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June 24, 2002

Ms. Dorothy Wideman
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
Lansing, MI 48911

Dear Ms. Wideman:

Re: MPSC Case No. U-13000

I am enclosing for filing an original and 4 copies of the **Attorney General's Exceptions to the Proposal for Decision** together with a Proof of Service. I will be sending a copy of this via email to the parties listed on the attached proof of service. In addition, a copy of this filing is being submitted electronically.

Sincerely,

Donald E. Erickson

Donald E. Erickson
Assistant Attorney General

c All Parties

PROOF OF SERVICE - U-13000

The undersigned certifies that a copy of the **Attorney General's Exceptions to the Proposal for Decision** was served upon the parties listed below by mailing the same to them at their respective addresses with first class postage fully prepaid thereon, or by State Interdepartmental mail as indicated, on the 24th day of June, 2002.

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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of CONSUMERS ENERGY COMPANY for authority to increase its rates for the distribution of natural gas and for other relief
/

MPSC Case No. U-13000

Attorney General's Exceptions to the Proposal for Decision

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June 24, 2002

Table of Contents

I. History of the Proceedings

On June 29, 2001, Consumers Energy Company (CECo or the Company) filed an application in the captioned case. The application requested the Michigan Public Service Commission (MPSC or Commission) to find that the Company's rates are unreasonably low and inadequate, to increase the Company's rates for gas transportation, storage, and distribution service to produce additional gas revenues, to approve modifications to rates, rules, and regulations described in testimony and exhibits submitted by the Company, and to grant partial and immediate rate relief.

The Commission issued a notice of hearing, and Administrative Law Judge (ALJ) Daniel E. Nickerson, Jr. conducted a prehearing conference. ALJ Nickerson granted intervention by Attorney General Jennifer M. Granholm (the Attorney General), the Midland Cogeneration Venture Ltd. Partnership (MCV), Mr. Thomas C. DeWard, the National Energy Marketers Association (NEM), the Association of Businesses Advocating Tariff Equity (ABATE), and the Metrobureau Services Group (1 T 7). The ALJ also established a schedule for further proceedings (1 T 11-15).

The Commission issued an Opinion and Order dated December 20, 2001, and granted partial and immediate rate relief in the annual amount of $15,380,000 -- subject to bond and potential refund.

CECo's witnesses supporting its request for final rate relief were cross-examined on November 15-28, 2001 (5 T 388 through 9 T 1457). The Staff and Intervenors filed testimony and exhibits on December 14, 2001, and various parties filed rebuttal testimony and exhibits on January 4, 2002. The Staff and Intervenor witnesses and rebuttal witnesses were cross examined from January 28, 2002, through January 31, 2002 (10 T 1458 through 13 T 2361). The record consists of 189 exhibits and 2,361 pages of transcript.

II. Outline of the Evidence

The issues in this case involve several general subjects. First, CECo presented historical 2000 test year ratebase data in Exhibit A-2 (SBW-4 & 5 and EWC-1) and presented proposed changes to those historical ratebase results for the year 2002 in Exhibit A-8 (MAT-14 & 15 revised and EWC-2 revised). Second, CECo presented historical rate of return data for the year 2000 in Exhibit A-4 (SBW-12, SBW-13revised, SBW-14, and SBW-15) and presented proposed changes to historical rate-of-return results for the year 2002 in Exhibit A-10 (NAV-6 revised). Third, CECo calculated historical adjusted net operating income for the year 2000 in Exhibit A-3 (SBW-6 through 11) and presented proposed changes to adjusted net operating income for the year 2002 in Exhibit A-9 (MAT-16 through 19 revised). Fourth, CECo presented historical information regarding rate design and cost of service in Exhibit A-6 (SBB-1 through 3) and presented proposed changes for the year 2002 in Exhibit A-11 (SBB-6 through 11 revised, CFB-1, and CRB-2 & 3 revised). Fifth, CECo calculated a year 2000 gas revenue deficiency in Exhibit A-1 (SBW-1) and a year 2002 gas revenue deficiency in Exhibit A-7 (MAT-10 revised).

A. Summary of the Evidence Presented by CECo

CECo proposed the year 2002 as its test year and proposed to roll the operations of Michigan Gas Storage Company (MGSCo) into the Company's case. No other party opposed those proposals. CECo proposed a rate base totaling $1,519,310,000 [Exhibit A-8 (MAT-14 revised)]. CECo proposed an overall 8.2762% rate of return [Exhibit A-10 (NAV-6 revised)].

