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)

MICHIGAN PUBLIC SERVICE COMMISSION STAFF'S REPLIES TO EXCEPTIONS

The following Replies to Exceptions address the Exceptions to the Proposal for Verizon filed by Consumers Energy Company ("Consumers" or "Company"), the Association of Business Advocating Tariff Equity ("ABATE"), National Energy Marketers Association ("NEMA"), and Metro Bureau Group Services, Inc. Gas Consortium ("Group Services").

Replies to Consumers Energy Company's Exceptions

A. Test Year, Rate Base, and O&M Expenses (Consumers Exceptions, pages 2-20)

Consumers' exception to the PFD because "The ALJ's Reliance On The Staff Position Is Misplaced" does not demonstrate any factual or legal error in the ALJ's findings or decisions, or even that the ALJ misunderstood the parties' positions, and should be rejected.

In this case, Consumers is asking the Commission to reject its own, well-established, regulatory principles consistently used to determine projected test year utility revenue requirements in rate proceedings, in favor of a new, untenable, management forecast approach.[1] Consumers would have the Commission believe that this new approach is simply a "less restrictive" interpretation of the Commission's known and measurable change standard.[2] In

[1] The Commission's history establishing its rate making policy on projected test year requirements is explained in detail in Staff's brief, pages 3-11.

[2] In fact, throughout its presentation, Consumers refers to its management forecasts as "known

reality this new approach is a major change to established regulatory principles that will have a long lasting negative impact on all future rate cases if adopted. The Staff believes this new regulatory principle proposed by Consumers should not be adopted. It is unfair to the utility ratepayers (Staff brief pgs 11-16) and Consumers failed to carry its burden of proof regarding the evidence necessary to support its forecasts on the record.[3]

Staff's case, which was based upon Consumers' own actions and decisions, was a complete and thorough analysis of the costs Consumers incurs to provide safe and reliable natural gas service.[4] Consumers seeks to go well beyond what it spends to provide safe and reliable service by requesting recovery of Company management forecasts that far exceed what any rational or reasonable increase in prices would provide. Consumers even increased its 2002 management forecasts from earlier forecasts which included more modest growth projections for 2001 and 2002, just prior to its rate case filing. (11 Tr 1802) Even worse, Consumers has a proven history of actually expending funds on O&M expenses at levels significantly below that provided for in the Company's gas and electric rates. (11 Tr 1804) Consumers offers absolutely no assurance that once it is provided recovery of unprecedented levels of construction and O&M expenditures in its gas rates, that it will actually go out and spend the money on gas utility programs. (6 Tr 690, 691,748; 7 Tr 1011; 11 Tr 1802) Such an outcome would be unreasonable given the statutory protections provided to Consumers through MCL 406.6a for partial and immediate rate relief and the Commission's recent findings in its interim order granting partial

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and measurable changes".

[3] Consumers alleges that the evidence it presented adequately supports its budget forecasts. Staff has already responded to each argument presented by the Company in its Exceptions, in the Staff's initial brief (17-23, 24-38) and reply brief (pgs. 7-10, 11-41). Staff will not repeat all of those arguments here.

[4] Consumers misstates, by understating, Staff's approach at page 5 of its exceptions. Staff responded to this previously in its reply brief, specifically at page 2, and throughout its replies.

and immediate rate relief in this case. Ratepayers have no similar protections for rate reductions if the Company decides to spend the money provided in this case on other priorities such as non-regulated operations or to fund cash needs of its parent, CMS Energy.

Consumers uses the first 28 pages of its exceptions to simply reiterate its original arguments on test year methods, construction budgets and O&M forecasts presented in its brief and reply brief. Staff has adequately responded to each of the arguments presented in its own initial brief and reply brief and will not repeat all those arguments here. Consumers' has not demonstrated any factual or legal error in the ALJ's findings or his decision to adhere to the Commission's practice of adopting only known and measurable changes as Staff presented in its case. Consumers attempts to make it appear as if Staff's approach is some obscure regulatory philosophy of the MPSC Gas Division Staff, or some type of unduly restrictive view of Commission policies by Staff (Consumers exceptions page 4). In reality, the Staff's case is simply an application of the Commission's well-established, regulatory policies adopted time and time again, in rate case after rate case. Policies that have stood the test of time because they are logical, and fair to the Company and to the ratepayer.

