STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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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

At the November 7, 2024 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. Daniel C. Scripps, Chair
Hon. Katherine L. Peretick, Commissioner

ORDER

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I. HISTORY OF PROCEEDINGS

On January 8, 2024, DTE Gas Company (DTE Gas)[1] filed an application in this case requesting authority to increase its retail rates by approximately $266 million,[2] effective as early as October 1, 2024. DTE Gas also requested other forms of regulatory relief, including amendments to its rate schedules and the approval of its revenue decoupling mechanism (RDM), investment recovery mechanism (IRM),[3] and various accounting proposals. The company is currently providing service pursuant to rates established by the December 9, 2021 order in Case No. U-20940 (December 9 order). DTE Gas's application, p. 1.

DTE Gas stated that the rate increase requested in this case is based on the projected 12-month period of October 1, 2024 through September 30, 2025. The company explained that its revenue deficiency was calculated using the historical data from the 12-month period ended December 31, 2022, that was then normalized and adjusted for known and measurable changes to arrive at the projected test year. According to DTE Gas, the projected test year includes capital expenditures, increases in operations and maintenance (O&M) expenses, and capital structure cost changes.

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[1] Along with DTE Gas, DTE Energy Company and DTE Electric Company (DTE Electric) are referenced a multitude of times in this case. The Commission notes that several parties and the administrative law judge refer to DTE Gas simply as "DTE," leading to confusion in some areas of the case as to which "DTE" entity is at issue. For purposes of this order, the Commission finds that when the parties and the administrative law judge use the acronym "DTE," it refers to "DTE Gas" and the terms are interchangeable. The Commission has provided information in brackets to distinguish between DTE Gas and other "DTE" entities, where necessary.

[2] In its application, DTE Gas stated that "[b]ecause $106 million of the revenue deficiency is already reflected in rates via the existing infrastructure surcharge, the net increase to current customer rates is $160 million." Application, pp. 2-3.

[3] Some parties refer to the IRM as the "investment recovery mechanism," while others throughout this case have referred to it as the "infrastructure recovery mechanism." For the purposes of this order, the Commission considers them to be interchangeable.

In its application, DTE Gas contended that the rate increase "is necessary to allow the Company to continue providing safe and reliable gas service, to meet customers' service quality expectations, and to allow the Company a reasonable opportunity to recover its costs of operation including a reasonable rate of return [(ROR)] beginning in October 2024." DTE Gas's application, p. 2. DTE Gas proposed a return on equity (ROE) of 10.25%, a permanent capital structure of approximately 51.5% equity and 48.5% debt, and annual inflation factors of 3.2% in 2023, 2.9% in 2024, and 2.2% in 2025. DTE Gas's application, p. 4.

On February 8, 2024, Administrative Law Judge Jonathan F. Thoits (ALJ) conducted a prehearing conference at which the ALJ granted petitions to intervene filed by the Association of Businesses Advocating Tariff Equity (ABATE); Billerud Americas Corporation (Billerud); the City of Ann Arbor (Ann Arbor); Dearborn Industrial Generation L.L.C.; Environmental Law and Policy Center of the Midwest,[4] Ecology Center, Inc., Union of Concerned Scientists, and Vote Solar (collectively, the Clean Energy Organizations or the CEOs); Michigan Environmental Council, Citizens Utility Board of Michigan, Sierra Club, and Natural Resources Defense Council (MNSC); Michigan Power Limited Partnership (MPLP); Retail Energy Supply Association (RESA); and Urban Core Collective, We Want Green, Too, and Soulardarity (collectively, the Frontline Organizations or FLO). The ALJ acknowledged the notice of intervention filed by the Michigan Department of Attorney General (Attorney General). DTE Gas and the Commission Staff (Staff) also participated in the proceeding. A schedule for the case was established by the ALJ in accordance with the 10-month timeframe set forth in MCL 460.6a(5).

[4] Although typically referred to as the Environmental Law & Policy Center, or ELPC, the entity's name per the Office of the Illinois Secretary of State is the Environmental Law and Policy Center of the Midwest.

On February 12, 2024, the ALJ adopted a protective order for use in this matter.

On March 19 and April 24, 2024, DTE Gas filed revised testimony and exhibits. On May 7, 2024, direct testimony and exhibits were filed by the Staff, the Attorney General, ABATE, Ann Arbor, the CEOs, FLO, MNSC, and MPLP. On May 9, 2024, the Staff filed an amended exhibit and the CEOs refiled testimony and exhibits. On May 28, 2024, DTE Gas filed direct testimony and exhibits that adopt the previously filed direct testimony and exhibits of another DTE Gas witness. On May 29, 2024, DTE Gas, the Staff, ABATE, the CEOs, FLO, and MPLP filed rebuttal testimony. The Staff filed revised direct testimony and exhibits on May 30, 2024. On June 5 and 13, and July 3, 2024, MPLP, DTE Gas, and ABATE, respectively, filed revised rebuttal testimony. Evidentiary hearings were held on June 20, 21, and 24, 2024, wherein testimony and exhibits were bound into the record and cross-examination took place. Thereafter, the parties filed initial briefs on July 16, 2024,[5] and reply briefs on July 31, 2024.

The ALJ issued a Proposal for Decision (PFD) on September 4, 2024. On September 25, 2024, DTE Gas, the Staff, the Attorney General, ABATE, Ann Arbor, the CEOs, FLO, MNSC, and MPLP filed exceptions.

In exceptions, the Attorney General states that in footnote 3 on page 5 of the PFD, the ALJ noted that the briefs filed by DTE Gas, the Staff, the Attorney General, ABATE, Ann Arbor, the CEOs, FLO, and MPLP did not comply with the requirements set forth in the February 8, 2024 scheduling memo. The Attorney General expresses several concerns regarding footnote 3: (1) the ALJ provided no explanation as to how the briefs failed to comply with the instructions, (2) the ALJ did not identify which part(s) of the non-conforming briefs were "disregarded," and (3) the

[5] Billerud filed a letter on July 16, 2024, stating that it would not be filing an initial brief.

requirements in the scheduling memo are burdensome, especially for intervenors who "are at a decided resource and time disadvantage." Attorney General's exceptions, p. 3 (citing PFD, p. 5). She contends that adding these requirements further dissuades participation by interested persons who are directly affected by utility rates.

The Commission notes that in the September 26, 2019 order in Case No. U-20322 (September 26 order), it addressed a similar issue and made the following finding:

> Pursuant to MCL 460.6a(5), the Commission must reach a final decision on a completed application to increase or decrease utility rates within a very strict 10-month timeframe. To assist the Commission in complying with that deadline, the administrative law judge is required to set a schedule for the proceedings, consistent with the Commission's Rate Case Filing Requirements, and is permitted to issue specific directives, pursuant to statute, the administrative rules, and the Michigan Court Rules, that may include limiting the length and content of reply briefs. If the parties choose not to comply with the administrative law judge's legally enforceable directives, the Commission acknowledges the administrative law judge's discretion to enforce those directives pursuant to law and the Michigan Court Rules.

September 26 order, pp. 5-6. The Commission finds that the above determination applies to the briefs filed in this case for the same reasons stated in the September 26 order.

The Commission appreciates that the 10-month deadline and corresponding scheduling memo present difficulty for intervening parties who "are already making extraordinary efforts to participate in, and pay for (through attorney's fees and expert services), these rate cases" and that the additional briefing requirements can be burdensome. Attorney General's exceptions, p. 4. The Commission also recognizes the challenges borne by the administrative law judge to "navigate, digest, and adjudicate" these cases, as noted by the Attorney General. *Id*., p. 3. The Commission expresses its appreciation to the administrative law judges for their work in managing these cases, even as the number of contested issues, the range of intervening parties, and the volume of record evidence continues to increase, and all within the 10-month statutory deadline for adjudication

established by the Legislature. Accordingly, the Commission continues to emphasize the importance of adhering to the instructions and procedures established by the administrative law judge pursuant to law, the administrative rules, and the Michigan Court Rules, and further encourages parties to limit their reply briefs, exceptions to the PFD, and replies to exceptions to issues in dispute, and not simply as additional opportunities to repeat their previous arguments.

At the same time, the Commission cautions that the interests of due process require an administrative law judge to inform a party why that party's brief failed to conform with the judge's instructions and to explain with some level of specificity which portions of the brief were disregarded. This is particularly relevant in a case such as this where the judge deemed that the briefs submitted by a majority of the parties were deficient (including the company, the Commission Staff, and the Attorney General, among others), and where no opportunity for a party to correct any deficiencies through the filing of a supplemental brief was provided. Finally, the Commission notes that it did fully review and consider each of the parties' briefs as part of its deliberations on the issues raised in this case.

In the introduction to DTE Gas's exceptions, the company notes that:

> each of DTE Gas's specific exceptions are explained in more detail below. DTE Gas attempts to be succinct in light of the Michigan Public Service Commission's (Commission) knowledge, expertise, and prior decisions. Further support for DTE Gas's positions and the reasons for those positions can be found in DTE Gas's Application (including Attachments), testimony, exhibits, Initial Brief (including Attachments A and B), and Reply Brief, all of which are incorporated by reference here.

DTE Gas's exceptions, p. 2.

The Staff replies that:

> [t]o 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.

Staff's replies to exceptions, pp. 1-2.[6]

The Commission notes that according to Mich Admin Code, R 792.10435(3) (Rule 435(3)):

> [e]xceptions and replies to exceptions must be supported by reasoned discussion of the evidence and the law. Exceptions and replies to exceptions containing factual allegations claimed to be established by the evidence must include a reference to the specific portions of the record where the evidence may be found. Materials incorporated by reference must be attached.

The Commission finds that physically attaching all materials that are incorporated by reference to exceptions and replies to exceptions may be burdensome for the parties and is likely to lead to a copious amount of duplicate documents in the docket. However, the Commission finds that it is of paramount importance that a party specifically cite to the portion(s) of the record where the evidence the party relies upon may be found. Not only are references to the record required by Rule 435(3), specific references to record evidence assist the Commission in complying with its statutory duty to issue a decision, based on persuasive evidence in the record, within the 10-month statutory deadline.

In addition, the Commission notes that according to MCL 24.281(3):

> without further proceedings, [a proposal for decision] shall become the final decision of the agency in the absence of the filing of exceptions or review by action of the agency within the time provided by rule. On appeal from or review of a proposal [for] decision[,] the agency, except as it may limit the issue upon notice or by rule, shall have all the powers which it would have if it had presided at the hearing.

In other words, the Commission may consider the entire record in the proceeding and is not limited to the data contained in exceptions and replies to exceptions. The Commission

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[6] The Staff's replies to exceptions are not paginated. The Commission clarifies that page 1 starts in natural order beginning with the first page following the Staff's cover letter.

emphasizes, however, if a party fails to file exceptions to a recommendation in the PFD, that party's objection is considered waived. *See*, Rule 435(2).

On October 7, 2024, DTE Gas, the Staff, ABATE, Ann Arbor, the Attorney General, the CEOs, MNSC, and FLO filed replies to exceptions.

The record consists of testimony from 53 witnesses contained within 2,696 pages of transcript, along with 533 exhibits, several of which also have a confidential version.[7] The ALJ provided an overview of the parties' positions and provided an extensive summary of the record for each disputed issue throughout the PFD, which will not be repeated in this order.

II. LEGAL STANDARDS

DTE Gas discussed the legal standards, including the Commission's jurisdiction over this case, the applicable standard of review, and rate setting legal requirements applicable to this case. DTE Gas's initial brief, pp. 7-13; *see also*, DTE Gas's reply brief, p. 2. Specifically, DTE Gas stated that it:

> has the initial burden of proving its case by a preponderance of the evidence. "[O]nce a utility has satisfied its initial burden of proof, another party 'may challenge that evidence and present evidence of unreasonableness.' However, at that point, the other party has the burden to demonstrate its position is correct."

DTE Gas's initial brief, p. 8 (quoting the October 25, 2017 order in Case No. U-18224, pp. 14-15 (October 25 order), and the January 11, 2010 order in Case Nos. U-15768 and U-15751, p. 38). In addition, the company asserted that "[t]he Commission has an obligation to facilitate DTE Gas's

[7] This docket also contains 12 public comments that are available for public viewing. *See*, Case No. U-21291, filings #U-21291-0001-CC through -0012-CC in the Case Comments portion of the docket.

financial health for the benefit of its customers and shareholders." DTE Gas's initial brief, p. 12 (footnote omitted).

In her reply brief, the Attorney General asserted that "DTE attempts to confuse the standard of proof the Commission and ALJ apply in evaluating the evidentiary record with the standard of judicial review used by a reviewing court. DTE does eventually acknowledge that it has the burden of proving its case by a preponderance of the evidence, which is the correct standard." Attorney General's reply brief, p. 2 (footnotes omitted).

Similarly, MNSC asserted that according to DTE Gas, the company has the initial burden of proof and that the burden shifts to the party challenging the company's position to demonstrate that the party's position is correct. MNSC stated that "[w]hen the burden of proving a fact falls on one party, the other party does not have the burden of proving the opposite fact. More recent Commission precedents have stated that the utility has the burden to prove its case by a preponderance of the evidence, regardless of what evidence other parties submitted." MNSC's reply brief, p. 2 (footnote omitted). Additionally, MNSC objected to DTE Gas's claim that when setting rates, the Commission must consider the utility's financial health to protect customers and shareholders. Rather, MNSC argued, the Commission's obligation is to set just and reasonable rates.

The Commission has addressed the issue of burden of proof in a number of cases, most recently in the July 2, 2024 order in Case No. U-21461 (July 2 order):

> The Commission agrees with the ALJ that other parties to the case do not have the same burden of proof as does the utility but reiterates that the Commission employs the preponderance of the evidence standard when making findings of fact or weighing conflicting evidence. The Commission is tasked with weighing and evaluating the evidence of each party to the proceeding and may choose the evidence that results in a reasonable and just outcome. The preponderance of the evidence standard may be appropriately applied to evidence offered by parties to the case that conflicts with the utility's evidence but should not be construed to

> mean that if the utility presents evidence, it may then shift the burden of proof to the parties to the case to disprove that evidence.

July 2 order, pp. 7-8; *see also*, October 25 order, pp. 14-15. The Commission's final decision in this case is based on a proper application of law and weighing of evidence in the record.

In addition, the Commission reiterates that it "does not have a duty to facilitate the financial health of a utility beyond ensuring that the rates of a utility are just and reasonable." July 2 order, p. 9 (citing MCL 460.557(4)). The Commission finds that the final decision in this case represents the appropriate balance between customer and shareholder interests in the ratemaking process of fixing just and reasonable rates, and ensures that the utility has the opportunity to earn a reasonable return of and on its investments in this matter. *See*, *Bluefield Waterworks Improvement Co v Pub Serv Comm of West Virginia*, 262 US 679, 690-694; 43 S Ct 675; 67 L Ed 1176 (1923); *Fed Power Comm v Hope Natural Gas Co*, 320 US 591, 603; 64 S Ct 281; 88 L Ed 333 (1944); *Michigan Bell Tel Co v Mich Pub Serv Comm*, 332 Mich 7, 38; 50 NW2d 826 (1952).

III. TEST YEAR

In developing its rates for this case, DTE Gas relied on a projected test year from October 1, 2024 through September 30, 2025. The company explained that it "used actual financial results from the historical test year ended December 31, 2022, as a starting point, and then normalized and adjusted those results for inflation and other known and measurable changes, to arrive at a fully projected test year revenue deficiency of approximately $266 million." DTE Gas's initial brief, p. 14.

ABATE objected to the company's use of a projected test year and argued that DTE Gas's proposed capital expenditures combined with the use of a projected test year is a major contributor to the company's excessive recovery of costs. ABATE explained that "the use of a projected test

year allows DTE to begin recovery of costs before those costs have been verified as being real and prudently incurred. This has had and continues to have several adverse impacts on customers." 4 Tr 1263; *see also*, ABATE's initial brief, pp. 4-9. Specifically, ABATE requested that the Commission not "approve cost recovery for the projects which have a very real risk of not being completed within the test year period" and, accordingly, should "remove the last six months of the Company's proposed capital investment for the projects," which would total approximately $40 million. ABATE's initial brief, p. 12.

ABATE contended that the Commission should instead approve a revenue requirement based on an historical test year, adjusted for known and measurable changes. However, if the Commission finds a projected test year to be appropriate, ABATE recommended that the Commission determine that "the expenses and investments being projected by DTE for its projected test year are truly expenses and investments that are necessary to provide reliable service at [the] lowest reasonable cost." 4 Tr 1268. In addition, ABATE requested that the Commission ensure that the company "is irrevocably committed to incur its projected expenses and investments or otherwise cannot avoid them," and that DTE Gas precisely quantifies the investments and expenses for the quarter that the amounts will be incurred. 4 Tr 1268. ABATE also reiterated its May 14 and August 11, 2021 comments and recommendations filed in Case No. U-18238, addressing rate case filing requirements. *See*, 4 Tr 1269.

In response, DTE Gas stated that the Commission has approved the current projected test year methodology for more than a decade and argued that the company has provided substantial support and justification for the projected expenditures and expenses in this case. DTE Gas also noted that MCL 460.6a permits a utility to "use projected costs and revenues for a future consecutive 12-month period," and asserted that according to the Michigan Supreme Court, courts and the

Commission must apply the plain language of a statute. DTE Gas's initial brief, p. 15 (quoting MCL 460.6a(1) and citing *In re Complaint of Rovas Against SBC Mich*, 482 Mich 90, 98; 754 NW2d 259 (2008)). Furthermore, DTE Gas objected to ABATE's request that the company be required to precisely quantify the projected investments and expenses for the quarter that the amounts will be incurred. The company explained that the Commission should reject ABATE's recommendation "because this would be an unreasonable and unnecessary waste of resources that would add further complexity (both for the Company, as well as the Commission and all parties) to an already voluminous and complex process, with no apparent benefit." DTE Gas's initial brief, p. 16 (internal citations omitted).

The ALJ recommended that the Commission approve DTE Gas's proposed projected test year. He stated that the time period for the projected test year is proximate to the case filing and the expected date of the Commission's order in this case, which is similar to those approved in previous Commission orders. The ALJ asserted that ABATE has not "specifically identified or explained which of DTE's estimates are flawed, nor otherwise shown that the projected test year is 'set so far removed from circumstances actually in view as to render it less than workable.'" PFD, p. 13 (quoting *In re Consumers Energy Company to Increase Rates*, 338 Mich App 239, 245; 979 NW2d 702 (2021)). In addition, the ALJ noted that MCL 460.6a permits a party to provide alternative expenditures, expenses, and supporting and sufficient evidence to demonstrate that the party's proposed test period is more reasonable than the test period proposed by the utility.

In exceptions, ABATE objects to the following finding in the PFD:

> as MCL 460.6a permits other parties to propose appropriate costs and revenues on a basis other than DTE's projections, it is incumbent on the party proposing a different test period to provide the revenue and expense amounts corresponding to that period, as well as evidence to show that the alternative test period is more just and reasonable than the utility's proposal or any proposal by any other party.

ABATE's exceptions, pp. 1-2 (quoting PFD, p. 12) (footnote omitted). ABATE disagrees with the ALJ's finding and asserts that if the utility does not provide sufficient evidence to support its projections, it is "not 'incumbent' upon another party to file anything at all." ABATE's exceptions, p. 2 (quoting PFD, p. 12). Moreover, ABATE argues that if a party requests that the Commission reject the utility's test year projections, the party is not obligated to provide alternative revenue and expense amounts. ABATE states that DTE Gas "has not carried its burden here and thus its proposed projected test year revenue requirement should be rejected, meaning its historic [sic] test year revenue requirement should be maintained with no increase." ABATE's exceptions, p. 3.

DTE Gas replies that its projected test year complies with the requirements of MCL 460.6a(1) and the required evidentiary standards. Thus, the company asserts that "ABATE's claim that the Company's historic [sic] test year revenue sufficiency was 'more generous than necessary to provide the Company a reasonable opportunity to earn its authorized return' cannot change the valid statutory authority for projected years." DTE Gas's replies to exceptions, p. 9 (internal citation omitted). In addition, DTE Gas notes that the Commission and the Michigan Court of Appeals have repeatedly rejected challenges to the projected test year methodology authorized by MCL 460.6a(1). Thus, the company requests that the Commission deny ABATE's recommendation to maintain DTE Gas's existing revenue requirement.

