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.

Case No. **U-13000**
(e-file)

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MICHIGAN PUBLIC SERVICE COMMISSION STAFF'S EXCEPTIONS TO PROPOSAL FOR DECISION

Pursuant to the schedule established in the Proposal for Decision (PFD) issued on June 3, 2002 in this case, the Michigan Public Service Commission Staff (Staff) files the following exceptions.

As Staff understands the PFD, the Administrative Law Judge (ALJ) has in large part adopted Staff's analysis, with certain modifications. A schedule that summarizes the Staff and Consumers Energy Company's understanding of the PFD is included as Attachment 1.[1]

Exception No. 1: Staff continues to oppose Consumer's adjustment to net operating income (and net plant balances) for accounting changes associated with workload realignment.

The ALJ calculated a revenue deficiency of $31,629,000 making only one adjustment to Staff's Adjusted Net Operating Income to reflect the impact of his finding associated with Staff's recommended adjustment to the cost allocation percentages established under the Massachusetts Formula, (PFD, Page 65). The ALJ did not adjust Staff's net operating income for increased O&M expenses associated with the accounting change related to the workload realignment proposal. On Page 54 of the PFD, The ALJ states he was not able to find any opposition by Staff to Consumers' projected O&M expenditures of $3,935,000 for the accounting change. It is Staff's opinion that the ALJ did not adjust for this accounting change because he believed Staff's case already included the

[1] Although Staff and Consumers Energy Company may disagree on the propriety of the PFD recommendations, each agree that the summary accurately presents their understanding of the PFD.

increased O&M expenditures of $3,935,000. This is not correct. Staff did oppose Consumers' request for projected increases in O&M expenditures relating to accounting changes.[2]

Staff's opposition to changes that shift dollars from the overheads that are normally charged to capital to a direct expense activity in O&M, is based on the evidence and arguments Staff presented in the case[3]. The implementation of the reengineering programs, which Consumers claims precipitated the need for the change in accounting practices, occurred in 1996 – 1997.[4] It is apparent from Consumers' discussion of this issue that overheads/support costs have been over-allocated to plant accounts since the implementation of the reengineering programs in 1996 – 1997. If Consumers had chosen to change the accounting practices in a timely manner then the costs would have been properly reflected in 2000 historical account balances without unfairly impacting either Consumers or their ratepayers. Instead, Consumers' proposal recognizes and reflects these accounting changes, 5 – 6 years later, in the midst of this rate case proceeding to Consumers' benefit. Consumers did not adjust 2000 historical plant balances for the support costs that were not properly reflective of employee's responsibilities subsequent to the workload realignment in 1996 – 1997. As a result, these over-allocated support costs are included in plant balances as of December 31, 2000. These balances are the starting point for Consumers' 2002 projected plant balances creating something akin to a "double" count. Further, Consumers stressed that this issue only concerns the classification of expenditures as

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[2] Staff's opposition and arguments are stated on pages 31 & 32 of its Initial Brief and pages 18 & 19 of its Reply Brief.

[3] Staff is not making a determination regarding the appropriateness of these accounting changes. As stated in Staff's Initial Brief, page 32, "The Company should account for its operations correctly, consistent with the MPSC Uniform System of Accounts. When cost are properly booked the economic impact of that proper accounting is automatically reflected in the Company's rates, not before!" Staff is opposing the timing of the accounting changes and the resulting impact for ratemaking treatment and recognition.

[4] "Since 1996-1997, when the Company-initiated reengineering programs were implemented, many jobs and associated processes were significantly changed…" 13 TR 2322

capital or expense – the total dollars are the same.[5] While the face amount of the dollars may be equal, the return associated with these dollars, in the context of a rate case proceeding, is significantly different depending on their classification. In this instance, Consumers' decision to implement the accounting changes, 5 to 6 years after the reengineering programs, is to the detriment of Consumers' ratepayers. Consumers also provided no evidence to support the reasonableness and prudence of the amounts shown on workpapers PNP WP-49 and PNP WP-18a[6] or that the projected O&M expense level is known and measurable. The Company's projection of this cost is no different than its other unsupported budget estimates.

Staff's case on the other hand includes all support costs booked to O&M accounts in the historical test year 2000 and adjusted for price level changes in 2001 and 2002. Further, Staff's case includes all support costs that have been capitalized for the period of 1996 – 2000 (i.e. overheads/support costs that were allocated to capital based on accounting practices prior to the proposed accounting change in 2002) in rate base. Staff has included these support costs, in their entirety, in its calculation of base level construction expenditures and adjusted these costs for incremental price level changes for 2001 and 2002.

Based on the record in this proceeding, the arguments listed above and Staff's discussion of this issue in its brief and reply brief, it is Staff's position that O&M expense for the 2002 projected test year should not be increased by $3,935,000. Further, it is Staff's belief that this position is consistent with the ALJ's findings throughout the PFD "… that based on the concept of known and measurable changes Consumers has generally failed to meet its burden of proof concerning capital expenditures

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[5] 6 TR 735, Lines 12 & 13

[6] Exhibit S-185 (NOTE: PNP WP-18a was referred to incorrectly as PNP WP-19 in Staff's Reply Brief)

and O&M costs."[7] Consumers' proposed accounting change is not supported by the evidence in this case and is not reasonable or prudent and should be rejected.

Exception No. 2: Staff's recommendation on the Application of the Massachusetts Formula should be adopted.

At pages 61-63 of the PFD, the ALJ recites Staff's and Consumers' positions on the use of the Massachusetts formula. Staff asserts that the application of the Massachusetts Formula in this case produces an inequitable distortion of parent company cost allocation to ratepayers. This is because the formula, as applied by Consumers during the historical test year, included the net investment component of affiliates in the formula calculation, but did not include the corresponding revenue and wage components for each of those affiliates. This has the effect of causing Consumers' ratepayers to absorb a higher percentage of the indirect parent company administrative and general costs then would otherwise be the case if all three parts of the formula had been included for all affiliates.

The ALJ found Consumers' use of the formula reasonable because: (1) there was a substantial history regarding the use of the formula; (2) Staff acknowledged that it's method is not precise but rather a balancing between conceptual correctness and practicality, and; (3) Staff had not shown that there is an inherent flaw with the formula. The ALJ found that unless there is substantial evidence present to show a significant defect to the formula then the precedent established regarding the use of the formula should remain.

As explained in Staff's Reply Brief, pages 45-46, Staff is not advocating that Consumers abandon its use of the Massachusetts Formula to allocate parent company costs for book accounting purposes. However, for ratemaking purposes, it is Staff's position that if the cost allocation formula used by a utility produces an unrealistic outcome, it is incumbent upon the Staff and other parties to challenge its use for cost recovery in a rate proceeding. Anything less would be patently unfair to the

[7] PFD, Page 8

ratepayers. If a utility company's practices, procedures, policies and formulas could never be tested for fairness, usefulness and validity in setting rates, ratepayers would unfairly be placed at the mercy of the utility's cost allocation systems for rate determinations, even if those accounting policies/systems did not produce reasonable outcomes.

