

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of
DTE GAS COMPANY for authority to
increase its rates, amend its rate
schedules and rules governing the
distribution and supply of natural gas,
and for miscellaneous accounting authority.

Case No. **U-21291**
(**e-file paperless**)

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

**MICHIGAN PUBLIC SERVICE
COMMISSION STAFF**

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I. Introduction

In accordance with the schedule put forth in the September 4, 2024 Proposal for Decision (PFD), the Michigan Public Service Commission Staff (Staff) files the following reply to exceptions in DTE Gas Company's (DTE Gas' or the Company's) application to increase rates for the supply of natural gas.

Staff replies for the limited purpose of responding to exceptions from the Company, Michigan Power Limited Partnership (MPLP), the Association of Businesses Advocating Tariff Equity (ABATE), and the Frontline Organizations (FLO).

Due to the volume of material covered in this case, and reflected in the PFD, it is particularly important to note that Staff's silence on any matter should not be taken as a change or waiver in Staff's position. With that said, Staff provides the following replies to various exceptions filed by the Company and Intervenors.

II. Arguments

A. To the extent the Commission accepts the Company's request to incorporate all its filings in its exceptions, the Commission should also incorporate others' filings in their replies.

The Company attempts to incorporate the entirety of its filings in the instant case into its exceptions. (DTE Gas' Exceptions, p 2.) To the extent the Commission accepts this incorporation, the Commission should incorporate any filings made by any party responsive to the incorporated filings as part of these replies. In the alternative, the Commission should limit its consideration to supplement a party's

exceptions only to the record testimony, exhibits and the initial and reply briefs in so far as they differ.

B. Staff Replies to the Company's IT Exceptions in support of the ALJ's conclusion.

The PFD, at pages 42—45, agreed with Staff's recommendation for a 20% disallowance of costs related to IT projects with Level 2 Cost Estimates, concluding at page 45:

Staff's approach in determining the disallowance is consistent with those previously approved by the Commission. Moreover, DTE has not effectively rebutted Staff's assertions in support of the disallowance. [PFD, p. 45.]

In exceptions, DTE Gas disagrees with the PFD, at page 45, claiming the PFD was "silent" on the "rigorous" Annual Planning Cycle (APC) process the Company uses to develop its IT cost estimates, and that the PFD fails to acknowledge Staff's "factual misstatement" that "Level 2 cost estimates are obtained prior to a comprehensive review." (DTE Gas' Exceptions, pp 13—14.) Staff did not make a misstatement, nor did the PFD ignore the Staff.

The Company goes on to state that the PFD's recommendation should be rejected because DTE Gas demonstrated on the record that Level 2 cost estimates are developed through comprehensive reviews and input from subject matter experts and other cross-functional IT teams based on scope, technology, historical data, and vendor quotes. (DTE Gas' Exceptions, pp 13—14.) Staff submits that the inputs, as presented, are not sufficient to justify the request.

Staff agrees with the PFD and maintains its recommendation to disallow capital expenditures of \$0.63 million in the 9 months ending 9/30/2024 and \$1.13 million in the test year ending 9/30/2025, as well as Operations and Maintenance (O&M) expenses of \$0.12 million, for IT projects with Level 2 cost estimates. Staff opposes DTE Gas' claim that Staff misstated that Level 2 cost estimates are obtained prior to a comprehensive review. While DTE insists Level 2 cost estimates are developed through comprehensive reviews, Staff emphasizes that the Company has not completed the review process and, therefore, the reviews are not comprehensive at this time. According to Company testimony in its last electric rate case, which includes a timeline, further reviews take place between the time a Level 2 cost estimate is developed and the year or more later at the time of execution. (MPSC Case No. U-21297, Revised Direct Testimony of Pankaj Sharma, 5 TR 1822, Figure 1.)¹ Under this timeline, the Company's further reviews could result in a change to the project or estimate. This means Level 2 cost estimates have not fully completed the review process, and the estimates are therefore, not complete, nor comprehensive enough to be deemed prudent for full recovery as currently projected. DTE Gas does not state that the numbers are final.

Additionally, Staff disagrees with DTE Gas in its exceptions at page 14 that it demonstrated on the record that Level 2 cost estimates are sufficiently developed through comprehensive reviews and input from subject matter experts and other cross functional IT teams to warrant full recovery of the requested amounts.

¹ The PFD captures this timeline at page 42.

Simply stating this on the record does not provide evidence of the accuracy of Level 2 cost estimates without any explanation as to how it makes the cost estimates more precise or any data to show that Level 2 cost estimates are accurate in comparison to actual costs.

In exceptions, DTE Gas also notes that Staff's approach of recommending a 20% disallowance to the O&M of a project with a Level 2 cost estimate, consistent with the 20% capital expenditure disallowance, is inappropriate. It states that this applies a general rule to O&M reductions rather than considering the specific nature of O&M expenses. (DTE Gas' Exceptions, p 13.) Staff disagrees with this assessment. Each IT project is provided with an O&M cost estimate as well as a capital expenditure cost estimate as shown in Exhibit A-12 Schedule B5.15. If the project is in the phase with a Level 2 cost estimate, then the O&M cost estimate is as immature as the capital cost estimate.