The Commission agrees with the ALJ and approves DTE Gas's projected test year from October 1, 2024 through September 30, 2025. MCL 460.6a(1) states that "[a] utility may use projected costs and revenues for a future consecutive 12-month period in developing its requested rates and charges." The statutory language is clear, and, unless its clear meaning leads to an absurdity, the Commission is bound by its dictates. *Dewan v Khoury*, 477 Mich 888, 890;

722 NW2d 215 (2006). Nonetheless, the utility bears the burden of substantiating its projections of revenues and expenses.

ABATE contends that a party recommending that the Commission reject the utility's test year projections is not obligated pursuant to MCL 460.6a(1) to propose an alternative test period. The Commission agrees. However, in this case, ABATE not only recommends that the Commission reject DTE Gas's test year projections, it also requests that the Commission approve an alternative test period: DTE Gas's historical test year. The Commission agrees with the ALJ that by recommending an alternative test period, it is incumbent upon ABATE "to provide the revenue and expense amounts corresponding to that period, as well as evidence to show that the alternative test period is more just and reasonable than the utility's proposal or any proposal by any other party." PFD, p. 12. Specifically, on this issue, the Commission has found that:

> [w]hen necessary, parties should provide competing projections, with a similar basis of support. The record thus created should lend itself to a comparative review of the reasonableness and prudence of the projections. Historical data may play a role, but ordinarily will not be the controlling factor except in circumstances that clearly demonstrate that it is a more fair and reasonable reflection of the utility's cost of service, relative to projected data.

November 2, 2009 order in Case No. U-15645, p. 9.

IV. RATE BASE

Rate base consists of the capital invested in utility plant, less accumulated depreciation, plus the utility's working capital requirements.

During briefing, DTE Gas adjusted its projected jurisdictional rate base from $6,944 million to $6,939.8 million for the test year to reflect "1) a reduction in working capital to adjust the deferred incentive compensation regulatory asset to reflect actual 2023 results and 2) a reduction in working capital for a Treasury clearing account balance included in error." DTE Gas's initial

brief, p. 16. The Staff calculated a jurisdictional rate base of $6,923 million for the test year. Staff's reply brief, Appendix A, line 1, column (e). Other parties also addressed rate base items, albeit individually.

Contested rate base issues are addressed *ad seriatim* below.

A. Capital Expenditures

1. Routine Capital Spending

As stated by DTE Gas, "[r]outine capital spending supports distribution, transmission, storage, and general plant assets." DTE Gas's initial brief, p. 18.[8]

a. Distribution Plant

i. Main Renewals

DTE Gas included $18.1 million of unplanned main renewal capital expenditures in this case ($5.8 million for the 12 months ending December 31, 2023; $7 million for the nine months ending September 30, 2024; and $5.3 million for the test year). 3 Tr 335; Exhibit A-12, Schedule B5.1, p. 2, line 3. Considering a three-year historical average of actual expenditures for main renewals from 2021 to 2023, adjusted for inflation, the Attorney General asserted that the company's projection for the nine months ending September 30, 2024, is excessive and overstated, thus recommending that $1.392 million be removed. 4 Tr 1437-1438; Attorney General's initial brief, pp. 13-15.

[8] The Commission notes that CUB takes issue with the company's routine investments for distribution plant, transmission plant, storage plant, and general plant capital expenditures overall, recommending broad disallowances for all of these cost categories based on an average of 2022 and 2023 historical data as a proxy for the test year. 4 Tr 944-946; Exhibits CUB-2, -3. Similar to the PFD, these recommendations are separately addressed below under General Intervenor Proposed Changes to Capital Projects. *See*, *infra*, pp. 59-60; *see also*, PFD, pp. 72-76.

Noting that the company did not appear to have responded, the ALJ agreed with the Attorney General and recommended that her proposed disallowance be adopted. PFD, p. 20.

No exceptions were filed on this issue.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 20.

ii. Service Renewals

DTE Gas included $32.5 million in service renewal capital expenditures in this case ($12.3 million for the 12 months ending December 31, 2023; $8.84 million for the nine months ending September 30, 2024; and $11.33 million for the test year). 3 Tr 345; Exhibit A-12, Schedule B5.1, p. 2, line 7. Per DTE Gas, the company expects to complete service renewals for 2,547 units in 2023; 2,546 units in 2024; and 2,656 units in 2025, resulting in projected costs of $4,830 per unit in 2023 and $4,446 per unit in 2024 and 2025. 3 Tr 345. Considering a three-year historical average of costs per unit for service renewals from 2021 to 2023,[9] using the company's actual unit cost of $3,716 for 3,107 service renewals in 2023, the Staff asserted that the company's projections in 2024 and 2025 are overstated, thus recommending a disallowance of $226,988 for the nine months ending September 30, 2024, and $301,917 for the test year. 4 Tr 1788-1790; Exhibit S-10.0, line 1, columns (f) and (*i*); Exhibit S-10.2; Staff's initial brief, p. 11.

Noting that the company did not appear to have responded, the ALJ agreed with the Staff and recommended that the Staff's proposed disallowance be adopted. PFD, p. 20.

No exceptions were filed on this issue.

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[9] As stated by the Staff, "service renewals capital expenditures are used for the reconnection of previously abandoned customer service lines." 4 Tr 1788.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 20.

iii. Leak Detection and Repair Notice of Proposed Rulemaking

As a result of the Notice of Proposed Rulemaking (NOPR) officially issued by the Pipeline and Hazardous Materials Safety Administration (PHMSA) on Leak Detection and Repair (LDAR) on May 18, 2023, with an anticipated effective date of March 1, 2025, DTE Gas included $15 million in LDAR capital expenditures for the projected test year in this case to comply with mandates therein. 3 Tr 363-364; Exhibit A-12, Schedule B5.1, p. 2, line 16.

The Staff argued that, aside from $6 million that the Staff asserted was supported by the company for the purchase of additional Picarro vehicle-based leak detection systems, the remaining capital expenditure amount requested by the company (approximately $9 million) should not be recovered until such time that the final rule is published and the actual effective date is known. 4 Tr 1792-1793; Exhibits S-10.0, S-10.3; Staff's initial brief, pp. 11-13.

The Attorney General asserted that the forecasted expenditures are premature and are not likely to occur in the amounts forecasted in the projected test year and that the company did not present a comprehensive plan as to how and when it will expand its current leak detection and repair program to be compliant with the final PHMSA LDAR rule. The Attorney General thus recommended a full disallowance of the company's requested capital expenditures in this case. 4 Tr 1447-1448; Attorney General's initial brief, pp. 24-26. DTE Gas partially rebutted the Attorney General's recommendation, arguing that the $6 million of expenditures for the procurement of the Picarro units is fully justified. 3 Tr 390-391; DTE Gas's initial brief, p. 25.

Altogether, the ALJ agreed with the Attorney General that the company's proposed expenditures are premature and thus recommended a full disallowance. The ALJ, in this regard, disagreed with DTE Gas and the Staff that the $6 million of expenditures for the procurement of the Picarro units is fully justified. The ALJ found that:

> [n]either DTE nor Staff offer any reason why this expenditure should be treated differently from the other LDAR capital expenditures; that is, why the Picaaro [sic] expenditures to be made in anticipation of future LDAR mandates should be allowed while other LDAR expenditures similarly to [be] made in anticipation of the same LDAR mandates are not.

PFD, p. 25.

DTE Gas disagrees and asserts that the ALJ's recommendation should be rejected. While acknowledging that the NOPR is not yet final, DTE Gas states that it is expected to go into effect during the projected test year, currently estimated for March 1, 2025. The company also disputes the ALJ's conclusion that no reason was offered to justify the $6 million in LDAR capital expenditures relating to the purchase of the Picarro units, emphasizing that:

> [a]s [DTE Gas's] Witness Abona explained, recovery of LDAR capital expenditures relating to the purchase of Picarro units is fully justified because the procurement was proactive. While the Company currently uses Picarro units for advanced leak detection in Southeast Michigan, there are currently no Picarro units in Greater Michigan. The purchase of Picarro units was in process prior to the issuance of the NOPR and is not dependent on the NOPR becoming final; rather, the purchase of Picarro units is crucial in supporting the Company's strategy to expand its leak detection capabilities in Greater Michigan to match those in Southeast Michigan. Staff agrees with the Company that the purchase of the Picarro units is a "prudent investment" and supports the Company's initiative to implement and expand the Picarro technology ahead of the NOPR becoming effective. In sum, the Company needed to purchase the Picarro units before the NOPR became final; otherwise, it would not be able to adhere to the LDAR mandates. As such, the Company maintains that its position is supported by the preponderance of the evidence on the record.

DTE Gas's exceptions, p. 9 (internal citations omitted).

Responding, the Attorney General asserts that DTE Gas provides nothing new in exceptions and that the company's arguments were fully rebutted by her in briefing and fully addressed by the ALJ in the PFD. The Attorney General highlights, as admitted by the company in exceptions, that the NOPR is not final yet, arguing that, "[i]n a world of projected test years, it is inappropriate to add further uncertainty into the mix by speculating on when a rule might be finalized" but that, "[e]ven when the rule *is* finalized, which again is unclear, it is unknown how soon thereafter the Company will be required to fully comply with the requirements within the new rule." Attorney General's replies to exceptions, p. 5 (emphasis in original). The Attorney General further asserts that the company's argument that the Picarro units should be treated differently from other LDAR capital expenditures is unconvincing, as correctly pointed out by the ALJ. Thus, per the Attorney General, DTE Gas's exceptions on this issue should be rejected and the ALJ's recommendation should be adopted.

The Commission agrees with DTE Gas and the Staff. Notwithstanding the expected regulatory changes because of PHMSA's pending NOPR on LDAR, the Commission agrees that the purchase of the Picarro units is a reasonable and prudent investment given that the record reflects that investment in the Picarro units reaches beyond mere compliance with expected regulatory changes but to also "enhance the company's leak detection capabilities, thereby ensuring safety and reliability in its operations." 3 Tr 390; *see also*, Staff's initial brief, p. 13. The Commission therefore approves cost recovery of $6 million in capital expenditures for the Picarro units in this case, while simultaneously disallowing the remaining approximate $9 million requested in this cost category at this time, notably considering the company's acquiescence to the same in testimony. *See*, 3 Tr 390. The company's O&M expenses and requested deferral mechanism associated with this issue are discussed elsewhere in this order below.

iv. Public Improvements

DTE Gas included $71.6 million in public improvement capital expenditures in this case ($32.2 million for the 12 months ending December 31, 2023; $19.9 million for the nine months ending September 30, 2024; and $19.5 million for the test year). 3 Tr 335; Exhibit A-12, Schedule B5.1, p. 2, line 4. Per DTE Gas, "[p]ublic improvement capital expenditures are driven by governmental agencies increasing their spending on infrastructure," meaning that "[w]hen a governmental agency decides to perform renovations in its right-of-way, if DTE Gas's facilities are in conflict, the Company is obligated to modify the affected gas facilities under the right-of-way agreement with the governmental agency, even if the affected Company assets still have significant remaining life." 3 Tr 337. Considering a three-year historical average of actual expenditures for 2021 to 2023, removing four major projects including the East Jefferson project and the Connor and I-94 project, then adjusted for inflation, the Attorney General asserted that the company's projections are excessive and overstated, thus recommending that $1.2 million for the nine months ending September 2024 and $2.6 million for the projected test year be removed. 4 Tr 1438-1440. Per the Attorney General, "[r]emoving major, outlier projects is a very appropriate measure to normalize costs" to "keep DTE to a more moderate level of spending." Attorney General's initial brief, p. 18. DTE Gas countered, arguing that the company's four largest projects should be factored in when forecasting capital expenditures, that excluding them is a flawed methodology that disregards significant projects and fails to capture the full spectrum of costs the company faces, and that these are extensive projects that are ongoing endeavors that will recur over time. 3 Tr 385-386; DTE Gas's initial brief, pp. 19-20. Per DTE Gas, "[e]mploying the [Attorney General]'s recommended multi-year historical average serves to moderate the fluctuations caused by spending that is either above or below the norm thereby resulting in

inaccurate public improvement capital expenditures" and should therefore be rejected. DTE Gas's initial brief, p. 20.

The ALJ agreed with DTE Gas, finding that the Attorney General did not provide a reasonable explanation for excluding the four major projects from the company's test year cost projections. The ALJ thus recommended that the Attorney General's proposed disallowance be rejected. PFD, p. 28.

Maintaining her recommended disallowance, the Attorney General objects and argues that the ALJ failed to provide any explanation for his finding other than stating that the Attorney General's witness failed to provide a reasonable explanation for excluding major projects from the company's test year cost projections in this case. Disagreeing with this finding, the Attorney General states that she:

> discussed this at length in her briefing, none of which appears to have been considered by the ALJ in reaching his determination. In specific response to *why* excluding four major, outlier projects from DTE's cost *projections* is appropriate, the [Attorney General] provided the following[:]
>
> > This is an example of why large utilities like to use a fully projected test year – they argue that larger and larger cost-inclusion is appropriate, based on what might possibly happen in the future. The risks are obvious – either it becomes a self-fulfilling prophecy, and the Company simply spends more and more, or customers shell out money for projects that never happen. Either way customers lose. Removing major, outlier projects is a very appropriate measure to normalize costs, and Mr. Abona's rebuttal to the contrary should be rejected. It is clear why DTE would want these to remain in, namely that they drive up Company recovery, but the Commission should see through that and keep DTE to a more moderate level of spending.
>
> Simply put, there is no indication from DTE that the four historical projects [the Attorney General's witness] Mr. Coppola removed are ongoing or are likely to recur in the projected test year. Such removal, in an attempt to normalize DTE's costs, is an appropriate method for calculating projected costs. DTE already gets the benefit of using a projected test year by putting forward forecasted costs that are more difficult to review, without the benefit of historical numbers to benchmark

> against. The Company should not be able to exploit that system further by avoiding commonsense normalization practices.

Attorney General's exceptions, pp. 5-6 (quoting Attorney General's initial brief, pp. 17-18) (footnotes omitted, emphasis in original).

Responding, DTE Gas asserts that the Attorney General's argument in exceptions fails because the ALJ's recommendation is fully supported by the record. Specifically, per DTE Gas:

> Contrary to the [Attorney General]'s assertion otherwise, the record contains clear evidence that these four projects are not "outliers" and are rather "ongoing" projects that could dramatically affect average capital expenditures. Specifically, the Company explained that these four projects are "extensive" and not isolated to a single year; rather, they are ongoing endeavors that will recur over time and therefore ought to be factored in when forecasting capital expenditures. The [Attorney General]'s claim that the Company included these costs to "drive up [] recovery" is mere conjecture and patently false. As the Company explained, the costs of these four projects were included to accurately capture the full spectrum of costs the Company faces.

DTE Gas's replies to exceptions, p. 12 (citing 3 Tr 385-386; DTE Gas's initial brief, p. 19) (third alteration in original). The company thus asserts that the Attorney General's exceptions on this issue should be rejected and that the ALJ's appropriate and fully supported recommendation for cost recovery of these projects should be adopted.

The Commission agrees with the ALJ's recommendation to reject the Attorney General's proposed disallowance on this issue. Upon review of Exhibit AG-4, the Commission is not persuaded that the four projects referenced by the Attorney General are truly meaningful outliers that will not be executed during the test year to warrant their exclusion from consideration in this cost category. While the expenditures are indeed high, the Commission has found that these costs are not outliers, that DTE Gas has supported the reason for these costs, and that they will be spent in the timeframe indicated. In this regard, the Commission finds DTE Gas's requested public

improvement expenditures reasonable and prudent based on the evidence and arguments provided by the company in this case.

v. System Reliability

DTE Gas included $101.8 million in system reliability capital expenditures in this case ($35.9 million for the 12 months ending December 31, 2023; $34.9 million for the nine months ending September 30, 2024; and $31 million for the test year). 3 Tr 346; Exhibit A-12, Schedule B5.1, p. 2, line 8. Per DTE Gas, the type of work that will be addressed by these expenditures is categorized as compliance, obsolescence, system growth, and overpressure protection. 3 Tr 346-347. Considering a three-year historical average of actual expenditures from 2021 to 2023, adjusted for inflation, the Attorney General asserted that the company's projections are excessive and overstated without justification and/or are premature for inclusion in this case because several projects are in the planning or early design phase, thus recommending that $7 million for the nine months ending September 2024 and $6.6 million for the projected test year be removed. 4 Tr 1440-1442; Exhibit AG-6; Attorney General's initial brief, pp. 19-20. DTE Gas disagreed, arguing that the increase in 2024 and 2025 is justified based on past coronavirus (COVID-19) pandemic disruptions and supply chain issues that have since resolved, along with regulator station needs and commitments to the Commission. 3 Tr 387; DTE Gas's initial brief, pp. 20-21.

The ALJ agreed with the Attorney General, finding that the company failed to rebut the Attorney General's assertion that several of the projects are premature for inclusion in this case. The ALJ thus recommended that the Attorney General's proposed disallowance be accepted. PFD, pp. 31-32.

DTE Gas disagrees and asserts that the ALJ's recommended disallowance should be rejected. Contrary to the ALJ's reasoning, the company states that it did demonstrate that the referenced projects are sufficiently developed. Specifically, per DTE Gas:

> as shown in the Company's response to the discovery request that Witness Coppola relies on to support his incorrect claim that several of the projects are insufficiently developed, none of these projects are in an "early" design phase. Therefore, the [ALJ] is incorrect that DTE Gas did not rebut this assertion. Nonetheless, the [Attorney General]'s proposed disallowance sets an arbitrary and subjective standard for rate recovery of capital projects. By insisting that projects be at a certain stage of development or receive specific approvals, the [Attorney General] ignores the relevant and applicable standard for inclusion in rate recovery: reasonableness and prudence. Consistent with this standard, the Company has detailed ample evidence to show that these projects are critical to the continued safety and reliability of DTE Gas's system, rendering these investments reasonable, prudent, and worthy of recovery.

DTE Gas's exceptions, pp. 10-11 (internal citations omitted).

Responding, the Attorney General argues that none of the company's speculation in its exceptions is accurate. More specifically, per the Attorney General:

> Nowhere has [she] argued that there is some prescriptive stage of development that a project need be at, or specific approvals that a project need, before those costs become recoverable. DTE is merely trying to distract from its well-known penchant for putting half-developed, unsupported projects into its requested rate base in rate cases, under cover of its "projected test year" method. Allowing recovery for such undefined requests leads directly to unnecessary, inflated costs and expensive alterations down the road as the scope of a project inevitably changes.

Attorney General's replies to exceptions, pp. 6-7. The Attorney General further asserts that DTE Gas provides nothing new in exceptions, that the company's arguments were fully rebutted by her in briefing and fully addressed by the ALJ in the PFD, and that, "[a]s recognized by the ALJ, the projects have not even made it through the engineering phase yet and inclusion of costs in this rate case are clearly premature." *Id*., p. 7. Thus, per the Attorney General, DTE Gas's exceptions on this issue should be rejected and the ALJ's recommendation should be adopted.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. Based on the evidence provided in this case, the Commission is not persuaded that cost recovery for all the company's projected system reliability capital expenditures in this case is reasonable and prudent at this time. 4 Tr 1441-1442; Exhibit AG-6. While the Commission, like the ALJ, notes that "DTE offers some reasons in support of its projections," the Commission agrees with the ALJ that DTE Gas failed to rebut the Attorney General's contention that the projects were premature. PFD, p. 31. Astonishingly, in exceptions, DTE Gas seems to suggest that whether a project is likely to move forward and the corresponding investment to be made during the projected test year is somehow beside the point, arguing that "[b]y insisting that projects be at a certain stage of development or receive specific approvals, the [Attorney General] ignores the relevant and applicable standard for inclusion in rate recovery: reasonableness and prudence." DTE Gas's exceptions, p. 11. The Commission is less convinced that elements around the relative maturity of spending plans can be so easily dismissed; indeed, even for otherwise worthwhile investments, whether a proposed investment is likely to be made during the time period in question goes to the heart of whether that investment is truly "reasonable, prudent, and worthy of recovery." *Id*. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue, noting that expenditures beyond this approved amount can be included in the company's next rate case for review. *See*, PFD, pp. 31-32.

vi. Communications & Control – Meters

DTE Gas included $56.6 million in communications & control – meters capital expenditures in this case ($21.8 million for the 12 months ending December 31, 2023; $18.3 million for the nine months ending September 30, 2024; and $16.5 million for the test year). 3 Tr 355; Exhibit A-12, Schedule B5.1, p. 2, line 10. Per DTE Gas, the increased capital expenditures in this

cost category are attributable to increased costs from the vendor in both equipment and shipping costs, an increase in the volume of meter purchases driven by the mix of meter types used in existing and new constructions homes, supply chain issues that have caused uncertainty and large fluctuations in lead-time for both meters and modules, and the company's Intest program forecasting slightly higher units for 2024. 3 Tr 355-356.