Staff's proposed ratemaking methodology in this case follows a Commission precedent in natural gas and electric cases that has worked well in the past. Consumers' has not provided any compelling reason why it will not work appropriately in this case. Consumers controls how and when it spends money, and when it seeks recovery of the costs it incurs. Consumers' witnesses in this case admit that they cannot guarantee that the funds they obtain in this case will be used to fund the programs as intended. Consumers offered no alternative means to provide assurances that the funds will be used as intended. For example, the alternative the Commission authorized, but was rejected by Consumers, in Consumers Electric rate case, U-9346 where revenues were authorized for projected management forecasts under bond and subject to refund if the Company failed to spend the full amounts provided. Recommending and granting rate increases is a significant event that will have a longstanding impact on all of Consumers' ratepayers. Including known and measurable changes as adopted by the Commission in the past instead of management forecasts is a reasonable way to approach rate relief over the long term and is fair to all parties involved.

B. Manufactured Gas Plant (MGP) Expenditures

The ALJ did not err by failing to adopt Consumers Energy's position concerning cost recovery of MGP expenditures.

Consumers addresses the recovery of MGP expenditures at pages 45-50 of its exceptions. Once again, the Company fails to provide any reasonable basis for exception to the PFD but simply reiterates its initial arguments presented in its initial post hearing brief and reply brief. Staff believes it has addressed every argument previously presented by Consumers in its own initial post hearing brief (pages 75-78) and reply brief (pages 47-51). The ALJ's adoption of the Staff position was fully supported by the evidence in this case. Staff's recommendation was based upon the Commission's own prescribed accounting and rate recovery mandated in Consumers' last rate case (Case No. U-10755), and should be adopted.

C. Capital Structure

The ALJ's Overall Cost of Capital and Capital Structure Should be Adjusted by the Commission to Exclude $150 Million of Equity Infusion in 2002.

Consumers discusses the issue of Capital Structure at pages 28-45 of its exceptions. The Staff does not find any merit to the exceptions and believes Consumers' comments have been addressed in Staff's Initial and Reply Briefs. Staff relies on the comments it has made in its prior briefs to refute Consumers' claims. As discussed on pages 11-17 of Staff's Exceptions to the

PFD and Staff's Reply Brief on pages 51-54, the appropriate common equity amount to be included in the capital structure is $2,006,237,000, not the $2,156,237 recommended by the ALJ. Staff continues to recommend the exclusion of the $150 million of equity infusion, made by CMS into Consumers on January 3, 2002, for the reasons stated in Staff's Reply Brief and Exceptions to the PFD. However, if the Commission determines that the $150 million should be included in the capital structure in this proceeding then Staff believes that Consumers and CMS must provide a written guarantee that the $150 million will remain in Consumers and not be returned through a dividend to CMS or returned through any method in the future. Staff recommends this because of its concern that Consumers may be used as a source of credit support for CMS. Consumers' credit ratings are under watch or review for possible downgrade by the credit rating agencies because of its parent company. Staff Attachment's 5,6, and 7 to its exceptions to the ALJ's proposal for decision highlight the credit agencies concerns.

The ALJ did not err in excluding the other interest bearing items category from the capital structure. As discussed in Staff's Reply Brief (page 54) Consumers has not proved why the items in the account exist and that they will continue to exist in the future. Further, Consumers is not being denied a recovery of the interest expense it is incurring by not including this item in the capital structure. The return that they are receiving is the ALJ's overall 7.25% weighted cost of capital, as opposed to Consumers' estimated cost of 9.83%. As stated by the ALJ, the Commission did not include this item in the last case and there is nothing that has been presented in this case which should change how it was handled in the last rate case. The other interest bearing items category should be treated consistently and has been properly excluded from the capital structure by the ALJ.

D. Cost of Long Term Debt and Short Term Debt

The ALJ's Long Term Debt Cost of 6.42% is Reasonable, as is the 3.11% Cost Rate for Short term Debt.

