Consumers Energy

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June 29, 2001

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

Re: Experimental Gas Customer Choice Program
Earnings Sharing Mechanism Calculations for Program Year 2000-2001
MPSC Case No. U-12998

Dear Ms. Wideman:

In its December 19, 1997 Opinion and Order in Case No. U-11599, the Michigan Public Service Commission approved a voluntary experimental pilot program for expanded gas customer choice. As part of the experimental gas customer choice program, the Commission approved a sharing mechanism which provides for a portion of earnings to be returned to customers if gas utility business earnings on common equity during a program year, determined as set forth in Case No. U-11599, exceed certain levels.

Enclosed for filing are an original and 4 copies of Consumers Energy's Earnings Sharing Mechanism Calculations for the program year ending March 31, 2001 and supporting workpapers. The calculations for the 2000-2001 program year show that the return on common equity during the program year is less than the minimum return on common equity necessary for sharing to occur. Accordingly, no refund to customers under the revenue sharing mechanism approved in Case No. U-11599 is required.

The Earnings Sharing Mechanism Calculations filing along with the supporting Affidavit of Charles F. Belknap, Jr. and associated exhibits are also being filed electronically as part of the Commission's Electronic Filing Program. Copies of workpapers are being filed in hard-copy format only.

Sincerely,

Richard Chambers

H. Richard Chambers

CC: William W. Derengoski, Esq.
Donald E. Erickson, Esq.
David L. Shaltz, Esq.

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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Filing by CONSUMERS ENERGY COMPANY of the Experimental Gas Customer Choice Earnings Sharing Mechanism Calculations for the 2000-2001 Program Year	))))))	MPSC Case No. U-12998

EARNINGS SHARING MECHANISM CALCULATIONS

Pursuant to the procedure established in Case No. U-11599, Consumers Energy Company ("Consumers Energy" or the "Company") is filing its "Attachment F" earnings sharing mechanism calculations in the Experimental Gas Customer Choice Program for the April 2000 through March 2001 program year. Consumers Energy states as follows:

1. In its December 19, 1997 Order in Case No. U-11599, the Michigan Public Service Commission ("MPSC" or "Commission") approved a three-year voluntary and experimental pilot program for expanded gas customer choice (the "Experimental Gas Customer Choice Program" or "EGCC Program"). The program commenced in April 1998 and ended in March 2001.

2. The Experimental Gas Customer Choice Program approved by the Commission in Case No. U-11599 includes a sharing mechanism. The sharing mechanism provides for a portion of earnings to be refunded to customers if the Company's gas utility business return on common equity during a program year, determined as set forth in Case No. U-11599, exceeds certain levels.

3. In its December 19, 1997 Order in Case No. U-11599, the Commission in describing the Company's proposal stated:

> "Consumers also proposes to file an exhibit similar to Attachment F to its application, along with any necessary workpapers supporting its calculation, not later than July 1 of 1999, 2000, and 2001, respectively, identifying the amount, if any, to be refunded to customers under the revenue sharing mechanism. It proposes that parties be given 30 days to request a hearing regarding the calculations and that the scope of any hearing be limited to the filing's accuracy and conformance to Attachment F. It further proposes that, if no hearing is requested, it be allowed to promptly implement any applicable refund.
>
> * * *
>
> "After review of the application, the Commission finds that Consumers' proposals are reasonable and in the public interest, and should be approved." Order, pp 6-7.

For purposes of the Attachment F calculations, the return on equity is calculated on a non-weather adjusted basis.

4. In its June 2, 1998 Order in Case No. U-11703, the Commission approved Consumers Energy's application to implement certain performance criteria to be used in conjunction with the EGCC sharing mechanism during years two and three of the program. If the Company's performance falls below benchmark levels for performance established in Case No. U-11703, as measured by the criteria approved in that case, a downward adjustment to the Experimental Gas Customer Choice Program equity sharing percentage thresholds will occur, thus potentially resulting in increased refunds to customers.

5. In its June 2, 1998 Order in Case No. U-11703, the Commission adopted gas performance standards in the areas of (i) leak response time, (ii) safety, (iii) cathodic protection, and (iv) estimated meter reads. Pursuant to the Commission's Order, performance criteria for the April 2000 through March 2001 program year have been measured using 2000

calendar year data. The Company's performance in 2000 met or exceeded each of the performance benchmark levels established in Case No. U-11703. Therefore, no adjustment in the equity sharing percentage thresholds results for the 2000-2001 program year.

6. Consumers Energy is filing its earnings sharing mechanism calculations in conformance with Attachment F to the application approved on December 19, 1997 in Case No. U-11599. The Attachment F earnings sharing mechanism calculations show that the Company's gas business return on equity for the 2000-2001 program year is less than the minimum return on equity necessary for sharing to occur. Consequently, under the terms of the Experimental Gas Customer Choice Program, no refund to customers results under the sharing mechanism for the 2000-2001 program year.