The Attorney General took issue with the company's forecasted prices for meters and modules, asserting a lack of quantifiable evidence that historical price increases will continue at the rate of increase identified by the company. She recommended a disallowance of $2 million for the nine months ending September 30, 2024, and $1.4 million for the 12 months ending September 2025 by applying the forecasted rate of inflation for 2024 and 2025 to the actual price the company paid per meter and module in 2023. The Attorney General further took issue with the discrepancy in expenditure amounts presented by the company in its direct case as compared to what the company provided during discovery, asserting the difference in amounts to be unsupported by *any* evidence and thus recommending a further adjustment to this cost category of $7.5 million for the nine months ending September 2024 and $2.1 million for the 12 months ending September 2025. 4 Tr 1442-1446; Exhibit AG-7; Exhibit A-12, Schedule B5.1, p. 2, line 10; Exhibit AG-56, pp. 2-4; Attorney General's initial brief, pp. 21-24.

DTE Gas disagreed, arguing that the Attorney General's inflation adjustment factor for determining the prices of meters and modules for 2024 and 2025 does not align with the actual cost increases that the company is experiencing and that historical average meter prices cannot be used to estimate the average meter price for future years. The company further provided, in rebuttal testimony only, that its meter and module expenditures are only a piece of the overall expenditures for this cost category—detailed information which was provided during audit and

discovery and included in Confidential Exhibit A-30, Schedule T4. 3 Tr 388-389; DTE Gas's initial brief, pp. 22-23.

In briefing, the Attorney General addressed the company's rebuttal testimony, along with Confidential Exhibit A-30, Schedule T4, and argued that "untimely disclosure of information puts the [Attorney General] at a disadvantage because it cannot be properly vetted at this late hour and should be disregarded by the Commission." Attorney General's initial brief, p. 23. Nevertheless, she stated that the exhibit provided does not support the missing evidence for the discrepancy in expenditures, which the company recognized by "admit[ting] that there is no reconciliation of any missing costs in Schedule T4 but only a sampling of meter prices." Attorney General's initial brief, p. 24 (citing Exhibit AG-56, p. 4).

The ALJ found that DTE Gas supported its cost projections for meters and modules and thus recommended that the Attorney General's disallowance be rejected. PFD, p. 34.

Maintaining her recommended disallowance and adjustment, the Attorney General objects and argues that the ALJ failed to provide any explanation for his finding other than simply stating that the company supported its cost projections for this area. Disagreeing with this finding, the Attorney General argues that the ALJ failed to provide more rationale for his recommendation, whereas she:

> discussed this at length in her briefing, none of which appears to have been considered by the ALJ in reaching his determination, as the PFD only reproduces Mr. Coppola's testimony and DTE's rebuttal. The [Attorney General]'s briefing discussed Mr. Abona's rebuttal on inflation adjustments and his contentions that a different mix of meters and modules procured in each year makes it impossible to estimate average meter prices for future years. Again, those arguments should be rejected as it is clear that 1) the prior price increases and inflation factors that DTE generically points to are included in Mr. Coppola's projections (to the extent they are reflected in the data DTE provided) and 2) Mr. Coppola's forecast relies on historical periods that also use a mix of meters. Similar to the above, this is an example of DTE attempting to exploit the use of a projected test year to drive up cost recovery, by putting forth nebulous cost projections that are difficult to

> quantify and/or verify. The ALJ's failure to consider those factors was in error and his recommendation should be disregarded.

Attorney General's exceptions, pp. 7-8 (footnote omitted, emphasis in original).

Responding, DTE Gas asserts that the Attorney General's argument in exceptions fails because the ALJ's recommendation on this issue is fully supported by the record. Specifically, per DTE Gas:

> the record supports the Company's position that historic [sic] average meter prices should not be used to estimate the average meter price for future years. Indeed, as evident from the Company's quotes for 2024 meter purchases, three primary vendors that source gas meters and modules have raised their prices, on average, by 8% from 2023 to 2024. The price of DTE Gas's largest and most expensive rotary meters has surged by 12.5%. The supplier of diaphragm meters, which are the meters predominantly used in small businesses and homes, has introduced an average increase of 3.9%. Collectively, DTE Gas's module vendors have raised prices by an average of 9%. Therefore, the Company's cost projections are not "nebulous," but rather are supported by the actual cost increases that DTE Gas is experiencing, which are all contained in the record.

DTE Gas's replies to exceptions, p. 13 (citing 3 Tr 388-389). The company thus asserts that the Attorney General's exceptions on this issue should be rejected and the ALJ's appropriate and fully supported recommendation for cost recovery for meter assets should be adopted.

The Commission agrees with the ALJ and finds that the company supported its cost projections for meters and modules within this cost category based on the evidence submitted and finds this evidence more persuasive than a basic cost-per-unit (CPU) analysis in determining the same. PFD, p. 34; *see also*, 3 Tr 388-389; Confidential Exhibit A-30, Schedule T4. The Commission, however, agrees with the Attorney General, as set forth in testimony and briefing, that the record reflects a discrepancy with the company's remaining communications & control – meters capital expenditures, which the Commission finds to be unsupported by any evidence in the record and, notably, unaddressed by the company in briefing and similarly unaddressed by the ALJ in the PFD. The Commission thus adopts the Attorney General's recommended adjustment of

$7.5 million for the nine months ending September 2024, and $2.1 million for the projected test year for the unsupported capital expenditures in this cost category. *See*, 4 Tr 1445-1446; Exhibit AG-7; Exhibit A-12, Schedule B5.1, p. 2, line 10; Exhibit AG-56, p. 4; Confidential Exhibit A-30, Schedule T4; Attorney General's initial brief, pp. 22-24; *see also*, MCL 24.281(3).

b. Transmission Plant

DTE Gas included $39.6 million in routine transmission plant capital expenditures in this case ($12.7 million for the 12 months ending December 31, 2023; $14.2 million for the nine months ending September 30, 2024; and $12.7 million for the test year). 3 Tr 367; Exhibit A-12, Schedule B5.1, p. 1, line 3. Per DTE Gas, it "owns and operates approximately 1,959 miles of transmission pipeline throughout Michigan," which "are utilized to transport gas for delivery to distribution pipelines at city gate stations and to/from storage fields, as well as to other pipelines at interconnecting locations." 3 Tr 366.

The Attorney General took issue with four large projects forecasted by the company for 2025 (the MLV7 Replacement, the Au Gres Tributary Pipe Replacement, the Willow Gate Station, and the MLV 5C Line 7 Replacement projects) based on the company's answer provided during discovery indicating that the four projects are currently in the initial conceptual or planning phase with no stated start and completion date for project engineering. The Attorney General thus argued that $6.8 million of capital expenditures for the projected test year should be disallowed as premature to include in rate base in this case. 4 Tr 1461-1462; Attorney General's initial brief, pp. 35-37.

DTE Gas disagreed, stating that it "is utilizing a two-year project cycle for routine projects with engineering to be complete in year 1 and construction in year 2." 3 Tr 391. The plan for the four projects, therefore per the company, "will be to perform the engineering in 2024 and the

construction during the 2025 construction season," with "[t]he construction season typically begin[ning] in the spring and [with] an anticipated completion by the end of September of that year to be ready for the upcoming heating season;" thus, the "construction timeline fully aligns with the projected test year." 3 Tr 391-392; DTE Gas's initial brief, p. 26.

The ALJ noted that DTE Gas's explanation of the two-year project cycle was included in its discovery response, "albeit somewhat cursorily stated," and found that the company adequately supported its expenditures. PFD, p. 36. The ALJ thus recommended that the Attorney General's proposed disallowance be rejected.

No exceptions were filed on this issue.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 36.

c. Storage Plant – Gas Storage and Compression

DTE Gas included $56.6 million in routine storage plant capital expenditures in this case ($22.3 million for the 12 months ending December 31, 2023; $19.3 million for the nine months ending September 30, 2024; and $15 million for the test year). 3 Tr 370; Exhibit A-12, Schedule B5.1, p. 1, line 4. Per DTE Gas, "[s]torage plant processes include all activity related to storage and compressor facilities." 3 Tr 370.

Considering a three-year historical average of actual expenditures from 2021 to 2023, adjusted for inflation, the Attorney General asserted that the company's projections for its gas storage and compression programs are overstated without adequate justification, thus recommending that $9.5 million for the nine months ending September 2024, and $3.8 million for the projected test year be removed. 4 Tr 1468-1470; Attorney General's initial brief, pp. 41-43.

DTE Gas disagreed, arguing that the average historical costs do not reflect the rigor and corresponding cost of planned projects for 2024 and 2025, that costs vary based on project scope and complexity, and that several compressor units installed as part of the 2017-2018 NEXUS expansion need engine replacements to ensure safe and reliable operation. 3 Tr 393; DTE Gas's initial brief, p. 27.

The ALJ found that DTE Gas's explanation lacks specificity to support the company's general statements that associated construction activities are complex and that the company also did not provide any estimate of the number of engine replacements needed. The ALJ thus found that the company's expenditures are not adequately supported and recommended that the Commission adopt the Attorney General's recommended disallowance. PFD, pp. 38-39.

DTE Gas disagrees and asserts that the ALJ's recommended disallowance should be rejected. Specifically, DTE Gas argues that it:

> provided ample evidence explaining the complexity of the construction activities for gas storage and compression capital expenditures. The Company also provided data for each of these projects, including a description of each project and a breakdown of the costs for each project. Using the Belle River Mills Valves & Actuators initiative as an example, the Company also provided a detailed explanation of the project scope and the complexity of the associated construction activities. As such, the Company's recitation of the construction activities mandated by the Belle River Mills Valves & Actuators project can hardly be classified as "lacking [] specificity". Additionally, the Company also provided evidence of specific cost information for a typical turbine engine replacement and explained that several compressor units would require an engine replacement to ensure safe and reliable operation. The [ALJ] claims that the Company should have also provided an estimate of the number of such replacements to occur and assumes that such evidence should have been easy to present. Notably, no party in the case requested this information. It is improper for the [ALJ] to speculate on the type of information that should have been provided and to classify the Company's projections as unsupported due to the omission of that information.

DTE Gas's exceptions, pp. 12-13 (first alteration in original) (internal citations omitted).

Responding, the Attorney General asserts that the premise of DTE Gas's argument in exceptions, "like much of its exceptions, is that it provided specific enough information in its filing, such that it should be entitled to recovery," and that it is improper for the ALJ to speculate on other information that the company should have provided to support its claims. Attorney General's replies to exceptions, p. 7. Per the Attorney General, however:

> DTE's exceptions provide nothing new and its arguments were fully rebutted by the [Attorney General] in her briefing and fully addressed by the ALJ in the PFD. As recognized by the ALJ, DTE failed to provide sufficient information on this topic to support its requests. DTE's argument that it is improper for an ALJ to identify something that should have been provided in a utility's filing is incorrect and is a clear example of DTE attempting to shift the burden of proof onto Staff and intervenors. The gist of this argument is that if Staff and intervenors do not catch an issue with a rate case filing, then it is improper for the ALJ to point that out if he/she sees it. The unfortunate reality is that due to the voluminous filings DTE puts forth and the extremely compressed timeframe in which review is available and decisions are made, intervenors do not have sufficient time or resources to comb through the entirety of a filing, identify, request, and receive feedback on where *the Company* has failed to support its case, and then list each remaining shortcoming and identify all proper disallowances where support is still lacking. It is therefore proper and indeed necessary for an ALJ and the Commission to also examine DTE's filing and disallow cost recovery where the Company has failed to meet its burden.

Attorney General's replies to exceptions, pp. 7-8 (emphasis in original). Thus, per the Attorney General, DTE Gas's exceptions on this issue should be rejected and the ALJ's recommendation should be adopted.

The Commission agrees with DTE Gas that it provided ample evidence explaining the complexity of the construction activities for its gas storage and compression capital expenditures and finds this evidence to be more accurate and persuasive in determining the company's costs over a basic CPU analysis. Exhibit A-12, Schedule B5.11, pp. 7-8; Confidential Exhibit A-12, Schedule B5.9; 3 Tr 392-393. Finding that the company justified its routine storage plant capital expenditures on the record in this case, the Commission thus approves the same for cost recovery.

d. General Plant

To replace and purchase additional vehicles and equipment, DTE Gas included $43.2 million in transportation vehicle and equipment capital expenditures in this case ($12.9 million for the 12 months ending December 31, 2023; $10 million for the nine months ending September 30, 2024; and $20.3 million for the test year). 3 Tr 370, 375; Exhibit A-12, Schedule B5.1, p. 2, line 27.

Considering a three-year historical average of actual expenditures from 2021 to 2023, adjusted for inflation, the Attorney General asserted that the company's projections for 2024 and 2025 are significantly inflated and overstated without justification for the large unit increase over recent historical levels, thus recommending that $7.1 million for the nine months ending September 2024, and $11.4 million for the projected test year be removed. 4 Tr 1471-1472; Attorney General's initial brief, pp. 43-45.

DTE Gas rebutted, arguing that the average cost per vehicle is projected to rise due to the acquisition of a different mix of vehicles, including Class 7 and 8 trucks, which are more sophisticated and costly and which the company plans to purchase more of in 2024 and 2025 as compared to 2021 to 2023, and also factoring in the price increases of other vehicles. The company also referenced a list that it provided during discovery that outlines both the financial and quantitative data for each vehicle class from 2018 to 2025. 3 Tr 394-395; Exhibit A-30, Schedule T5; DTE Gas's initial brief, p. 28.

The ALJ found that DTE Gas adequately supported its projected expenditures and thus recommended that the Attorney General's proposed disallowance be rejected. PFD, p. 41.

Maintaining her recommended disallowance, the Attorney General objects and argues that the ALJ failed to provide any explanation for his finding other than simply stating that the company

supported its cost projections for this area. Disagreeing with this finding, the Attorney General argues that the ALJ failed to provide more rationale for his recommendation, whereas she:

> discussed this at length in her briefing, none of which appears to have been considered by the ALJ in reaching his determination, as the PFD only reproduces Mr. Coppola's testimony and DTE's rebuttal. The [Attorney General]'s briefing discussed Mr. Abona's rebuttal on the higher costs. As laid out, Mr. Abona's rebuttal is inconsistent with the facts disclosed to the [Attorney General] in discovery, failed to support that DTE has a reasonable, prudent methodology for competitive bidding when purchasing vehicles, and failed to support that its reported, historical annual costs are accurate.
>
> The ALJ's failure to consider those factors was in error and his recommendation should be disregarded. The [ALJ] makes no attempt to address or examine *why* projected vehicle costs for 2024 are 70% above recent average costs and for 2025 are 57% above recent average costs.

Attorney General's exceptions, p. 9 (footnotes omitted) (emphasis in original).

DTE Gas disagrees and asserts that the ALJ's recommendation is appropriate and fully supported by the record. Per DTE Gas:

> Contrary to the [Attorney General]'s claim, the Company provided ample evidence demonstrating why the average cost per vehicle was projected to rise in 2024 and 2025. The Company explained that the average cost per vehicle was projected to increase in 2024 and 2025 largely due to DTE Gas's acquisition of a different mix of vehicles. Specifically, the Company stated that purchases of twenty-eight Class 7 and 8 trucks—the fleet's most sophisticated and costly units— in 2024 and 2025 will contribute significantly to this increase. In comparison, the Company explained that from 2021 to 2023, it had only purchased a total of four Class 7 and 8 trucks.
>
> The Company also explained that another significant factor influencing the cost increase was the substantial rise in vehicle prices. Specifically, the Company noted price increases for the 2024 Model T350, 2023 Model F150, and 2024 Model F250. In further support of the projected cost increases, the Company provided, in response to discovery received from the [Attorney General], a list of vehicles replaced outlining both the financial and quantitative data for each vehicle class from 2018 to 2025.

DTE Gas's replies to exceptions, p. 15 (internal citations omitted). The company further asserts that the Attorney General's arguments about inconsistent evidence is unsupported and illogical as there is no inconsistency. DTE Gas states:

> In rebuttal testimony, the Company explained that the fleet's most sophisticated and costly units (the Class 7 and 8 vehicles) will contribute significantly to the increase in average cost per vehicle because the Company anticipates purchasing thirteen trucks in 2024 and fifteen trucks in 2025 (as compared to zero in 2021 and two each in 2022 and 2023). In discovery, the Company simply stated that (1) supply chain limitations (mainly chassis manufacturers failing to fulfill customer demand) prevented the Company from purchasing additional Class 7 and 8 vehicles between 2021 and 2023 and that (2) inflation specifically applied to Class 2 and 3 vehicles. Both the rebuttal testimony and discovery responses are accurate and neither contradicts the other.
>
> In all, the [Attorney General]'s claim that the Company "failed to provide any evidence" justifying the increase in transportation vehicles and equipment capital expenditures is untrue.

DTE Gas's replies to exceptions, pp. 15-16 (internal citations omitted). The company thus asserts that the Attorney General's exceptions on this issue should be rejected and the ALJ's recommendation for cost recovery for transportation vehicles and equipment should be adopted.

The Commission agrees with the ALJ and DTE Gas and finds that the company provided ample evidence demonstrating why the average cost per vehicle was projected to rise in 2024 and 2025. 3 Tr 394-395; DTE Gas's initial brief, p. 28. The Commission further agrees with the company that testimony on its behalf and in response to discovery do not contradict each other. 3 Tr 394-395; Exhibit AG-57, p. 1; DTE Gas's replies to exceptions, p. 16. Finding that the company justified its transportation vehicle and equipment capital expenditures on the record in this case, the Commission thus approves the same for cost recovery.

2. Gas Information Technology Spending

As part of DTE Energy Company's five-year information technology (IT) plan submitted in Case Nos. U-20561 and U-20642,[10] DTE Gas included $43.4 million in gas IT capital expenditures in the instant case ($15.0 million for the historical test year, $18.2 million in the bridge period, and $10.2 million for the projected test year). 4 Tr 2082; Exhibit A-12, Schedule B5, line 32; DTE Gas's initial brief, p. 29. Per DTE Gas, "Gas Information and Technology includes MDTs (Mobile Data Terminals), Laptops, Desktops and upgrades to IT systems including hardware, software, and licensing," and the capital investment in this cost category "supports the improvements in technology to continue to provide a reliable set of tools for DTE Gas with which to run the business, safety of [its] workforce through cyber security programs, projects, and program enhancements to improve systems reliability and added overall functionality." 4 Tr 1902.

The Staff argued that the company's projected capital IT expenditures should be reduced by 20% based on American Association of Cost Engineering (AACE) Class 3 estimates ($0.63 million for the nine months ending September 30, 2024, and $1.13 million in the test year) for the company's six IT projects with Level 2 cost estimates (i.e., the company's Gas Application Health, Clicksoft Enhancements, Gas Enhancements, Gas Construction- As Builting, Gas Construction- Contractor Inspection, and SEMI Picarro Survey Unit Renewal projects). 4 Tr 1601; Exhibit S-13.3; Staff's initial brief, pp. 14-15. Per the Staff, Level 2 cost estimates are "incomplete, indefinite, and imprecise in nature" and thus "unfair to pass . . . onto ratepayers at

[10] *See*, Case No. U-20561, filing #U-20561-0508; Case No. U-20642, filing #U-20642-0276.

this time," noting that this recommended 20% disallowance is consistent with the Commission's decisions in Case Nos. U-20836 and U-21297. *Id*., pp. 15, 17; 4 Tr 1601-1602.

The Attorney General argued that $450,000 in capital savings should be removed from the company's projected test year IT capital expenditures, based on the company's admission in discovery that the capital savings pertaining to the recent implementation of its gas scheduling optimizer system should have been included in this case. 4 Tr 1473; Exhibit AG-19; Attorney General's initial brief, p. 45.

Rebutting the Staff, DTE Gas argued that its costs are estimated through the company's annual planning cycle where Level 2 estimates are developed through input and comprehensive reviews by subject-matter experts and cross-functional IT teams; take into consideration scope, technology, historical data, and vendor quotes; and are subsequently reviewed and validated against company policies, including its capitalization policy, and then further vetted and refined before transitioning to a Level 3 estimate. The company further noted that the AACE Class 3 estimates used by the Staff also provide an upper range of +30% but nevertheless asserted that it is more accurate to compare the company's Level 2 estimates to AACE Class 2 estimates considering the level of project definition and deliverables defined and estimated in the company's business cases. 4 Tr 2135-2137; DTE Gas's initial brief, pp. 30-31.

