

A CMS Energy Company

May 7, 2004

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Ms. Mary Jo Kunkle
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
P.O. Box 30221
Lansing, MI 48909

Re: Case No. U-12358 (On Remand From The Court Of Appeals)

Dear Ms. Kunkle:

Enclosed for filing in the above-referenced matter are an original and four copies of Consumers Energy Company's "**Selection Of Option For Recovery Of Implementation Costs**" and an original Proof of Service. These documents are also being filed electronically, in a PDF format, as part of the MPSC's electronic filings program.

Sincerely,


Signature
Not Verified

Jon R. Robinson

Digitally signed
by Jon R.
Robinson
Date:
2004.05.07
09:43:26 -04'00'

CC: Hon. James N. Rigas
Parties per Attachment 1
to Proof of Service

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
CONSUMERS ENERGY COMPANY)
to recover implementation costs for)
the period ended December 31, 1999)
_____)

Case No. U-12358
(On Remand from the
Court of Appeals)

SELECTION OF OPTION
FOR RECOVERY OF IMPLEMENTATION COSTS

I. INTRODUCTION

1. On April 28, 2004 the Michigan Public Service Commission (“MPSC” or “Commission”) issued an order in this docket. That order directed Consumers Energy Company (“Consumers Energy” or “Company”) to make a filing in this docket by May 7, 2004 for the purpose of exercising the option of recovering its approved implementation costs either in Case No. U-13715 through securitization or in this proceeding through the surcharge mechanism referred to in that order. The Commission stated that the filing should include proposed surcharges if that option is chosen. This filing is in response to the April 28, 2004 order.

II. BACKGROUND

2. The MPSC has issued orders approving conditional deferred recovery of implementation costs incurred by Consumers Energy for 1998 through 2001¹ in the following dockets and amounts:

<u>Case</u>	<u>Year of Expenditure</u>	<u>Conditional Recovery Amount (millions)</u>
U-11955	1998	\$15.376
U-12358	1999	\$25.156
U-12891	2000	\$19.587
U-13340	2001	\$ 7.947

¹ The 1998 costs also include some costs incurred in 1997. The review of costs for 2002 and 2003 is pending in Case No. U-14050.

These approved amounts include carrying costs at the rate of 7% through the end of the year of expenditure.

3. On June 2, 2003 the Commission issued an order in Case No. U-13715 holding that Consumers Energy should be permitted to securitize the 1998-2000 implementation costs. The approved costs computed in that order totaled \$64.108 million. In its December 18, 2003 order in Case No. U-13715, p. 5, the Commission concluded that carrying costs for 2001-2003 in the amount of \$14.427 million should have been included in this calculation. Adding these carrying costs to \$64.108 million results in a total of \$78.535 million. This recognition of the appropriate calculation of implementation costs did not, however, affect the \$554.323 million limit on the total amount that could be securitized pursuant to the June 2, 2003 financing order.

4. In the April 28, 2004 order, the Commission stated as follows:

“[T]he Commission finds that Consumers should have the option of choosing whether it prefers to recover its approved implementation costs pursuant to the Commission’s final order in Case No. U-13715 as part of its second securitization filing, or whether the company would prefer to withdraw the implementation costs from consideration in Case No. U-13715 and have their recovery controlled by this proceeding. If Consumers chooses the latter approach, the Commission intends to authorize recovery of such implementation costs through use of surcharges on all customer classes that coincides with the expiration of the Act 141 rate caps.²

² See MCL 460.10d(2). Consumers’ May 7, 2004 filing should include proposed surcharges and documentation of their derivation for use in this proceeding.”

III. ELECTION TO RECOVER IMPLEMENTATION COSTS THROUGH SURCHARGES INSTEAD OF THROUGH SECURTIZATION

5. Consumers Energy understands the surcharge option described in the April 28, 2004 Order to mean that recovery from large manufacturing and commercial customers will begin when surcharges are approved, recovery from small manufacturing and commercial

customers will begin on January 1, 2005, and recovery from residential customers will begin on January 1, 2006.

6. Based upon the foregoing, Consumers Energy elects to withdraw the implementation costs from further consideration for securitization in Case No. U-13715, and to recover those implementation costs in this proceeding through the use of surcharges.