7. Attached in support of the Company's filing are the Affidavit of Charles F. Belknap, Jr., along with the Attachment F earnings sharing mechanism calculations and gas performance standards results. Concurrently with the filing of these calculations Consumers Energy is also submitting supporting workpapers.

WHEREFORE, in accordance with the provisions of the Experimental Gas Customer Choice Program approved by the Commission, Consumers Energy is making this earnings sharing mechanism filing for the 2000-2001 program year.

Respectfully submitted,

CONSUMERS ENERGY COMPANY

Dated: June 29, 2001

By: ____________________

H. Richard Chambers (P34139)
212 West Michigan Avenue
Jackson, Michigan 49201
Attorney for Consumers Energy Company
(517) 788-1482

STATE OF MICHIGAN

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In the Matter of the Filing by CONSUMERS ENERGY COMPANY of the Experimental Gas Customer Choice Earnings Sharing Mechanism Calculations for the 2000-2001 Program Year	))))))	MPSC Case No. U-12998

AFFIDAVIT OF CHARLES F. BELKNAP, JR.

STATE OF MICHIGAN)
) SS:
COUNTY OF JACKSON)

Charles F. Belknap, Jr. being first duly sworn, deposes and says:

1. I am Principal Rate Analyst in the Rates and Electric Strategic Business Unit Planning Department for Consumers Energy Company ("Consumers Energy" or the "Company"). As Principal Rate Analyst, I am responsible for the planning, coordination, monitoring, and filing of all Gas Cost Recovery ("GCR") cases and Power Supply Cost Recovery ("PSCR") cases. In addition, I am responsible for the planning, performance, and evaluation of studies relating to the Company's overall profitability for its business units and for the financial analysis of various planning scenarios, and also for the Company's load research functions.

2. I have reviewed and am familiar with Consumers Energy's December 9, 1997 Application in Case No. U-11599 seeking approval of a voluntary experimental pilot program for expanded gas customer choice (the "Experimental Gas Customer Choice Program" or "EGCC Program") and the Commission's December 19, 1997 Order approving the Application. In addition, I have reviewed and am familiar with the Commission's June 2, 1998

Order in Case No. U-11703 in which it approved performance standards which would be implemented in conjunction with the EGCC Program during years two and three of the program.

3. In its Application in Case No. U-11599, Consumers Energy proposed that the earnings sharing mechanism provide for refunds to customers in the event the Company's actual gas utility business return on equity, determined in the manner set forth, exceeded certain predetermined levels. In describing the mechanism, Consumers Energy stated:

> "No later than three months after the end of each year of the program (by July 1), Consumers Energy will make a filing with the Commission identifying the amount, if any, to be refunded to customers. Consumers Energy will file an exhibit similar to Attachment F contained in this Application. In addition, Consumers Energy will file any necessary workpapers supporting the calculation. Parties will have 30 days to request a hearing regarding the calculations included in the Company's filing. The scope of the hearing, if granted, would be limited to the accuracy and conformance to Attachment F of the calculations contained in the filing. If no party requests a hearing, then Consumers Energy shall implement any refund if applicable." Application, p 12.

Consumers Energy stated that for purposes of the earnings sharing mechanism, the actual earned gas return on equity would be calculated, on a non-weather adjusted basis, as set forth in Attachment F to the Application.

4. In its December 9, 1997 Order, the Commission in describing the Company's proposal stated:

> "Consumers also proposed to file an exhibit similar to Attachment F to its application, along with any necessary workpapers supporting its calculation, not later than July 1 of 1999, 2000, and 2001, respectively, identifying the amount, if any, to be refunded to customers under the revenue sharing mechanism. It proposes that parties be given 30 days to request a hearing regarding the calculations and that the scope of any hearing be limited to the filing's accuracy and conformance to Attachment F. It further proposes that, if no hearing is requested, it be allowed to promptly implement any applicable refund.

* * *

> "After review of the application, the Commission finds that Consumers' proposals are reasonable and in the public interest, and should be approved." Order, pp 6-7.

5. Attached as Exhibit A are Consumers Energy's earnings sharing mechanism calculations for the April 1, 2000 through March 31, 2001 program year. The earnings sharing mechanism calculations have been calculated in conformance with Attachment F to the Case No. U-11599 Application and the Commission's December 9, 1997 Order.

6. The four performance criteria established by the Commission in Case No. U-11703 are: (i) leak response time; (ii) safety; (iii) cathodic protection; and (iv) estimated meter reads. In its Order in Case No. U-11703 the Commission approved benchmark performance measures and the basis for measuring each criteria for comparison to the benchmarks. Failure to annually achieve any of the criteria would reduce the sharing mechanism return on equity percentage threshold by a prescribed percent.