In the instant case, it is quite evident that the Massachusetts Formula did not correctly measure a reasonable outcome because the revenue and wage components of certain affiliates were excluded from the formula. The Company is now attempting to use a technical basis (i.e. since CMS is not in control of some of its affiliate's day to day operations, CMS decided it would exclude the revenue and wages components from the formula, but not the investment component, of those same affiliates) when it should have used an equitable basis which would have mitigated this unfairness. By Consumers' own admission, CMS is more concerned in its investment in these affiliates than it is in their day-to-day operations. (13Tr2347). The technical inequities could be mitigated in several ways: by adjusting the formula to exclude the revenue and wage components of all affiliates; by leaving out the affiliates' investment balances in which CMS does not have operational control; or by including the revenues and wages of <u>all</u> affiliates. To test the reasonableness of Consumers' cost allocations obtained through the application of the Massachusetts Formula approach, Staff chose to examine the activity of the Board of Directors and the corporation as reported in the minutes of its board meetings and as reported in the annual report. Staff has provided compelling reasons why the formula, as used by Consumers, does not result in a reasonable allocation of parent company indirect overhead costs to ratepayers. (10 Tr1686-1688) Further, as Staff discovered, since the majority of the costs that are allocated under the Massachusetts Formula are Board of Directors fees and expenses and stockholder relations expenditures, a major component of which is the printing and distribution of the Annual Report to stockholders, the Staff's alternative method for cost allocation is extremely reasonable. (See Staff's

Brief, pages 66-69 and Staff's Reply Brief, pages 44-46) Staff notes that it is not asking the Commission to order Consumers to adopt this methodology for accounting purposes. Staff is simply making a recommendation to adjust the results of the historical test year parent company cost allocations (which inflate the costs allocated to regulated operations) in order to establish a fair level of parent company cost allocation to be recovered from gas ratepayers in rates established in this proceeding. Staff asserts its adjustment to the historical test year allocations is much more reasonable than what the Massachusetts Formula produced. (10 Tr1688).

Further, Staff notes that there is Commission precedent for deviating from the results of strict adherence to the Massachusetts Formula for ratemaking purposes. In MichCon's most recent rate proceeding, the Commission adopted the Staff's recommendation to lower MCN (parent) cost allocations to MichCon that had been allocated using the Massachusetts Formula. The Staff found and the Commission agreed that use of the formula resulted in excess cost allocation to the regulated operations. The Commission found that the burden of proof to substantiate the reasonableness of the parent company cost allocations rests with the utility and not with the Staff[8]. In MGU's (Aquila) last rate proceeding[9], the Commission reinforced the notion that the burden of proof is upon the utility for the proper allocation of parent company costs to regulated utilities. In this case, Consumers has made no presentation demonstrating that its parent company's indirect costs allocations result in a fair share of the costs ultimately being charged to each affiliate - other than to claim that the Massachusetts Formula is sacrosanct. Staff, in order to assure the Commission that there was no cross-subsidization of parent indirect costs taking place, completed an alternative study, which Consumers did not refute other than to say that it was too subjective to use in the long term. (13 Tr2348) Staff is not

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[8]Rate Case No. U-10150, pages 58-62 (Attachment 2)

[9] Rate Case No. U-10960 at pages 33-37 (Attachment 3)

recommending its use in the long term. Staff is recommending it be used for purposes of this rate proceeding to address the inequities inherent in the historical cost levels using Consumers method.

Staff's adjustment to historical test year parent company cost allocations to reflect an appropriate projected test year level should be adopted for ratemaking purposes in this case.

Exception No. 3: The Gas-In-Kind Percentage Paid By Transportation Customers Should Be Equivalent to the Lost and Unaccounted For Gas and Company Use Gas Percentages Paid By Sales Customers.

At pages 63 –64 and 86-87 of the PFD, the ALJ addresses the issues of the appropriate gas-in-kind percentage to be recovered from transportation customers, and the appropriate lost and unaccounted for gas and company use gas amounts to be recovered from sales customers. At pp. 63-64, the ALJ agrees with Staff that 0.82% is the appropriate amount to recover from both sales and transportation customers, finding that Staff's methodology is more consistent with past Commission practice, and that Consumers has not presented sufficient evidence to vary from past practices. However, at pp. 86-87 of his PFD, the ALJ reverses himself in part, finding that the gas-in-kind percentage for transportation customers should be increased to 1.72%.

Staff believes that the Commission should adopt the ALJ's position at pages 63-64 of his PFD. Consumers accepted Staff's company use and lost gas percentage for purposes of sales service (0.82%) at page 82 of its Brief, but continued to argue that transportation customers should pay a gas-in-kind rate of 1.72%. A rate that is more than twice the rate paid by sales customers. Consumers has never explained why it is appropriate to charge transportation customers so much more for company use and lost gas than is charged to sales customers. The Commission should adopt Staff's position and find that the correct gas-in-kind percentage in this case is 0.82%.

Exception No. 4: Staff Continues to Contest Consumers' Adjustment to Transportation Customer Loads to Reflect Known Changes Occurring After 2000

The PFD contains a discussion on Consumers' adjustment to transportation customer levels to reflect known charges after 2000. At page 58 of the PFD, the ALJ states as follows: "The second adjustment is actually several adjustments relating to specific transportation customer's loads to reflect known changes occurring after 2000. This proposed adjustment by Consumers is not contested." The conclusion by the ALJ that the proposed adjustment is not contested is incorrect. Staff does contest this adjustment due to the immateriality of the adjustment (22 MMcf adjustment vs. 334,571 MMcf total sales and transportation volumes), and Staff eliminated Consumers' adjustment from Staff's filed case (see Tr 1897). In Staff's Initial Brief at page 54, Staff points out that Consumers failed to rebut Staff's elimination of the transportation customer volume changes, thereby suggesting to Staff that Consumers was conceding this issue.

Unfortunately, it appears that Consumers continues to support its transportation customer volume changes adjustments, and even suggests in its Brief at p. 77 that Staff recognizes that the adjustments were valid, though immaterial. Staff has never conceded that the adjustments are valid. Due to time constraints in this case and Staff's reluctance to recognize <u>any</u> so-called "known and measurable" changes because of the speculative nature of these types of adjustments, Staff did not waste time attempting to determine if an immaterial item, claimed to be a "known and measurable" change was valid. Absent any materiality constraints, it would be possible to make hundreds of small adjustments to historical test year data; however, this would needlessly complicate the rate case process. The Commission should discourage such meaningless adjustments by rejecting Consumers' proposed transportation customer volume changes adjustments, as recommended by Staff.

Exception No. 5: The Staff's funding levels of employee benefits are proper and should be adopted by the Commission.

On Page 57 of the PFD, the ALJ states "Staff in its reply brief recognizes that Consumers has revised its request to dollar levels generally acceptable to Staff." The ALJ did not adjust Staff's case to reflect Consumer's projected benefit costs, apparently because he felt the Staff and the Company were in agreement. They are not. Staff and the Company have a difference of $4,569,000 in the four benefit expense items highlighted in the PFD. Consumers has not revised its request to dollar levels generally acceptable to Staff. As stated in Staff's brief and reply brief, the bulk of the difference relates to differences in the projected test year level of post retirement healthcare costs.[10]

In his discussion of test year O&M expenses, the ALJ found that the Staff's approach to determining projected test year expenses was appropriate in all instances except Staff's adjustment to the Massachusetts Formula, (PFD, page 44). The finding was predicated upon the Company's failure to prove that the changes requested were known and measurable changes. The ALJ found Consumers' budget projections lacking because the Company did not state what factors made-up the projections and because there were just too many unknowns in the estimates (PFD page 43).

