Thomas C. DeWard
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July 3, 2002

Ms. Dorothy Wideman
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
P.O. Box 30221
Lansing, MI 48909

MICHIGAN PUBLIC SERVICE COMMISSION
JUL 9 2002
FILED

RE: Consumers Energy Company General Rate Case:
MPSC Case No. U-13000

Dear Ms. Wideman:

Enclosed for filing please find the original and four copies of Thomas C. DeWard's Response to Exceptions to Proposal for Decision in the subject proceeding.

I will be sending a Word file to be filed electronically via email on July 5, 2002.

I have also included a PROOF OF SERVICE.

Sincerely,

Thomas C. DeWard

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

Response to Exceptions to Proposal For Decision

Continuing with my exercise in futility, I submit my Response to the Exceptions to the Proposal for Decision. Obviously, there is little to say in direct response to the Exceptions because the Administrative Law Judge totally ignored my issues and thus no one needed to take Exception. However, some comments need to be made.

The Commission Cannot Grant Any Rate Increase Until it Makes a Complete Investigation of the Matters that Lead to the Increased Cost of Gas. The Interim Rate Increase Should be Rescinded and Refunds Ordered.

The major element contributing to the rate increase request is the return requirement associated with increases in the cost of gas stored underground. The cost of gas started to increase in 2000 and continued through early 2001. The Commission must determine if the increases in the cost of gas were market driven or contrived by Enron and others. In a Press Release dated May 24, 2002, CMS Energy Corporation ("CMS") admitted to the following: "The other $900 million of revenue and expense which was reclassified resulted from an incomplete round trip gas trade." This was in context of a restatement by CMS of $4.2 billion in revenue and expense in 2001, of which $3.4 billion related to round trip power trades.

The Commission must determine if all of the round trip trades have been reported and what effect, if any, the trades had on the cost of gas. It should be obvious that round trip trades have a dual purpose. To inflate revenues and to drive up prices. Of course, these trades also resulted in bonus payments being made to the CMS affiliate officer who engineered these trades.

CMS and its accountants unbelievably claim these round trip trades were not illegal. Of course, Arthur Andersen were CMS's accountants so one must consider the source. What about the possibility of a conspiracy to artificially drive up the price of energy and gas? California is not the only state to suffer from what is increasingly looking like a massive conspiracy on the part of energy traders of all forms.

I'm amazed that the Michigan Public Service Commission and the Attorney General has not launched a complete investigation of this entire matter. That's the job of the PSC and the AG--to protect the ratepayers. The possible artificial inflating of the price of gas has already impacted ratepayers through the higher cost of gas being passed directly to ratepayers since April 1, 2001.

In the Press Release, CMS admits that revenues were overstated by $1 billion in 2000. According to the PR, these sales are reported as an overstatement of power revenues. That's what CMS says. I have not as yet seen any independent verification. Is it just coincidence that these "harmless", "legal" round trip trades began in 2000 and that is when the price of gas began to increase? Can ratepayers be assured that they have not already paid millions in excessive rates because of the artificial increase in the cost of gas?

Perhaps CMS describes the $900 million round trip trade in 2001 as incomplete as someone realized that Consumers Energy Company ("Company") had frozen the price of gas in rates through March 31, 2001 and thus the timing of the trade would adversely impact an affiliate. Does anyone know what an Incomplete trade is and why, if it is incomplete, must revenues be restated?

There are too many unanswered questions to go forward with this case. If the Commission and Attorney General will not look out for the interests of ratepayers, who will?

The Company and Staff Collaboration to Straighten Out the Administrative Law Judge "Errors" Must be Stricken from the Record.

It's sad indeed that the Staff must collaborate with the Company to correct the record to adjust the numbers to "agree" with the ALJ's "intent". The joint exhibit should be stricken from the record. This shows how woefully inadequate the Proposal for Decision was but a joint exhibit adds a degree of credibility to the numbers that is misplaced. As bad as the PFD is, only the ALJ knew his intent when he wrote the PFD. Although the Staff attempts to suggest that the ALJ erred in his decision, it appears that there is a new starting point that significantly changes the revenue requirement. Thus the Exhibit must be stricken. Furthermore, I am not aware of any other parties being asked for input in the development of this Exhibit.