Thus, CECo proposed an income requirement totaling $125,741,000 [Exhibit A-7 (MAT-10 revised, line 3)]. CECo proposed adjusted net operating income totaling $45,661,000 [Exhibit A-9 (MAT-16 revised)]. Thus, CECo proposed an $80,069,000 income deficiency [Exhibit A-7 (MAT-10 revised, line 5)]. CECo proposed a 1.5683 revenue multiplier [Exhibit 1-7 (MAT-13 revised)]. This resulted in a proposed revenue deficiency totaling $133,175,000 [Exhibit A-7 (MAT-10 revised)].

B. Summary of the Evidence Presented by the MPSC Staff

The Staff proposed a rate base totaling $1,378,295,000 (Exhibits S-121 and S-129). Staff proposed a 7.14% overall rate of return (Exhibit S-117). Thus, Staff proposed income requirements totaling $98,410,000 (Exhibit S-123, line 3). Staff proposed an adjusted net operating income totaling $80,270,000 (Exhibits S-124 & S-130). Thus, the Staff proposed an income deficiency totaling $18,141,000 (Exhibit S-123, line 5). Since the Staff accepted CECo's proposed revenue multiplier (Exhibit S-123, line 6), the Staff proposed a $28,450,000 revenue deficiency (Exhibit S-123, line 7).

C. Evidence Presented by the Attorney General

The Attorney General presented two witnesses. Mr. William A. Peloquin testified that during the MPSC-approved rate freeze from April 1, 1998, through March 31, 2001, CECo reclassified approximately 74.6 Bcf of natural gas from base gas to working gas at a price of $0.6361 per Mcf, that this reduced CECo's cost of gas sold by $132,382,000 from April 1, 2000, through March 31, 2001, and that CECo received a $115,800,000 benefit from this reduction while customers received a benefit of $16,582,000 (11 T 1765-1766). Mr. Peloquin testified that the gas reclassification will provide additional cost reduction benefits to CECo's GCR customers from April 1, 2001, through March 31, 2003, in the amounts of $77,437 and $1,514,000 (11 T 1757 & 1766 and Exhibit I-135). Therefore, Mr. Peloquin concluded that any increase in working capital cost requirements resulting from the reclassification of the 74.6 Bcf should be allocated 50% to CECo and 50% to CECo's customers (11 T 1768).

The 13-month average cost of CECo's gas stored underground after the reclassification is $428,669,000. That average would have been $180,203,000 if the reclassification had not occurred, so CECo's working capital requirements associated with gas stored underground increased by $248,466,000 as a result of the reclassification (11 T 1785-1762 and Exhibit I-137, page 2). Because the reclassification increased working capital for working gas stored underground by $248,466,000, because the reclassification reduced working capital for base gas by $36,502,000, because the net effect on rate base has been $211,964,100, and because CECo and its customers will each receive approximately half of the benefits from the reduction of the gas expense (costs of gas sold), Mr. Peloquin concluded that $105,982,000 should be removed from CECo's average rate base in this case to allocate the increased working capital cost in proportion to their sharing of the corresponding cost reduction benefits (Exhibit I 137, page 1).

Mr. Charles W. King also testified on behalf of the Attorney General. Mr. King's testimony provides alternative support for several of the conclusions recommended in the Proposal for Decision.

Mr. King testified that the MPSC should be wary of approving CECo's proposed adjustments from the 2000 historical test year to CECo's proposed levels for 2002 because neither the gas industry in general nor CECo in particular has displayed increasing cost characteristics (11 T 1705-1706). Mr. King testified that the Commission should disallow 12 of the specific adjustments proposed by CECo and that other proposed adjustments may be improper (11 T 1706-1707). All utilities have an incentive to adjust historical results to reduce their apparent earnings in a historical period and to increase rate base and expenses (11 T 1709).

Historical period results adjusted only for normal weather yield only a $17.2 million revenue deficiency, but CECo is requesting a revenue increase of $132.2 million (11 T 1710). The first correction to CECo's adjustments that Mr. King supported is to reduce CECo's proposed increase by $8.1 million to reflect the stipulation in CECo's currently suspended depreciation case in Case No. U-12999, and this reduces CECo's requested increase to $125.1 million (11 T 1710).