It is clear that the ALJ agreed with Staff's overall position regarding O&M expense projections. Staff's projected combined totals for the employee benefits at issue on page 57 of the PFD are as follows:

[10] The ALJ cites the same references in the PFD, as Staff used in its brief to summarize the O&M expense evidence presented by Consumers' Witness DaPra. Staff used the reference to Consumers' Brief, Appendix C on pages 2 and 3, because it summarizes both the Company and Staff's numbers and the difference between the numbers. However, the ALJ incorrectly used page 4 of 4 of Appendix C that represents only the Company's combined totals for CECo & MGS. Staff did not summarize its combined findings and therefore Staff feels that the ALJ used Consumers summary just as a reference point since he stated that the numbers were generally acceptable to Staff.

	CE	MGS	2002 Projected Total
Employee Pension	$ 5,088,000 +	88,000=	**$5,176,000**
Health Care/Life Ins. – Post Retirement	$17,465,000 +	707,000=	**$18,182,000**
Health Care/Life Ins.-Active Employees	$11,349,000 +	530,000=	**$11,879,000**
Employees Savings Plan	$ 5,022,000 +	315,000=	**$5,337,000**

The $4,569,000 difference between Staff & the Company in the four O&M expense items highlighted in the PFD is as follows:

Employee Pension	$ 284,000	
Health Care/Life Ins. Post Retirement	$3,559,000	
Health Care/Life Ins.-Active Employees	$ 99,000	
Employees Savings Plan	$ 627,000	
Combined Difference	**$4,569,000**	(See Attachment 4 for Details)

As in all instances in this case, Staff adjusted Consumers' historical benefits expense amounts only for known and measurable changes. The employee savings plan and active health care and insurance costs were adjusted for inflation for 2001 & 2002. Pension costs and post retirement health care and insurance costs were adjusted for inflation and other known and measurable amounts that were supported by evidence presented in this case (as detailed in Staff's brief). The ALJ concluded his findings on the test year O&M expenses by stating that the "Company's projected construction and O&M numbers have failed the strictures of known and measurable change" (pg 57). This finding also applies to Consumers' projected employee benefit expenses. The Commission should not increase the expenses by the $4,569,000 difference in benefit costs, because Staff's calculations are more reasonable and have followed sound ratemaking principles regarding known and measurable changes as fully explained in Staff's Initial Brief on pages 70-73 and in Staff's Reply Brief on pages 37-42.

Exception No. 6: The official notice request submitted by Staff is appropriate and these reliable documents should be considered and the Commission should take official notice of them.

At pages 95-98 of the Proposal for Decision the Administrative Law Judge refuses to take official notice of a press release (Staff's Initial Brief, Attachment B) and a study done by Regulation Research Associates (Staff's Initial Brief, Attachment C). Staff cited Rule 327 (R460.17327) of the Commission's Rules of Practice and Procedure as authority for consideration of the referenced attachments. Staff believes the analysis and conclusion of the ALJ are not correct. The standard used for admission of evidence in administrative proceedings is a less stringent standard pursuant to Rule 325 (R460.17325) of the Commission's Rules of Practice and Procedure. Documents whose accuracy have not been challenged such as a press release and a study that presents average authorized equity returns seek to present information to the Commission within the Commission's specialized knowledge. Taking official notice of these documents which present relevant information in this proceeding is appropriate. There are no valid reasons those documents should not be considered. The information contained in the documents is accurate and failure to consider the information in the documents is contrary to Rule 460.17327, Rule 327 and Rule 325 (R460.17325) of the Commission's Rules of Practice and Procedure.

Exception No. 7: Staff's recommended exclusion of the $150 million equity infusion from Consumers Energy's capital structure is correct.

At pages 26 to 30 of the PFD the ALJ discusses the exclusion of $150 million of common equity from the ratemaking capital structure of Consumers Energy. Staff took the position that the infusion of $150 million of common stock equity made on January 3, 2002 by CMS into Consumers Energy should not be included in the ratemaking common equity amount of Consumers Energy. Staff opted to exclude the January 3, 2002 equity infusion because of the uncertainty that the equity would remain in Consumers capital structure, that there may be additional debt issuances, proceeds from the sale of the assets were not included and the proceeds of the sale of the securitization bonds were not taken into consideration. The company did not include a 2002 equity infusion in its original filing in this case in June 2001, but added it in their supplemental filing in November 2001. Staff is still not convinced that the January 3, 2002 equity infusion should be included without some written commitments by CMS and Consumers. Therefore, Staff continues to recommend the $150 million be excluded from the ratemaking common equity in this proceeding. If the $150 million of equity is allowed a return by the Commission and then it is returned to CMS through a return of stockholder contribution or through a dividend, Consumers Energy will be earning a return on a non-existent $150 million of common stock equity. Staff believes the proper common equity amount should be Staff's $2,006,237,000 and **not** the $2,156,237,000 as the ALJ proposes.

Recent events, which occurred after the record in the case was closed, have had a dramatic impact on the needs and the financial flexibility of Consumer Energy's parent company, CMS Energy, and may affect the financial structure of Consumers Energy. Recent press releases by Moody's Investor Services (Attachment 5), Fitch Ratings (Attachment 6) and Standard and Poors (Attachment 7) highlight the rating agencies concerns. These documents provide up to date information to the Commission on CMS Energy with possible impact on Consumers Energy.

Staff believes the Commission should consider the above referenced recent announcements by Moody's Investor Service, Fitch Ratings, and Standard and Poors to downgrade CMS Energy's unsecured debt and to place Consumers Energy on credit watch or review for possible downgrades. The rating agency's downgrade for CMS are a result of the

SEC’s investigation into CMS 'wash trades' in which revenues and expenses were overstated in the years 2000 and 2001, as well as additional cash flow problems at CMS. The limited financial flexibility at CMS reinforces Staff’s concern, raised in its case in this proceeding, that the $150 million of equity infused into Consumers on January 3, 2002 will not remain in Consumers. The facts are that the resources of Consumers could be used as a source of credit support for CMS. CMS Energy may be forced to take the $150 million of infused equity out of Consumers either as a return of stockholder contribution to CMS or require Consumers to pay more dividends to CMS. CMS's poor financial situation may require additional support from its subsidiaries to continue its current dividend payment. The Staff urges the Commission to take into consideration these recent developments in its decision on whether the $150 million of equity infused on January 3, 2002 should be included in the ratemaking capital structure in this proceeding. If the Commission determines that the equity is to be included in the ratemaking structure, Staff recommends that a written commitment from CMS and Consumers be provided to guarantee that the $150 million common stock infusion will remain in Consumers and the dividend payout from Consumers to CMS will not change from the historical average.

Despite the public nature and accuracy of the information in Attachments 5-7, and the fact these documents bring to light recent critical information, the Staff expects Consumers Energy to object to any review of these documents by the MPSC. Because the release and occurrence of this relevant information took place after the close of this case, it is important that the Commission review the information and utilize it in their determination of the proper level of common equity to be included in the ratemaking capital structure. Rule 460.17327 (Rule 327) of the Commission’s Rules of Practice and Procedure allows the Commission to take official notice of this public information. The Commission has the discretion to consider this information. The information in the news press releases are general and technical, facts within the Commission's knowledge. It is proper and important that the Commission consider this information.

