State of Michigan
John Engler, Governor

Department of Consumer & Industry Services
Kathleen M. Wilbur, Director

Public Service Commission

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July 31, 2001

Ms. Dorothy Wideman, Executive Secretary
Michigan Public Service Commission
Dept. of Consumer & Industry Services
P.O. Box 30221
Lansing, MI 48909

Dear Ms. Wideman:

Re: Staff Comments Concerning Consumers Energy Company's Filing in Case No. U-12998

On June 29, 2001, Consumers Energy Company filed an "Earnings Sharing Mechanism Calculations Filing" as required by the Commission in its Order in Case No. U-11599, dated December 19, 1997. In that order, the Commission approved an experimental pilot program for expanded gas customer choice, including an expanded gas transportation program, a suspension of its gas cost recovery clause, a moratorium on non-GCR rate adjustments, and an earnings sharing mechanism. Regarding the earnings sharing mechanism, the Commission stated at page 6 of its Order that the mechanism "...provides for a portion of earnings to be returned to customers if earnings on common equity exceed certain levels." To determine the level of earnings sharing, the Commission approved a calculation sponsored by Consumers and included in Consumers' application as Attachment F. The Earnings Sharing Mechanism Calculations filing, along with any necessary workpapers, would be submitted not later than July 1 of 1999, 2000, and 2001, for the 12 month periods ended March 31 of 1999, 2000, and 2001, respectively. In the Earnings Sharing Mechanism Calculations filing, Consumers would identify the amount, if any, to be refunded to customers. Parties would be given 30 days to request a hearing regarding the earnings sharing mechanism calculations. If no hearing is requested, Consumers would be allowed to promptly implement any applicable refund.

Staff has reviewed Consumers' Earnings Sharing Mechanism calculations filing and has completed a separate audit of Consumer's cost of gas sold for the 15 month period ended March 31, 2001. Based upon the information examined and results of both reviews, Staff is not requesting a hearing in this proceeding. Consumers' filing in this case shows a gas return on equity of 8.92%, far below the 13.5% gas return on equity that would require Consumers to refund excess earnings to customers. Although Staff is not in total agreement with Consumers' filing, the cumulative impact of the contested items would not be sufficient to trigger customer refunds.

Sincerely,

Michael J. Kidd

Michael J. Kidd, Director
Gas Division

cc Docket File U-12998