

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Application of
CONSUMERS ENERGY COMPANY
for approval of its integrated resource plan
pursuant to MCL 460.6t and for other relief.

Case No. U-20165

**DIRECT TESTIMONY
OF
WILLIAM A. PELOQUIN**

On Behalf of

Residential Customer Group

October 15, 2018

I. QUALIFICATIONS

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

A. My name is William A. Peloquin. My business address is 11533 Monroe, Portland, MI 48875.

Q. Briefly describe your professional qualifications.

A. I graduated from Michigan State University with a Bachelors Degree in Economics. In 1985 I graduated from Michigan State University's Master of Business Administration program, with a major in Finance. I am a retired Certified Public Accountant. I have over thirty (31) years of full time work experience devoted exclusively to regulatory matters, and seven additional years as a consultant testifying in regulatory cases. I was formerly employed by the Michigan Public Service Commission for the period September 1971 through November 1979. I was employed by the Attorney General of the State of Michigan from November 1979 through October 2002 when I retired. I have also testified in several cases before the MPSC since about 2003 involving Consumers Energy Company and DTE Electric Company. I have testified (or filed testimony) in numerous rate cases, including the following electric rate cases:

U-4570	The Detroit Edison Company
U-4704	Indiana & Michigan Electric Company
U-4807	The Detroit Edison Company
U-5108	The Detroit Edison Company
U-5331	Consumers Power Company
U-5608	Indiana & Michigan Electric Company
U-6006	The Detroit Edison Company
U-6322	Michigan Power Company
U-6923	Consumers Power Company
U-7660-R	The Detroit Edison Company (remand)
U-7830	Consumers Power Company
U-9346	Consumers Power Company
U-10102	The Detroit Edison Company

1	U-10335	Consumers Power Company
2	U-10685	Consumers Power Company
3	U-11495	Detroit Edison Company
4	U-11560	Consumers Energy Company
5	U-15244	Detroit Edison Company
6	U-15245	Consumers Energy Company
7	U-15645	Consumers Energy Company
8	U-16191	Consumers Energy Company
9	U-16472	Detroit Edison Company
10	U-16794	Consumers Energy Company
11	U-18322	Consumers Energy Company
12	U-20134	Consumers Energy Company (pending)

13
14 I have testified in numerous small electric rate cases, including those of the following
15 electric cooperatives: Cherryland, Ontonagon, Presque Isle, Southeastern Michigan,
16 Thumb, Tri-County and Wolverine. I testified in the Wolverine and Northern Michigan
17 Cooperative securities cases involving Fermi 2, Case Nos. U-5407 and U-5408 and the
18 storage battery plant (SBEED), Case Nos. U-6636 and U-6643.

19 I testified in Wolverine Power Supply Cooperative, Inc.'s Case U-7521 (Power Supply
20 Cost Recovery Clause).

21 I have testified in steam heating rate cases U-4522 (Consumers Power) and U-6103
22 (Detroit Edison). I testified in the telephone cases of Baraga Telephone and Shiawassee
23 Telephone.

24 I have developed PSCR factors and presented testimony in the following Power Supply
25 Cost Recovery and Gas Cost Recovery plan cases:

26	U-7512	Consumers Power Company (PSCR)
27	U-7522	Wolverine Power Supply Cooperative, Inc. (PSCR)
28	U-7550	The Detroit Edison Company (PSCR)
29	U-7775	The Detroit Edison Company (PSCR)
30	U-7785	Consumers Power Company (PSCR)
31	U-8020	The Detroit Edison Company (PSCR)
32	U-8578	The Detroit Edison Company (PSCR)
33	U-8880	The Detroit Edison Company (PSCR)
34	U-9174	Michigan Consolidated Gas Company (PSCR)
35	U-9432	Consumers Power Company (PSCR)

1	U-9732	Consumer Power Company (PSCR)
2	U-9960	Consumers Power Company (PSCR)
3	U-10702	Detroit Edison Company (PSCR)
4	U-10710	Consumers Power Company (PSCR)
5	U-10965	Detroit Edison Company (PSCR)
6	U-11528	Detroit Edison Company (PSCR)
7	U-15001	Consumers Energy Company (PSCR)
8	U-15415	Consumers Energy Company (PSCR)
9	U-15451	Michigan Consolidated Gas Company (GCR)
10	U-16146	Michigan Consolidated Gas Company (GCR)
11	U-16434	Detroit Edison Company (PSCR)
12	U-16890	Consumers Energy Company
13	U-18142	Consumers Energy Company (PSCR)
14	U-18402	Consumers Energy Company (PSCR)