In Staff's Reply Brief the $150 million infusion was addressed in great detail:

> Staff's recommended capital structure, shown on Exhibit S-117, Schedule D-1 page 1, is reasonable and properly reflects the elements comprising the future 2002 test year capital structure. Consumers Energy discusses its recommended capital structures at pages 24-48 of its Initial Brief. The capital structure recommended by Mr. Ballinger is comparable to the adjusted historical 2000 test year capital structure (10 Tr 1482-1483). As discussed on pages 41-45 of Staff's Initial Brief, the major difference between the Company capital structure and Staff's is the exclusion from the Staff's capital structure of an infusion of $150 million of equity into Consumers Energy by CMS Energy on January 3, 2003.
>
> The Company claims on page 25 of its brief that " The 2002 Equity Infusion Is Known and Measurable; The Effects of the 2002 Equity Infusion must Be Included in the Capital Structure For Purposes of this Case". The Company would like the ALJ and the Commission to buy their argument, but just because the equity infusion is known does not mean that the impact on the capital structure is measurable and that it should be recovered. Staff has appropriately calculated the capital structure by starting with a capital structure that is not tainted by events that will impact that structure in the future. Staff uses a September 30, 2001 capital structure because it was the latest capital structure that was not affected by future events. Mr. Ballinger's recommendation has been consistent as he has excluded all future uncertainties and their effect on the capital structure. The Company on the other hand wants the ALJ and the Commission to include the one item that most benefits the Company, which is the equity infusion and ignore all other known and measurable items that will have a negative effect on the future capital structure ratios. It would be unfair to the ratepayers to include the equity infusion and exclude all other items that will effect the capital structure like: The $469 million proceeds from the sale of the securitization bonds; The announced sale for $290 million of Consumers Energy's transmission system; or The expected issuance of new debt in the year 2002 (10 Tr 1479-1480). Mr. Ballinger has been consistent through the use of the September 2001 capital structure as he has included known events such as the September $150 million of equity infusion, the May 2001 $125 million issuance of Trust Preferred securities, the September 2001 senior debt issuance of $350 million, the after-tax write-off of $80.471 million for losses related to the MCV Power Purchase Agreement and the nine months of 2001 earnings (10 Tr 1479).
>
> The $150 million infused on January 3, 2002 is only three months after $150 million was infused on the last day of September 2001. The other financial transactions that have impacts on the capital structure which took place after September 2001 have been totally ignored by the Company. There will be other impacts in 2002 that will offset the infusion of the $150 million of equity made by

> CMS Energy at the start of 2002, which have also been ignored. The Company's position of including the 2002 equity infusion in the capital structure is entirely self serving, as it ignores the impact of other items that offset the inclusion that one item has on the capital structure. Consumers should not be allowed to include items which favor revenue to the company and ignore items which negate the same revenue flow.
>
> It is evident this is just an attempt to earn a return on a higher amount of equity in the capital structure. The Company has presented no evidence in the record for the future capital need of the $150 million equity infusion, other than that it has been made so it should be included. In the past the Company has not made equity infusions of the magnitude that it did from the end of September 2001 to the first of January 2002. CMS Energy made $300 million of equity infusions into Consumers during that time period. In the year 2000 no equity infusions were made, in 1999 a $150 million equity infusion was made, in 1998 a $100 million equity infusion was made and $50 million was returned, and in 1997 no equity infusions were made, but $50 million of equity was returned to CMS (Exhibits S-80 and S-81). For the four prior years 1997-2000 the net equity infused into Consumers by CMS Energy was only $150 million compared with $300 million since this rate case was filed. The Company's attempt to tag the equity dollars, of $50 million in 1997 and $50 million in 1998, returned to CMS should be dismissed as a self-motivated attempt to satisfy what they did, after the order in the last gas case U-10755.
>
> Also, as discussed in Staff's brief on pages 42 and 43, Consumers' pays dividends to CMS Energy and CMS Energy controls the amount of dividends that are paid, so the equity infusion can be sent back to CMS through dividend payments by Consumers. During the 1997 to 2000 time period Consumers paid $968 million of dividends to CMS Energy (Exhibit S-158). In conclusion Staff recommends that a common equity amount of $2,006,237,000 be used in the 2002 projected test year capital structure. (Staff Reply Brief, pp. 51-54).

At pages 27-29 of the PFD, the ALJ discusses a prior $100 million write-up of preferred stock that occurred in 1991 and was disallowed by the Commission in rate Case U-10335. The write-up was disallowed because the $100 million increase in common equity resulting from the accounting revaluation of the CMS Enterprise stock was "not reasonable or appropriate for ratemaking purposes." The Commission reached the same conclusion in Case No. U-10685 and U-10755. In Case No. U-10755, Mr. Wright indicated that if the Commission failed to allow the preferred stock accounting write-up of $100 million that he would reduce Consumers Energy's book equity to correspond to the Commission's regulatory equity by the amount of $100 million.

In 1997, $50 million of equity was returned to CMS and in 1998 another $50 million was returned to CMS by a return of stockholder’s contribution. As discussed above by Staff in the excerpt from its Reply Brief, the $100 million was not put into Consumers Energy by CMS. The $100 million was a write-up of preferred stock held by Consumers from CMS Enterprises. An accounting entry was made in 1991 to write-up the preferred stock issued to Consumers by CMS Enterprises, as part of a corporate reorganization in 1987, and two $50 million cash transactions in 1997 and 1998 of real money were returned to CMS Energy, not CMS Enterprises. Staff believes this provides additional support that the $150 million of equity infused in 2002 will not remain in Consumers. Since CMS Energy controls the dividends paid by Consumers to CMS the January 3, 2002 equity infusion of $150 million from CMS may be given back to CMS by a dividend payment. Staff raises this concern, given CMS’s past experience, for the Commission’s consideration in deciding the amount of common equity that should be included in the ratemaking capital structure set in this proceeding.

The ALJ rejected the AG's argument that there was no showing by the Company that the 2002 infusion was needed. The ALJ makes a quantum leap from recognizing that the improvement of equity to debt ratio is a factor in the credit rating to concluding that all other factors being equal, a boost in the equity ratio improves the credit rating. The Company did nothing to support the need for the equity infusion. In fact, the equity infusion was not included in the Company's original filing in June, 2001, but was only included in their supplemental filing in November, 2001. The ALJ has picked up the $150 million equity infusion made in January, 2002, but has ignored all other items that will have an impact on the capital structure in 2002, as discussed above and in Staff's Reply Brief. What the ALJ has done is not correct or reasonable and Staff's recommended common equity amount of $2,006,237,000 should be used in the ratemaking capital structure, not the ALJ's amount of $2,156,237,000.

Exception No. 8: The term and form of contract provision of transportation tariff proposed by Staff should be adopted in total.

At page 82 of the PFD the ALJ acknowledged that Consumers accepts Staff's proposal to modify the language under the **Term and Form of Contract** provision of the transportation tariff. Staff notes that the quote therein was an excerpt and not the complete language proposed by Staff and accepted by Consumers. The complete text is shown on Exhibit S-154, page 4 of 4, and this language should be adopted.

WHEREFORE, the Staff requests that the Commission adopt the Staff's findings and recommendations for the reasons stated in Staff's testimony and briefs.

Respectfully Submitted,

MICHIGAN PUBLIC SERVICE COMMISSION STAFF

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ATTACHMENT 1

APPENDIX A TO EXCEPTIONS

Case No. U-13000 CECo General Gas Rate Case
Revision of the Proposal for Decision (PFD) Revenue Deficiency to Reflect
Revenue Requirement Adjustments - As Discussed in Section I.B. (000)

Line No.	Description (a)	PFD Results (b)	Revised Results (c)
1	Rate Base	$ 1,378,295 [1]	$ 1,378,295 [1]
2	Required Rate of Return	7.25% [1]	7.25% [1]
3	Income Required	$ 99,926	$ 99,926
4	Adjusted Net Operating Income	79,758 [2]	79,862 [3]
5	Income Deficiency	$ 20,168	$ 20,064
6	Revenue Conversion Factor	1.5683	1.5683
7	Revenue Deficiency - per PFD	$ 31,629 [1]	$ 31,468
	Adjustments to the PFD Result:		
8	MPSC Staff Initial Brief - Uncollectible Expense Revision		1,400 [4]
9	Massachusetts Formula		253 [5]
10	Sales and Use Taxes		4 [6]
11	Accounting Workload Realignment		3,935 [7]
12	Health Care & Employee Benefits		6,236 [8]
13	Life Insurance Refund		(1,667) [9]
14	Michigan Single Business Tax		(151) [10]
15	**Total Adjusted Revenue Deficiency**		$ 41,476

Footnotes

[1] U-13000 PFD, page 65.