The ALJ agreed with the Staff, finding that the Staff's recommended disallowance is consistent with disallowances previously approved by the Commission and that the company did not effectively rebut the Staff's assertions in support of the disallowance. The ALJ thus recommended that the Commission accept the Staff's 20% disallowance ($0.63 million for the nine months ending September 30, 2024, and $1.13 million in the test year) for the company's Gas Application Health, Clicksoft Enhancements, Gas Enhancements, Gas Construction- As Builting,

Gas Construction- Contractor Inspection, and SEMI Picarro Survey Unit Renewal projects. The ALJ also agreed with the Attorney General and recommended the adoption of her proposed disallowance of $450,000 in capital savings pertaining to the company's recent implementation of its gas scheduling optimizer system. PFD, pp. 45-46.

DTE Gas disagrees and asserts that the ALJ's recommendation to adopt the Staff's disallowance should be rejected. Albeit discussed later in this order, DTE Gas first takes exception to the Staff's approach of cutting O&M expenses to match the Staff's recommended capital expenditure reductions, asserting such an approach is inappropriate because it applies a general rule rather than considering the specific nature of the company's O&M expenses. DTE Gas further asserts that the "PFD is silent on the robust and rigorous process that the Company uses to develop these IT cost estimates" and that the ALJ "fails to acknowledge the factual misstatement offered by Staff in support of its recommended disallowance, namely, that Level 2 cost estimates are obtained prior to a comprehensive review." DTE Gas's exceptions, p. 13 (citing DTE Gas's initial brief, p. 30; PFD, p. 45). Per DTE Gas, the company:

> demonstrated on the record that Level 2 cost estimates are a part of the rigorous Annual Planning Cycle (APC) process and developed through input and comprehensive reviews by experienced subject matter experts and cross-functional teams based on various data points such as scope, technology, historical data, and vendor quotes. Simply stating that "DTE has not effectively rebutted Staff's assertions," with nothing more, ignores the record evidence that DTE Gas put forward on this subject, which demonstrates that these projects have in fact completed significant reviews.

DTE Gas's exceptions, p. 14 (citing DTE Gas's initial brief, p. 30).

Responding, the Staff argues that it did not make a misstatement nor did the ALJ ignore the Staff. The Staff further asserts that, despite DTE Gas's objections about the comprehensive reviews and inputs the company used to develop its Level 2 cost estimates, "the inputs, as

presented, are not sufficient to justify the request." Staff's replies to exceptions, p. 2. Maintaining its recommended disallowance, the Staff states that it:

> opposes DTE Gas'[s] 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. ([Commission] Case No. U-21297, Revised Direct Testimony of Pankaj Sharma, 5 TR 1822, Figure 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. 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.

Staff's replies to exceptions, pp. 3-4 (footnote omitted).[11] The Staff also disagrees with DTE Gas's assessment on the Staff's corresponding O&M reductions for the company's IT projects, which is further discussed and addressed later in this order, and asserts that the Commission should approve the ALJ's decision on this issue.

Also responding, the Attorney General asserts that DTE Gas provides nothing new in exceptions and that the company's arguments were fully rebutted by her in briefing and fully addressed by the ALJ in the PFD. The Attorney General further argues:

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[11] The Staff notes that the ALJ captured the timeline referenced here on page 42 of the PFD. Staff's replies to exceptions, p. 3, n. 1.

> As recognized by the ALJ, DTE's rhetoric on these issues should be ignored. DTE cannot simply claim that all of its processes for developing *estimates* are "robust," "rigorous," or [fill in other buzzword for "intensive"], without providing ample detail to back up those assertions. Again, this is the continual problem with using a fully projected test year – DTE's incentive is to push half-developed, unclear projects and spending, based on nebulous claims and estimates that are difficult to parse, because by their very nature they are simply projections. In this case the ALJ properly recognized that DTE's process for projecting Gas IT spending fails to rise to the level of reasonable and prudent, given the nature of these estimated costs, and that disallowance is consistent with how the Commission has treated similar costs in the past.

Attorney General's replies to exceptions, p. 9 (emphasis and alteration in original). Thus, per the Attorney General, DTE Gas's exceptions on this issue should be rejected and the ALJ's recommendation should be adopted.

The Commission agrees with the ALJ and therefore adopts his recommended disallowances on this issue. PFD, pp. 45-46. As stated by the Staff, "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," which "could result in a change to the project or estimate." Staff's replies to exceptions, p. 3; *see also*, PFD, p. 42; Staff's initial brief, pp. 15-17; 4 Tr 1601-1602. The Commission thus agrees with the Staff that "[t]his 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." Staff's replies to exceptions, p. 3. Moreover, as emphasized by the Staff, "DTE Gas does not state that the numbers are final;" the Staff's recommended disallowance is, as acknowledged by the Staff, the Attorney General, and the ALJ, consistent with disallowances previously approved by the Commission; and if the company spends more than 80% of its projected costs for these projects, it can include that updated information in its next rate case to be reviewed for reasonableness and prudency. Staff's replies to exceptions, p. 3; *see also*, 4 Tr 1602-1604; Staff's initial brief, pp. 17-18; Attorney General's replies to exceptions, p. 9;

December 1, 2023 order in Case No. U-21297 (December 1 order), p. 147; November 18, 2022 order in Case No. U-20836 (November 18 order), p. 192. Lastly, as accepted and unopposed by the company, the Commission also agrees with the ALJ that $450,000 in capital savings should be removed from DTE Gas's projected expenditures relating to the company's gas scheduling optimizer system included in this cost category. PFD, p. 46; *see also*, 4 Tr 1473 and Exhibit AG-19.

3. Large Capital Projects

DTE Gas included $184.3 million in large capital project expenditures in this case ($66.9 million for the 12 months ending December 31, 2023; $41.4 million for the nine months ending September 30, 2024; and $76 million for the test year). 4 Tr 1904; Exhibit A-12, Schedule B5, line 20. Per DTE Gas, these projects are neither routine nor part of IRM programs but are required to ensure the continued safety and reliability of the company's system. 4 Tr 1903-1904. Contested projects within this cost category are discussed below.[12]

a. Fort Street Main Replacement Project

DTE Gas included $68.6 million of $165.3 million in total capital expenditures for this project in this case ($19.9 million for the 12 months ending December 31, 2023; $15.9 million for the nine months ending September 30, 2024; and $32.8 million for the test year). 4 Tr 1914-1915; Exhibit A-12, Schedule B5, line 12. Per DTE Gas, this project is needed to improve pipeline

[12] The Commission notes that CUB takes issue with the company's large capital project expenditures overall, recommending a broad disallowance of $5.9 million for this entire cost category based on an average of 2022 and 2023 historical data as a proxy for the test year. 4 Tr 944-946; Exhibits CUB-2, -3. Similar to the PFD, this recommendation is separately addressed below under General Intervenor Proposed Changes to Capital Projects. *See*, *infra*, pp. 59-60; *see also*, PFD, pp. 72-76. In short, however, the Commission is not persuaded by the recommended disallowance and thus rejects the same.

safety by retiring steel mains from 1940 and 1951 and to mitigate the potential outage risk of approximately 15,000 customers in downtown and southwest Detroit. The company explained that the project entails:

> design and installation of approximately 12.9 miles of new steel and plastic main, abandonment of approximately 14.2 miles of steel main including approximately 7.7 miles of 24" and 22" mechanically joined steel main and 1.8 miles of 24" transmission main, installation of approximately 43 valves, and installation of 11 district regulators on Fort St., Larned, Russell St., 14th St., and other locations from Fort and Miller station to Jefferson Station in the city of Detroit. This project also includes abandonment of 11 district regulators and replacement of approximately 92 services. The project is separated into eight phases for completion of the project. The first two phases of the project were completed as a stand-alone project in 2019 . . . . Approximately 4900' of main install in phases 3 and 5 was pulled ahead and completed in 2022 in order to coordinate with other public improvement and DTE project work. Phases 5, 6, 7, and 7A will be completed from 2023 through 2025 in coordination with other major projects in the area such as the East Jefferson project, the Detroit Grand Prix, I-375 Reconstruction, and other municipal coordination projects. The remainder of phase 3 and phases 4 and 8 will be completed in 2026 and 2027 in coordination with the Gordie Howe International Bridge and MDOT [Michigan Department of Transportation] I-75 work.

4 Tr 1911-1912; *see also*, 4 Tr 1914.

Due to uncertainty with project timelines affecting capital spending for the projected test year, the Attorney General recommended that $32.8 million in capital expenditures be removed from this case as premature. 4 Tr 1449-1450; Exhibit AG-69, pp. 3-5; Attorney General's initial brief, pp. 26-28.[13]

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[13] ABATE also took issue with this project and recommended a disallowance of $16.8 million by removing the last six months of DTE Gas's proposed capital investment based on the likelihood of unforeseen delays given the company's history with large capital project delays. *See*, ABATE's initial brief, pp. 11-13. Similar to the PFD, this recommendation is separately addressed below under General Intervenor Proposed Changes to Capital Projects. *See*, *infra*, pp. 59-60; *see also*, PFD, pp. 72-76. In short, however, the Commission is not persuaded by the recommended disallowance and thus rejects the same.

DTE Gas disagreed, arguing that the project is a standalone project that is not dependent on work performed by a government agency. 4 Tr 1979-1981; DTE Gas's initial brief, pp. 32-33.

The ALJ agreed with the Attorney General, finding inconsistencies with the company's rebuttal testimony as compared to its initial testimony and response during discovery. Specifically, the ALJ stated:

> Although [DTE Gas's witness] Ms. Fedele asserts in rebuttal that this project is a "standalone project and not part of a larger municipal coordination or public improvement project," this [ALJ] notes that Ms. Fedele states in her direct testimony that Phases 5, 6, 7, and 7A will be completed from 2023 through 2025 "in coordination with other major projects in the area such as the East Jefferson project, the Detroit Grand Prix, I-375 Reconstruction, and other municipal coordination projects." This [ALJ] also notes that DTE's discovery response provides that DTE "will continue to coordinate on the I-375 Reconstruction Project as more information regarding the schedule is made available from MDOT." Thus, this [ALJ] agrees with Mr. Coppola that the capital spending for the projected test year is dependent on the timing of the I-375 Reconstruction project and that it would be imprudent for DTE to proceed with construction activities without a firm timeline and an approved project plan from MDOT and the City of Detroit.

PFD, pp. 49-50 (footnotes omitted) (quoting 4 Tr 1912; Exhibit AG-9, p. 1). The ALJ thus recommended that the Commission adopt the Attorney General's recommended $32.8 million disallowance.

DTE Gas disagrees and asserts that the ALJ's recommended disallowance should be rejected. The company first asserts that testimony on behalf of the Attorney General, as summarized in the PFD, is contradictory because this testimony reflects that the capital spending forecasted for 2024 appears likely to occur but then simultaneously argues that those amounts are not likely to be spent. DTE Gas's exceptions, p. 15 (citing PFD, pp. 48-49); *see also*, 4 Tr 1449-1450. DTE Gas further asserts that the ALJ's finding on this point wholly ignores critical components from rebuttal testimony on the company's behalf. Specifically, per DTE Gas:

> First, the Company reiterates that the Fort Street Main Replacement project is a standalone project "and not part of a larger municipal coordination or public

> improvement project". Notably, Witness Fedele testified that "[w]hile the Company is flexible in scheduling this work to align with municipal projects, the overall project execution and completion is not dependent on the work performed by the governmental agencies". Witness Fedele also testified that DTE "works in advance to ensure project designs are per the governmental requirements and coordinated to accommodate any future work required by these agencies".
>
> Nowhere in this testimony does DTE Gas indicate that the Fort Street Main Replacement project is dependent on the coordination with other government agencies. In fact, all design work has been completed for this project and permit requirements have been incorporated, indicating that this work will commence whether other government agencies like MDOT proceed with their separate projects or not. The [ALJ]'s characterization of this project is therefore flawed and inconsistent with the record; as such, the [ALJ]'s disallowance should be rejected.

DTE Gas's exceptions, p. 15 (citing 4 Tr 1981).

Responding, the Attorney General asserts that DTE Gas provides nothing new in exceptions and that the company's arguments were fully rebutted by her in briefing and fully addressed by the ALJ in the PFD. Specifically, per the Attorney General:

> First, the ALJ is clear that he fully considered DTE's rebuttal. Additionally, it is unclear what part of the [Attorney General]'s testimony DTE considers "contradictory." The entirety of the disallowance identified by the [Attorney General]'s witness is projected by DTE to occur during its projected test year, and as noted, is "unlikely to be spent." There is no contradiction in the [Attorney General]'s testimony and the ALJ correctly analyzed this issue and properly recommends a disallowance based on incomplete information. Allowing recovery of these types of costs, at this point in the development arc, would be an abuse of the projected test year.

Attorney General's replies to exceptions, p. 10 (footnote omitted). The Attorney General thus argues that DTE Gas's exceptions on this issue should be rejected and the ALJ's recommendation should be adopted.

The Commission agrees with DTE Gas. While the company's initial testimony and response in discovery could have been clearer, DTE Gas nevertheless clarified in rebuttal that the project is *not* dependent on the timing of the I-375 Reconstruction project and that the company was trying to coordinate with the reconstruction project in the interest of efficiency. 4 Tr 1981. Persuaded

that this project will thus proceed regardless of municipal projects and finding the work of this project is needed to improve pipeline safety, the Commission finds the company's requested capital expenditures for this project in this case to be reasonable and prudent.

b. Austin-Detroit A&B Lines Project

DTE Gas included $21 million of $308.5 million in total capital expenditures for this project in this case ($1.3 million for the 12 months ending December 31, 2023; $3.5 million for the nine months ending September 30, 2024; and $16.2 million for the test year). 4 Tr 1924-1925; Exhibit A-12, Schedule B5, line 15. Per the company, "DTE Gas's Austin-Detroit 24" A-Line and B-Line connect the Six Lakes storage field/Taggart Compressor station to the Southeast Michigan market at the West Bloomfield Station and Northwest Michigan market and at Woolfolk," and the project "will replace the existing pipelines installed in 1948 and 1951, respectively, through Class 3 and High Consequence Areas (HCAs)." 4 Tr 1916-1917.

The Attorney General argued that the expenditures requested in this case are premature and should thus be disallowed because the project has not yet received formal corporate approval to proceed with project development, has not yet completed the engineering design phase, and will not be placed in service until well past the end of the projected test year. 4 Tr 1463-1465; Attorney General's initial brief, pp. 38-39.[14]

[14] ABATE also took issue with this project and recommended a disallowance of $9.8 million by removing the last six months of DTE Gas's proposed capital investment based on the likelihood of unforeseen delays given the company's history with large capital project delays. *See*, ABATE's initial brief, pp. 11-13. Similar to the PFD, this recommendation is separately addressed below under General Intervenor Proposed Changes to Capital Projects. *See*, *infra*, pp. 59-60; *see also*, PFD, pp. 72-76. In short, however, the Commission is not persuaded by the recommended disallowance and thus rejects the same.

The ALJ noted that DTE Gas provided no rebuttal testimony and that the company mistakenly asserted that no party opposed this request.[15] He agreed with the Attorney General that it is not reasonable to include forecasted expenditures for projects that have not yet completed the engineering design phase and will not be placed in service until well past the end of the projected test year. The ALJ thus recommended that the Commission adopt the Attorney General's recommended $21 million disallowance for this project.[16] PFD, pp. 53-54; PFD, Appendix E, line 14, column (b).

No exceptions were filed on this issue.

By not rebutting the Attorney General's arguments and by not filing exceptions on this issue, the company has effectively abandoned and waived any objection to the same, including the ALJ's recommendation. *See*, Rule 435(2). Accordingly, absent any rebuttal from the company, the Commission adopts the Attorney General's recommended $21 million disallowance on this issue. *See*, PFD, pp. 53-54.

c. Van Born Project

DTE Gas included $39.4 million of capital expenditures for this project in this case ($35.2 million for the 12 months ending December 31, 2023; $2.9 million for the nine months ending September 30, 2024; and $1.3 million for the test year), in addition to $10.9 million in historical costs for the 12 months ended December 21, 2022. Exhibit A-12, Schedule B5, line 11.

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[15] *See*, PFD, p. 53, n. 274; *see also*, DTE Gas's initial brief, p. 35.

[16] The wording for the ALJ's recommendation in the order grouped the Austin-Detroit A&B Lines Project, Belle River – Detroit Interconnect and Loop Project, and Taggart Compressor Replacement Project together, but Appendix E to the PFD reflected the disallowance recommendations for each project separately. For clarity, this order keeps these projects, and their associated expenditures/disallowances, separate.

Per DTE Gas, its "Van Born System consists of two pipelines"—one "that supplies natural gas to two large industrial customers and one city gate station" and the second "that is a primary source of natural gas supply to the DTE Gas southeast markets"—and the project for this system entails:

> the installation of new regulation at DTE Gas's Rouge Station that allows gas from the 30" 540 psig [pounds per square inch gauge] pipeline to flow into the 36" 300 psig system. Three existing main line valves along the 36" pipeline will be modified to permit remote control operation from DTE Gas Control. In addition, two new main line valves with remote control capabilities will be installed along the 36" pipeline to further segment the pipeline into additional sections. By segmenting the pipeline with the strategically located valves and utilizing the remote-control capabilities, the Van Born Project mitigates the risk of potential customer outages from 160,000 on a peak heating day to less than 1,400.

4 Tr 1926-1927.

The Attorney General took issue with $6.7 million out of $8.7 million in capital costs the company incurred for the project prior to it changing course in May 2022 and thus recommended that the $6.7 million be disallowed for lack of transparency. 4 Tr 1450-1452; Exhibit AG-10; Attorney General's initial brief, pp. 28-30.

DTE Gas disagreed, arguing that it was in its customers' best interest to reevaluate the project scope given the substantial increase in the cost estimate at the time and that the costs incurred by the company in modifying the scope of the project were reasonable, prudent, and transparent. 4 Tr 1982-1983; *see also*, DTE Gas's initial brief, p. 37.

The ALJ found that DTE Gas supported the nature and amount of these capital expenditures and thus recommended that the Commission reject the Attorney General's proposed disallowance. PFD, p. 57.

Maintaining her recommended disallowance, the Attorney General objects and argues that the ALJ failed to provide any explanation for his finding other than simply stating that the company supported the amount and nature of its expenditures with no other explanation. Disagreeing with

this finding, the Attorney General argues that the ALJ failed to provide more rationale for his recommendation, whereas she:

> discussed this at length in her briefing, none of which appears to have been considered by the ALJ in reaching his determination, as the PFD only reproduces DTE's direct testimony, Mr. Coppola's testimony, and DTE's rebuttal. The [Attorney General]'s briefing discussed Ms. Fedele's rebuttal on the $6.7 million at issue. As laid out, Ms. Fedele's rebuttal fails to identify where in the Company's filed case *or* in any response to discovery DTE lays out that the $6.7 million was spent on non-cancelled portions of the project, with only a vague, unsupported reference to $4.3 million of the total being spent on "design of valve interconnections," a completely unrealistic amount (and again, provided with no documentation or other support) for such a project.
>
> The ALJ's failure to consider those factors was in error and his recommendation should be disregarded. The [ALJ] makes no attempt to address or examine the unsupported $6.7 million and what looks like an attempt by DTE to improperly keep that amount in rate base without customers or the Commission having any idea what it was spent on or whether it is providing any value to customers.

Attorney General's exceptions, pp. 10-11 (footnotes omitted) (emphasis in original).

DTE Gas disagrees and asserts that the ALJ's recommendation should be adopted. DTE Gas asserts that:

> [t]he [Attorney General]'s claim that DTE Gas has been furtive or surreptitious with regard to the Van Born project is incorrect, and the benefits and value that this project brings to customers is apparent in the record. Specifically, DTE Gas testified that the Van Born System has a higher risk area needing mitigation of customer outage risks. Multiple DTE Gas witnesses noted that this project mitigates the risk of potential customer outages from 160,000 customers on a peak heating day to less than 1,400 customers. A potential outage to 160,000 customers during the winter heating season would be unprecedented, and such an incident would require mutual aid. An incident such as this would be further complicated if it occurred during the winter season, causing businesses to close and requiring the need for customer warming centers or customer relocation. Further, the Van Born Project helps meet the Commission's recommendation to "develop solutions that mitigate risk of outages, improve operational flexibility, and accommodate future growth in demand". The Van Born project is one of the ways DTE Gas is addressing this recommendation. Accordingly, DTE Gas has provided plenty of evidence to demonstrate the value of the Van Born project to customers, particularly the 160,000 customers who might be affected by a system outage that the project seeks to remedy. DTE Gas has therefore justified the inclusion of this

> project's cost in rate base, and the [ALJ]'s finding is supported by the evidence in the record.
>
> Further, the [Attorney General]'s disallowance is aimed at costs incurred prior to May 2022 that she argues are no longer needed due to the project's scope change. However, the Company demonstrated that it was in customers' best interest for DTE Gas to reevaluate the Van Born project's scope given substantial increases in cost estimates, and the costs incurred by the Company in modifying that scope were reasonable, prudent, and transparent. Moreover, the Company noted that of the capital expenditures already incurred on the project from 2020 through August 31, 2023, all but $1.9 million were necessary to develop the new scope and project plan, and the Company is not seeking cost of service recovery for the $1.9 million written off that was not necessary to develop the new plan.

