROBINSON: Your Honor, that's all I've
2 got. Thank you.

3 JUDGE FELDMAN: Thank you.

4 Anything further, Mr. Rosier?

5 MR. ROSIER: Nothing, Your Honor.

6 JUDGE FELDMAN: Anything further, Ms. Barone?

7 MS. BARONE: No, Your Honor.

8 JUDGE FELDMAN: Is there anything further
9 before we adjourn for the day and close the
10 self-implementation hearing record?

11 All right. Thank you all very much for your
12 time this afternoon. Thank you, Mr. Rasmussen.

13 (The witness was excused.)

14 JUDGE FELDMAN: We are adjourned.

15 (Record closed at 2:04 p.m.)

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