IV. PROPOSED SURCHARGES

7. Consumers Energy proposes to recover the approved implementation costs through the use of per kWh surcharges on all customer classes (for both full service and retail open access customers) that begin, for large manufacturing and commercial customers, when the surcharges are approved, and for other rate classes at the expiration of the applicable rate caps. The proposed recovery period for each customer group is 36 months. Thus, since the residential surcharge would not commence until January 1, 2006, the total recovery period would actually extend over approximately 5 years. The proposed per kWh surcharges for the large commercial and industrial group, the small commercial and industrial group and the residential customer group are equal except for an adjustment to reflect differences in carrying costs that occur based upon when collection begins and ends.² This is done so that customers do not receive a benefit or suffer a detriment based upon when collection begins from their customer group.

8. Consumers Energy proposes that reconciliation filings be made following the three collection periods (i.e., each customer group would be separately reconciled) so that amounts collected can be reconciled with total implementation costs (including carrying costs) and so that customers will pay no more and no less than the recoverable costs.

² For purposes of calculation of surcharges Consumers Energy has assumed that recovery from large commercial and industrial customers will begin July 1, 2004. If recovery is delayed, then an adjustment for additional carrying costs would need to be made using the methodology set forth on page 2 of the attachments.

9. In Case No. U-13715 the Commission approved recovery of implementation costs for 1998 through 2000 that had been conditionally approved in Case Nos. U-11955, U-12358, and U-12891. In its June 16, 2003 order in Case No. U-13340 the Commission approved conditional deferred recovery of 2001 implementation costs in the amount of \$7.947 million. While the Case No. U-13340 order was not issued until two weeks after the June 2, 2003 order in Case No. U-13715, the costs relate to a time period (i.e., year 2001) that predated both the order and hearing in Case No. U-13715. Consumers Energy submits that recovery of 1997-2001 implementation costs would be appropriate and should be authorized in this proceeding. Attachment A identifies the total 1998-2000 implementation costs with carrying charges as \$78,535,000, and the total 1998-2001 implementation costs with carrying charges as \$87,633,000. Attachment A shows the proposed surcharges based upon the latter amount, and Consumers Energy requests that the Commission authorize recovery of the approved 1997-2001 implementation costs.

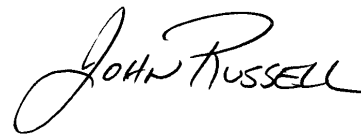
Respectfully submitted,

CONSUMERS ENERGY COMPANY

Dated: May 7, 2004

By:


Signature
Not Verified



Digitally signed
by John G.
Russell
Date:
2004.05.07
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John G. Russell

President and Chief Executive Officer-
Electric


Signature
Not Verified

Digitally signed
by Jon R.
Robinson
Date:
2004.05.07
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Jon R. Robinson (P27953)
H. Richard Chambers (P34139)
One Energy Plaza
Jackson, Michigan 49201
Attorneys for Consumers Energy Company
(517) 788-1482

ATTACHMENT A

CONSUMERS ENERGY COMPANY**Implementation Cost Recovery (\$000)****Determination of Recoverable Implementation Charges**

Attachment A

Page 1 of 4

Line							
No.	Year	1998	1999	2000	2001	2002	2003
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	1998	\$ 15,376	\$ 16,452	\$ 17,604	\$ 18,836	\$ 20,155	\$ 21,566
2	1999		25,156	26,917	28,801	30,817	32,974
3	2000			19,587	20,958	22,425	23,995
4	Sub-Total			64,108			78,535
5	2001				7,947	8,503	9,099
6	Total Recoverable Implementation Charges						<u>\$87,633</u>

History:

- 7 Implementation costs for 1998-2001 are the MPSC approved amounts.
- 8 Carrying costs are calculated at the MPSC approved rate of 7.00%.
- 9 To calculate the effect of carrying costs, multiply the previous year amount by 1.07.
For example for 1998 Implementation Cost (Line 1), \$15,376 x 1.07 = \$16,452, \$16,452 x 1.07 = \$17,604
- 10 Implementation Costs of \$64,108,000 approved as Qualified Costs in Securitization Case No. U-13715.
The amount includes approved amounts with carrying costs as of December 31, 2000. See Order dated June 2, 2003 at p.35. To reflect the carrying costs through December 31, 2003, \$14,427,000 must be added, for a total of \$78,535,000. See December 18, 2003 Order on Rehearing, Case No. U-13715, p. 5.