DTE Gas's replies to exceptions, pp. 18-19 (internal citations omitted).

The Commission agrees with the ALJ and finds that DTE Gas supported its requested capital expenditures for this project, including its historical capital expenditures. As set forth in testimony and briefing, all capital expenditures already incurred on the project from 2020 through August 31, 2023, aside from the $1.9 million written off by the company, have been applied to the new scope and project plan, including those disputed by the Attorney General. 4 Tr 1935-1936; DTE Gas's initial brief, pp. 36-37. Finding the company's requested capital expenditures for this project reasonable and prudent, the Commission thus rejects the Attorney General's proposed disallowance.

d. Belle River-Detroit Interconnect and Loop Project

DTE Gas included $8.1 million of $52.1 million in total capital expenditures for this project in this case ($0.7 million for the nine months ending September 30, 2024, and $7.4 million for the test year). 4 Tr 1951-1952; Exhibit A-12, Schedule B5, line 17. Per DTE Gas, its Belle River – Detroit System consists of two 1962 vintage transmission pipelines which are "a primary source of natural gas supply from the northeast to the DTE Gas southeast market," and the project:

> consists of two major components; (1) a new interconnection with Consumers Energy [Company (Consumers)] at a point where their 26" Line 1700 pipeline and

> the DTE Gas 24" Belle River – Detroit Pipeline intersect. This interconnection will have a filter/separator, meter, and odorization and (2) a new 6-mile, 24" pipeline loop that will provide an alternate supply into DTE Gas's Northeast Station. Once this project has been completed, an incident on the existing 24" Belle River – Detroit Pipeline will have an alternate supply source, thereby providing a redundant source of gas supply into DTE Gas's southeast market area and mitigating up to 70,000 potential customer outages. See Figure 11. A Non-Binding Memorandum of Understanding [(MOU)] was executed between DTE Gas and Consumers Energy on April 1, 2021, where Consumers Energy would provide supply to DTE Gas through the interconnect in the event of an emergency on the DTE Gas system, providing that they are operationally able to.

4 Tr 1944.

The Attorney General argued that the requested expenditures in this case are premature and should thus be disallowed because the project has not yet received formal corporate approval to proceed with project development, has not yet completed the engineering design phase, and will not be placed in service until well past the end of the projected test year. 4 Tr 1463-1465; Attorney General's initial brief, pp. 38-39.[17]

The ALJ noted that DTE Gas provided no rebuttal testimony and that the company mistakenly asserted that no party opposed this request.[18] He agreed with the Attorney General that it is not reasonable to include forecasted expenditures for projects that have not yet completed the engineering design phase and will not be placed in service until well past the end of the projected test year. The ALJ thus recommended that the Commission adopt the Attorney General's

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[17] ABATE also took issue with this project and recommended a disallowance of $4.8 million by removing the last six months of DTE Gas's proposed capital investment based on the likelihood of unforeseen delays given the company's history with large capital project delays. *See*, ABATE's initial brief, pp. 11-13. Similar to the PFD, this recommendation is separately addressed below under General Intervenor Proposed Changes to Capital Projects. *See*, *infra*, pp. 59-60; *see also*, PFD, pp. 72-76. In short, however, the Commission is not persuaded by the recommended disallowance and thus rejects the same.

[18] *See*, PFD, pp. 53, 61, nn. 274, 320; *see also*, DTE Gas's initial brief, p. 40.

recommended $8.1 million disallowance for this project. PFD, pp. 53-54, 61; PFD, Appendix E, line 15, column (b).

No exceptions were filed on this issue.

By not rebutting the Attorney General's arguments and by not filing exceptions on this issue, the company has effectively abandoned and waived any objection to the same, including the ALJ's recommendation. *See*, Rule 435(2). Accordingly, absent any rebuttal from the company, the Commission adopts the Attorney General's recommended $8.1 million disallowance on this issue. *See*, PFD, pp. 53-54.

e. CMS Line 2700 and DTE Gas E-Line Interconnect Project[19]

In September 2019, following the January 2019 Ray compressor station fire and the subsequent request by Michigan Governor Gretchen Whitmer for the Commission to assess the state's energy supply and contingency planning, the Commission released its Statewide Energy Assessment (SEA) to address the Governor's request. The SEA recommended, among other things, that utilities should consider new transmission interconnections to increase fuel supply reliability. Accordingly, Consumers and DTE Gas entered into an MOU, in part, to jointly plan for new transmission interconnections. Following the signing of the MOU, Consumers and DTE Gas agreed to install a new bi-directional meter interconnect on CMS Line 2700 and DTE Gas E-Line in a location where the two companies' pipelines are in proximity and where each company has nearby gas storage fields. DTE Gas opined that this interconnect would provide opportunity for mutual assistance between the companies should the need arise, particularly during

[19] The Attorney General refers to the project as the Oakland Resilience Interconnect. ABATE refers to the project as the E-line interconnect.

periods of high gas demand. The interconnection is expected to be placed in service prior to the 2025/2026 heating season. 4 Tr 1954-1956.

DTE Gas testified that from January 2023 through 2026, the company will have incurred capital expenditures of $9.1 million on the CMS Line 2700 and DTE Gas E-Line project. 4 Tr 1956-1957; *see also*, 4 Tr 1957, Table 15. According to DTE Gas's Exhibit A-12, Schedule B5.5, page 16, the projected capital expenditures for the CMS Line 2700 and DTE Gas E-Line are $1.21 million in the bridge period, and $4.7 million in the projected test year. These figures include allowance for funds used during construction (AFUDC) of $17,350 for the bridge period, and $184,241 for the projected test year. *See*, Exhibit A-12, Schedule B5.5, p. 16. DTE Gas stated that in 2023 and 2024, costs for this project include labor, selecting an engineering contractor, ordering material, and soliciting construction bids, with construction taking place in 2025. DTE Gas testified that there is no revenue deficiency associated with the project because the "AFUDC credit on the income statement offsets the impact of reflecting projects in rate base." 4 Tr 1958.

The Attorney General asserted that the project is still in its conceptual design phase and that it will not be in service until two months following the end of the projected test year. Because of these factors, the Attorney General recommended that forecasted capital expenditures be disallowed as follows: "$100,000 for 2023, $1.1 million for the 9 months ending September 2024, and $4.7 million for the projected test year." 4 Tr 1465.[20] However, DTE Gas rebutted that the

[20] All citations to 4 Tr 534 through 4 Tr 1594 refer to transcript volume 4, part 1, revised, filed on June 26, 2024. *See*, Case No. U-21291, filing #U-21291-0297.

company submitted a joint filing pursuant to Public Act 9 of 1929, MCL 483.101 *et seq*. (Act 9) in Case No. U-21510,[21] and, thus, has entered the detailed design phase. 4 Tr 1985.

In its initial brief, ABATE recommended that projected test year capital expenditures should be disallowed because the project would not be placed in service by the end of the projected test year. ABATE's initial brief, pp. 11-13. As well, ABATE proposed that six-month delays are typical on large capital projects and, thus, the last six months of projected test year capital expenditures should be removed from, among other projects, the CMS Line 2700 and DTE Gas E-Line interconnect project, for a disallowance of $2.937 million. 4 Tr 1320-1321; *see also*, 4 Tr 1321, Table CTF-4.

The ALJ recommended that the Commission reject the Attorney General's suggested disallowance because DTE Gas adequately supported the projected expenditures for this project. PFD, p. 64.

No exceptions were filed on this issue.

The Commission finds that the ALJ's recommendation on this issue is well-reasoned and supported in the record and is therefore approved.

f. Site Security Program

DTE Gas stated that it intends to improve security in three areas: physical security, cyber security, and facility protection. The company explained that the security and protection measures include additional and crash-rated fencing, automated gates, camera/video surveillance, intrusion detection devices, network/device monitoring systems, and standardized door locks, among others. DTE Gas contended that the improved security measures will be installed at its high-risk facilities

[21] On September 10, 2024, in Case No. U-21510, Consumers submitted a settlement agreement to the Commission that is intended to resolve all issues in that proceeding.

by the end of 2025 and the company will implement improved security measures in other locations as required or needed in the future. 4 Tr 1959-1961. The company projects $3.0 million in annual capital expenditures for 2023, 2024, and 2025 for a total of $9.0 million, with $3.0 million projected for the 2023 historical year, $1.9 million projected for the bridge period, and $3.3 million projected for the test year. The company stated that it has spent $14.3 million during 2019 through 2022. 4 Tr 1963; *see also*, 4 Tr 1962, Table 16 and Exhibit A-12, Schedule B5.2, line 3. It appears that no party objected to the company's projected capital expenditures for the site security project.

No exceptions were filed on this issue.

The Commission finds that DTE Gas's projections in the site security project are adequately supported in the record. There does not appear to be any opposition to company's proposals and projections. Accordingly, the Commission approves DTE Gas's proposed capital expenditures for the company's site security program.

g. Taggart Compressor Replacement Project

DTE Gas intends to develop a compressor replacement program to support reliable, safe service to customers. DTE Gas testified that the average age of its compressor fleet is 46 years and over two thirds of its compressor units have been in service for more than 40 years. The company argues that "[r]eliable compressor units are critical to full utilization of storage facilities, consistent and stable operation of the transmission system, as well as safe and reliable delivery of services to customers." 4 Tr 1964; *see also*, 4 Tr 1963-1964. The company explained that the Taggart compressor station has been selected for compressor replacement because components of the unit are obsolete and replacement parts are not available from manufacturers, requiring that those parts be located in salvage yards. Also, DTE Gas stated that 78% of the parts that are

available from the manufacturer have a delivery lead time of at least seven weeks. Finally, the company stated that Taggart's utilization has doubled since 2018. 4 Tr 1966.

DTE Gas projected capital expenditures for the bridge period of $508,000 and $3.492 million for the projected test year. Exhibit A-12, Schedule B5.2, line 12. The company reported that it has corporate approval for the preliminary engineering work but does not have capital project approval. The company testified that it expects the compressor replacement to be operational in 2027 and that the company will have invested $100,000 from 2024-2027. 4 Tr 1968-1969. DTE Gas stated that "there is no revenue deficiency related to [the Taggart compressor replacement] in the revenue requirement of this rate case." 4 Tr 1969; *see also*, 4 Tr 1968-1969.

The Attorney General opposed inclusion of any capital expenditures for the Taggart compressor project because it is in very early conceptual stages, has not received corporate approval, has no definite timeline, and will not be in service until after the end of the projected test year in this case. 4 Tr 1463-1465. The Attorney General's recommended disallowance, stated as the total of three projects (Taggart compressor replacement, Belle River/Detroit interconnect & loop, and Austin-Detroit A&B Lines replacement), is "$1.3 million for 2023 historical year, $4.7 million for the 9 months ending September 2024, and $27.1 million for the 2025 projected test year." 4 Tr 1465. The Attorney General also noted that a "necessary adjustment" needed to be made to "AFUDC recorded by the Company for the three projects." 4 Tr 1465.

Additionally, ABATE proposed that six-month delays are typical on large capital projects and, thus, the last six months of test year projected capital expenditures should be removed from, among other projects, the Taggart compressor replacement. ABATE recommended a total $40 million disallowance for seven projects, one of which is the Taggart compressor replacement. ABATE's recommended disallowance for the Taggart compressor replacement is $2 million for

the last six months of the projected test year, leaving $859,000 to be approved for the project. 4 Tr 1320-1321; *see also*, 4 Tr 1321, Table CTF-4.

The ALJ recommended that the Commission adopt the Attorney General's requested disallowances, i.e., the entire forecasted capital expenditures for the three projects discussed *supra*, including the Taggart compressor replacement project. The ALJ noted that DTE Gas did not rebut any testimony related to the Taggart project. PFD, p. 67.

No exceptions were filed on this issue.

The Commission finds the ALJ's recommendation to disallow DTE Gas's forecasted expenditures for the Taggart compressor replacement project, based on the Attorney General's testimony and proposal, is well-reasoned and supported in the record. The Commission clarifies that it is disallowing these expenditures because the project is in the very early conceptual stages, has not received corporate approval, and has no definite timeline. 4 Tr 1463-1465. Accordingly, the Commission disallows DTE Gas's total proposed capital expenditures of $508,000 for the bridge period and $3.492 million for the projected test year. *See*, Exhibit A-12, Schedule B5.2, line 12.

The Commission finds that ABATE's proposal that the last six months of projected capital expenditures from the test year should be disallowed for the Taggart compressor replacement project is moot in this instance. However, the Commission notes that it is not inclined to disallow projected capital expenditures because an unforeseen and unsupported delay may occur.

h. Traverse City/Alpena Reinforcement Project

The Traverse City/Alpena Reinforcement Project (TCARP) is intended to improve safety by providing the ability to inspect the pipeline using the in-line inspection (ILI) method. The project

began in approximately 2021 and was divided into three phases. All of the work has been completed on this project and the final phase was placed into service in February 2023. 4 Tr 1970.

In this rate case, DTE Gas has requested approval of additional capital spending on the project over the amount approved in its last rate case (December 9 order). The company testified that, while phases one and two were timely completed, it purposely delayed phase three from its expected completion date of July 2022, to February 2023 to allow for the completion to coincide with DT Midstream, Inc.'s (DT Midstream's) Act 9 approval.[22] 4 Tr 1988-1989. DTE Gas testified that in its last rate case (December 9 order), the capital expenditures on this program were projected to be $100.8 million,[23] with a demand charge of $11.6 million. 4 Tr 1971-1973. In this rate case, the company testified that total capital expenditures for the project were $114.8 million and that, from December 22, 2022 through the end of the projected test year, the company incurred $3.4 million in capital expenditures. 4 Tr 1975-1976; Exhibit A-12, Schedule 5.2.

The Attorney General argued that DTE Gas did not fully account for the additional $14 million in spending related to the one-year delay of phase three and that when the company was asked to explain the increase, it merely repeated the cause of the delay. 4 Tr 1466; *see also*, Exhibit AG-16. The Attorney General opined that the reason for the delay is reasonable but that increased expenditures such as $1.8 million more for internal labor, $1.1 million more for

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[22] DT Midstream was involved in the construction of phase three interconnections on the project.

[23] According to DTE Gas's testimony in Case No. U-20940, the company projected $30.7 million for the historical year, $62.4 million for the 2021 bridge period, and $715,000 for the 2022 projected test year. *See*, December 9 order, p. 27. The $100.8 million asserted in this rate case is inclusive of historical expenditures from 2018 and 2019.

overhead, and $50,000 more each for contractor and material costs are not supported and seem excessive. 4 Tr 1466.

ABATE also questioned the added costs that DTE Gas incurred by delaying phase three of the TCARP project. 4 Tr 1319.

Related to the TCARP, the Attorney General pointed out that DTE Gas incurred additional costs to construct temporary facilities to correct an excess moisture problem in the gas stream transported by DTE Michigan Lateral Company (DTMLC). The Attorney General testified that in Case No. U-21525 and in response to discovery in the immediate case, DTE Gas admitted that it incorrectly added incremental costs of $323,000 to rate base rather than billing to DTMLC. 4 Tr 1467.

The ALJ agreed with the Attorney General that DTE Gas presented a reasonable explanation for the delay but failed to explain the reasons "why the delay would cause internal labor to increase by $1,800,000, overhead costs to increase by $1,100,000, and contractor and material costs to increase by $50,000 each when no work took place and no new employees were hired while DTE waited for DTMLC to obtain the Act 9 certificate." PFD, p. 71. Accordingly, the ALJ recommended that the Commission disallow $3 million from rate base and that the company be instructed to remove the amount from future rate cases. The ALJ also pointed out that DTE Gas did not rebut the Attorney General's testimony regarding additional incremental costs and, thus, recommends that the Commission disallow $323,000 in incremental costs and to instruct the company to permanently remove it from future rate cases. PFD, p. 72.

No exceptions were filed on the $323,000 incremental costs that DTE Gas agreed should have been recovered from DTMLC, or on the company being ordered to not include this amount in rate base in the future.

DTE Gas excepts to the ALJ's recommendation that $3 million be disallowed from TCARP, arguing that it is untrue that the company failed to explain its increased costs due to the one-year delay in completing the project. DTE Gas asserts that the company testified in rebuttal that corporate overheads increased, affecting "labor and construction costs relevant to engineering, project management, material coordination and verification, construction oversight, operation staff, and construction team costs" and that "the additional $1.8 million in labor cost was accounted for, as Witness Fedele noted that this amount was '[c]ontained within the $2.7 million internal labor component in 2022.'" DTE Gas's exceptions, pp. 16-17 (citing 4 Tr 1986-1987). The company argues that these explanations are reasonable and prudent. DTE Gas's exceptions, p. 17 (citing 4 Tr 1986-1987).

The Commission adopts the disallowance of $323,000 in incremental costs as it appears that the company agreed that inclusion in rate base was an error and no party disagreed. The Commission directs DTE Gas to remove these incremental costs from rate base in future rate cases.

Further, the Commission finds the ALJ's recommendation to disallow $3 million from the additional $14 million in funds requested by DTE Gas in this case is reasonable and supported in the record. The Commission considered DTE Gas's explanation for these added expenditures in the company's case presentation and as set forth in exceptions. The Commission finds the company's explanation to be unpersuasive and insufficient to fully support the inclusion of the added $14 million in costs. Accordingly, the Commission adopts the ALJ's recommended disallowance of $3 million for TCARP from rate base for the reasons stated by the Attorney General.

4. General Intervenor Proposed Changes to Capital Projects

In this section of the PFD, the ALJ addressed ABATE's concerns that a portion of the projected test year capital expenditures for large capital projects should be disallowed. For example, ABATE recommended that the main replacement program has significantly reduced gas leaks since 2018 and that the company could now reduce its projected capital expenditures for this project. 4 Tr 1316-1318. ABATE also questioned the added costs that DTE Gas incurred by delaying phase three of the TCARP project. 4 Tr 1319. Additionally, ABATE proposed that six-month delays are typical on large capital projects and, thus, the last six months of test year projected capital expenditures should be removed from the Fort Street main replacement; the Austin-Detroit A/B Lines project; Belle River–Detroit interconnect and loop project; the CMS Line 2700 and DTE Gas E-Line interconnect project; ILI Expansion: Muskegon–Ludington–Scottville tie in; the Taggart compressor replacement; and the Belle River field headers. The proposed disallowances total approximately $40 million. 4 Tr 1320-1321; *see also*, 4 Tr 1321, Table CTF-4. As well, ABATE questioned whether allowances for capital expenditures should be permitted when a project will not be completed during the test year. 4 Tr 1320.

DTE Gas rebutted that the projects listed in Table CTF-4 should not be presumed to have unforeseen project delays and that delays and contingencies are factored into the company's projections for these projects. DTE Gas also pointed out that the TCARP project was intentionally postponed so its completion would more closely align with DT Midstream's Act 9 finalization. 4 Tr 1988-1989.

The ALJ found that ABATE's proposed adjustments were not supported by evidence and were, in some cases, less than the disallowances that the ALJ had recommended. PFD, pp. 73, 75.

CUB proposed that DTE Gas use the average of 2022 and 2023 historical spending as the basis for projected test year spending, including test year projections for large capital projects. CUB stated that using these lower, actual expenditure projections would prevent the large and burdensome rate increase that DTE Gas's projected figures result in. CUB pointed out that the company is preparing its next rate case before the current rate case is decided, resulting in extreme rate increases that customers do not have increased funds to pay for. CUB contended that using actual historical figures would reduce these rate increases. 4 Tr 942-944.

The ALJ opined that CUB's recommendations are not supported in the record and are overly broad. PFD, p. 76.

The Commission notes here that many of ABATE's and CUB's proposed adjustments to DTE Gas's capital expenditures are addressed individually for each project elsewhere in this order.