Consumers dismisses at pages 41-43 of its exceptions short term and long-term debt costs. The four mathematical corrections to Staff's calculation of long term debt suggested by Consumers assumes the use of the same variable rates used when Staff prepared its case in October, 2001 and not the rates that were in effect when Staff testified in this proceeding or when the record was closed in this proceeding. Staff made the mathematical corrections in its reply brief, as shown on Attachment A of Staff's Reply Brief, and used updated variable rates to recalculate a long-term cost of debt of 6.35%. Staff believes that the ALJ's cost rate may be reasonable, but Staff's recalculated 6.35% long-term debt rate is more up to date. The variable cost rates used by Staff in its calculation of long term and short term cost rates in this proceeding have declined since Staff testified and the record closed in this proceeding. It has been almost nine months since Staff prepared its case in this proceeding and the rates today are still lower than the rates used in Staff's calculation of those rates. For example, the June 26, 2002 Wall Street Journal shows the LIBOR rate to be 1.85%, as opposed to the LIBOR rate of 2.37% used in Staff's calculation. Staff thinks the ALJ erred by not using the 6.35% long-term debt cost as recalculated in Staff's Reply Brief.

E. Return on Common Equity

The ALJ was Reasonable in Recommending the Mid-point of Staff's Range on Common Equity of 10.75% to 11.25%.

The ALJ recommended that the authorized return on common equity be set at 11.00%, which was supported by the evidence in this proceeding. Consumers, at pages 28-41 of its Exceptions, discusses the cost of common equity and disputes the ALJ's recommendation. In

Staff 's reply brief, pages 56-60, most of the issues raised by Consumers have been discussed, but Staff feels it is appropriate to respond to certain statements made by the Company. The ALJ did not misconstrue the testimony of its witness Mr. Olsen, that the return on equity should be set at 17% to 22% in this case. Mr. Olsen's testimony was "Why should equity investors buy a 11%-12% ROE investment in an industry which has low growth, increasing risk, yet is still regulated, when they can buy a 17% ROE or higher investment in a non-regulated segment of Corporate America with similar risk characteristics to an LDC?" As most investors are aware, CMS Energy, Enron, World Com are just some examples of the many non-regulated companies who have lost 50% to 99% of their stock value since Mr. Olsen filed his testimony in this proceeding. The group of S & P 400 industrials used by Mr. Olsen have had a negative return the past two years and are negative for the first half of 2002. Mr. Olsen testified, "When the authorized ROE for the LDC is stationary or falling, that just makes the alternatives all the more attractive." Investors in World Com, Enron, or Tyco have realized the real risk in such investments, as opposed to the fixed ROE of regulated companies. The evidence presented by Mr. Olsen does not reinforce the reasonableness of the 12.25% return requested by Consumers Energy and certainly does not show that from an investor perspective the 11% return recommended by Staff is inadequate. In fact, Mr. Olsen's testimony verifies the real risk that non-regulated companies hold as opposed to a regulated LDC. Mr. Olsen's opinions in this proceeding were not misconstrued by the ALJ, his testimony is not thought provoking, and the Commission should give this testimony no weight in this proceeding.

An 11.00% return is sufficient to assure investor confidence so as to attract capital given the current cost of long-term investment. A 10 year long term treasury bill currently yields about 4.85% and an A rated utility bond yields about 6.85%, as reported by the Wall Street Journal.

The spread between Baa rated bonds is less than the current 415 basis points spread between 11.00% return and an A rated utility bond yield of 6.85%, but it is still sufficient to attract capital. CMS infused $150 million of equity into Consumers on January 3, 2002, after Staff's testimony was filed in this case, so the potential return was obviously adequate to attract capital.

The ALJ did not include flotation costs as proposed by Consumers in the 11.00% return on common equity recommendation. The ALJ did not err in that recommendation and did not understate the required return. Staff addressed this issue on page 54 of its initial brief. The cost for flotation expenses are company specific and new shares have been issued by Consumers or by its parent company CMS for Consumers. In fact, CMS has publicly stated that no new shares of CMS are to be issued in the future.

In conclusion, the ALJ's recommended return on equity of 11.00% is reasonable and should be adopted by the Commission in this proceeding. Consumers' exception does not discredit the ALJ's findings and does not provide any credible support for the argument that an 11.00% rate of return or equity is inadequate to attract capital. Consumers has not presented evidence that its current bond ratings will be impacted by the 11.00% return on equity recommendation. Staff presented, as Attachment C to its Reply Brief, a publication by Regulatory Research Associates Inc. which indicated that the average return allowed by state commissions for gas utilities in the year 2001 was 10.95%. The ALJ's recommendation is adequate and above the average return for gas utilities when everything is considered. The ALJ's recommendation is within a "zone of reasonableness" and should be adopted.

