Consumers Energy

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December 19, 2001

Ms. Dorothy Wideman
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
P.O. Box 30221
Lansing, MI 48909

Re: Case No. U-12970

Dear Ms. Wideman:

Enclosed for filing in the above-referenced matter are an original and four copies of the "**Brief of Consumers Energy Company.**" In addition, these documents are being filed electronically with the Commission in the portable document format (PDF). I have also enclosed a Proof of Service.

Sincerely,

Jon R. Robinson

CC: Honorable George Schankler, ALJ
Parties Per Attachment 1
To Proof of Service

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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of	)	
CONSUMERS ENERGY COMPANY	)	
For approval of the unbundling of its	)	Case No. U-12970
Commercial and industrial rate schedules	)	
____________________________________	)	

BRIEF OF CONSUMERS ENERGY COMPANY

I. Introduction

This case was initiated pursuant to Section 10b(2) of 2000 PA 141 ("PA 141"), MCL 460.10b(2); MSA 22.13(10b)(2). This section provides as follows:

> "(2) No later than 1 year from the effective date of the amendatory act that added this section, each electric utility shall file an application with the commission to unbundle its existing commercial and industrial rate schedules and separately identify and charge for their discrete services. No earlier than 1 year from the effective date of the amendatory act that added this section, the commission may order the electric utility to file an application to unbundle existing residential rate schedules. The commission may allow the unbundled rates to be expressed on residential billings in terms of percentages in order to simplify residential billing. The commission shall allow recovery by electric utilities of all just and reasonable costs incurred by electric utilities to implement and administer the provisions of this section."

In compliance with this section, Consumers Energy filed, on June 5, 2001, an application seeking approval of the unbundling of its commercial and industrial rate schedules. Included with that filing was the supporting testimony and exhibits of Steven L. Gaarde and Thomas A. Yehl. A prehearing conference was held in this proceeding on August 24, 2001, at which a schedule was established. The only other testimony filed in this case was that of MPSC Staff witness Larry Bailey. At a hearing held on November 28, 2001, the testimony and exhibits of the two Company witnesses and the single Staff witness were received into evidence without cross-examination.

II. Consumers Energy Presentation

Mr. Gaarde presented an unbundling cost of service study that is the basis for the rates unbundling that was presented by Mr. Yehl. See Exhibit A-1. Mr. Gaarde explained that Consumers Energy's current bundled rates were approved by the Commission in Case No. U-10685. The cost-of-service study supporting the approved rates in that case was Staff Exhibit S-24, and was relied upon as the basis for the revenue allocations among the various customer classes adopted in that case. 3 TR 51. Mr. Gaarde further explained that Exhibit S-24 was used to develop the Company's existing Retail Open Access ("ROA") residential ("ROA-R"), commercial ("ROA-S") (secondary) and industrial ("ROA-P") (primary) rate schedules that were approved by the Commission in Case No. U-11451. Id. These ROA rate schedules already reflect the unbundling of the generation component of service from other service elements, and no further changes are therefore necessary or are proposed with respect to those schedules. 3 TR 51.

Mr. Yehl presented testimony addressing the appropriate manner of unbundling the Company's existing full service commercial and industrial rate schedules. He explained that using Exhibit S-24 as the basis for rate unbundling was appropriate because the Company's existing rates are based upon this cost-of-service study. In addition, Consumers Energy's existing rates are, pursuant to PA 141, frozen through December 31, 2003. As Mr. Yehl stated, "using the cost study that forms the basis for the Company's current rates that will remain in effect for the next few years will ensure the most accurate unbundling of existing rate schedules." 3 TR 57.