5. Infrastructure Recovery Mechanism

DTE Gas explained that the IRM is a method of recovery via a billing surcharge of the predetermined incremental capital expenditures for specific long-term infrastructure projects intended to improve public and customer safety and to assist the company to provide reliable service. The IRM includes the gas renewal program (GRP) which is also known as the main recovery program (MRP), the meter move out (MMO) program, and the pipeline integrity program (PIP). In 2025, the GRP will include the MRP or GRP-mains, the MMO, and another program that coordinates MMOs with the meter assembly check (MAC) program to combine MMOs with MACs that are near to or past the assembly check date (MAC/MMO). 4 Tr 588-591. DTE Gas testified that five components make up the PIP: (1) pipeline integrity assessments; (2) ILI; (3) remote control valves (RCV); (4) maximum allowable operating pressure (MAOP) records review; and (5) records management system development. 4 Tr 611.

DTE Gas testified that, in addition to: (1) including the MMO/MAC in the GRP after 2024, the company plans to:

> (2) increase capital expenditure[s] included in the IRM to levels that reflect more recent spending levels; (3) implement a degree of year-to-year flexibility for meter move out and main renewal unit goals to support accelerated risk mitigation projects identified by the new Probabilistic Risk Assessment (PRA) Model and to utilize some GRP resources to proactively move out inside meters with an approaching MAC expiration while maintaining stable yearly capital expenditures and resources; and (4) the inclusion of Corrosion Work Order capital expenditures within the IRM.

4 Tr 589.[24]

The company asserted that "[t]he proposed IRM expenditures are necessary to achieve goals established by the September 13, 2018 order in Case No. U-18999 [(September 13 order)]." 4 Tr 588-589. DTE Gas averred that it exceeded its IRM target capital expenditures by $19.9 million in 2021, and by $27.7 million in 2022. 4 Tr 591. The company proposed total IRM capital expenditures for calendar year 2025 of $354.2 million. 4 Tr 592; *see also*, Exhibit A-12, Schedule B6.5.

The company testified that the IRM surcharge is calculated by calendar year for each year of the five-year investment period which, in this rate case, is January 2025 through December 2029, using the predetermined cumulative incremental revenue requirement associated with the incremental capital investment in the IRM. DTE Gas stated that it seeks to recover its IRM capital expenditures using a new, increased surcharge. 4 Tr 588-589, 598, 633.

DTE Gas calculated the IRM capital expenditures to be included in the company's surcharge for 2025 to be $274 million for main renewal costs, $47.545 million for MMO and MAC/MMO,

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[24] Use of the PRA was directed in the December 9, 2016 order in Case No. U-17999, and also in the SEA.

$23.1 million for PIP, and $9.6 million for cathodic protection, for a total projected IRM capital expenditure of $354.2 million. *See*, Exhibit A-12, Schedule B6.5.

As part of the IRM, the company explained that it files an annual reconciliation report in the first quarter of each year. 4 Tr 633. The company proposed to streamline the report by consolidating the six separate reports and one exhibit into three standardized reports to be implemented for the 2025 IRM report to be filed in 2026. 4 Tr 633; *see also*, Exhibit A-12, Schedule B6.4. There appears to be no opposition to the proposed report changes and, accordingly, the Commission approves the consolidated report.

The PIP includes projected expenditures for the MAOP project, which is designed as a "review of pipeline records to ensure that the records are traceable, verifiable and complete (TVC), and substantiate [MAOP]." 4 Tr 618. The PIP also includes DTE Gas's records management program, which is designed to manage pipeline risks and records through mapping, linking, and updating records, among other things. 4 Tr 621-622.

It appears that no party opposed the inclusion of the MAOP or records management programs in the IRM.

No exceptions were filed on these issues.

Accordingly, the Commission approves the projected capital expenditures for the MAOP and the records management programs that are included in the PIP.

Turning to issues and concerns raised by the parties to the case, the Attorney General opposed the company's proposed cathodic protection capital expenditures of $7.4 million for the bridge period, and $2.2 million for the projected test year. 4 Tr 628-632; *see also*, 4 Tr 629, Table 10 and Exhibit A-12, Schedule B5.3. The Attorney General argued that DTE Gas failed to provide a

convincing reason that the expenditures should be included in rate base and recommended a full disallowance of the company's proposed expenditures. 4 Tr 1460-1461.

In brief, the company argued that its cathodic protection capital investment is consistent with the purpose of the IRM for the following reasons:

> (1) [to] assure customers and Staff that the expenditures are reasonable and prudent with increased transparency to costs, unit completions, and projects, (2) ensure sufficient minimum expenditure levels will be dedicated to cathodic protection through 2029, and (3) formalize a holistic, programmatic approach to the Company's continued reduction of gas leaks in line with DTE Gas's commitment to the safety of the public and reduction of methane emissions.

DTE Gas's initial brief, p. 53 (citing 4 Tr 628-629). In addition, DTE Gas stated that it offered sufficient evidence that cathodic corrosion protection capital expenditures should be included in the IRM. The company reiterated the reasons from its case presentation. DTE Gas's initial brief, pp. 53-54.

The ALJ recommended that the Commission reject DTE Gas's proposal to include cathodic protection expenditures in the IRM, noting that the company had not determined that the project could not be included in base rates. The ALJ suggested that the Commission "add $7,400,000 of cathodic protection costs to the $2,200,000 already included [in] the projected test year for a total amount of $9,600,000." PFD, p. 87. The ALJ also "agree[d] that DTE should make prudent spending decisions irrespective of how cost recovery occurs and should allocate sufficient resources to the program irrespective of the cost recovery methodology." *Id*.

In exceptions, DTE Gas points out that if cathodic protection capital expenditures are not included in the IRM, they should be included in rate base. DTE Gas also states that the ALJ's underlying calculations do not coincide with the subsequent reduction in the revenue deficiency. Therefore, DTE Gas contends that "the Commission should adopt the corrected amounts related to this item." DTE Gas's exceptions, pp. 3-4, 17.

MNSC replies that it does not object to projected test year capital expenditures for cathodic protection being added to rate base so long as they are not included in the IRM and asserts that those expenditures are $2.2 million, not $7.4 million. Additionally, MNSC argues that the revenue deficiency should be accurately calculated. MNSC's replies to exceptions, pp. 2-3.

The Commission agrees with the Attorney General and the ALJ that the projected capital expenditures for cathodic protection in the amount of $9.6 million (bridge period and test year) should not be included in the IRM because the company did not provide an adequate reason that the project could not remain in base rates. *See*, 4 Tr 1460-1461.

Regarding DTE Gas's main replacement, the company testified that in its last rate case (December 9 order), the company was approved for capital expenditures to support 206 miles annually of main replacements. In this rate case, the company seeks to be permitted to complete a minimum of 190 miles but retain its funding for 206 miles. DTE Gas explained that flexibility is needed and the company plans to use a grid-based PRA to select pipeline projects with a goal of replacing a minimum of 190 miles of main annually, but seeks to include in the IRM capital expenditures for the 206 miles approved in the December 9 order so as to complete complex projects that consist of fewer miles but cost more than less complex main replacements. The company stated that it still intends to balance project selections by considering risk mitigation, legacy mileage, MMO goals, capital expenditures, hydraulic reliability, impact to municipalities and customers, availability of resources, and project complexity. 4 Tr 605-610.

ABATE testified that the MRP or GRP-mains are the costliest component of the IRM (the forecasted amount to use in the calculation of the IRM surcharge is $274 million annually for 2025-2029) and that DTE Gas can reduce customer rates by making a small reduction in the number of miles replaced per year. 4 Tr 1313, 1315; *see also*, Exhibit A-12, Schedule B6.5.

ABATE also noted that the number of gas leaks have been reduced by half over the years 2018-2022 such that the company can safely replace fewer miles of pipe. 4 Tr 1315.

ABATE argued that the company was able to make significant system improvements at the 2022 expenditure level and only needs to retire 190 miles per year to meet the pace approved by the September 13 order. Accordingly, ABATE proposed that the Commission limit recovery of capital expenditures on GRP-mains to 190 miles per year resulting in an 8% or $62 million reduction in capital expenditures for that program. 4 Tr 1317-1318; *see also*, 4 Tr 1318, Table CTF-3.

In briefing, DTE Gas stated that ABATE fails to consider the company's grid approach to legacy replacement and the PRA, which selects more complex and risky projects that cost more to complete than less complex projects. DTE Gas reiterated that it needs the flexibility to replace as few as 190 miles with no reduction in the expenditures that were projected for replacement of 206 miles, explaining that density of population and active services in areas with hardscape in the right-of-way, crossing main roads, railroad tracks, and highways are more costly to replace. DTE Gas's initial brief, p. 61.

The ALJ agreed with ABATE that a pace of 190 miles of legacy main replacement annually is sufficient to achieve the goals set in the September 13 order. The ALJ was not persuaded that permitting the company to complete a minimum of 190 miles of pipeline replacement but providing funding for 206 miles would result in consistent capital expenditures. The ALJ recommended that the Commission disallow the MRP (GRP-mains) by funding only 190 miles annually of legacy main replacement, thereby reducing capital expenditures for that program by about $62 million for the projected test year. PFD, p. 95.

DTE Gas excepts to the 190-mile limitation and the $62 million disallowance for main replacements as recommended by the ALJ. DTE Gas argues that, while the ALJ seemed to interpret ABATE's proposed disallowance as affecting only the projected test year, in fact, ABATE's chart illustrates how an 8% disallowance for 2022, 2023, and 2024 would result in a $62 million reduction in capital expenditures for the program. DTE Gas's exceptions, p. 18 (citing 4 Tr 1318).

DTE Gas states that it has already replaced 235 miles of mains. DTE Gas's exceptions, p. 18 (citing 4 Tr 599).[25] The company goes on to explain that, of the ALJ's recommended $62 million disallowance, $20.5 million was for 2022 expenditures, and $20.9 million was for 2023 expenditures. Further, the company states that while $255 million in capital expenditures for the MRP was used to compute the IRM surcharge for 2022 and 2023, actual MRP expenditures were $263 million in 2022, and, at the time of filing, were $258 million for 2023. *Id*., p. 18 (citing Exhibit A-12, Schedule B3.3, columns l-m).

The company points out that it has already recovered $7 million in 2022 expenditures, and $18 million in 2023 expenditures through the IRM surcharge, and thus, the ALJ has recommended disallowing investments that have already been recovered. DTE Gas's exceptions, p. 18. DTE Gas argues that the Commission's attempt to disallow costs that have already been recovered through a lawfully established rate, when no subsequent rate has been established, "would amount to both retroactive ratemaking and confiscatory rates." *Id*., p. 19. DTE Gas avers that the Commission should reject the $62 million disallowance. *Id*.

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[25] The chart on 4 Tr 599 to which DTE Gas refers indicates that each year from 2020 through 2022, the company exceeded 206 miles of main renewal and replaced 235 miles in 2022. 4 Tr 599, Table 4.

Finally, DTE Gas argues against limiting the company "to replacing only 190 miles per year, even if it may be prudent to exceed this amount based on the circumstances of a given year. Put another way, the removal of these capital expenditures removes any flexibility and would ensure that DTE Gas meets only the 190-mile target, nothing more." DTE Gas's exceptions, p. 19.

ABATE replies that the ALJ was correct to limit the number of replacement miles to 190 and reiterates its arguments from its case presentation but points out that "[t]here is nothing preventing DTE from pursuing higher main replacement targets and seeking recovery after those costs are already incurred." ABATE's replies to exceptions, pp. 1-3.

ABATE opines that DTE Gas's arguments about retroactive ratemaking and confiscatory rates are:

> impermissible under the Commission's Rules of Practice and Procedure. In the Matter, on the Commission's Own Motion, order of the Public Service Commission, entered September 8, 2022 (Case No. U-20879) ("[T]he presentation of a new proposal within the company's exceptions is outside the scope of exceptions under the Commission's Rules of Practice and Procedure").

ABATE's replies to exceptions, p. 3. ABATE further characterizes the company's arguments as "nonsensical" and reiterates its recommendation that $62 million should be disallowed. *Id*.; *see also*, *id*., pp. 1-4.

Ann Arbor replies that it supports ABATE's recommended disallowance of $62 million from the MRP, stating that failure to make this disallowance would result in the company being:

> able to charge ratepayers an extra $62 million for maybe replacing 48 miles more than its goal – or maybe not. Either way, the $62 million will flow to DTE's coffers, and the Company will come back in its next rate case asking to be paid again for whatever portion of those 48 miles it didn't cover with the $62 million unreasonably result[ing] in multiple collections for the same number of replacement miles.

Ann Arbor's replies to exceptions, p. 1; *see also*, *id*., pp. 1-2.

MNSC replies that the Commission should disallow $62 million in capital expenditures for the MRP for the reasons stated by ABATE and the ALJ. MNSC's replies to exceptions, pp. 4-5.

The Commission finds that it would be neither reasonable nor prudent to include capital expenditures in the IRM base rate for 206 miles of main replacement while agreeing that the company would be permitted to complete only 190 miles. Accordingly, the Commission adopts the ALJ's recommendation to include capital expenditures for 190 miles of main replacement.

The Commission respectfully declines to adopt the ALJ's recommendation to disallow $62 million from the MRP, finding the amount to be unreasonably excessive and imprudent given that a portion of the $62 million has already been recovered from customers in the IRM surcharge as previously authorized by the Commission. Therefore, the Commission disallows $5.28 million for the projected test year. *See*, 4 Tr 1318, Table CTF-3; *see also*, Exhibit A-12, Schedule B5.3.

As part of its PIP capital expenditures, DTE Gas included a number of large capital investments that are described as ILI expansion projects and are requested to be recovered in the PIP portion of the IRM. These large capital investments include Muskegon-Ludington 10 Scottville Tie-in, the Belle River field headers 12 &16, and the Belle River field headers 24. 4 Tr 1462-1463; *see also*, Exhibit A-12, Schedule B5.5, pp. 1-2.

The Attorney General testified that, in discovery, DTE Gas provided information to indicate that all three projects are still in the conceptual design phase. The Attorney General recommended a disallowance of the entire $3.588 million for projected capital expenditures for the three projects for the bridge period, and the entire $8.576 million for the projected test year because the projects are in their early developmental stages and should not be included in the ILI expansion at this time. 4 Tr 1462-1463; *see also*, Exhibit AG-15.

DTE Gas rebutted that the projects do have an assured timeline and are planned to perform on a two-year schedule with engineering in year one and construction in year two. 4 Tr 641. The company testified that its discovery response erroneously indicated that all three projects were in the conceptual design phase when, actually, two of the three had moved to the engineering phase: only the Belle River field headers 24 remained in the conceptual design phase at that time. DTE Gas also testified that, in the case of these three projects, engineering will have taken place in 2023, and construction will take place in 2024 or 2025. 4 Tr 642.

The Staff testified that it supports ILI expansion, in general, because ILI assessments lead to improvement in the transmission system, thus providing safety and reliability for the public, landowners, and customers. Further, the Staff averred that with ILI assessments, remediation may be completed to meet Michigan Gas Safety Standards (MGSS) requirements. 4 Tr 1794-1795.

However, the Staff testified that it recommended that the Belle River field headers 12 & 16 project be fully disallowed because the project was due for completion in 2024 but would not employ ILI assessment until four years later, in 2028. The Staff also testified that it does not support including in the IRM any PIP expansion projects that have projected ILI assessment dates of more than two years beyond the construction of the project unless the company provides adequate justification for an advanced construction schedule. 4 Tr 1794-1795.

Therefore, the Staff recommended that capital expenditures of $3.7 million for the bridge period, and $1.1 million for the projected test year should be disallowed for Belle River Field Headers 12 & 16 project in the PIP category. After the Staff's proposed adjustments, there are total projected PIP capital expenditures of $12.3 million for the bridge period and $5.2 million for the projected test year. 4 Tr 1796-1797; *see also*, Exhibit S-10.0 and Exhibit A-12, B5.20, sub line 5.3.

The ALJ agreed with the Staff's recommended disallowances for the Belle River field headers 12 & 16 in the amount of $3.7 million for the bridge period, and $1.1 million for the projected test year. The ALJ recommended that the Commission reject the Attorney General's proposed disallowances to avoid duplication with the Staff's recommendation. PFD, p. 81.

The Attorney General excepts to the ALJ's lack of analysis as to why the Staff's disallowances are acceptable but the Attorney General's are not. The Attorney General reiterates that DTE Gas failed to adequately support its proposed capital investments in the Muskegon-Ludington 10-Scottville Tie-in project, the Belle River Field Headers 12 & 16, and the Belle River Field Header 24 and, in particular, the ILI cost projections. Attorney General's exceptions, pp. 11-14.

The Commission is persuaded by DTE Gas's rebuttal that the Muskegon-Ludington 10-Scottville Tie-in, the Belle River field headers 12 & 16, and the Belle River field headers 24 projects have moved beyond the conceptual design phase into the engineering and construction phase and should not be disallowed for the reasons proposed by the Attorney General. 4 Tr 1796-1797.

The Commission agrees with the Staff that a full disallowance of the projected capital expenditures of $4.8 million for the Belle River field headers 12 & 16 project is appropriate because the project is scheduled to be completed in 2024 but will not employ ILI assessment until four years later, in 2028. 4 Tr 1794-1795.

Turning to suggested limitations on the IRM, the Attorney General proposed that projected test year capital spending caps should be placed on IRM projects because the expenditures included in the IRM are rapidly increasing to the extent they are becoming unaffordable for customers. The Attorney General proposed that the GRP-mains should be capped at $240 million,

a figure that was selected because it was the IRM expenditure for 2021 for the project, the company retired 200 miles of legacy mains that year, and it is the last time the projection was below $250 million. The Attorney General stated that whereas in the 2025 projected test year, the company plans to retire 206 miles at a cost of $274 million. 4 Tr 1457-1458. The Attorney General also argued that the highest risk pipelines have been replaced and that DTE Gas has not provided persuasive proof that its increased spending is linked to increased safety risks. The Attorney General opined that the deadline to complete the pipeline replacement could safely be extended beyond 2035. 4 Tr 1459-1460.

The Attorney General suggested a 2025 cap of $48 million for the combined MMO programs, which is slightly less than the 2021 expenditures for those programs and also slightly less than the company projected for the 2025 test year. 4 Tr 1458; *see also*, Exhibit AG-12. Regarding PIP, the Attorney General testified that the company forecasted capital expenditures of approximately $14.4 million per year for 2025-2029. The Attorney General proposed to allow capital spending on this program that does not exceed $15 million for 2025. 4 Tr 1458-1459. "In total, [the Attorney General] recommend[s] that the Commission approve a spending level of $303 million for the IRM for 2025 and allow the Company to increase that amount by an inflation factor of 2.5% annually beginning in 2026 and in subsequent years." 4 Tr 1458-1459.

In briefing, DTE Gas disagreed with the Attorney General's proposed limitations in the IRM, stating that the Commission has made clear that safe and reliable service is of the utmost importance, including replacing legacy mains and moving inside meters out. DTE Gas also averred that in the September 13 order, the Commission directed an expansion of the MRP (now the GRP-mains program) to reduce the chance of a major pipeline failure.

The company further argued that flexibility is needed because the PRA has identified needs that should be attended to, including the eventual replacement of corrosion-prone pipes once the cast iron and unprotected steel pipe replacement is complete. Regarding the ILI expansion, the company argued that it is an important integrity assessment tool that is aligned with best practices and guidelines of the National Transportation Safety Board and Interstate Natural Gas Association of America. The company contended that the RCV program also needs capital investment to ensure a fast and safe response if a gas leak occurs. DTE Gas's initial brief, pp. 47-51. Finally, the company reiterated that it approaches all capital projects, including ILI projects, on a two-year cycle with engineering in year one and construction in year two that, in this case, "align with the projected test year." DTE Gas's initial brief, p. 52.

The ALJ recommended that the Commission reject the Attorney General's proposal to cap the IRM. PFD, p. 85.

In exceptions, the Attorney General argues that the ALJ did not fully evaluate her case presentation and repeats the arguments in her case presentation that IRM costs were increasing too rapidly with little regulatory control. Attorney General's exceptions, pp. 11-14.

The Commission finds that customer costs and company requests for approval of ever-increasing capital expenditures are important considerations and require careful scrutiny when making the myriad of decisions involved in a rate case. However, the Commission is not persuaded that placing caps on the IRM is appropriate at this time. Increasing costs must be balanced with the important goals of the IRM program and is best accomplished through individual examination and evaluation of the programs that make up the IRM rather than placing arbitrary limits on them. Accordingly, the Commission adopts the ALJ's recommendation to

reject the Attorney General's proposal to place caps on the IRM in this case or limit program growth to a specific annual percentage. *See*, PFD, p. 85.

