

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.

Case No. **U-12999**
(e-file)

**MICHIGAN PUBLIC SERVICE COMMISSION STAFF'S
EXCEPTIONS TO THE PROPOSAL FOR DECISION (PFD)**

In accordance with the Notice of Proposal for Decision issued in this matter on June 28, 2004, the Michigan Public Service Commission Staff (Staff) files the following exceptions to the PFD:

I. Negative Net Salvage Value

The Administrative Law Judge (ALJ) indicated at page 13 of the Proposal for Decision that he was rejecting the Association of Businesses Advocating Tariff Equity (ABATE) proposal for addressing negative net salvage value because the proposal negates the principle of intergenerational equity. The ALJ recommends adoption of the methodology proposed by the Attorney General (AG)¹ (PFD, pp. 14-15).

Staff believes the methodology employed by the AG to address salvage values is essentially the same as ABATE's proposal. Both would result in the recovery of about \$8 million per year for negative net salvage costs. Only the form of the cost recovery would differ; ABATE's approach would recover negative net salvage costs as a line-item adjustment in the

¹ Testimony and Exhibits of Mr. King.

current Consumers rate case (U-13730), whereas the AG's approach would continue to collect the negative net salvage costs as a component of the depreciation expense. If ABATE's proposal negates the intergenerational equity principle, so does the AG's proposal.

This case involves a generic issue that concerns all gas and electric utilities in Michigan, that issue being the impact of Financial Accounting Standard 143 (FAS 143) on the recovery of negative net salvage costs. ABATE, and to a lesser extent the AG, have advocated a strict interpretation of FAS 143 by expensing costs of removal as they are incurred. While Staff believes the application of FAS 143 may have some merit, Staff notes that the Federal Energy Regulatory Commission (FERC) is still reviewing the ratemaking impacts of FAS 143. In its Order No. 631, dated April 9, 2003, the FERC approved a methodology of accounting for FAS 143 changes, but indicated that it would deal with ratemaking issues in upcoming rate cases (Order, page 29). The issue of the ratemaking impact of FAS 143, along with the appropriate accounting for the effects of FAS 143, might be best addressed in a generic electric and gas case. The Commission may want to consider commencing a generic case to explore the accounting and ratemaking ramifications of FAS 143. In the meantime, for purposes of establishing gas plant depreciation rates in this case and depreciation and tax expense levels in the pending gas rate case, Staff continues to believe that its proposed methodology for addressing salvage values is the most appropriate methodology to be used by the Commission. Staff continues to believe its recommended methodology provides the Commission with a reasonable alternative to the proposals presented by ABATE, the AG, and Consumers. Staff recommends that the Commission adopt Staff's methodology for determining salvage values.²

² See Staff's Initial Brief, pp. 3-4.

II. Study of Negative Salvage Cost Recovery

The ALJ accepted Staff's proposal that Consumers be directed to conduct a study to determine why Consumers' net negative salvage costs are so high when compared to other regulated Michigan utilities. Staff continues to believe such a study is necessary and asks the Commission to adopt the ALJ's recommendation on this issue.

III. Conclusion

For the reasons presented in Staff's testimony, the Initial Brief, Reply Brief, and these exceptions to the PFD, Staff asks the Commission to issue an order which adopts Staff's position calculating net salvage value, requires Consumers to continue to use the Average Life Group (ALG) methodology for setting depreciation rates, and requires Consumers to conduct a study to determine/explain why its net negative salvage costs are so high.

Respectfully submitted,

**MICHIGAN PUBLIC SERVICE COMMISSION
STAFF**

 **Steven Hughey**
Signature
Not Verified

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by Steven Hughey
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Steven D. Hughey (P32203)
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Dated: July 19, 2004

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PROOF OF SERVICE

STATE OF MICHIGAN)
) ss
COUNTY OF INGHAM)

Pamela A. Walters, being first duly sworn, deposes and says that on July 19, 2004, she served a true copy of the Michigan Public Service Commission Staff's Exceptions to the PFD upon the following parties by depositing the same in a United States postal depository enclosed in an envelope bearing postage fully prepaid, plainly addressed as follows:

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 *Pamela A. Walters*

Pamela A. Walters

Subscribed and sworn to before me
this 19th day of July, 2004.



Carol Ann Dane

Carol Ann Dane, Notary Public
State of Michigan, County of Eaton
Acting in the County of Ingham
My Commission Expires: 07/23/2004