15 I testified in the following reconciliation cases:

16	U-6488-R	1982 FCAC & PIPAC – DECo
17	U-6871-R	DECo – Insulation Outreach Reconciliation
18	U-7512-R	1982 PSCR – CPCo
19	U-7484-R	1983 GCR – MGU
20	U-7785-R	1984 PSCR – CPCo Reconciliation
21	U-7775-R	1984 PSCR – DECo Reconciliation
22	U-8020-R	1985 PSCR – DECo Reconciliation
23	U-8855-R	1988 PSCR – CPCo Reconciliation
24	U-9432-R	1990 PSCR – CPCo Reconciliation
25	U-9433-R	1990 GCR – CPCo Reconciliation
26	U-10702-R	1995 GCR – DECo Reconciliation
27	U-10710-R	1995 PSCR – CPCo Reconciliation
28	U-10973-R	1996 PSCR – CECo Reconciliation
29	U-10965-R	1996 PSCR – DECo Reconciliation
30	U-11175-R	1997 PSCR – DECo Reconciliation
31	U-14701-R	2006 PSCR – CECo Reconciliation
32	U-15701-R	2009-10 GCR - DECo Reconciliation
33	U-15704-R	2009-10 GCR - CECo Reconciliation
34	U-16045-R	2010 PSCR - CECo Reconciliation
35	U-16047-R	2010 PSCR - DECo Reconciliation

36 I have presented testimony in various gas rate cases and special topic (including
37 securitization) cases before the Commission, including the following cases:

38	U-5129	Deferred Income Taxes – DECo
39	U-5583	Deferred Income Taxes – CPCo
40	U-6041	Depreciation Rates – CPCo
41	U-6163	Storm Damages – DECo
42	U-6381	Decker Coal Penalties – DECo

1	U-6490	Automatic Adjustment Clauses
2	U-6569	Storm Damages – DECo
3	U-6589	Deferred Taxes – Michigan Consolidated Gas Co.
4	U-6590	Lifeline Rates – CPCo
5	U-7065	Fermi Test Generation – DECo
6	U-7232	Sale of Capacity to GPU – DECo
7	U-7236	Rail Charge Refunds – DECo
8	U-7633	Incentive Discount Rate – MGU
9	U-7757	Gas Cost Recovery Accounting – CPCo
10	U-7930	Restructured Residential Rates – DECo
11	U-7930-R	Restructured Residential Rates (Reopened) – DECo
12	U-7940	Restructured Residential Rates – CPCo
13	U-8110	DECo/CPCo (Estimated Billings)
14	U-8145	CPCo (Deferred Tax Accounting)
15	U-8562	Tondu Energy Systems, Inc. (Cogen)
16	U-8630	Midland Salvage
17	U-8680	CPCo (Gas – '86 Tax Reform Act)
18	U-8681	CPCo (Electric – '86 Tax Reform Act)
19	U-8683	DECo (Electric – '86 Tax Reform Act)
20	U-8713	Midland Salvage
21	U-8812	Michigan Consolidated (Gas Rates)
22	U-8871	Midland Cogeneration Venture
23	U-9040	CPCo (1987 Midland Compliance Filing – 3A)
24	U-9266	Michigan Bell – New Service Offering
25	U-9322	CPCo (1988 Midland Compliance 3A)
26	U-9350	CPCo (Deferred Tax Accounting)
27	U-9493	CPCo (Depreciation)
28	U-9586	CPCo (Competitive Bidding)
29	U-9595	CPCo (Compliance 1989 – 1990)
30	U-9598	CPCo (Deferred Tax Accounting)
31	U-9611	CPCo (Midland Proceeds)
32	U-9798	DECo (Future Capacity Solicitations)
33	U-9819	CPCo (Accounting/MCV Capacity Charges)
34	U-9852	CMS Gas Transmission (South Chester Pipeline – Act 69)
35	U-9869	CPCo (Deferred Tax Accounting)
36	U-10040	Generic (Post Retirement Benefits)
37	U-10066	DECo (1989 PA 2)
38	U-10127	CPCo (MCV Contested Settlement)
39	U-10143	CPCo Retail Wheeling
40	U-10176	DECo Retail Wheeling
41	U-10297	DECo Biennial Energy Conservation
42	U-10320	CMS Gas Transmission (Albert-Vienna Pipeline – Act 69)
43	U-10321	CMS Gas Transmission (East Antrim)
44	U-10562	CPCo (Electric Line Extension – Act 69)
45	U-10554	CPCo (DSM Reconciliation)
46	U-10754	CPCo (Depreciation)
47	U-10755	CPCo (Gas Rate Case)
48	U-10787	CPCo (Special Competitive Services)
49	U-11222	Michigan Consolidated Gas Company (Depreciation)
50	U-11283	CPCo (Transmission Facilities Classifications)