$4.5 million of this proposed increase results from CECo's proposed increase in its rate of return, and $103.4 million results from many adjustments to the historical test year proposed by CECo's witnesses (11 T 1710). CECo has not been experiencing a similar level of increased annual costs, and CECo's experience is representative of the gas industry (11 T 1710-1711 and Exhibit I-132). In any event, the MPSC should reject proposed changes that are speculative and uncertain (11 T 1712-1713).

The MPSC should reject CECo's proposed adjustment to the extent that they are premised upon initially forecasted high prices of gas (11 T 1713). First, In Exhibit A-88, Mr. Rasmussen projected a 7.4 Bcf contraction in gas sales because of expected gas prices rising from $2.84 per Mcf in 2000 to $4.59 per Mcf in 2002, and that expectation conflicts with current market experience (11 T 1714 and Exhibit I-133). Second, Mr. Preketes proposes a $1,764,000 increase in uncollectible bad debt because of GCR cost increases, and this increase conflicts with gas market price trends (11 T 1714). In Exhibit A-88, Mr. Rasmussen forecasts that 2002 sales will be 6.4 Bcf less than they were in 2000 because of increasing customer conservation (7 T 1061).

His adjustment is based upon observed national trends without any real evidence that CECo will experience this level of reduced sales, so the MPSC should not adopt this adjustment as a known and measurable change (11 T 1715). The effects of Mr. Rasmussen's sales reductions reduce 2002 revenues by $14.5 million (11 T 1715).

Mr. Sosinski proposes a $2,244,000 increase in the cost of fuel gas (Exhibit A-72), but forecasted increases in gas prices no longer support this adjustment as a known and measurable change (11 T 1714).

CECo proposes several cost increases without projecting any offsetting savings, and the MPSC should not approve those increases as known and measurable changes in the absence of any explanation how savings make these increased expenses reasonable and prudent ones (11 T 1716-1718). These proposed test year adjustments are:

Improved purchasing systems	$ 67,000
Technology services	2,075,000
Customer contact services	939,000
Technology infrastructure	17,600,000
Succession planning	1,990,000
Engineering/planning/scheduling	3,562,000
Computer applications support and enhancement	14,000,000
Meter technology and management systems	550,000
Capital expenditures for meter changes	7,800,000
General office and field facilities	2,000,000
(11 T 1716-1718)	

These proposed test year adjustments by CECo total $50,583,000 for increased test year costs, and they should not be adopted as known and measurable changes when CECo has failed to explain how and why those increased costs will result in savings that will make those expenses reasonable and prudent (11 T 1716-1718).

The MPSC should not include one-time cost increases in calculating future rates because that would create a future windfall for CECo (11 T 1718-1719). For example, CECo proposes to increase expense for operator qualification expense by $2.5 million from $4.1 million to $6.6 million (11 T 1719). CECo's corrosion control program is a 10-year program ending in 2002; yet, CECo has included a $3.93 million increase from $3.25 million to $7.18 million (11 T 1719). In addition, this increase conflicts with CECo's forecast in a discovery response (11 T 1720 and Exhibit I-134), and CECo has not included any estimate of resulting savings.

Some of CECo's proposed increasing revenue requirements are inconsistent with the related, underlying expectations concerning the Company's functions (11 T 1720). For example, when services increase at a rate lower than the projected increase in cost, the MPSC should not treat the cost increase as a known and measurable change in the absence of evidence showing why productivity will decline and without evidence related to corresponding revenue increases (11 T 1720). For example, CECo forecasts a 47% ($2.06 million) increase in damage prevention expenses from $5.52 million to $7.58 million with only a 5% increase in excavation requests to the Company (11 T 1721). CECo forecasts a 7-fold increase from $320,000 to $2,310,00 for succession planning to process hiring of replacement personnel, but CECo does not forecast a 7-fold increase in the number of employees retiring (11 T 1721).

Finally, Mr. King noted that CECo has projected gas compression, transmission, and storage facility capital expenditures of $11.0 million and $3.18 million in 2001 and $14.57 million and $5.93 million in 2002, respectively, as well as operating expense increases of $5.8 million and $5.93 million for those functions; yet, CECo has projected no resulting revenue growth (11 T 1722). Since past transmission and storage investments have not significantly eroded CECo's return over the past several years, it is not appropriate to adopt these proposed increases without any productivity or growth offsets to reflect cost savings or increased revenues (11 T 1722).