[2] Ties to PFD page 65 - detail:

MPSC Staff NOI	$ 80,270	Exhibit S-123, line 4, column (f).
Add. Disallowences	(512)	Exhibit S-124, line 11, column (m).
Adjusted NOI	$ 79,758	

[3] Revise the MPSC Staff adjusted NOI to consider only the impact of interest synchronization caused by the equity infusion of $150.0 million into the Capital Structure.

MPSC Staff NOI	$ 80,270	Exhibit S-123, line 4, column (f) (Footnote #2).
After tax of Int. Synch	(408)	See below.
Revised NOI for PFD	$ 79,862	

U-13000 PFD Adjusted NOI with interest synchronization included for the equity infusion.

PFD Rate Base	$ 1,378,295	
Change in Wtd Cost Debt	-0.000846	(3.32% - 3.40%) (PFD versus Staff)
Change in Interest	$ (1,166)	
FIT Rate	35%	
FIT Expense Change	$ 408	

[4] MPSC Staff additional revenue requirement recognized in its Initial Brief position of $29.9 million (versus $28.5 million filed position).

[5] U-13000 PFD, page 62.

[6] U-13000 PFD, page 94 ($5,694 less $2,000).

[7] U-13000 PFD, page 54 - Accounting for Workload Realignment, page 54 of the PFD.

[8] U-13000 PFD page 57 (Health Care & Employee Benefits detail from CECo Initial Brief, Appendix C, pages 2 and 3).

[9] CECo Initial Brief, Appendix C, page 3 of 4, line 37, column (e) increased by Staff's inflation factor ($1,585 * 1.052 = $1,667).

[10] U-13000 PFD, page 94 ($691,000 less $842,000).

ATTACHMENT 2

finds that the utility should be placed on notice that future approval of an incentive bonus plan like this requires a showing that it will not result in excessive costs and that the benefits to the utility's ratepayers will be commensurate with those costs.

2. Allocation of Costs from MCN

MCN, as the parent company, provides numerous services to its subsidiaries.[18] Although some of these services result in costs that can be directly assigned to particular subsidiaries, others give rise to "common costs"--those that cannot be directly assigned. Therefore, a cost allocation formula is frequently used to allocate a parent company's common costs in an attempt to have each subsidiary bear its fair share of those expenses. In this case, MCN used three equally weighted determinants (plant, labor, and revenue) to produce an allocation that assigned 91.65% of its common costs to Mich Con.

Based on refinements to this allocation methodology that were suggested by the Staff, Mich Con proposed having itself assigned 87.35% of MCN's common costs. The Staff and ABATE objected to that proposed allocation. These parties point out that (1) due to MCN's failure to keep adequate records, it was impossible to determine how much time was devoted to work performed for a particular subsidiary, (2) because expense reports, travel vouchers, and dining bills consistently failed to describe the purpose of trips or meals, it was impossible to ascertain how much travel and dining expense was incurred on behalf of a particular subsidiary, and (3) because such a large percentage of MCN's total expenses were classified as common costs, its largest subsidiary in terms of plant, labor, and revenue, namely Mich Con, was likely assigned an excessive amount of its parent's costs. For these reasons, the Staff

[18]As shown on Exhibit A-5, Schedule E-1, MCN has 46 subsidiaries including Mich Con.

concluded that Mich Con's ratepayers were to some extent subsidizing the utility's unregulated affiliates. To counter this, the Staff recommended an allocation factor of 70%, instead of the 87.35% factor proposed by the utility. ABATE proposed a more severe remedy. Specifically, it argued that because Mich Con had the burden of proving that MCN's costs were fairly allocated, and because it failed to satisfy that burden, none of MCN's common costs should be allocated to the utility.

The ALJ agreed with the Staff and ABATE that the utility's proposed 87.35% allocation factor was excessive. However, despite concluding that MCN's "lax approach" to cost documentation should not be encouraged, she felt that removing all MCN billings from Mich Con's base O&M expense "would be a draconian measure." (PFD, p. 68.) Specifically, she noted that although MCN's recordkeeping was woefully inadequate, there was no dispute that MCN performs services that benefit Mich Con and for which the utility's customers should pay. The ALJ therefore recommended that the Commission adopt the 70% allocation factor proposed by the Staff. She further recommended that Mich Con be admonished for tolerating such imprecision and be warned that MCN's documentation must improve if the utility ever hopes to recover all costs for which it is billed by MCN.

Both Mich Con and ABATE except to these recommendations, albeit for different reasons. Mich Con contends that the ALJ's proposed reduction in the allocation factor "is based on pure conjecture and suspicion" and must therefore be rejected. (Mich Con's exceptions, p. 69.) Specifically, the utility argues, the Staff failed to show that expenses billed to Mich Con were for costs that should have been billed to a different MCN subsidiary. The utility goes on to assert that, despite the Staff's belief that detailed time logs should have been used to show how much work was being done for each of MCN's subsidiaries, it offered "absolutely no proof that such personalized time keeping practices resulted in any overcharges to Mich Con or that more refined time accounting would produce anything more than several hours being reallocated." (Mich Con's exceptions, p. 71.) Mich Con therefore contends that the ALJ's recommendation to reduce the allocation factor from 87.35% to 70% should be rejected, thus returning approximately $1.1 million of allocated common costs to the utility's base O&M expense. In contrast, ABATE reasserts that the Commission should disallow all MCN billings. (ABATE's exceptions, pp. 23-24.) The Commission does not find either of these parties' arguments persuasive.

Mich Con's arguments are premised on the faulty assumption that it is up to the Staff to affirmatively show that excessive costs were assigned to the utility. However, as noted earlier in this order, the burden of proof rests with the utility. Moreover, this is particularly important in situations where cross-subsidization of non-utility enterprises could arise.[19] Such a situation exists in this case with regard to the allocation of MCN's costs to Mich Con.

Despite being required to prove that the MCN costs assigned to base O&M expense were reasonable, Mich Con undertook no study to determine whether the services received from MCN are commensurate with the utility's allocated share of its parent's common costs. (11 Tr. 2344-2345.) Furthermore, the record indicates that the officers and employees of MCN

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[19]In examining the Commission's ability to deal with the allocation of costs from a non-utility enterprise to a utility affiliate, it was recently noted in Midland Cogeneration Venture Limited Partnership v Public Service Commission, 199 Mich App 286 (1993), that:

> "The PSC's regulatory function includes its power to set rates. That power is the tool with which the PSC can prevent cross-subsidization of non-utilities by ratepayers. The burden of proof is on the utility to justify the inclusion of affiliate-based costs in its rate base. The PSC need only apply an adverse inference whenever information it reasonably believes is relevant and within the control of an affiliate or other related entity has not been furnished." (199 Mich App at 324-325; dissent by Taylor, J.) [citations omitted.]

and Mich Con do not maintain accurate time logs and descriptions of the services that these entities provide to each other or to other Mich Con affiliates. For example, some employees had co-workers fill out their time reports for them. (21 Tr. 4464-4465.) Still others filled out their reports, from memory, only at the end of each week or month. (21 Tr. 4362-4366; Exhibit I-163.) Similarly, expense reports, travel vouchers, and meal records regularly contained no designation of the purpose of the trip or meal. (16 Tr. 3299.)