7. Attached, as Exhibit B, is an exhibit setting forth the Company's 2000 performance for each of the criteria. Consumers Energy exceeded each of the performance criteria adopted by the Commission in Case No. U-11703. Therefore, those criteria have no impact on Consumers Energy's earnings sharing mechanism calculations for the 2000-2001 program year.

8. The earnings sharing mechanism calculations show that the gas return on equity for the 2000-2001 program year is less than 13.50%. Consequently, under the terms of the Experimental Gas Customer Choice Program, no refund to customers under the sharing mechanism is required for the 2000-2001 program year.

Further, Affiant says not

Chas F Belknap

Charles F. Belknap, Jr.

Subscribed and sworn to before me this 27th day of June 2001.

Kelly Fisher

Notary Public, Jackson County, MI
My Commission Expires:

KELLY FISHER
Notary Public, Jackson Co., MI
My Comm. Expires Jan. 18, 2002

EXHIBIT A

CONSUMERS ENERGY COMPANY
EXPERIMENTAL GAS CUSTOMER CHOICE PROGRAM
ATTACHMENT F - EARNINGS SHARING MECHANISM CALCULATION
Twelve Months Ended March 31, 2001
(000)

	Line	Description	Notes	Amount
	1	Gas Net Operating Income	(1)	$77,383
		Adjustments		
Less	2	After Tax Net Retail Services Operating Income/ (Loss)	(2)	224
Plus	3	One-Time Accounting Changes	(3)	9,913
Plus	4	Gas Commodity Adjustment @ 50%	(4)	(9,101)
Plus	5	FIT Impact of Proforma Interest Expense	(5)	(490)
	6	Sub-Total (Total Lines 2 through 5)		98
	7	Adjusted Net Operating Income (Line 1 + Line 6)		$77,481
Less	8	Proforma Interest Expense	(5)	39,568
Less	9	Proforma Preferred Dividends	(5)	6,062
Less	10	Proforma Return Assignable To JDITC	(5)	2,645
	11	Gas Balance for Common (Line 7 - Line 8 - line 9 - line 10)		$29,206
	12	*Proforma Gas Common Equity*		$327,452
	13	Gas Return On Equity (Line 11 / Line 12)		8.92%
	14	Excess Gas Return on Equity (> 13.50%)		0.00%
	15	Excess Gas Earnings (Line 12 x Line 14)		$0
Sharing Percentage To Customer				
	16	50% if ROE is between 13.50% and 17.50%		Not Applicable
	17	75% if ROE is above 17.50%		Not Applicable
	18	Total Earnings Refund to Customer		$0
	19	Revenue Conversion Factor		1.5699
	20	**Total Revenue Refund to Customer (Line 18 x Line 19)**		**$0**

Notes:
(1) Excludes both revenues and expenses related to the gas commodity
(2) Represents all gas retail services except for the Michigan Housecall appliance repair program and other utility retail services programs
(3) Includes one time accounting change to add back reserve for future losses
(4) Includes 50% of booked profit/loss on a net-of-tax basis of the gas commodity
(5) Proforma figures are derived from capitalization percentages approved in Case No. U-10755, dated March 11, 1996 and applied to the current gas rate base amount

Rates Department

EXHIBIT B

CONSUMERS ENERGY COMPANY
Gas Performance Standards

Line No.	Standard	Target Performance Level	Actual 2000 Performance	Income Sharing Impact
	(a)	(b)	(c)	(d)
1	Leak Response Time	Maintain an average leak response time of 30 minutes or less.	27.8	None
2	Safety	Maintain Ranking in top quartile of utilities whose safety performance is compiled by the AGA for its Natural Gas Industry Annual Safety Performance Report	Top quartile	None
3	Cathodic Protection	Maintain compliance with the 10-year plan agreed to by the Company in 1993 for cathodic protection of pipe.	Ahead of 1993 plan	None
4	Estimated Meter Reads	Maintain the annual level of estimated meter reads at or below the 1997 annual level of estimated meter reads of 27.7%.	22.2%	None

Note: 2000 performance for each standard is based upon results from January 1, 2000 to December 31, 2000.

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PROOF OF SERVICE

STATE OF MICHIGAN)
) SS
COUNTY OF JACKSON)

Kelly Fisher, being first duly sworn, deposes and says that she is employed in the Legal Department of Consumers Energy Company; that she served a copy of the **Earnings Sharing Mechanism Calculations along with the supporting Affidavit of Charles F. Belknap, Jr., associated exhibits and workpapers** upon the persons listed in Attachment 1 hereto, at the addresses listed therein by depositing the same on June 29, 2001, in the United States mail in the City of Jackson, Michigan with first-class postage thereon fully paid.

Kelly Fisher

Subscribed and sworn to before me this 29th day of June, 2001.

Sammie B. Dalton

Sammie B. Dalton
Notary Public, Jackson County, Michigan
My Commission Expires: 01/04/04

ATTACHMENT 1 -- to Case No. U-12998

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