F. Company Use and Lost Gas.

Consumers' Exception Related to Company Use and Lost Gas Pertains Only to the Transportation Customer's Gas-In-Kind Percentage.

At p. 51 of its Exceptions, Consumers discusses the company use and lost gas issues in this case, but it is unclear whether the discussion pertains to sales or transportation customers, or both. Company use and lost gas costs for sales customers are added to total utility costs, and are collected from sales customers through the distribution charges of residential and general service customers. The company use and lost gas costs for transportation customers are not added to total utility costs; instead, transportation customers are charged a gas-in-kind percentage, which is applied to the volumes of gas that are delivered to Consumers by transportation customers' suppliers. Consumers conceded the correctness of Staff's position with regard to the amounts paid by sales customers (see Consumers' Brief at p. 82). Therefore, the Exception filed by Consumers would pertain only to the gas-in-kind percentage applied to transportation customers.

G. Residential Customer Charge

Consumers Errs by Challenging the ALJ's Decision not to Increase the Residential Customer Charge to $8.00.

At pp. 51-53 of its Exceptions to the PFD, Consumers continues its fight to increase customer charges for residential customers from $6.50 per month to $8.00 per month. The ALJ found that Staff's proposed residential customer charge of $7.50 per month was preferable (PFD, pp. 67-69). To support its proposed rate, Consumers continues to argue that labor overheads should be included in the calculation of monthly customer costs, even though this position is inconsistent with past practice, and the Commission rejected Consumers' identical arguments in the last Consumers' rate case, Case No. U-10755 (see Commission Order dated March 11, 1996 at p. 67). In addition to its previous discredited arguments, Consumers adds a new one, stating at

p. 53 that "…the Company's proposal is supported by the controlling legal authority…". This is a surprise, since Staff believes that the Commission Order in Case No. U-10755 is "the controlling legal authority", and Consumers' proposal was rejected by the Commission in that order. Consumers states that Staff's approach is inconsistent. Actually, it would be difficult to find an issue on which any party has been more consistent then Staff has been on this issue. As Consumers' witness Belknap points out at 11 Tr 1995, Staff's position is based on the Commission's Order in Case No. 4331 which was issued in 1973. Staff has consistently interpreted that Order as a Commission decision not to include labor overheads; the Commission has consistently supported Staff's interpretation. The Commission should uphold the ALJ's decision on this issue.

<u>Replies to NEMA's Exceptions</u>

The ALJ's finding that NEMA failed to provide evidence supporting its request is correct. NEMA takes exception to the ALJ's finding that NEMA "has failed to provide a specific description of the services it proposes to apply any backout charges", and that it sought to "require unbundling in the abstract". PFD, p. 90. Exceptions, p.1. Unfortunately, this is exactly what NEMA has done in this case. As Staff explained at pp. 73-74 of its Reply Brief, the Commission has been working for over two years to provide a forum for NEMA and other alternative service suppliers to make their case that their services could be "…provided separately, without adversely impacting the integrity, reliability, or safety of the LDC's gas system and [could] provide economic benefits by giving customers a choice in a competitive environment without causing costs disproportionate to potential savings." Staff Report, U-12550, September 22, 2000, page 10. NEMA puts the cart before the horse by failing to provide the Commission with any information about potential services that it would provide, but still insists that the backout cost of these nonexistent services be computed in this case. NEMA's exceptions should be rejected by the Commission.

<u>Replies to the Exceptions of ABATE</u>

A. The ALJ Was Correct to Reject ABATE's Proposed Cost of Service Study.

At p. 1 of its Exceptions, ABATE disputes the ALJ's rejection of ABATE's proposed cost of service study. ABATE argues that contrary to the ALJ's assertion that the rates in Case No. U-10755 for transportation Rates ST and LT were designed to cover the cost of transportation service, Rates ST and LT were overcharged in Case No. U-10755. ABATE further states that ABATE, Consumers, and the Staff are in agreement that transportation customers were overcharged in Case No. U-10755. This is not true. Staff completely rejects ABATE's characterization of the current transportation rates, as discussed in Staff's Reply Brief at p. 61. The three parties have recommended certain changes in allocations between rate classes; if these changes are approved by the Commission, transportation customers' rates would be reduced in the future. However, it is simply not true that the current Commission rates, which were designed to recover the calculated cost of service from each rate class, have in any way resulted in overcharges to transportation customers.