Source:

- 7.00% Carrying Cost Factor, Case U-11955, Final Order, page 11
- 1998 Case No. U-11955, Final Order issued October 24, 2000, page 14
- 1999 Case No. U-12358, Final Order issued July 11, 2001, page 12
- 2000 Case No. U-12891, Final Order issued November 7, 2002, page 9
- 2001 Case No. U-13340, Final Order issued June 16, 2003, page 6

CONSUMERS ENERGY COMPANY
Implementation Cost Recovery (\$000)

Determination of Recoverable Implementation Charges
and Associated Surcharge

Attachment A
Page 2 of 4

Explanation:

- A: Surcharges are designed to recover approved costs over 36-month collection periods
- B: Interest needs to be recovered from the end of 2003 until the period when recovery begins.
To do this, multiply the amount to be recovered by number of months until recovery by .5833% (7%/12 months)
- C: The Company proposes that reconciliation occur following the three collection periods.

<u>Line No.</u>	<u>Description</u>	<u>Large Commercial & Industrial</u>	<u>Small Commercial & Industrial</u>	<u>Residential</u>
1	Total Amount To Be Recovered as of December 31, 2003	\$87,633	\$87,633	\$87,633
2	Allocation Factor (Page 4 of 4)	<u>62.01%</u>	<u>4.07%</u>	<u>33.92%</u>
3	Allocated Amount To Be Recovered as of December 31, 2003	\$54,346	\$3,566	\$29,722
4	Assumed date that Collection Begins	01-Jul-04	01-Jan-05	01-Jan-06
5	Months between December 31, 2003 and date collection begins	6	12	24
6	Monthly Interest Rate	<u>0.5833%</u>	<u>0.5833%</u>	<u>0.5833%</u>
7	Total Interest Rate (Line 5 x Line 6) ¹	3.500%	7.000%	14.490%
8	Interest from December 31, 2003 to date collection begins	<u>1,902</u>	<u>250</u>	<u>4,307</u>
9	Total Amount To Be Recovered as of Beginning of Collection Period ²	\$56,248	\$3,815	\$34,029
10	Carrying Cost Over Recovery Period (Page 3 of 4)	<u>\$7,875</u>	<u>\$534</u>	<u>\$4,764</u>
11	Total Amount To Be Recovered Through End Of Recovery Period ³	\$64,122	\$4,350	\$38,793
12	Total Jurisdictional Sales through 36-Month Period (page 4 of 4)	72,236,950	4,827,182	40,577,183
13	Surcharge (36-month collection period) \$/kWh	\$0.000888	\$0.000901	\$0.000956

NOTE:

¹ For Residential Customers, the Annual Rate is (1.07 x 1.07)-1 to account for annual compounding

² Line 1 + Line 8 (This assures that each group will pay appropriate carrying costs)

³ Line 9 + Line 10

Large Commercial and Industrial customers are those customers with usage greater than or equal to 2,862 kwh/month

Small Commercial and Industrial customers are those customers with usage less than 2,862 kwh/month

Residential customers are those customers in rate classes A-1 through A-5

CONSUMERS ENERGY COMPANY
Implementation Cost Recovery (\$000)
Determination of Carrying Costs Over Recovery Period