For this reason and those discussed above, Staff recommends the Commission approve the ALJ's decision on this matter and adjust the Company's Level 2 cost estimate projects by \$0.63 million in the 9 months ending 9/30/2024 and \$1.13 million in the test year ending 9/30/2025, as well as O&M expenses of \$0.12 million.

C. Contrary to MPLP's Exceptions, the ALJ correctly held that the Average and Peak (A&P) Method is the appropriate way to allocate distribution mains.

In exceptions, MPLP argues that the A&P method is not the correct way to allocate mains. (MPLP's Exceptions, pp 5—10.) ABATE made similar arguments

in its exceptions. (ABATE's Exceptions, pp 5—10.) Both parties merely repeat arguments made in briefing and testimony that were effectively rebutted by Staff and the Company, as recognized by the PFD. (PFD, pp 325—357, 360—361.) The ALJ ruled correctly on the matter based on an appropriate consideration of the record. For this reason, as well as those in the record cited by the PFD, Staff recommends that the Commission adopt the PFD and accept the A&P method for allocating mains.

D. Lost and Unaccounted For (LAUF), Company Use (CU), and Gas in Kind (GIK) should all be recalculated based on Commission decisions on cost of gas and sales volumes.

The Company states in its exceptions that GIK must be adjusted to comport with the ALJ's decision on LAUF. (DTE Gas' Exceptions, p 54). Staff argued in its exceptions that LAUF, CU, and GIK gas should all be recalculated based on Commission decisions regarding cost of gas and sales volumes. (Staff's Exceptions, p 9). Whether the Commission adopts the ALJ's recommendation or another party's position on cost of gas and sales volumes, Staff recommends that the dollar amounts for LAUF, CU, and GIK be recalculated for the final order based on those decisions.

E. Exceptions related to the alternate Cost of Service (COS) should be rejected.

MPLP and the Company both excepted to use of the alternate COS, repeating arguments made in testimony and briefing. (MPLP's Exceptions, pp 11-13; DTE Gas' Exceptions, pp 55-56.) These exceptions should be rejected for the reasons

given in Staff's briefing on the issue. (Staff's Initial Brief, pp 68—69; Staff's Reply Brief, pp 13-14.)

F. MPLP's recommended change to the treatment of other distribution costs should be rejected.

MPLP repeats arguments made throughout the instant case on the appropriate treatment of other distribution costs, regarding both allocation and a separate charge for certain customers. (MPLP's Exceptions, pp 13-19.) These arguments should be rejected for the reasons given in Staff's briefing on the matter (Staff's Initial Brief, pp 69—70; Staff's Reply Brief, pp 21—23) and as noted in Staff's Exceptions. (Staff's Exceptions, p 10.)

G. The Company's exception related to certain "improvements" or "corrections" to the Staff's uncollectible expense calculation should be rejected.

The Company excepts to the ALJ not incorporating the Company's proposed use of projected revenue in Staff's uncollectible expense calculation, claiming the PFD failed to address the Company's arguments on same. (DTE Gas' Exceptions, pp 52—53.) The exception should be rejected for the reasons given in Staff's briefing. (Staff's Initial Brief, pp 63—64.)

H. FLO's exceptions to the PFD on its proposal to further increase the Low Income Assistance (LIA) credit should be rejected.

In its exceptions to the PFD, FLO asserts that the underpinnings of the ALJ's decision to increase the LIA credit due to the increase not incurring costly expenditures also applies to FLO's recommendation to increase the LIA beyond the

company-proposed \$10 increase. (FLO's Exceptions, p 11.) The Commission should reject this assertion, since further increasing the LIA credit has a material impact on non-participating customers' rates, whether it is an "expenditure" or not.

I. FLO's Exceptions to the PFD on timing of major changes to assistance programs should be rejected.

FLO takes exception to the PFD's recommendation allowing the work of the Energy Affordability and Accessibility Collaborative (EAAC) to properly inform the Commission before major changes are made to assistance programs. (FLO's Exceptions, pp 5—7.) Staff argues the PFD properly considered the record on this matter and came to an appropriate conclusion. (PFD, pp 387—394.) As stated, the PFD agreed with Staff "that collaborative discussions with interested/invested parties in the EAAC workgroups as well as all investor-owned utilities will lead to the most informed positions and decisions on this matter and that any final assessments and changes by the Commission should await the completion of the work by the EAAC." (PFD, pp 393—394.) For these reasons and those cited in the record referenced by the PFD, the ALJ's decision on this matter should be accepted by the Commission. However, Staff maintains its exceptions to the PFD that the LIA credit amount should not be increased and to instead allow energy assistance reform to be streamlined through the Commission's Affordability, Alignment, and Assistance subcommittee.

III. Conclusion

For the reasons discussed above, Staff requests that the Commission consider its replies to the various exceptions taken to the PFD. Further, Staff requests that its positions and recommendations above and as stated elsewhere in this proceeding be adopted by the Commission.

Respectfully submitted,

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Collective and We Want Green Too**

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De Ann Payne

Subscribed and sworn to before me
this 7th day of **October, 2024**.

Cherie A. R. Shea, Notary Public
State of Michigan, County of Jackson
Acting in the County of Eaton
My Commission Expires: 04-13-31