ABATE continues to argue for the use of a peak allocator for capacity costs, rather than the peak and average allocator supported by Staff and Consumers. ABATE's arguments ignore the evidence in Exhibit S-160 that Consumers' load study from U-10755 found that peak month usage by rate class is a good proxy for peak day usage by rate class.

ABATE also continues to argue that transportation customers should not be allocated any share of Consumers' promotional and uncollectibles expenses. ABATE ignores Staff's arguments in its Reply Brief at pp. 87-89, which Staff incorporates here by reference.

B. ABATE's Exception to the 1.72% Gas-in-Kind Factor Pertains Only to Transportation Customers.

At pp. 5-6 of its Exceptions, ABATE argues that if the Commission accepts Consumers' position on the percentage of company use and lost gas (1.72%), the higher percentage should only be applied to sales customers, not to ABATE's transportation rate customers. ABATE's "beggar-thy-neighbor" approach to arguing this issue ignores one key fact, i.e., Consumers has already conceded that Staff's percentage of company use and lost gas of 0.82% is appropriate to use for sales customers; only the percentage to be used for transportation gas-in-kind is still at issue. Staff has been arguing in its Brief and Reply Brief that transportation customers deserve the same treatment as sales customers, and should be assessed the same 0.82% rate as sales customers. However, since ABATE insists that its transportation customer clients should be treated differently than sales customers, and should be charged the current 1.03% rate rather than the lower 0.82% rate recommended by Staff, Staff will defer to the wisdom of ABATE's counsel and withdraw its recommended gas-in-kind rate.

<u>Replies to Metro Bureau Group Services, Inc. (Group Services) Exceptions:</u>

The ALJ's rejection of Group Services' proposals are correct. Group Services presented its exceptions to the PFD as nine separate exceptions. Although some of the exceptions are redundant, Staff will respond to each of them in order. While the ALJ addressed Group Services' issues regarding equitable cost allocation and rate design in the course of discussing those issues for all customers, he addressed Group Services' issues specifically at pages 74 through 77 of the PFD. Staff supports the PFD on all counts and would incorporate by reference the direct testimony and exhibits of its witnesses Mr. Aldrich and Mr. Collins and its arguments on brief and reply briefs on these cost of service and rate design issues.

Exception #1:

In this exception Group Services fails to clearly state an error or omission committed by the ALJ. Here Group Services claims that it provided sufficient evidence that the cost of service for schools is less than that for "other individual or classes of transportation customers". It further claims that no party challenged Group Services' position. Neither claim is accurate. In making this assertion Group Services did not reference any specific exhibit or testimony that demonstrates that its clients have a lower cost of service than other transportation customers. No party presented any cost of service analysis regarding the cost of providing service to schools on a stand-alone basis. The ALJ correctly rejected Group Services' claim because, "…Group Services has failed to show that the cost of service for schools is any less than for any other class of customers." If Group Services had presented such information, one would have expected Group Services to identify it in its exceptions, but there is no such information to identify. Ironically, Group Services acknowledges the lack of evidence to support its claim in its very next exception when Group Services claims it would be "unrealistic and impractical" for schools to spend the "$50,000 to $100,000" needed to obtain a cost of service study. Fortunately for Group Services' clients, a dedicated and professional Commission Staff did conduct a cost of service study to insure that Group Services' clients would pay only their fair share of Consumers' cost of providing service to its gas customers. It is the Staff's cost of service study and rate design that the ALJ appropriately recommended be adopted in the PFD.

Group Services attempts to compensate for a lack of evidence by arguing that certain costs should not be allocated to schools, such as uncollectibles expense. Group Services argues that schools are not a bad debt risk nor a flight risk so uncollectibles should not be allocated to them. Group Services fails to recognize that the allocation of uncollectibles is a well established matter in Michigan gas rate cases – all good paying customers must share in the burden of allowing the utilities to recover their bad debt expense because it is part of the utilities' overall cost of doing business. By definition those that cause the cost of bad debts to be incurred will not bear the burden of those costs. Schools are neither more nor less responsible than the other good paying customers who will pay for their neighbors' bad debts. It would be discriminating to exclude a select group of customers from expenses all other customers share.