This lax approach to time and expense reporting apparently reduced the amount of costs that could be directly assigned to specific MCN subsidiaries, and thereby increased the amount of MCN's total costs that were deemed common costs. This can be seen from the fact that of the $7.5 million of billings from MCN to Mich Con during the historical test year, only $265,000 were in the form of direct billings. The remaining $7.2 million were assigned to the utility through the allocation formula. (10 Tr. 2044-2045.) The inequity inherent in this type of overreliance on a common cost allocation formula was explained as follows by ABATE's witness, James P. Cummings, a utility consultant and past utility holding company executive:

> "None of [MCN's] other subsidiaries are like Mich Con. They are all much smaller. Many require virtually no plant investment and none have payrolls or revenues comparable to Mich Con. Yet, there is a good chance that because of their small size, diverse nature, operation in competitive markets, lack of maturity and inexperienced managements, they require a far larger portion of [MCN's] attention than does Mich Con. On the other hand, Mich Con is a large, homogeneous company with an experienced management. It has its own chief executive, and with the exception of a few departments which have been transferred to [MCN], it is fully staffed to carry out its mission. In proportion to its size, it probably requires a relatively small amount of MCN's attention. When I reflected on my own experience in sharing my time among a holding company, a utility and several non-utility companies, I realized that I spent proportionally larger amounts of time on the non-utility companies and less on the utility than allocations under the [allocation formula] would have produced." (13 Tr. 2754.)

For these reasons, the Commission finds that the utility failed to prove that its proposed allocation of MCN costs was reasonable. It therefore rejects Mich Con's exception.

Turning to ABATE's request that an allocation factor of 0% be adopted, the Commission finds that MCN performs numerous services that benefit Mich Con. Specifically, certain tax, treasury, legal, financing, capital market access, planning, budgeting, and board of directors functions are undertaken for the utility by MCN. (11 Tr. 2344.) Even ABATE's witness, Mr. Cummings, acknowledged that Mich Con would have to bear the cost of performing these functions for itself were it not for MCN. (13 Tr. 2828-2829.) Thus, it would be inappropriate to bar all recovery of MCN's common costs from Mich Con's ratepayers, as suggested by ABATE.

For these reasons, the most reasonable proposal for allocating MCN's common costs to Mich Con is that offered by the Staff. The Commission therefore finds that the ALJ's recommendation to use an allocation factor of 70% should be adopted. It further agrees with the ALJ that Mich Con should be admonished for tolerating MCN's inadequate method of documenting its costs, and finds that the utility should be warned that MCN's documentation must improve if Mich Con hopes to recover all of the common costs MCN bills to it in the future.

3. Association Dues and Membership Fees

Mich Con requested $517,700 to pay for its annual association dues and membership fees. The Staff proposed eliminating $173,000 to reflect the fact that some of these dues and fees are paid to organizations that engage in lobbying. The ALJ agreed with the Staff. None of the parties except to the ALJ's conclusion, and the Commission finds that it is supported by the record and should be adopted.

ATTACHMENT 3

The Commission finds that the ALJ properly adopted the Staff's inflation adjustment. It appears to the Commission that the Staff's projections for inflation more closely reflect likely near-term inflation. Contrary to MGU's argument, the Commission finds that the Staff's inflation adjustment is adequately supported by the record evidence. Although the cited portion of the testimony was offered in conjunction with establishing a proper rate of return, Mr. Ballinger's testimony adequately supports the Staff's proposed inflation adjustment factor.

4. <u>UtiliCorp Corporate Costs</u>

a. <u>Marketing services and UtiliCorp overhead</u>

The ALJ found that the Staff's proposed adjustments for marketing services and UtiliCorp overhead should be adopted. The first proposal reduced marketing expenses to exclude costs associated with marketing services at the national level and for nonregulated affiliates. The second proposed adjustment reduced by 30% the amount of corporate costs allocated to MGU by UtiliCorp. MGU has not excepted to either of these adjustments. The Commission finds that the Staff's adjustments for marketing services and corporate overhead are reasonable and supported by the record, and should be adopted.

b. <u>Gas Supply Services</u>

The Staff proposed to reduce MGU's expense by $505,000 for gas supply services provided by UtiliCorp's Gas Supply Services (GSS), which is a separate cost center within UtiliCorp's corporate structure. According to the Staff, GSS provides gas supply functions to UtiliCorp's regulated gas distribution operations and its nonregulated gas brokering operations, including MGU and MG Ventures. The Staff stated that MGU's allocated portion of these costs is determined by GSS's full-time equivalent employees assigned to MGU.

The Staff pointed out that following the centralization of MGU's gas supply operations into GSS in 1994, MGU's gas supply services costs have risen dramatically, from $930,000 in 1993 to nearly $1,500,000 during the historic test period. Centralizing the services was intended to allow MGU to realize benefits of economies of scale and other efficiencies. However, the Staff argued that MGU had not demonstrated any benefits in this case. Although MGU claimed that the action of the Federal Energy Regulatory Commission (FERC) in issuing its Order No. 636[14] had increased its costs, the Staff argued that the company did not quantify those additional costs. Therefore, the Staff recommended that MGU's gas supply costs be established at the 1993 level, escalated for inflation to the test year ended May 31, 1997.

MGU claimed that the Staff's proposed adjustment was not reasonable because it did not take into consideration the additional costs of operating in the changing gas market. MGU further claimed that its gas supply costs would have increased even more had the centralization not occurred.

The ALJ reasoned that MGU had not met its burden to demonstrate the reasonableness of costs associated with affiliated operations, citing the Commission's order in Cases Nos. U-10149 and U-10150, supra.

In its exceptions, MGU argues that it fully supported the reasonableness of its expenses on the record. MGU states that its approach in this case was to present evidence that its total level of O&M expense was reasonable and necessary. MGU says that it did not set out each component of its O&M expense, because it had no reason to do so. To require MGU to do otherwise,

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[14]Pipeline Service Obligations and Revisions to Regulations Governing Self-implementing Transportation Under Part 284 of the FERC's Regulations, 61 FERC ¶ 61,272 (1992); reh den 62 FERC ¶ 61,007 (1993).

it argues, would be unduly burdensome, as the Commission recognized in the December 22, 1988 order in Case No. U-8635. In keeping with the Commission's desire to streamline rate cases, MGU says, the question should be whether the method and result in general are reasonable.

MGU further argues that it presented rebuttal testimony that demonstrated the errors in the Staff's analysis and justified full recovery of these costs. It argues that the Staff's use of 1993 gas supply costs is inappropriate because the Staff failed to recognize that 1993 expenses do not include payroll taxes and building and related support costs. MGU asserts that its Exhibit A-90 provides a detailed breakdown of 1993 gas supply expenses and test period expenses, and identifies the differences between them. For example, MGU states, payroll benefits in 1993 were $622,809, which increased in the test year to $674,887, an increase of about 4% per year. It states that the increase in legal services from $139,505 to $235,722 resulted from a greater level of company participation at the FERC.

