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July 19, 2004

***VIA ELECTRONIC CASE FILING and
U.S. FIRST CLASS MAIL***

Ms. Mary Jo Kunkle
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
Lansing, Michigan 48909-7721

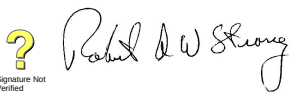
Re: *MPSC Case No. U-12999*

Dear Ms. Kunkle:

Enclosed for filing is Exception of the Association of Businesses Advocating Tariff Equity along with a Proof of Service.

Very truly yours,

CLARK HILL PLC

 Digitally
signed by
Robert
A.W. Strong

Robert A. W. Strong

Enclosure
cc (w/enc): Parties of Record
/ag

**STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION**

In the matter of the application of CONSUMERS)	
ENERGY COMPANY for accounting and)	Case No. U-12999
ratemaking approval of depreciation rates for gas)	
utility plant.)	
_____)	

**EXCEPTION OF THE
ASSOCIATION OF BUSINESSES ADVOCATING TARIFF EQUITY**

The Association of Businesses Advocating Tariff Equity ("ABATE") by its attorneys, Clark Hill PLC, files its exception to the Proposal for Decision ("PFD") issued by the Administrative Law Judge ("ALJ") on June 28, 2004.

EXCEPTION #1 The ALJ erred when he rejected ABATE's proposed approach to remove net salvage value from depreciation expense and make it an operating expense based on a five year average of the actual cost of removal.

At pp. 13-14 of the PFD, the ALJ rejects removing net salvage value from normal depreciation expense and replacing it with an operating expense, because it "negates the principle of intergenerational equity." PFD at 13. The ALJ then performs an analysis which is clearly inaccurate in that he asserts that retirements in the year 2005 will only be paid by customers in that year. PFD at 13-14. The ALJ simply did not understand the position ABATE put forth in its testimony.

ABATE's proposal is that all depreciation expense except net salvage value should be treated as it normally is and that net salvage value be removed from the normal depreciation expense and instead incorporated as an operating expense. One of the reasons for doing so is that Consumers' actual net salvage cost is far below what is included in depreciation rates and is better handled as an operating expense, calculated based on the average of the last five years actual cost. This expense would remain as an operating expense until it was changed as a result of another depreciation case. Consequently, if there was a substantial increase in the actual

salvage experience in 2005, as the ALJ assumed, then this actual experience would not be included in the five year average until Consumers had another depreciation case which recalculated the average expense experience over the preceding five years. Customers in 2005, definitely would not be paying that expense, because they are, under ABATE's proposal, paying the five year average annual expense which would only be recalculated after the close of the 2005 calendar year.

As stated earlier, the problem is that the dollars booked for net salvage value have been so much higher than the actual experience, that the depreciation rates are no longer just and reasonable. This Commission has a statutory duty to set rates which are just and reasonable. MCL 460.557(4). The new method proposed by ABATE should allow the Commission to meet this duty because the current method does not work. More than \$58 million in net salvage expense is included in rates and the average five year expense is a little over \$8 million per year. 5 TR 134. ABATE's witness, Mr. James T. Selecky, identified three possible causes for the large disparity between actual experience and the current amount included in rates. First, current depreciation rates reflect estimates of future inflation that may not be accurate. Second, the current rates may not capture economies of scale that would occur if large retirement activity occurred during a single year. Finally, the net salvage ratios included in depreciation rates were developed from limited retirement experience that may not be typical because they were developed from retirement experience that represents activity that is approximately 2.5% of the current plant balance. 5 TR. 134.

The method proposed by ABATE is consistent with the Public Utility Depreciation Practices published in August, 1996 by the National Association of Regulatory Utility Commissioners. 5 TR 137. This approach is also consistent with the Statement of Position (SOP) by the Accounting Standards Executive Committee of the American Institute of Certified

Public Accountants on “Accounting for Certain Costs and Activities Related to Property, Plant and Equipment.”

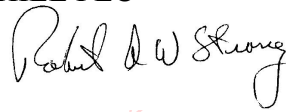
The Commission should adopt ABATE’s proposal, which was clearly misunderstood by the ALJ because the resulting depreciation rates will reflect costs actually experienced by Consumers and if those costs increase, Consumers can simply ask the Commission to reset the historical average based upon the booked cost of removal, thus simplifying future depreciation cases, as least as they relate to net salvage value.

RELIEF

WHEREFORE, ABATE requests the Commission to remove all net salvage expense from the depreciation rates and replace it with an operating expense increase of \$8.166 million, for a net reduction in Consumers’ depreciation expense of \$50.265 million and grant such further and additional relief as is just and necessary.

Respectfully submitted,

CLARK HILL PLC

By:   Digitally signed by Robert A.W. Strong

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Dated: July 19, 2004

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STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of CONSUMERS ENERGY
COMPANY for accounting and ratemaking approval of
depreciation rates for gas utility plant.

MPSC Case No. U-12999

_____)

PROOF OF SERVICE

STATE OF MICHIGAN)
)
COUNTY OF OAKLAND)

Audrey L. Gilliatt, being first duly sworn, deposes and says that on the 19th day of July, 2004 she filed electronically and/or by U.S. First Class Mail: Exception of the Association of Businesses Advocating Tariff Equity on those persons identified in the attached service list.



Digitally signed by Audrey L.
Gilliatt



Digitally signed
by Judy Haffner

Judith A. Haffner
Notary Public, Oakland County, Michigan
Acting in Oakland County, Michigan
My Commission expires: 07/11/05

Audrey L. Gilliatt

SERVICE LIST
MPSC CASE NO. U-12999

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