Attachment A
Page 3 of 4

Line					
No.	Description		Year 1	Year 2	Year 3
<u>Large Commercial & Industrial Recoverable Cost</u>					
1	Beginning Balance		\$56,248	\$37,499	\$18,749
2	Amortization		<u>18,749</u>	<u>18,749</u>	<u>18,749</u>
3	Ending Balance		\$37,499	\$18,749	\$0
4	Beginning Balance		\$56,248	\$37,499	\$18,749
5	Interest Rate		<u>7.00%</u>	<u>7.00%</u>	<u>7.00%</u>
6	Carrying Cost		\$3,937	\$2,625	\$1,312
7	Total Carrying Cost	\$7,875			
<u>Small Commercial & Industrial Recoverable Cost</u>					
8	Beginning Balance		\$3,815	\$2,544	\$1,272
9	Amortization		<u>1,272</u>	<u>1,272</u>	<u>1,272</u>
10	Ending Balance		\$2,544	\$1,272	\$0
11	Beginning Balance		\$3,815	\$2,544	\$1,272
12	Interest Rate		<u>7.00%</u>	<u>7.00%</u>	<u>7.00%</u>
13	Carrying Cost		\$267	\$178	\$89
14	Total Carrying Cost	\$534			
<u>Residential Recoverable Cost</u>					
15	Beginning Balance		\$34,029	\$22,686	\$11,343
16	Amortization		<u>11,343</u>	<u>11,343</u>	<u>11,343</u>
17	Ending Balance		\$22,686	\$11,343	\$0
18	Beginning Balance		\$34,029	\$22,686	\$11,343
19	Interest Rate		<u>7.00%</u>	<u>7.00%</u>	<u>7.00%</u>
20	Carrying Cost		\$2,382	\$1,588	\$794
21	Total Carrying Cost	\$4,764			

CONSUMERS ENERGY COMPANY
Implementation Cost Recovery (\$000)

Determination of MWH Sales For Allocation and for Recovery

Attachment A
Page 4 of 4

2004 Breakout For Allocation Purposes	Sales	% of Total
Large Commercial & Industrial	23,415,871	62.01%
Small Commercial & Industrial	1,536,377	4.07%
Residential	<u>12,806,289</u>	<u>33.92%</u>
Total	37,758,537	100.00%

Large Commercial and Industrial

	<u>2004/2005</u> <u>Fiscal Year</u>	<u>2005/2006</u> <u>Fiscal Year</u>	<u>2006/2007</u> <u>Fiscal Year</u>	
July	2,059,210	2,104,832	2,139,389	
August	2,034,328	2,079,274	2,115,813	
September	2,101,240	2,146,207	2,181,534	
October	1,974,117	2,014,769	2,051,660	
November	1,954,411	1,999,529	2,036,058	
December	1,979,061	2,019,804	2,057,519	
January	1,903,066	1,951,938	2,001,227	
February	1,879,208	1,928,255	1,978,387	
March	1,891,264	1,903,112	1,952,064	
April	1,907,248	1,941,019	1,989,515	
May	1,900,387	1,937,954	1,986,883	
June	2,002,657	2,037,152	2,096,859	
Total	23,586,197	24,063,845	24,586,908	
Cumulative Total	72,236,950			
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Small Comm and Ind	1,582,070	1,608,571	1,636,541	
Cumulative Total	4,827,182			
Residential		13,266,075	13,511,861	13,799,247
Cumulative Total		40,577,183		

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
CONSUMERS ENERGY COMPANY)
to recover implementation costs for)
the period ended December 31, 1999)
_____)

Case No. U-12358
(On Remand from the
Court of Appeals)

PROOF OF SERVICE

STATE OF MICHIGAN)
) SS
COUNTY OF JACKSON)

Sammie B. Dalton, being first duly sworn, deposes and says that she is employed in the Legal Department of Consumers Energy Company; that on May 7, 2004 she served an electronic copy of Consumers Energy Company's "**Selection Of Option For Recovery Of Implementation Costs**" upon the persons listed in Attachment 1 hereto, at the e-mail addresses listed therein. She further states that she also served a hard copy of the same document to the addresses listed in Attachment 1 by depositing the same in the United States mail in the City of Jackson, Michigan with first-class postage thereon fully paid.

 *Sammie B Dalton*
Signature Not Verified
Sammie B. Dalton

Digitally signed
by Sammie B.
Dalton
Date: 2004.05.07
09:45:19 -04'00'

Subscribed and sworn to before me this 7th day of May, 2004.

 *Margaret Hillman*
Signature Not Verified
Margaret Hillman, Notary Public
State of Michigan, County of Jackson
My Commission Expires: 06/14/04
Acting in the County of Jackson

Digitally signed
by Margaret
Hillman
Date: 2004.05.07
09:45:47 -04'00'

ATTACHMENT 1 -- to Case No. U-12358

Administrative Law Judge

Honorable James N. Rigas
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