Mr. Yehl presented a comprehensive exhibit and description of the manner in which he unbundled the commercial and industrial rate schedules. 3 TR 57-66; Exhibit A-2. In summary, he explained that these customers currently can select from three different basic rate structures: (1) a two-part rate structure with an energy charge and a customer charge; (2) a three-part rate structure with a billing (coincident) demand charge, an energy charge, and a customer charge (applicable to secondary customers); and (3) a four-part rate structure, with a maximum (non-coincident) demand charge, a billing (coincident) demand charge, an energy charge, and a customer charge (applicable to primary customers). Using the cost data from Mr. Gaarde's cost-of-service study, Mr. Yehl segregated the existing rates for each rate schedule into generation, transmission, distribution and customer components. Thus, for example, the on-peak billing demand charge for Rate D was divided into a generation component and a transmission component. See Exhibit A-2, p.6 of 39.

Because of rate design policies followed in prior rate cases, each of these rate schedules deviates from cost in varying degrees. Thus, in addition to the categories of generation, transmission, distribution and customer-related charges, Mr. Yehl also determined a positive or negative "regulatory adjustment charge." This charge essentially reflects the degree of "skewing" or cross-subsidization reflected in these rate schedules. Mr. Yehl explained that identifying this amount of skewing as a separate charge was the only practical step that could be taken, since it would be misleading to attribute the charge to any of the other four categories. 3 TR 56.

In addition to Exhibit A-2 that unbundles the costs and rates for each rate schedule, Mr. Yehl also presented Exhibit A-3 which transfers the unbundled charges to the appropriate rate sheets in the Company's tariff book. This results a significant increase in the amount of rate detail included in each rate schedule. Mr. Yehl indicated that it was the Company's intention to add to customer bills the average rate for generation costs that is reflected in each rate schedule, but not to include on those bills the same level of detail that is included in the tariff sheets. There would be significant confusion associated with including that level of detail, as well as significant additional billing and administrative costs. Identifying the average cost of generation for each rate schedule provides the customer with the basic information needed to evaluate the relative attractiveness of a switch to ROA service. 3 TR 66.

III. <u>MPSC Staff Presentation</u>

The Staff presented the testimony of Larry Bailey, who did not comment directly on the Company's filing, but recommended that the Commission direct the Company to make a similar filing with respect to residential rate schedules. This is at least an indirect statement of support for the manner in which the Company unbundled commercial and industrial rate schedules.

IV. <u>Conclusion</u>

Since the Company's unbundling presentation is the only evidence of record on the subject, it should be approved by the Commission. Indeed, there is no evidentiary basis for the Commission to do otherwise.

Consumers Energy notes that, because of the need to reprogram billing systems, it cannot instantaneously implement on customer's bills the unbundling described in this Brief and in its testimony. The Company therefore requests that the Commission grant it 60 days from the date of a final order in this matter to reflect this unbundling on customer bills.

WHEREFORE, Consumers Energy Company respectfully requests that the Administrative Law Judge recommend approval of, and the Commission approve, the unbundling of Consumers Energy's commercial and industrial rate schedules as shown on Exhibits A-2 and A-3, and as described in the testimony offered in this case.

Respectfully submitted,

CONSUMERS ENERGY COMPANY

Dated: December 19, 2001

By ____________________

Jon R. Robinson
212 West Michigan Avenue
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(517) 788-0698
Attorney for Consumers Energy Company

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Application of CONSUMERS ENERGY COMPANY for approval of the unbundling of its Commercial and industrial rate schedules	)))))	MPSC Case No. U-12970

PROOF OF SERVICE

STATE OF MICHIGAN)
) SS
COUNTY OF JACKSON)

Carolyn S. Hinton, being first duly sworn, deposes and says that she is employed in the Legal Department of Consumers Energy Company; that on December 19, 2001 she served an electronic copy of the **"Brief of Consumers Energy Company"** upon the persons listed in Attachment 1 hereto, at the e-mail addresses listed therein and she also served a hard copy of the same documents to the addresses listed therein by depositing the same on December 19, 2001, in the United States mail in the City of Jackson, Michigan with first-class postage thereon fully paid.

Carolyn S Hinton

Carolyn S. Hinton

Subscribed and sworn to before me this 19th day of December, 2001.

Holly J. Allen

Holly J. Allen
Notary Public, Jackson County, Michigan
My Commission Expires: 05/01/06

ATTACHMENT 1 -- TO CASE NO. U-12970

Administrative Law Judge

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