Exception #2:

Group Services misunderstands the PFD recommendation regarding the need for a cost of service study. The ALJ was not suggesting that Group Services should spend $50,000 to $100,000 for a cost of service study. The ALJ found that if Group Services believes it is being treated unfairly in the Staff's cost of service study or Consumers' cost of service study, then it has the burden of proof. This burden can be met by an independent study or a specific critique of Staff's or Consumers' cost of service study. Group Services did neither, but asks that the Commission overturn the PFD based on what amounts to Group Services' hunch that its cost of service is less than that of others. There is no support for such a claim.

Exception #3:

This exception is really a continuation of the previous argument that someone other than Group Services should spend $50,000 to $100,000 to obtain a cost of service study that might demonstrate that Group Services' clients deserve a break. The problem with this approach is that if Staff were tasked to conduct such a study it would probably produce the same results as the one that it already conducted, objectively on behalf of all customers. Group Services, at the very least, would need to provide some guidance as to where Staff would need to modify its current cost of service study. There were no specific recommendations in the Group Services testimony, the testimony provided only general observations and unsupported opinion.

Exception #4:

This exception continues Group Services' misconception regarding the proper allocation of uncollectibles expense. (see reply to exception #1)

Exception #5:

The ALJ correctly noted that Group Services is not alone in asserting a pubic interest as a cause for seeking lower rates. Every party has a slightly different story to tell. While Group Services' clients may have a "statutory cap on revenues", the Staff finds this claim to be irrelevant with regard to what constitutes a fair rate to compensate the utility for its cost of providing service. Other customers also lack the guaranteed revenue that schools enjoy. Schools may have limited funds, but so do many ratepayers and in some cases they must choose between heating and eating. Staff believes that Group Services' concerns should be more properly addressed to those that are responsible for having capped the schools' revenue.

Exception #6: (See Reply to Exception #1)

Group Services' presentation was rather long and rambling, but can be boiled down to a couple of points – they think they are unique in needing relief and they believe they are less expensive to serve than other customers. The ALJ responded to those concerns. Specifically, at page 74 of the PFD, the ALJ acknowledged Group Services' claim that they do not present a bad debt or uncollectibles expense risk. The ALJ then states at page 77, that he finds Group Services has failed to show the cost of service for schools is less than for any other class of customers. In short, the ALJ found Group Services' presentation to be unconvincing in making its claims.

Exception #7:

The ALJ was correct in agreeing with Consumers' assessment that Group Services was in effect seeking income redistribution. Recall that Group Services claimed that there is a statutory cap on revenues for schools. It is axiomatic that government has no revenue except for that which it collects through taxes and fees. When government awards money to schools it is redistributing income. Adopting Group Services' position would require this Commission to acknowledge that the school revenue cap is insufficient and to compensate the schools for the presumed, although not quantified, shortfall by reducing Group Services' rates. The fact that Group Services would have the Commission justify the action based on reallocation of items such as bad debt expense does not lessen the impact of what Group Services is really asking for -- relief from the statutory revenue cap. The relief that Group Services is seeking would constitute a subsidy by allowing Group Services to avoid paying its fair share of Consumers' bad debt expense.

Exception #8:

This exception is too vague to respond to except to say the ALJ accurately summarized Staff's position.

Exception #9: Under this exception Group Services itemizes from A to G its wish list for this case. All of these wishes come under the heading of a special class for schools that provides more service at less cost than any other class. The ALJ correctly stated at page 77 of the PFD, that "Without verifiable evidence that the cost to serve schools is actually less then the granting of Group Services request would shift the cost to another class of customers." Furthermore, Group Services has shown no compelling reason for this Commission to usurp the legislature's authority to limit school funding and to provide additional compensation as a matter of public interest.

For the reasons stated above, Staff recommends that the Commission reject Group Services' exceptions to the PFD.

Respectfully Submitted,

MICHIGAN PUBLIC SERVICE COMMISSION STAFF

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DATED: July 8, 2002

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)

Pamela A. Walters, being first duly sworn, deposes and says that on July 8, 2002, she served a copy of **MICHIGAN PUBLIC SERVICE COMMISSION STAFF'S REPLIES TO 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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Pamela A. Walters
Pamela A. Walters

Subscribed and sworn to before me
this 8th day of July 2002.

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