1	U-11337	DECo (Transmission Facilities Classifications)
2	U-11509	CECo (Depreciation)
3	U-11662	CECo (Nuclear Decommissioning)
4	U-11726	DECo (Fermi 2 Depreciation)
5	U-11724	CECo/DECo (Ludington Pumped Storage Depreciation)
6	U-11722	DECo (Depreciation)
7	U-12033	Great Lakes Cooperative (Beaver Island Cable and Generation)
8	U-12133	Electric Deregulation: Educational Surcharges
9	U-12478	DECo (Securitization)
10	U-12505	CECo (Securitization)
11	U-12639	Commission's Own Motion (Netting of Stranded Costs)
12	U-13000	CECo (Gas Rate Case)
13	U-14992	CECo (Sale of Palisades)
14	U-15506	CECo (Gas Rate Case)
15	U-15611	CECo Nuclear Legacy Case (Big Rock)
16	U-15985	Mich Con (Gas Rate Case)
17	U-15986	CECo (Gas Rate Case)
18	U-16418	CECo (Gas Rate Case)
19	U-16535	Mich Con (Manufactured Gas Plant accounting)
20	U-16855	CECo (Gas Rate Case) (Manufactured Gas Plant Recovery)
21	U-16861	CECo (DOE Settlement Proceeds)
22	U-16901	Northern States Power Company
23	U-18250	Consumers Energy Company (Palisades PPA securitization)
24	U-18261	Consumers Energy Company (Energy Waste Reduction)
25	U-18262	DTE Electric (Energy Waste Reduction)
26	U-18424	CECO (Gas Rate Case)
27	U-20103	CECO Credit A Gas Case
28	U-20189	DTE Credit B Gas case
29	U-20287	CECO Credit B Gas case

30 I have also been directly involved in testifying in and/or otherwise participating in the
31 successful settlement of the following cases:

32	U-6150-R	Nuclear Plant Decommissioning Funds (Reopened)
33	U-8638	Generic Accounting for TRA '86
34	U-8675	Revenue Reduction – TRA '86 – Michigan Bell
35	U-8684	Revenue Reduction – TRA '86 – Michigan Consolidated Gas Co.
36	U-8676	Revenue Reduction – TRA '86 – General Telephone
37	U-8686	Revenue Reduction – TRA '86 – Michigan Power (Electric)
38	U-8687	Revenue Reduction – TRA '86 – Michigan Power (Gas)
39	U-8691	Revenue Reduction – TRA '86 – Alpena Power
40	U-8692	Revenue Reduction – TRA '86 – Edison Sault
41	U-8789	DECo (Fermi 2 – Electric Rates)
42	U-9096	CPCo (Deferred Tax Accounting)
43	U-9097	CPCo (Deferred Tax Accounting)
44	U-9099	Michigan Consolidated Gas Co. (Deferred Tax Accounting)
45	U-9475	Michigan Consolidated Gas Co. (Gas Rates)

1	U-9498	DECo (Construction Lines)
2	U-9600-01	Michigan Power/I&M (Tax Normalization Accounting)
3	U-9866	DECo (Deferred Tax Accounting)
4	U-12033	Great Lakes Cooperative (Beaver Island Cable and Generation)
5	U-15320	In Re Application of Midland Cogeneration Venture
6	U-15451	Michigan Consolidated Gas Company GCR (Partial Settlement)
7	U-15628	Michigan Consolidated Gas Company (Sale of Storage Gas)
8	U-17771-A	Consumers Energy Waste Reduction Case (Amended)
9	U-18261	Consumers Energy Waste Reduction
10	U-18262	DTE Electric Waste Reduction

11 **Q. Are you a member of any professional associations?**

12 A. Yes. I am a member of the Institute of Certified Public Accountants.

13 **II. DIRECT TESTIMONY**

14 **Q. Mr. Maddipati claims that long-term agreements with fixed payments similar to**
15 **long-term debt, "...reduce financial flexibility and increase risk...." Do you agree**
16 **with that claim?**

17 A. As a general statement, I agree. Businesses in a competitive environment, which most are,
18 with large fixed payments have a greater risk of financial default. A current example is
19 Sears, Roebuck & Co.

20 **Q. Do you agree with Mr. Maddipati that PPA (Purchased Power Agreement)**
21 **obligations "...reduce financial flexibility and increase the risk of default..." for**
22 **Consumers Energy Company?**

23 A. I strongly disagree.

24 Consumers Energy – Electric has a PSCR (Power Supply Cost Recovery) adjustment
25 clause that continually reimburses the company for its PPA obligations. Consumers does
26 not have to use its own capital or issue bonds or stock to fund the PPA obligations. Other

1 than the remote possibility that the MPSC might disallow a PPA's purchased power
2 expense, a Purchased Power Agreement does not increase the risk of default for a
3 jurisdictional utility. In fact, they have less risk than a company owned facility, such as the
4 Midland Nuclear Plant that almost bankrupted Consumers.