III. The Proposal for Decision

The parties submitted briefs and reply briefs, and the ALJ issued a proposal for decision (PFD) on June 3, 2002. Pages 4-24 of the PFD analyze various issues relating to CECo's rate base, and page 24 of the PFD recommends a $1,378,295,000 total rate base calculated as follows:

Net Plant	$ 971,443,000
Working Capital	347,235,000
MGP Deferred Balance	(5,534,000)
Subtotal	$ 1,313,144,000
Michigan Gas Storage	65,151,000
Total Rate Base	$ 1,378,295,000

Pages 26-41 of the PFD analyze the disputed issues concerning CECo's capital structure and rate of return. Page 41 of the PFD recommends and outlines an overall cost of capital totaling 7.25%.

Pages 42-65 of the PFD analyze the disputed issues concerning CECo's adjusted net operating income, and page 65 recommends calculation of CECo's revenue deficiency in the following manner:

Description	Amounts (000$)
Rate Base	$ 1,378,295
Rate of Return	7.25%
Income Requirement	$ 99,926
Adjusted Net Operating Income	$ 79,758
Income Deficiency	$ 20,168
Revenue Multiplier	1.5683
Revenue Deficiency	$ 31,629

Pages 65-95 of the PFD discuss the issues concerning cost of service and rate design and make various recommendations. Pages 95-98 discuss issues regarding two requests for official notice of information requested by the Staff, and the ALJ recommends denying official notice.

IV. Exceptions

The Attorney General requests the Commission to adopt the following exceptions to the Proposal for Decision and to adjusts the PFD's recommendations appropriately.

Exception No. 1: The MPSC should reduce CECo's rate base for ratemaking purposes in order to make a just and reasonable allocation of the benefits and costs resulting from reclassifying 74.6 Bcf of stored natural gas.

The facts relevant to this issue are uncontradicted. During a rate freeze approved by the MPSC in Case No. U-11599, the Commission approved a request by CECo in Case No. U-12679. The Commission issued an ex parte order authorizing CECo to reclassify 74.6 Bcf of gas stored underground from base gas to working gas. Reclassification has had two consequences. First, reclassification has reduced CECo's costs of gas sold. Second, reclassification has resulted in an increase in CECo's costs of gas in storage, and CECo has requested a substantial increase in working capital in this case. The Attorney General contends that CECo has received more than half of the benefits from the reduction in its cost of gas sold, so CECo should bear half of the resulting increase in working capital costs.

The Michigan Supreme Court has stated:

> It is the duty of the Commission, under its statutory power, to fix a just and reasonable rate. This can be accomplished only by balancing the interests of public utility investors and the consuming public. *Detroit v MPSC,* 308 Mich 706, 716; 14 NW2d 784 (1944).

Therefore, in setting rates the MPSC must consider why a cost is being incurred and whether the investors and/or the customers have benefited as a result of the cost.

CECo's historical year 2000 net utility plant was $1,147,507,000, and CECo adjusted that level to reflect the storage gas reclassification approved in U-12679 by making a $36,502,000 reduction in net utility plant and a $183,829,000 increase in working capital (4 T 221-221 and Exhibits I-24 & A-16). Similar adjustments are included in the ratebase adjustments CECo proposed for final rate relief. For final rate relief, CECo reduced net utility plant by $39,961,000 and increased working capital by $354,018,000 [Exhibit A-7 (MAT-11 revised)].

In its interim rate order for this case, the Commission adopted CECo's base gas adjustment (Opinion & Order dated December 20, 2001, pp 13-17). Page 15 of the order says:

> The Commission finds that the effects of the base gas adjustment approved by the Commission's October 24, 2000 order in Case No. U-12679 should be recognized for the purposes of determining interim relief. Pursuant to the Commission's authorization, Consumers made adjustments to its books and records that had an immediate effect on its rate base and its cost of gas. No one has questioned the accuracy of the adjustments or the fact the [sic, that] Consumers' was required to make them.

On the other hand, page 16 of that order says:

> Of course, the Commission's resolution of an issue in connection with a request for interim relief does not preclude further litigation of the same issue during the final phase of this proceeding.

The Attorney General's testimony in the final rate relief phase of this case, and her initial brief addressed the consequences of the storage reclassification. Pages 20-21 of the PFD reject the Attorney General's position, but rejection was not based on the merits of the factual record. Page 21 of the PFD concludes that nothing presented by the Attorney General renders the Commission's determination in the interim relief portion of the case suspect or requires further scrutiny. This conclusion badly misses the point.