Turning to concerns and recommendations related to the overall design and recovery processes in the IRM, MNSC argued that not all programs that are essential to safety and reliability are included in the IRM and that the IRM budget has more than tripled in the past three years. 4 Tr 899-900. MNSC also pointed out that the company "has overspent its IRM annual budget by as much as $50 million per year," and now the company has proposed even more capital spending to be included in the IRM. 4 Tr 901-902; *see also*, 4 Tr 901, Table 1.

MNSC opposed the current structure of the IRM because:

1. As implemented, the IRM fails to provide adequate incentives for the utility to minimize costs.
2. Budget and actual spending on IRM programs has [sic] increased substantially since the IRM was first approved, and DTE's IRM expenditures have consistently exceeded budget.
3. The IRM process lacks meaningful external review and opportunity for contestation.
4. The criteria for what types of projects qualify for the IRM are unclear, and the utility has incentives to include routine projects in the IRM. The IRM includes minimal guardrails.
5. Over three-quarters of the proposed IRM expenditure is for replacing old pipes (which may or may not be leak-prone). DTE doesn't pursue alternatives to conventional delivery system investments (NPAs [non-pipe alternatives]), which could reduce investments and impacts on rates. The IRM provides no oversight over decisions to replace old pipes rather than evaluate and pursue NPAs.

4 Tr 905; *see also*, 4 Tr 905-907. Additionally, MNSC stated that the IRM does not allow for sufficient input from interested persons. 4 Tr 907.

MNSC testified that "DTE's description of investments that align with the IRM's purpose leaves substantial room for interpretation [and that the company] acknowledges that the IRM is not intended to cover all safety and reliability investments." 4 Tr 908; *see also*, 4 Tr 907. MNSC pointed out that the vague qualifications for the IRM can be a vehicle to provide greater profits for

investors. For example, MNSC stated, IRM investments earn a pre-tax ROR (the company has proposed 9.31%) but rate base investments earn after-tax ROR (the company proposed 6.04%). MNSC noted that DTE Gas points out the financial advantages of the IRM in its materials presented to shareholders. 4 Tr 909.

To address these concerns, MNSC proposed that the Commission should contemplate a requirement for utilities to consider NPAs and incentivizing customers to electrify as some other states have done. 4 Tr 911-914. MNSC also proposed that the Commission reject the current IRM proposal and develop more stringent qualifications for projects to be included in the IRM through "an open, collaborative proceeding to consider and revise the purpose, requirements, process, and structure of the IRM." 4 Tr 914. Further, MNSC proposed that the Commission should reject any increased spending or expansion in the IRM. 4 Tr 915.

The CEOs also testified that DTE Gas should consider NPAs and that the company, together with interested persons, should develop an NPA analysis framework for projects that exceed $l million. 4 Tr 738-739. The CEOs proposed that "[t]he Commission should require the Company to demonstrate that it conducted this analysis for all capital projects that [meet] the identified pipeline repair criteria when it seeks cost recovery of capital investments that meet the criteria" to be completed before the filing of its next rate case or by July 2025, whichever is first. 4 Tr 739; *see also*, 4 Tr 736-739.

In rebuttal to MNSC, the CEOs testified that "authorization of a 'blank check' rider like the IRM conflicts with long-term trends in gas consumption in Michigan related to the State's emission reduction goals and electrification." 4 Tr 768. The CEOs generally agreed with MNSC's testimony that the structure of the IRM is "problematic and risky" but opined that there is sufficient evidence in this rate case to discontinue the use of the IRM entirely because the IRM's

certainty of recovery steers the company away from properly considering needed changes. 4 Tr 770. The CEOs opined that the Commission should consider all current IRM projects in the same way as it considers other capital investments. 4 Tr 771-772.

DTE Gas rebutted that capital spending in its IRM involves strategic capital improvements in which the IRM ensures that the included projects take priority. 4 Tr 643. As well, the company pointed out that rate cases provide an opportunity for an open collaborative. 4 Tr 644. Additionally, the company testified that "the cost per legacy mile retired has remained within 7% of the 2020 cost, even as complexity and restoration requirements have increased." 4 Tr 645. The company also opined that customers are entitled to decide for themselves what source of energy they wish to use and that DTE Gas intends to provide safe, reliable service for customers who choose to use natural gas. 4 Tr 646.

Specific to the MRP, DTE Gas testified that the company did what it could to reduce costs, including negotiations with contractors, diversifying its contractor base, rebalancing the volume of work assigned to each contractor, reallocation of miles to geographic regions that have lower average cost per unit, improving design efficiency, negotiating with municipalities to limit the extent of restoration, and using the EcoSys cost control application. However, the company cited increased contractor and material costs and permitting, inspection, and restoration costs as reasons for the increased expenditures in its projections. DTE Gas explained that other increased expenditures are due to changing priorities and projects as revealed through the use of the PRA. 4 Tr 593-596.

The ALJ agreed with DTE Gas that most of MNSC's proposals should be rejected with the exception, as previously stated, that he agreed with the Attorney General that cathodic protection expenditures should be removed from the IRM. PFD, p. 92.

In exceptions, the CEOs state that the ALJ did not provide details as to why he was persuaded by DTE Gas's testimony rather than MNSC's presentation and repeats many of the arguments contained in the CEOs' and MNSC's testimony. The CEOs reiterate that the IRM provides too much certainty of recovery and too little oversight, lacks the opportunity for input from interested persons, and does not recognize the impact that electrification will have on capital investments in gas infrastructure. CEOs' exceptions, pp. 4-5.

DTE Gas discusses its exceptions related to capital structure and ROR on pages 21 through 24 but does not directly address this issue as it relates to the IRM. DTE Gas's exceptions, p. 17.

No party filed replies to exceptions on this issue.

The Commission declines to order the modifications to the IRM program as suggested by the Attorney General, MNSC, and the CEOs because a complete restructuring or abolition of the program would not accomplish the infrastructure improvement priorities that the IRM was created to address. Additionally, the Commission finds that the record evidence supports the continuation of this important program. However, the Commission also finds that the record evidence supports arguments that the IRM recovery has grown rapidly, continues to grow substantially, and that cost overruns are common. The Commission is cognizant that costs may increase due to inflation and for other reasons, but in this case, some are the result of company overperformance. For example, the company was approved for 206 miles of main replacement but indicates that each year from 2020 through 2022, the company exceeded 206 miles and replaced 235 miles in 2022. *See*, 4 Tr 599, Table 4.

The Commission continues to emphasize the importance of the projects included in the IRM to provide safe and reliable service to customers. However, the Commission seeks to appropriately balance these priorities with rapidly growing IRM costs. To that end, the

Commission encourages DTE Gas to prudently consider the appropriateness of NPAs and repairs versus replacements when planning main replacements.

In addition, the Commission is not persuaded that DTE Gas has done all it could to reduce MRP costs, as suggested by MNSC. *See*, 4 Tr 910-911. The record evidence establishes that DTE Gas has completed main replacements at a greater rate than authorized to the extent that this overperformance is placing upward pressure on contractor costs so that a portion of the company's increased contractor costs are a result of its own actions. 4 Tr 598-599; *see also*, 4 Tr 599, Table 4. The Commission agrees with the Attorney General that "the competition for limited resources has contributed to the higher cost of pipe replacement under the Company['s] MRP program during recent high inflationary periods. A more moderate pace of pipe replacement will help take the pressure off the competition for those resources." 4 Tr 1360.

The Commission finds that this practice of overperformance and the associated increase in construction costs is not reasonable and prudent. As such, the company is cautioned that, in the future, capital expenditures associated with overperformance beyond the levels authorized in the surcharge will be closely scrutinized for reasonableness and prudence and may be subject to disallowance in future cases. Finally, the Commission adopts the Attorney General's proposed $240 million limitation on the MRP, not as a cap to the program, but as the per year figure to use for calculating the IRM surcharge.[26] The Commission finds that calculating the IRM surcharge using this figure and closely scrutinizing future recovery requests that exceed authorized amounts

[26] The Attorney General proposed that the MRP should be capped at $240 million, a figure that was selected because it was the IRM expenditure for 2021 for the project, the company retired 200 miles of legacy mains that year, and it is the last time the projection was below $250 million. Whereas in the 2025 projected test year, the company plans to retire 206 miles at a cost of $274 million. 4 Tr 1457-1458.

for reasonableness and prudence addresses concerns about affordability, lack of accountability, and the rapid growth of the IRM, but provides the company with sufficient means to complete necessary projects.

6. Non-infrastructure Recovery Mechanism Capital Expenditures

Turning to pipeline replacements proposed for Ann Arbor, the City testified that utilities should coordinate their work with City projects for efficiency, fewer disruptions in services, and to reduce costs. 3 Tr 501. Ann Arbor asserted that DTE Gas never attempts to coordinate with the City's projects and that the City has not been provided with advance notice in a predictable or established manner. For example, Ann Arbor noted, the City was designing and scoping work for a street/sidewalk reconstruction on Page Avenue when it came to light that DTE Gas was planning a pipeline project for the same area. Ann Arbor requested that DTE Gas move up its pipeline project to be completed prior to the City's project or the company risked being unable to obtain a right of way for its project. Ann Arbor noted that the issue is not yet resolved. 4 Tr 502-503. Ann Arbor testified that the Commission should inform DTE Gas that the company cannot recover investments in projects where it failed to coordinate those projects with local governments. 3 Tr 525.

Additionally, Ann Arbor testified that non-cathodically protected pipelines that have little to no history of leaks should remain operationally safe until 2050 at which time Ann Arbor will have converted to total electrification. Ann Arbor argued that repairs could be achieved by as little as $875,000 as opposed to $20.4 million for replacements. Ann Arbor argued that needlessly replacing pipelines would be a waste of money that solely benefits stockholders and risks stranded assets. 3 Tr 524-526.

DTE Gas replied that the company supports coordination of projects with local governments whenever possible, but that there are times when this cannot be achieved. The company stated that it employs a regional relations specialist to provide notice of timelines to Ann Arbor and other local governments. Thus, DTE Gas testified, the Commission should reject Ann Arbor's proposal that the company may not recover capital investments unless its projects are coordinated with projects being planned by local governments. DTE Gas's initial brief, p. 62.

The ALJ opined that it is unnecessary to put DTE Gas on notice regarding lack of attempts to coordinate its projects with local governments, stating that utilities are aware of the Commission's prior orders and "should not be required to report on systematic changes it has made to coordinate its infrastructure projects with other utilities and local governments in an effort to reduce costs and disruptions, as Ann Arbor has not demonstrated that any such systemic changes are required." PFD, p. 96. The ALJ acknowledged that DTE Gas has supported in the record its improved coordination and communication with Ann Arbor. *Id*.

Additionally, the ALJ agreed with DTE Gas that the company demonstrated that its proposed expenditures for the pipeline replacement program related to Ann Arbor are reasonable and prudent. The ALJ recommended that the Commission reject Ann Arbor's proposed disallowance. PFD, p. 98.

Ann Arbor filed exceptions related to issues discussed in this section as follows:

> I) Excepts to the PFD's finding regarding coordination with local governments;
> II) Excepts to the PFD's finding regarding the reasonableness and prudence of certain pipe replacement projects in the City;
> III) Excepts to the PFD's suggestion that willingness to coordinate projects with DTE indicates approval of the underlying DTE projects;
> IV) Excepts to the PFD's failure to address the City's request to make a finding regarding the proper treatment of the risk of obsolescence due to decarbonization[.]

Ann Arbor's exceptions, p. 1.

Ann Arbor disagrees with the ALJ's findings and reiterates arguments set forth in its initial case presentation. Ann Arbor states that it may not approve the projects that it believes to be unnecessary and that its willingness to coordinate projects does not mean that it believes the projects to be reasonable or prudent. *Id*., pp. 3-7.

The Commission recognizes Ann Arbor's electrification goals and appreciates that the City prefers to retain a high level of decision-making autonomy when utility work is proposed. Additionally, the Commission acknowledges that it may not always be possible for a utility to align its projects with local governmental projects in instances where work is necessary to maintain safety. For these reasons, the Commission encourages DTE Gas to coordinate its pipeline repair/replacement projects with local governments and to choose coordination and cost saving measures whenever appropriate so long as safety is not compromised.

In this case, the Commission finds that DTE Gas has adequately demonstrated that the pipelines at issue should be replaced, as opposed to the repairs proposed by Ann Arbor. Accordingly, the Commission declines to adopt Ann Arbor's suggested disallowance to the PIP program and declines to issue a warning that the company may not recover capital investments unless its projects are coordinated with projects being planned by the local government.

Turning to concerns about new community attachments, DTE Gas testified that it was pursuing two new community expansion projects (CEPs) due to increased demand from homeowners that want to switch from higher cost propane service to more affordable natural gas. DTE Gas stated that the projects have capital project approval and that "the Mesick-Buckley Community Expansion project will be constructed as a result of the Low Carbon Infrastructure Enhancement and Development grant awarded to DTE Gas." 3 Tr 362. For the Mesick-Buckley CEP, DTE Gas projected $4.7 million for the bridge period and $524,405 for the projected test

year and a total of $5.2 million for the period of January 1, 2023 through September 30, 2025. For the Peach Ridge CEP, the company projected $4.5 million for the historical test year and a total of $4.5 million for the period of January 1, 2023 through September 30, 2025. Exhibit A-12, Schedule B5.5, p. 2.

MNSC asserted that DTE Gas had over-projected capital expenditures for these two new market attachment projects, i.e., $17 million more in 2023-2025 than the average expenditure for similar projects in the previous five years. MNSC also argued that calculations completed according to DTE Gas's Rule C8 for CEP customers' contributions in aid of construction (CIAC), which are paid by the attaching customers in either a monthly surcharge or one-time lump sum, are not reasonable and may result in newly attaching customers not paying their full share for the attachment. MNSC proposed that the Commission disallow from these two projects the amount that represents the CIAC shortfall. MNSC's initial brief, pp. 11-12.

MNSC explained that:

> DTE determines the surcharge as the amount necessary to recover the net present value (NPV) of the revenue deficiency anticipated from the attachment project. DTE uses a discounted cost of service model to calculate the revenue deficiency. The model estimates the expected incremental revenues and incremental costs associated with the project for each year of a 20-year period, and the difference between those estimated costs and revenues is the revenue deficiency. DTE estimates incremental revenues using current rates and consumption levels, and a forecast of the number of customers who will attach to a project. DTE applies the CAP [customer attachment program] model to individual customer attachments and expansions, attachment projects for small groups of customers, and to the larger CEPs like Mesick-Buckley and Peach Ridge.

MNSC's initial brief, pp. 12-13 (citations omitted).[27]

MNSC asserted that this system of calculation means that if new customer attachments are fewer or consumption is lower than expected or calculated, other customers pay the costs, thus subsidizing the new attachments and customers attaching through the project not paying the full cost of the attachment. 4 Tr 857.

MNSC argued that DTE Gas's per capita customer sales dropped approximately 30% from 1997 to 2022, and that Michigan's deadline to achieve carbon neutrality is the year 2050, which will likely result in even fewer DTE Gas customers. As such, MNSC argued, it is unreasonable for DTE Gas to assume natural gas consumption will remain constant over the next 20 years. 4 Tr 858-859. MNSC contended that flawed assumptions that do not account for natural gas's declining use could lead to an overbuilt gas pipeline system and high gas bills for customers. MNSC opined that DTE Gas's projections should allow for growing electrification rather than assuming gas consumption will remain at its current level. 4 Tr 854.

To resolve the issue of CIAC underpayment and the resulting balance of costs being included in base rates and paid by other customers, MNSC made two suggestions, the first of which was that the Commission amend the Rule C8 tariff to set 2034 as the end date for DTE Gas to provide cost support for new customer attachments. MNSC argued that such a tariff amendment would ensure that the newly attaching customers would pay the net cost of connection over a period that would end during or before 2034. MNSC asserted that 10 years is an appropriate timeframe

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[27] The parties differentiate the CEP discussed in relation to the Mesick-Buckley and Peach Ridge CEPs from single customer attachments, but MNSC pointed out similarities in that both CEPs and single customer attachments take into account the weighted cost of capital, tax rates, depreciation rates, the assumption that consumption per customer will remain constant over 20 years, and that a specific percentage of potential customers will attach per year with numbers being significantly higher in the initial year. *See*, 4 Tr 863-864.

because it represents about half the useful life of a natural gas heating system. MNSC testified that other markets and jurisdictions, such as Oregon, California, and Ontario, have plans to eliminate or reduce contributions made by utilities for new customer attachments. 4 Tr 859-862.

Secondly, MNSC proposed that DTE Gas increase its fixed attachment charge so that newly attached customers pay $70.20 per month as opposed to $27.76 per month as projected by DTE Gas, and that commercial customers pay $5,594 upfront to account for over-projections in the number of customers attaching through the CEP. 4 Tr 864-865, 874.

Next, MNSC explained that the Mesick-Buckley CEP was projected to cost $14 million, with $7.3 million of those costs covered by the Low Carbon Energy Infrastructure Enhancement and Development Grant program, resulting in costs of $6.8 million. 4 Tr 864. MNSC testified that DTE Gas estimates that the project will serve 1,063 customers adjacent to the project today at a cost of $27.76 per month for the first 10 years (commercial customers would pay one-time upfront costs of $2,212). The company estimated that 192 additional customers would attach over the next 10 years from other sources, leaving a deficit of $2.16 million. MNSC asserted that the company does not have commitments from all projected customers. 4 Tr 864-865.

MNSC admitted that it is possible that DTE Gas will not have revenue shortfalls for the project but opined that it is more likely that shortfalls will occur based on projected customer attachments and shortfalls in previous projects where shortfalls ranged from 15% to 54%. 4 Tr 866-868; *see also*, chart set forth on 4 Tr 868.

Regarding the Peach Ridge CEP, MNSC averred that the customer attachments were overestimated as well, and opined that the inflated numbers falsely sent a message that natural gas is the cheapest option for customers. 4 Tr 877. MNSC calculated a $912,000 shortfall for the project. 4 Tr 877; *see also*, Exhibit MEC-7.

MNSC opined that if DTE Gas is not able to make the suggested changes in projections and recovery, the Commission should disallow $838,000 for the Mesick-Buckly CEP, and $912,000 for the Peach Ridge CEP. 4 Tr 879. In the alternative, MNSC suggested that the company could establish a tracker that shifts the risk for insufficient revenue from customers to shareholders. 4 Tr 879.

Finally, MNSC testified that DTE Gas had consistently overrun costs for expansion projects up to 79% (Epsilon/Pickerel Lake project) but did have underruns, as well (costs 24% less than projected for the Cherry Homes/Northport project). 4 Tr 880; *see also*, chart set forth on 4 Tr 881. MNSC recommended that the Commission shift the cost overruns to its shareholders and inform DTE Gas that expansion project cost overruns will "face a rebuttable presumption to be imprudent and disallowed." 4 Tr 882.

DTE Gas rebutted that the expansion of natural gas service in the Mesick-Buckly area will boost economic development. The company testified that:

> [t]he project has been praised by local businesses and economic development organizations for its potential positive impacts, including more affordable and reliable energy, and an enhanced ability to attract workers. Local school districts, such as Mesick Consolidated Schools, plan to use the savings from this project to hire new staff and improve academic outcomes for its students.

3 Tr 399-400. Additionally, the company testified that it is too early in the Peach Ridge CEP to determine whether or not there is a subscription shortfall. 3 Tr 401.

The ALJ agreed with MNSC that DTE Gas's projections are unrealistic and unreasonable. The ALJ recommended that the Commission adopt the disallowances proposed by MNSC. PFD, p. 101.

In exceptions, MNSC argues that the ALJ erred when he failed to recommend MNSC's suggested changes to the CEP and opines that DTE Gas's opposition to the CEP was "nebulous"

and the company's reasoning does not align with cost causation principles. MNSC reiterates key arguments and points that it and other parties made in their case presentations that supported MNSC's position in the matter. MNSC's exceptions, pp. 6-22.

DTE Gas excepts to the ALJ's agreement with MNSC's proposed disallowance of $838,000 for Mesick-Buckley and $912,000 for Peach Ridge because of the erroneous assumption that DTE Gas had unrealistically and unreasonably overstated expected subscription rates for these projects. DTE Gas's exceptions, p. 20; *see also*, 3 Tr 399 and PFD, p. 101. The company also excepts to the ALJ's apparent failure to consider that the Mesick-Buckley project is possible because of the Low Carbon Infrastructure Enhancement and Development grant that was awarded to the company. As well, the company points out that the two projects are expanding natural gas because of increased demand from homeowners that currently use higher cost propane. DTE Gas's exceptions, p. 20 (citing 3 Tr 361-362). DTE Gas states that funds for the projects have been allocated, the projects have been approved, and "the assets will be used and useful." DTE Gas's exceptions, p. 20.