MGU also states that some projected costs were incurred in 1993, but reported elsewhere. For example, MGU states that accounting and depreciation related to gas supply services was not segregated as gas supply costs in the data that the Staff used. MGU argues that because those data did not include all of the costs that the test year data include, the comparison is inappropriate.

MGU argues again that FERC Order No. 636 increased the company's responsibilities and resulted in the need for additional resources. The company argues that it demonstrated $300,000 in 1994 gas supply cost savings as a result. In addition, MGU states it saved $72,000 during 1994 by foregoing reserve capacity with Panhandle. MGU asserts that a transportation discount negotiated by GSS saved $26,000 and obtained annual administrative savings of $30,000. Thus, MGU argues, the decision to use the services of GSS was a correct one that resulted in lower costs than the company otherwise would have incurred.

In its replies to exceptions, the Staff incorporates its arguments from its brief and asserts that any inaccuracy in the Staff's presentation is due solely to MGU's reluctance or refusal to provide accurate and timely responses to data requests. Ms. Devon testified that, in one instance, MGU took eight weeks to respond to an initial request. 13 Tr. 2141. She testified that the company's responses to follow-up questions were essentially unresponsive. 13 Tr. 2178. She further stated that significant numbers of supporting vouchers that the Staff requested were never provided. 13 Tr. 2142. In Ms. Devon's view, the company failed to adequately support its cost projections, which reflected a 62% increase over a period of 17 months.

The Staff argues that the ALJ properly relied upon the Commission's order in Cases Nos. U-10149 and U-10150, which states that the utility bears the responsibility to demonstrate the reasonableness of the cost of affiliated transactions. In the Staff's view, there is no material difference between the allocation of parent company costs addressed in Cases Nos. U-10149 and U-10150 and the allocation of costs by UtiliCorp to its regulated operating division, MGU. In both situations, the Staff argues, there is a transfer of traditional utility support functions from the direct responsibility of the regulated utility to an affiliate. Such transactions cannot be considered to be accomplished at arm's length and thus should be subjected to close scrutiny.

The Commission finds that the ALJ correctly adopted the Staff's adjustment to the GSS costs. Even in its rebuttal testimony, MGU failed to quantify or support with specifics the increased costs it claims resulted from FERC Order No. 636. Nowhere does MGU state how many additional personnel have been required for the functions or provide other details that would support its position. In fact, its employee numbers have declined over the last five years. MGU's claim that the Staff's analysis compared noncomparable numbers is not persuasive. Any inaccuracies appear to have been caused by MGU's failure to respond timely and appropriately to the Staff's data requests. MGU may not withhold information and then complain that the analysis is incomplete without the information that the company was asked for but did not provide.

Further, it appears that MGU's management has little ability to influence the types or amount of expense allocated to it by UtiliCorp, and there have been significant increases in affiliated company charges to MGU for which there is no adequate explanation. On this record, the Commission concludes that MGU has failed to meet its burden of demonstrating that the projected GSS costs are reasonable and prudent. Therefore, the Commission adopts the Staff's proposal to use 1993 costs for gas supply, adjusted for inflation into the test year.

5. Appliance Repair Training Costs

The Staff proposed a decrease in expense of $100,797 to exclude appliance repair training costs that it claimed were improperly charged to MGU rather than its nonregulated affiliate, MG Ventures. MG Ventures is involved in an appliance repair program known during the historical test year as Assured Comfort Protection Program, but is now named Service Guard. MGU provided training to its own employees for gas and electric appliance repair. However, all appliance repair work is credited to MG Ventures. MGU employees perform the appliance repair on behalf of MG Ventures, for which MGU charges MG Ventures an hourly rate. MGU asserted that the hourly rate was sufficient to cover wages, benefits, transportation, supervision, and

ATTACHMENT 4

Outline of Exceptions to PFD

Description	Reference to Staff's Briefs	Reference to Co.'s Briefs	Difference
Consumers' Witness: DaPra			
Employee Pension	$5,088,000+88,000=$5,176,000	$5,460,000	$284,000
Adj. Amount	$2,549,000 + 19,000=$2,568,000	$2,851,868	
	Brief: Pages 71-72 Reply Brief: Page 37	Brief: Pages 67-70 R. Brief: Pages 59-60	
	Pages 37 Reference to Appendix C		
Health Care/Life Ins-Post Retirement	$17,465,000+707,000=$18,182,000	$21,731,000	$3,559,000
Adjustment Amount	$875,215 + 71,956=$947,171	$4,506,632	
	Brief: Pages 72-73 Reply Brief: Pages 37-39	Brief: Pages 67-70 R. Brief: Pages 60-63	
	Pages 37 Reference to Appendix C		
Health Care/Life Ins-Active Employ.	$11,345,000+530,000=$11,875,00	$11,974,000	$99,000
Adjustment Amount	$577,196 + 26,016=$583,208	$682,268	
	Brief: Pages 70-71 Reply Brief: Pages 39-40	Brief: Pages 67-70 Reply Brief: Pages 63	
	Pages 37 Reference to Appendix C		
Employee Savings Plan	$5,022,000+315,000=$5,337,000	$5,964,000	$627,000
Adjustment Amount	$246,630 + 15,488=$262,118	$889,254	
	Brief: Pages 70-71 Reply Brief: Pages 40 Reference to Appendix C	Brief: Pages 67-70 R. Brief: Pages 59 (Inf. Adj.)	
Total Difference			$4,569,000

ATTACHMENT 5

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Tuesday June 11, 5:16 pm Eastern Time

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Moody's cuts CMS Energy's snr unsecured debt to B3

(Press release provided by Moody's Investors Service)

Approximately $18.9 Billion of Debt Securities Affected.

NEW YORK, June 11 - Moody's Investors Service lowered the debt ratings of CMS Energy Corporation and the ratings of its wholly-owned subsidiary, Panhandle Eastern Pipeline Company. These ratings remain under review for further possible downgrade. Additionally, Moody's placed the ratings of Consumers Energy Company on review for possible downgrade.

The rating actions have been made concurrent with CMS's announcement that its auditors would be unable to give an opinion on CMS's restated financial statements when they are completed. The ratings affected are: The ratings assigned to the senior unsecured debt of CMS Energy Corporation are lowered to B3 from Ba3, the associated shelf registration is reduced to (P)B3 from (P)Ba3; the rating assigned its senior unsecured bank facility is lowered to B2 from Ba3; and its B1 subordinated debt rating is reduced to Caa2 on a senior basis and a Caa3 on a junior basis, its associated subordinated debt shelf registration is reduced to (P)Caa2 on a senior basis and (P)Caa3 on a junior basis and its preferred shelf registration is reduced to (P)Ca from (P)B2. Also the company's hybrid security ratings are reduced to Caa1 from B1 and any associated shelf registration is reduced to (P)Caa1 from (P)B1. A senior implied rating of B2 is assigned. The ratings assigned to the senior unsecured debt of Panhandle Eastern Pipe Line Company are reduced to Ba2 from Baa3 and its associated senior unsecured shelf registration is reduced to (P)Ba2 from (P)Baa3.

Additionally, all debt ratings of Consumers Energy have been placed under review for possible downgrade. The downgrades reflect CMS's weak cash flow and high debt levels as well as limited financial flexibility and the challenge of refinancing upcoming debt maturities including the company's $450 million credit facility that comes due on June 15, 2002. The company's market access is currently constrained by CMS's need to restate its 2000 and 2001 financial statements to eliminate the effects of round-trip trading with other energy companies. The downgrades further reflect the difficulties CMS has had in executing an aggressive growth strategy and implementing exit strategies that provide real relief from the financial strains that have resulted. Cash flows from projects have not kept pace with the aggressive deployment of capital.