The Attorney General is not challenging the result of the interim order. Furthermore, even though a $212 million net increase in rate base resulting from the ex parte reclassification might raise serious questions regarding whether the reclassification will actually result in net benefits over time, the Attorney General is also not now asking the Commission to revisit its ex parte order in U-12679. For purposes of final rate relief, the Attorney General simply contends the net increase in rate base resulting from the reclassification should be borne by CECo and its customers in a proportion to their share of the cost reductions.

Mr. William A. Peloquin testified that during the MPSC-approved gas rate freeze from April 1, 1998, through March 31, 2001, CECo reclassified approximately 74.6 Bcf of natural gas from base gas to working gas at a price of $0.6361 per Mcf, that this reduced CECo's cost of gas sold by $132,382,000 from April 1, 2000, through March 31, 2001, and that CECo received $115,800,000 of this benefit from the cost reduction while customers received a benefit of $16,582,000 (11 T 1765-1766). The gas reclassification will provide additional cost reduction benefits to CECo's GCR customers from April 1, 2001, through March 31, 2003, in the amounts of $77,437 and $1,514,000 (11 T 1757 & 1766 and Exhibit I-135). Therefore, Mr. Peloquin concluded that any increase in working capital cost requirements resulting from the reclassification of the 74.6 Bcf should be allocated 50% to CECo and 50% to CECo's customers (11 T 1768).

The 13-month average cost of CECo's gas stored underground after the reclassification is $428,669,000. That average would have been $180,203,000 if the reclassification had not occurred, so CECo's working capital requirements associated with gas stored underground increased by $248,466,000 as a result of the reclassification (11 T 1785-1762 and Exhibit I-137, page 2). CECo did not rebut this testimony or the testimony regarding how the Company and its customers have shared the cost reduction benefits.

Because the reclassification increased costs for working gas stored underground by $248,466,000, because the reclassification reduced working capital for base gas by $36,502,000, because the net effect on rate base has been $211,964,100, and because CECo and its customers each received approximately half of the benefits from the reduction of the gas expense (costs of gas sold), Mr. Peloquin concluded that $105,982,000 should be removed from CECo's average rate base in this case to allocate the increased working capital cost in proportion to the way CECo and its customers have shared the benefits (Exhibit I-137).

To paraphrase conclusions about CECo's presentation in the Commission's interim order, no one in this phase of the case has questioned the accuracy of Mr. Peloquin's calculations regarding the effects of reclassification. Since the Commission is required to establish just and reasonable rates and must balance the interests of CECo and its customers, the Commission should not impose upon customers all of the increased working capital requirements resulting from CECo's base gas reclassification. The disallowance of $105,982,000 supported by Mr. Peloquin should be adopted and used to reduce the rate base used by the Commission to calculate CECo's final revenue deficiency. This sum should be deducted from the ratebase results in Exhibit A-7 (MAT-11 revised), in Exhibit S-121, or in the PFD.

The PFD's recommendation makes the reservation stated in the interim order a hollow one. In Mr. Peloquin's interim testimony, he recommended total exclusion of reclassification cost increases because they represented a controversial (disputed) adjustment to rate base. In Mr. Peloquin's final testimony, his testimony regarding who received how much of the cost reduction benefits is uncontradicted. Thus, the resulting increase in working capital costs should be allocated 50/50 to CECo and its customers by reducing CECo's ratebase by $105,982,000.

<u>Exception No. 2</u>: The MPSC should revise CECo's capital structure to exclude the effects of a $150 million infusion of common equity investment received from CMS Energy on January 3, 2002.

As page 26 of the PFD indicates, CMS Energy, CECo's parent, infused $150 million of common equity into CECo's capital structure. All other things remaining equal, this action increases CECo's overall rate of return and CECo's income requirements, which in turn increases revenue requirements imposed upon ratepayers.

The question is whether or not the MPSC's inclusion of this change would result in just and reasonable rates. CMS Energy's action happened at the last minute -- less than one month before cross examination, and CECo offered no evidence to prove that the Company needed this cash flow. CECo previously paid dividends to CMS Energy totaling $1,238,000,000 (Exhibit S-158) plus dividends in 2001. If CECo needed the $150 million, then from the point of view of ratepayers, paying dividends out of retained earnings only to take back part of the money in the form of new common equity is not just and reasonable. Likewise, if CMS Energy did not need the cash, then passing the $150 million up and down amounts to a shell game having only the effect of increasing CECo's overall cost of capital.