Other Adjustments

Obviously my adjustments were not given any serious consideration because that was the easy way out. My adjustments make sense and they cannot be ignored. They are based on strong regulatory principles. If the ALJ had taken the time, he would have come to the same understanding as I did. Namely, that current rates are overstated and should be reduced, not increased.

The parties spend a considerable amount of time discussing whether or not the $150 million equity infusion should be included in the capital structure. Every party seems to be oblivious to the fact that the capital structure must be synchronized with rate base. Neither the Staff nor the Company attempt a reconciliation. Had this basic principle been applied, it would have been obvious there is a considerable gap. The Company is requesting (a request that must be denied) that rate base be increased by hundreds of millions of dollars for the increase in the cost of gas stored underground. The Company is intent to ignore this while the Staff appears to be oblivious to it. Logically, gas stored underground, which fluctuates throughout the year is financed with short-term debt. The cost of this debt is at all time lows. If my adjustment is not made, the revenue requirements will be significantly overstated because the increases in gas stored underground balances are implicitly financed with the overall capital structure proposed by the Company and Staff. That is a blatant error and must be corrected.

The Company capital structure is incorrect and violates the Internal Revenue Code because it does not include the deferred taxes that have been paid through rates.

The return on common equity is significantly overstated. One only has to compare today's markets with the markets in effect when the Company was granted a return on equity of 11.60%. My recommended return of 8.60% is reasonable. The Commission must not bail out the Company in an attempt to shore up the parent company. It's now obvious that the debt ratings of the Company are adversely effected by the risk associated with the parent company and its affiliates. Thus ratepayers are already paying higher rates because of the inflated cost associated with long-term debt. Thus the return requirements on common equity must be reduced by the 50 basis points I recommend.

All of my adjustments are detailed in my testimony and Exhibit I-166. Each adjustment is summarized on Schedules 1 and 2. If the Commission does not address each of my issues, the revenue requirement will be significantly overstated. Of particular importance are my adjustments to sales revenues, miscellaneous revenues, jobbing income, accounts receivable financing expense, executive perks and bonus expense. My sales adjustment is based on the information the Company files with the SEC. Certainly the Company would not file misleading or inaccurate information to the investing public similar to that filed by its affiliate. Accounts receivable financing expense must be adjusted based on the dramatic drop in the cost of borrowing. I am confident that, unlike the ALJ, the Commission will fully discuss and evaluate each of my proposed adjustments.

One Commission Bail Out is Enough

The Commission has already bailed the Company out once. Commission action saved the Company $115.8 million. At the same time, an affiliate of the Company was inflating sales and perhaps the cost of gas by generating phony round trip trades. The AG has proposed that the costs of the higher cost of gas stored underground resulting from the base gas transfer be shared equally between the Company and ratepayers in proportion to the savings realized. It is now questionable whether the ratepayers realized any savings. It appears that Enron and others artificially inflated the price of gas. Thus, the only savings was from an artificial level as a result of perhaps illicit activities. This is just another reason that the cost of gas is artificially overstated. The AG's proposal should be given serious consideration.

Conclusion

The Commission must conduct a complete investigation of the reasons behind the spike in gas prices in late 2000 and early 2001. Until that is completed, no action should be taken in the pending case. The interim rate increase that was exclusively based on the increase in the cost of gas underground should be rescinded and refunds ordered. If the Commission decides that the case must go forward, any and all effects of the increases in the cost of gas stored underground must be removed from the case. These issues can be dealt with when the investigation is complete.

Thomas C. DeWard
July 3, 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 other relief.	)))))	MPSC Case No. U-13000

PROOF OF SERVICE

On July 3, 2002, I will place in first class mail Thomas C. DeWard's Response to Exceptions to Proposal for Decision in the subject proceeding. Please note only one copy is being sent to Robert A W Strong and Craig G. Goodman. No copy is being sent to Leland R. Rosier and Stacey L. Rantala.

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Thomas C. DeWard, July 3, 2002.

Thomas C DeWard