Moreover, asset sales are now required at a time when asset prices are expected to come under pressure because of the significant number of properties that are up for sale by other firms. The B2 senior implied rating of CMS Energy Corporation reflects its extremely weak financial flexibility. The B2 rating on its bank credit facilities reflects the likelihood that the banks will require repayment from the proceeds of the company's planned asset sales as well as a possible security interest in CMS's assets. The B3 rating on CMS's senior unsecured notes have been notched down to B3 to reflect the junior position to be afforded bondholders in that instance. Additionally, the ratings of the company's subordinated debt have been differentiated based on senior and junior priority of claims.

The Ba2 rating on the senior unsecured notes of Panhandle Eastern Pipeline Company reflect the likelihood that CMS will incur additional debt at this operating subsidiary in order to increase its own financial flexibility. Our rating action on Panhandle Eastern Pipeline Company is being taken to reflect the fact that its financial flexibility will likely be employed to provide CMS with additional liquidity in the near term. The company's balance sheet may provide additional borrowing capability for the company without the risk of violating its existing covenant requirements. We would anticipate the proceeds of any borrowings subsequently being advanced to CMS. The ongoing review of the Ba2 rating will consider the amount and terms under which such debt is obtained.

Should Panhandle incur new secured debt, than the rating on the senior unsecured notes will likely be lowered to reflect effective subordination to secured debt. The Baa3 ratings of Consumers Energy Company have been placed under review for possible downgrade. The level of retained cash that the utility generates relative to its debt supports the rating. We have initiated a review for possible downgrade rather than changing existing ratings as we have with the other companies because Consumer's relationship with the Michigan Public Service Commission is predicated on not leveraging up the company so as to provide a safety net for CMS. However, the ongoing review will take into account the extent to which the debt capacity and resources of Consumers Energy Company could be used as a source of credit support for CMS in increasingly difficult circumstances. Should this occur, then the debt ratings of Consumer Energy Company may be lowered.

Our review will focus on assuring that the historical financial policies remain intact and that the cash flows of Consumers remain isolated from the needs at CMS. In addition we will assess whether the financial condition of CMS could influence decisions at Consumers in an effort to provide for a larger dividend to the parent in spite of long term consequences for the bondholder. CMS Energy Corporation is a utility holding company based in Dearborn, Michigan. Its primary operating subsidiaries are Consumers Energy, a regulated utility serving electric and gas customers in western Michigan, and Panhandle Eastern Pipe Line, and interstate natural gas pipeline system stretching from the Gulf Coast through the upper Midwest.

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ATTACHMENT 6

Tuesday June 18, 11:26 am Eastern Time

Reuters Company News

Fitch may still cut CMS Energy ratings

(Press release provided by Fitch Ratings)

NEW YORK, June 18 - Fitch Ratings is maintaining a Rating Watch Negative on CMS Energy (NYSE:CMS - News; CMS) and its subsidiaries, Consumers Energy and CMS Panhandle Eastern Pipe Line Co. following the announcement that the company has reached an agreement with its lenders to extend a $450 million revolving credit facility through July 12th. CMS is now working on establishing a longer-term financing structure.

CMS' financial statements for 2000 and 2001 are being restated following the revelation that revenues and expenses were overstated in those periods due to 'wash trades' in the energy marketing and trading business. The SEC investigation of the 'wash trades' combined with CMS' engagement of Ernst & Young to replace former audit firm Arthur Anderson will likely complicate the refinancing of the expiring bank facility and $100 million of maturities at Consumers in 2002. While Consumers and PEPL are financially sound, the companies' financial condition and credit ratings may be adversely affected by the financial stress of their parent. Consequently, Fitch will continue to monitor the liquidity of CMS and the impact of CMS' problems on the credit of its subsidiaries.

CMS is a utility holding company whose primary subsidiaries are Consumers, a regulated electric and gas utility serving customers in western Michigan, and PEPL, which is primarily engaged in the interstate transportation and storage of natural gas. Unregulated activities include independent power production, oil and gas exploration and production and energy marketing, services and trading.

Ratings currently on Rating Watch Negative

CMS Energy Corp.
--Senior unsecured 'BB+';
--Preferred stock 'BB-'.

Consumers Energy Co.
--Senior secured 'BBB+';
--Senior unsecured 'BBB';
--Preferred stock 'BB+'.

Consumers Power Financing Trust I
--Trust referred securities 'BB+'.

CMS Panhandle Eastern Pipe Line Co.
--Senior unsecured 'BBB'.

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ATTACHMENT 7

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Wednesday June 19, 10:46 am Eastern Time

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CMS	13.43	-0.11

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Reuters Company News
S&P may still cut CMS Energy, subsidiaries ratings

(Press release provided by Standard & Poor's)

NEW YORK, June 19 - Standard & Poor's said today that its ratings on global energy provider CMS Energy Corp. and those of its subsidiaries Consumers Energy Co. and CMS Panhandle Pipeline Cos. remain on CreditWatch with negative implications, reflecting the company's extension of its revolving credit facility.

Michigan-based CMS Energy has about $8 billion in debt.

Standard & Poor's perceives no immediate effect on CMS Energy's credit quality from the extension of the $450 million revolving credit facility to July 12, 2002 from June 15, 2002.

"At issue will be what type of longer-term financing CMS Energy puts in place to repay about $300 million of the borrowings under the facility," noted Standard & Poor's credit analyst William Ferara.

CMS credit quality has become increasingly uncertain since the discovery of "round-trip" electricity trades conducted by its subsidiary, CMS Marketing Services & Trading Co. The round-trip trades resulted in the resignation of Bill McCormick, long-time chairman and CEO of CMS Energy, and have further eroded the firm's standing in the capital markets. In addition, uncertainty has arisen because of:

-- An SEC inquiry into the round-trip trades,

-- Plans to restate 2000 and 2001 financial statements, -- Arthur Andersen LLP's announcement that it will not comment on the company's restated financial statements,

-- The establishment of a committee by CMS' board of directors to investigate matters surrounding the trades, and

-- Shareholder class-action lawsuits.

CMS Energy may be forced to secure assets in one of its operating subsidiaries to obtain long-term financing. The company's willingness to use its operating subsidiaries to weather its current liquidity position may immediately affect credit ratings. Specifically, CMS Energy's potential actions regarding this long-term financing such that funds from its operating subsidiaries could be upstreamed to the parent indicates that in a stress scenario funds are fungible throughout the CMS Energy enterprise. This means that their risk of default would be the same.

Standard & Poor's will resolve the CreditWatch listing after examining the full effect of the round-trip trades and related issues that could negatively and materially affect CMS' credit quality. Further developments could result in a ratings downgrade for CMS Energy and subsidiaries. Likewise, if the situation is resolved without additional incidents, the CreditWatch listing will be removed and ratings affirmed.

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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.

Case No. **U-13000 (e-file)**

______________________________________/

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss
COUNTY OF INGHAM)

Mishelle R. Pagels, being first duly sworn, deposes and says that on June 24, 2002, she served a copy of **MICHIGAN PUBLIC SERVICE COMMISSION STAFF'S EXCEPTIONS TO PROPOSAL FOR DECISION** 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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Mishelle R. Pagels

Mishelle R. Pagels

Subscribed and sworn to before me
this 24th day of June 2002.

Linda S. Andreas

Linda S. Andreas, Notary Public
Ingham County, Michigan
My Commission Expires: 03/22/06