In a general rate case, a utility has the burden of proof. *In re The Detroit Edison Co*, MPSC Case No. U-8789, Opinion & Order dated December 19, 1991. The PFD responds that there is no evidence showing CMS Energy will withdraw the infusion or that it was done in an attempt to increase the capital structure and revenue requirements. This response misses the point. No direct admission of motive may exist in the record, but the effects of the infusion are uncontradicted. Page 29 of the PFD responds that a low credit rating, which raises CECo's cost of borrowing, is a specific need for the equity infusion. This response begs the question. The record contains no evidence that CECo needed credit for either the $150 million or for more than that. In other words, a higher equity ratio might improve CECo's credit rating and lower CECo's cost of debt, but beyond an increased rate of return and revenue deficiency, the record lacks any record showing resulting benefits to CECo. Furthermore, with the absence of proof that CECo needed more credit at lower interest rates to adequately serve its customers, no customer benefits have even been suggested. As the PFD indicates, a known and measurable change must be proved, and CECo has showed a change. But, CECo must also prove that it has a just and reasonable basis for passing increased cost consequences of known and measurable changes to its customers. CECo did not reduce any other component of its capital structure or reduce any of its proposed costs of capital to reflect the $150 million infusion. The MPSC should not include the $150 million infusion.

Exception No. 3: **The MPSC should modify the PFD's recommendation on pages 77-78 regarding class rates in order to avoid rate decreases for some classes while approving an over-all rate increase.**

Pages 77-78 of the PFD discuss the agreement between the Staff and CECo that inter-class subsidies should be eliminated. The Staff's proposal reduces rates for some classes even though it proposes an overall increase in rates. The PFD's brief discussion of the issue ignores objections to doing this presented in Mr. King's testimony and authorities cited on pages 10-11 of the Attorney General's reply brief.

Cost of service and rate design issues require the MPSC to balance the interests among various customer classes. CECo has no direct stake in these issues because class cost of service studies and rate design include 100% of any MPSC-approved revenue requirement. Once revenue requirements and a revenue deficiency or excess have been identified, the goal of cost-of-service and rate design principle is to fully recover the corresponding amount. However, public policies other than cost-of-service principles should be taken into account.

For example, the Commission has attempted to foster a policy of permitting as much universal availability of service as possible. For example, in the Staff's report dated October 13, 1997 on Customer Focus Issues and Recommendations (p 1) for electric restructuring in Case No. U-11290, the Staff said:

> The general sense of the public response received was captured by Consumers Energy in its comments: "[e]lectricity is perceived as a universal service and is required for habitability and economic stability; therefore, unlike almost every other service in the United States, a certain amount of regulatory oversight is necessary to ensure electricity is accessible on a nondiscriminatory basis to all customers in Michigan."

This is an appropriate policy for regulation of gas utilities also. The MPSC also has adopted shutoff rules to protect low-income customers during the winter heating season. *In re the Commission's Own Motion,* MPSC Case No. U-9754, May 21, 1992, Order Adopting Proposed Rules Governing the Commission's Consumer Standards and Billing Practices for Electrical and Gas Residential Service. Furthermore, as Mr. King has testified, prior MPSC decisions in Case Nos. U-6923 and U-9346 have recognized the need for gradualism in making rate changes (11 T 1745-1746). It may seem small to raise CECo's residential customer charge by $1.50 per month, but standing alone that represents approximately a 23% rate increase and millions of dollars. Furthermore, CECo has an indirect interest in such a reallocation. Residential customers need gas service, and their demand for service is less price sensitive than larger customers. So, CECo stands to benefit any time a higher percentage of costs is being recovered from non-price sensitive customers. In that circumstance the pressure to minimize costs is reduced -- all other things being equal. The Attorney General urges the Commission to consider gradualism in reallocating costs and redesigning rates. It may be appropriate to raise some classes more than other classes, but rate shock is a consideration before reducing some rates at the expense of larger rate increases.

It would be particularly ironic to ignore Mr. King's testimony regarding the relative risks created by different customer classes when CECo as well as page 32 of the PFD refer to Mr. King's testimony regarding relative risk to support a conclusion about CECo's overall business and financial risk, which is not a subject addressed by Mr. King's testimony.

V. **Relief Requested**

For the reasons stated above, Attorney General Jennifer M. Granholm requests the Michigan Public Service Commission to issue a final order adopting and incorporating the exceptions described above.

Respectfully submitted,

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