5 **Q. Assume for the sake of argument that a large PPA was perceived to add financial**
6 **risks. Should Consumers receive extra compensation for that risk?**

7 A. While I disagree with this premise, if PPAs were perceived to add risk, Consumers would
8 automatically be compensated through the ratemaking formula. Investors demand higher
9 returns for higher risk. Consumers has many PPA agreements and several very large ones,
10 i.e., the Palisades Nuclear PPA and Midland Cogeneration Venture PPA. The Return on
11 Equity (ROE) is set by the MPSC to yield the return investors demand. If PPAs actually
12 increased investor's perceived utility risk, the ROE would already compensate Consumers'
13 investors for that perceived risk. They don't need a FCM.

14 **Q. Are there other reasons to reject Mr. Maddipati's proposed financial Compensation**
15 **Mechanism (FCM).**

16 A. Yes, several.

17 The largest reason would be the large increase in ratemaking costs Mr. Maddipati's FCM
18 would require. Per Exhibit A-52, a ten-year PPA with a fixed price of \$60 per MWh
19 would require a 13.8% FCM adder (\$8.28/\$60.00). A 13.8% FCM adder would make
20 many PPA's uneconomic. Mr. Torrey opines that Consumers needs a financial incentive
21 to sign PPA's instead of the utility owning a facility. However, Mr. Maddipati's FCM is
22 so large that it will make PPAs uneconomic. Thus, his FCM defeats its purpose.

1 Additionally, the ratemaking premise that there should be no gain on the cost of the power
2 supply has worked well for many decades. Consumers is just eliciting another gambit to
3 seek out a higher ROE. If it is not broke, don't fix it.

4 **No need for Regulatory Asset**

5 **Q. Does Consumers need a regulatory asset to recover the remaining value of its**
6 **retired Karn Units 1 and 2?**

7 A. No.

8 Traditional utility accounting for the retirement of power plants require that the original
9 cost of the plant be removed from the balance sheet by crediting the original cost of the
10 plant and debiting the accumulated reserve for depreciation. For example, if the plant had
11 an original cost of \$1 million, a journal entry would credit the plant account by \$1 million
12 and debit the accumulated reserve for depreciation by \$1 million. This would reduce the
13 original cost plant balance by \$1 million and would also reduce the accumulated reserve
14 for depreciation by \$1 million. This would result in no change in net plant rate base.
15 Since rate base does not change, the utility would continue to receive a return on its
16 unrecovered investment.

17 The effect of the journal entry would be to leave the unrecovered amount of the plant in the
18 remaining accumulated reserve for depreciation.

19 While depreciation of the actual plant would end, depreciation rates and expenses for the
20 remaining plants would increase to writedown the unrecovered amount of the retired plant.

21 Thus, under traditional utility accounting, the utility continues to receive its return of and

1 return on its investment. There is no real need for establishing a regulatory asset.

2 **Q. Does the Commission need to decide the issue of approving a regulatory asset for the**
3 **Karn 1 and 2 units in this proceeding.**

4 A. No. Consumers' witness Heidi Myers states in her pre-filed direct testimony at page 11:

5 "The three regulatory asset treatments all assume that the
6 remaining net book value for Karn Units 1 and 2 will be removed from
7 plant-in-service accounts and recorded in a regulatory asset in the next
8 general electric rate case."

9 There is no need to decide this issue in this case. It can be deferred to Consumers next
10 electric rate case.

11 **Competitive bidding**

12 **Q. Do you support the competitive bidding proposal of Consumers?**

13 A. No. Consumers' proposes to keep tight control of the competitive bidding process
14 referring to Consumer's witness Mr. Troyer at page 18 of his testimony;

15 It will be Consumers Energy that determines the need for supply side generation, not the
16 IRP or the Commission. It will be Consumers that specifies the amount and type of
17 generation, not the IRP or the Commission.

18 Consumers insists that the IRP will address the need for capacity over only the next three
19 years.

20 It will be Consumers Energy that sets the criteria by which the proposals are selected, not
21 the IRP or the Commission.

22

1 The tight control demanded by Consumers would make a farce of the “competitive
2 bidding.”

3 The demand that the IRP will only cover the first three years will eliminate many
4 competitors from submitting qualifying bids. Consumers’ process is aimed at selecting the
5 projects that Consumers has given the inside track.

6 **Q. Does that conclude your testimony?**

7 **A. Yes.**

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for approval of its integrated resource plan
pursuant to MCL 460.6t and for other relief.

Case No. U-20165

PROOF OF SERVICE

On **October 15, 2018**, an electronic copy of the **Direct Testimony of William A. Peloquin on behalf of the Residential Customer Group** was served on the following :

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

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Dated: October 15, 2018