Further, DTE Gas points out that the ALJ failed to address the company's argument that the historical customer connections data cited by MNSC do not provide an accurate five-year customer count for attachments to the extent that "given the lack of an accurate representation over a five-year period, it is not possible to precisely determine customer connection shortfall, subscription level, or typical attachment rate." DTE Gas's exceptions, p. 21 (citing 3 Tr 399).

DTE Gas avers that the Commission should reject the ALJ's recommendations on these disallowances. DTE Gas's exceptions, p. 21.

MNSC replies that the ALJ is "succinct" in his support for its proposed disallowances and notes that DTE Gas, in its exceptions, did not dispute or address the ALJ's opinion that the

company's projections were unrealistic and unreasonable. MNSC's replies to exceptions, pp. 5, 7. MNSC reiterates arguments in support of its opinion that DTE Gas has over projected customer attachments on many projects, also arguing that whether or not the company received a grant to assist in funding the two projects is immaterial to MNSC's contention that the company has overprojected customer attachments. *Id*., pp. 5-7. As well, MNSC refutes DTE Gas's argument that there is insufficient evidence to establish the company has consistently overprojected customer attachments. *Id*., p. 8.

The Commission finds that the $912,000 disallowance proposed by MNSC and recommended by the ALJ with regards to the Peach Ridge CEP is supported in the record and reasonable. However, the Commission finds that DTE Gas did provide evidence on the record that the Low Carbon Infrastructure Enhancement and Development grant issued for the Mesick-Buckley CEP reduced the CIAC from $8.8 million to a customer CIAC of $1.528 million. *See*, Exhibit A-12, Schedule B5.5. In addition, as part of the grant, eligible customers within the project perimeter can apply for a customer in-home rebate of $500. *Id.* While the Commission agrees with MNSC that the receipt of a grant does not provide a reason for the company to overproject attachments and is not an automatic conferral of reasonableness or prudence for any related expenditures, the evidence in this instance supports DTE Gas's customer projections. Accordingly, the Commission adopts the ALJ's recommended disallowance of $912,000 for the Peach Ridge CEP for the reasons stated by MNSC. At this time, the Commission declines to increase the monthly customer payment or to terminate the CIAC by 2034, finding that the current system of recovery remains appropriate.

B. Working Capital

DTE Gas projected $873 million in working capital for the projected test year. 4 Tr 2357; *see also*, Exhibit A-12, Schedule B1.

The Attorney General argued that the company's projected test year Regulatory Asset-Incentive Tracker should be reduced by $10.1 million. 4 Tr 1475. The Attorney General relied on language from the December 9 order in which the Commission stated that the company should not recover as if it will achieve 100% of its operating measures but should be allowed only 20% recovery for meeting operating metrics. Additionally, the Attorney General cited language from the December 9 order stating that a two-way tracker mechanism is authorized, which will allow DTE Gas to recover additional funds if the tracker exceeds the 20% target level, up to 100%, and, as well, requires refunds to customers if the 20% target level is not reached. 4 Tr 1475 (citing December 9 order).

The Attorney General testified that DTE Gas erroneously added $6.378 million of the expense to the $1.057 million incentive compensation that was approved in the December 9 order. The Attorney General argued that:

> [t]o arrive at the $13.3 million balance, the Company added $6,378,000 of expense to the $1,057,000 incentive compensation expense approved by the Commission in Case U-20940. The information provided in response to discovery shows that the $6,378,000 included in the deferred regulatory asset is a new calculated amount by the Company that does not conform to the amount requested by the Company in Case No. U-20940 for achieving 100% target level performance in 2022 for operating performance measures. The amount forecasted by the Company in Case U-20940 was $5,286,000, consisting of the sum of $1,277,000 for the AIP [annual incentive plan] and $4,009,000 for the REP [rewarding employees plan], assuming the Company achieved all measures at 100% of target.

4 Tr 1475-1476.

The Attorney General argued that accruals and underlying performance goals for 2023 and the 2024 bridge period were not adequately supported in the record and should not have been added to

the deferred compensation regulatory tracker. 4 Tr 1476. The Attorney General asserted that "[t]he Company seeks to recover only the amortization of the incremental amount of incentive compensation earned in 2022 in this rate case and the regulatory asset deferred amount should only reflect those incremental costs." 4 Tr 1476-1477. The Attorney General proposed that its calculation supports a $10.083 million disallowance in working capital for the projected test year. 4 Tr 1477; *see also*, Exhibit AG-21.

The ALJ agreed with DTE Gas that the Attorney General's calculation was incorrect. The ALJ also noted that the company acknowledged that its deferred incentive compensation should be reduced by $4 million and that a $0.1 million reduction in working capital should be made because a Treasury clearing account was included in error. Accordingly, the ALJ recommended these adjustments be adopted by the Commission because they were agreed to by DTE Gas. PFD, p. 105.

The Attorney General excepts to the ALJ's finding, arguing that the ALJ failed to provide an analysis or rationale as to why or how the Attorney General's calculation is incorrect. In response, the Attorney General reiterates the reasons that DTE Gas's arguments on this issue are incorrect. Attorney General's exceptions, pp. 15-16.

DTE Gas replies that the company outlined in its initial brief that the Attorney General:

> used incentive compensation forecasts from a prior gas rate case, rather than the actual incentive compensation expense incurred during 2022. The design of the incentive compensation mechanism compares actual expense to a pre-determined base amount; thus, Witness Coppola's use of a previous forecast misses the point of the mechanism's design entirely. The correct starting point, and the one used by the Company, is the actual 2022 incentive compensation expense related to operating metrics, or $6.378 million. Further, DTE Gas highlighted how the [Attorney General]'s position undervalues the performance results related to the incentive compensation program. By assuming performance results of 88.9% and 87.5%, witness Coppola fails to account for the fact that the results of the performance plan exceed 100% on a weighted average basis. The weighted average is the basis for the incentive compensation plan, and under this basis,

> payouts can in fact exceed 100%. Accordingly, the amount eligible for deferral and recovery should be based on the 100% cap, which is $6.378 million. DTE Gas has demonstrated elsewhere that the [Attorney General]'s misunderstanding of the target metric mechanism undermines the positions taken by the [Attorney General].

DTE Gas's replies to exceptions, pp. 25-26 (internal citations omitted).

The Commission agrees with the DTE Gas and the ALJ that the Attorney General mistakenly used the incentive compensation forecast from Case No. U-20940, rather than the actual 2022 incentive compensation expense, for her incentive compensation calculation. Thus, the Commission declines to adopt the Attorney General's proposed disallowance of $10.1 million from the company's working capital projections. 4 Tr 1748; *see also*, Exhibit A-12, Schedule B4, line 71, column (c). The Commission further agrees with the ALJ's recommendation to reduce working capital by $4.0 million related to deferred incentive compensation and that a $0.1 million reduction in working capital should also be made because a Treasury clearing account was included in error, as agreed to by DTE Gas. *See*, PFD, p. 105.

The Staff testified that DTE Gas agreed that $136,000 in Cash and Special Deposits should be removed from working capital. The Staff also noted that the company agreed that $300,000 in Other Accounts Receivable should be considered non-recoverable. 4 Tr 1748-1749. Addressing the Gas in Underground Storage projection, the Staff testified that the $9.133 million reduction was the result of the company updating volumes and costs using more recent five-day (February 12-16, 2024) average commodity futures pricing in natural gas on New York Mercantile Exchange (NYMEX) and reflecting reduced volumes of gas in underground storage. 4 Tr 1808-1810; *see also*, Exhibits S-11.1 and 11.2.

Regarding the $223,000 recommended increase in inter-company accounts payable, the Staff testified that the company agreed "that for ratemaking purposes any netted receivable and payable balances from its trading partners included in working capital should only be related to core utility

services netted against core utility services" and that "if all payables to affiliates are for core utility services, there should be an adjustment to increase inter-company accounts payable in the amount of $223,000." 4 Tr 1749; *see also*, Exhibit S-12.1, pp. 1-2.

Regarding the Regulatory Assets–Shared Asset Deferral Mechanism, the Staff recommended a reduction of $1.304 million. Staff's initial brief, p. 9; *see also*, 4 Tr 1604-1606 and Exhibit S-13.4, p. 3. The Staff also testified that DTE Gas admitted to the discrepancy in the IT shared asset charge and stated that there should be a $1.9 million downward adjustment. 4 Tr 1606; *see also*, Exhibits S-13.2, S-13.5, and S-13.6. It is this adjustment that led to the adjustment in the working capital, Regulatory Assets–Shared Asset Deferral Mechanism of $1.304 million.

The ALJ recommended that the Commission adopt the Staff's proposed reduction of $11.096 million from the company's working capital projections, noting that DTE Gas either agreed to or did not oppose the Staff's changes. PFD, p. 107.

No party filed exceptions to the Staff's proposed adjustments to working capital.

The Commission finds that the Staff's proposed reductions of $11.096 million to working capital should be adopted as DTE Gas either agreed or did not oppose the changes.

C. Depreciation Reserve

DTE Gas calculated its depreciation for this rate case using the depreciation rates that it expected would be approved in Case No. U-21384 rather than the rate that was effective at the time of case filing. Using the company's proposed depreciation rate from Case No. U-21384, DTE Gas calculated its depreciation reserve as $2,756,737,000. 4 Tr 1747, 1751-1752; *see also*, February 7, 2019 order in Case No. U-20118 (February 7 order).

The Staff testified that it recommended a decrease in DTE Gas's depreciation reserve of $5.968 million (to be deducted from the company's calculation of $2.757 billion) resulting in a

depreciation reserve of $2.751 billion. This downward change is a result of the Staff using the depreciation rate approved in the February 7 order to calculate the company's depreciation reserve and also incorporates the impact from the Staff's various recommended adjustments in capital expenditures for routine distribution-service renewals, routine distribution LDAR, IRM/PIP, and IT projects with Level 2 cost estimates. 4 Tr 1746-1747, 1751-1753; *see also*, 4 Tr 1746, Figure 1.

The ALJ agreed with the Staff that rates from the February 7 order should be used to calculate the depreciation reserve for this rate case unless a final order has been issued in Case No. U-21384. However, he stated that if a final order has been issued in Case No. U-21384, the depreciation reserve should be recalculated. PFD, p. 109.

Earlier in its November 7, 2024 Commission meeting, the Commission issued an order in DTE Gas's depreciation case, Case No. U-21384 (November 7 order). Ordering paragraph B on page 22 of the November 7 order states that "[t]he revised depreciation rates shall become effective concurrent with the implementation of new final general service rates, as set forth in the final decision in DTE Gas Company's general rate case, Case No. U-21291." As such, the depreciation rates and impacts from Case No. U-21384 have been incorporated to calculate the company's depreciation reserve in the amount of $2,743,143,000.

V. CAPITAL STRUCTURE AND RATE OF RETURN

A. Capital Structure

1. Equity Balance

In this case, DTE Gas proposed a capital structure of 48.5% long-term debt and 51.5% equity. 4 Tr 2188. The Staff disagreed with the company's proposal and advocated for "a capital structure with an equity ratio no higher than 51.00%." Staff's initial brief, p. 20; *see also*, 4 Tr 1614. The Attorney General recommended a capital structure of 50% long-term debt and 50% common

equity. 4 Tr 1480-1481; *see also*, Exhibit AG-22. ABATE argued that the company's proposal exceeds the equity ratio of the proxy group and is contrary to Commission precedent. 4 Tr 1359.

The ALJ reviewed the positions of the parties regarding capital structure at pages 110 through 124 of the PFD, which will not be extensively repeated here. The ALJ found that "DTE has not established that its request for a capital structure with an equity ratio of 51.5% is reasonable and consistent with prior Commission orders, nor that a continuing deviation from a capital structure evenly balanced between debt and equity is appropriate." PFD, p. 124. After reviewing prior Commission orders, the ALJ agreed with the Attorney General and ABATE, concluding that the Commission has signaled that the appropriate capital structure is balanced at 50% debt to 50% equity. In addition, the ALJ found that the Staff's proposal for utilizing a 51% equity to 49% debt was curious and inconsistent with the Commission's stated preference. *See*, *id*., pp. 130-131. As such, the ALJ recommended that "the Commission adopt the Attorney General's proposed common equity balance of $2.749 billion, which represents approximately 50.0% of the permanent capital structure" for a balanced structure of 50.0% equity to 50.0% debt. *Id*., p. 131.

DTE Gas takes exception to the ALJ's recommendation, stating that the ALJ makes an incorrect assumption that a balanced capital structure necessarily means "an exact and even 50/50 split between debt and equity . . . ." DTE Gas's exceptions, p. 21. DTE Gas contends that prior Commission orders do not require an equal split but rather encourage movement toward balanced structure. Further, the company notes that the Staff's recommendation supports DTE Gas's argument that a relative balance does not require a capital structure of 50/50. DTE Gas further contends that the Commission has indicated that movement towards a balanced structure should be

gradual but did not direct the company to file a 50/50 capital structure. *Id*., p. 22 (citing September 13 order, p. 41).

DTE Gas reiterates its record position that lowering its capital structure to less than 51% equity would be unreasonable. The company contends that it must "be viewed as financially sound with an investment grade rating to ensure access to competitive capital costs on reasonable terms during a period of significant capital investment." DTE Gas's exceptions, p. 23 (citing 4 Tr 2200). DTE Gas avers that the Commission should consider, holistically, the company's financial risk in setting the capital structure as well as the ROE. *See*, *id*., pp. 23-24.

The Attorney General replies that the company's exceptions present no new arguments, which she contends "were fully rebutted by the [Attorney General] in her briefing and fully addressed by the ALJ in the PFD." Attorney General's replies to exceptions, p. 13. The Attorney General further states that DTE Gas's review of Commission precedent demonstrates that the company should move toward a balanced structure. Overall, the Attorney General contends that the ALJ did an excellent job of reviewing the issue and that the company's exceptions should be rejected. *Id*., pp. 13-14.

ABATE also replies, stating that DTE Gas's exceptions are contrary to the record in this case and that the Commission has made clear its preference for a balanced capital structure. ABATE notes that, given the current equity ratio of 51%, "a move to 50% is, in fact, a gradual step, particularly as DTE Electric has maintained this same equity ratio and the Company has had years to make this adjustment." ABATE's replies to exceptions, p. 4. ABATE contends that DTE Gas's concerns regarding a credit downgrade are "overstated and should be rejected." *Id*., p. 5.

The Commission finds that the record supports the ALJ's recommendation to adopt a capital structure of 50% equity and 50% debt. The Commission is unconvinced that the adoption of a

50/50 capital structure will degrade the company's credit metrics. *See*, 4 Tr 1615-1617. Further, contrary to the company's assertion, this does in fact reflect a gradual reduction in the authorized equity layer, consistent with Commission precedent.

The Commission is also not persuaded by DTE Gas's reliance upon the Staff's proposed capital structure in this case. Prior Commission orders speak for themselves regarding the Commission's preference for a balanced capital structure and the position of a party does not negate prior Commission directives.[28] Moreover, it is clear from the record that the Staff disputes the company's proposed capital structure given testimony that the equity ratio as proposed by DTE Gas "is high" and that "[a]n equity ratio of 50.00%-51.00% is more appropriate." 4 Tr 1614. As such, the Commission interprets the Staff's position as recommending a 51% equity ratio, but that any equity ratio between 50% and 51% would be appropriate, and indeed "more appropriate" than the 51.5% equity ratio proposed by the company. 4 Tr 1614. The Commission further finds that the Attorney General's proposed capital structure is well supported on the record, as discussed by the ALJ. *See*, PFD, p. 126-131; *see also*, 4 Tr 1480-1492. Therefore, the Commission finds the PFD to be well reasoned and adopts the ALJ's recommendation on this issue.

2. Long-term Debt Balance

DTE Gas proposed a long-term debt balance of $2.667 billion. 4 Tr 2359; Exhibit A-14. The Staff utilized a long-term debt balance of $2.697 billion, and explained that the difference from the company's position is "due to a difference in what the Company and Staff recommend as a reasonable equity ratio." 4 Tr 1613. The Attorney General recommended a reduction in "the level

[28] *See*, September 13 order, p. 43 (stating that "[t]he Commission agrees with the ALJ and adopts the PFD's recommendation that the Commission should encourage DTE Gas to move to a more balanced 50/50 capital structure.").

of common equity to $2.749 billion, which is an $82 million reduction from the Company's case" and the inclusion of "this $82 million amount as additional long-term debt." 4 Tr 1480.

The ALJ adopted the Attorney General's position "that the long-term debt balance should coincide with the allocation of the total permanent capital of $5.5 billion to 50% long-term debt and 50% common equity," and as such, adopted a long-term debt balance of $2.749 billion. PFD, p. 132.

DTE Gas takes exception to the ALJ's recommendation and advocates for its proposed long-term debt balance of $2.667 billion. *See*, DTE Gas's exceptions, p. 29.

The Attorney General replies, arguing that the company's exception should be rejected and the ALJ's recommendation of a long-term debt balance of $2.749 billion should be adopted instead. Attorney General's replies to exceptions, pp. 15-16.

The Commission finds that the ALJ's recommendation is well-reasoned. Consistent with the decision above to adopt a 50/50 capital structure, the Commission finds that the Attorney General's proposed long-term debt balance of $2.749 billion is reasonable. *See*, 4 Tr 1480. Therefore, the Commission adopts the ALJ's recommendation on this issue. *See*, PFD, p. 132.

3. Other Debt Balances

DTE Gas proposed a short-term debt balance of $184 million, a deferred federal income tax balance of $1.261 billion, and a Job Development Investment Tax Credit (JDITC) balance of $0. *See*, Exhibit A-14, Schedule D-1. These balances were undisputed by the Staff and the Attorney General. *See*, 4 Tr 1613; Exhibit AG-22.

The ALJ noted that the parties agreed with the company's short-term debt balance, deferred federal income tax balance, and JDITC balance. Therefore, the ALJ adopted DTE Gas's undisputed proposal. PFD, p. 133.

No exceptions were filed on this issue.

Given the above, the Commission adopts the ALJ's recommendation on this issue.

B. Return on Common Equity

The criteria for establishing a fair ROE for public utilities is rooted in the language of the landmark United States (U.S.) Supreme Court cases *Bluefield Waterworks & Improvement Co v Pub Serv Comm of West Virginia*, 262 US 679; 43 S Ct 675; 67 L Ed 1176 (1923) and *Fed Power Comm v Hope Natural Gas Co,* 320 US 591; 64 S Ct 281; 88 L Ed 333 (1944). The U.S. Supreme Court has made clear that, in establishing a fair ROE, consideration should be given to both a utility's investors and its customers. Nevertheless, the determination of what is fair or reasonable "is not subject to mathematical computation with scientific exactitude but depends upon a comprehensive examination of all factors involved, having in mind the objective sought to be attained in its use." *Meridian Twp v City of East Lansing,* 342 Mich 734, 749; 71 NW2d 234 (1955). With these principles in mind, the Commission turns to the factors that form the basis for determining the ROE for the company.

DTE Gas, the Staff, the Attorney General, ABATE, and CUB each offered analyses of an appropriate ROE. The ALJ provided a detailed summary of the parties' analyses, arguments, and positions in the PFD, which will not be extensively repeated here. *See*, PFD, pp. 135-197.

DTE Gas requested an ROE of 10.25% relying upon: (1) a single-stage version of the Discounted Cash Flow (DCF) model; (2) a multi-stage version of the DCF model; (3) the Capital Asset Pricing Model (CAPM); (4) an Empirical CAPM (ECAPM); and (5) an implied risk premium analysis. 4 Tr 2457. The company averred that the upper end of the Staff's, the Attorney General's, and ABATE's analyses supports DTE Gas's requested ROE. Specifically, DTE Gas argued that the upper end "range of ROE results averages is 10.58%, which is 33 basis

points above [the company's] recommended ROE of 10.25%, further supporting the reasonableness of [the company's] recommendation." 4 Tr 2544.

The Staff recommended an ROE range of 9.30% to 10.30%, with a recommended 9.80% ROE. 4 Tr 1619. The Staff utilized a proxy group of eight publicly traded gas utility companies to conduct its DCF and CAPM analyses. 4 Tr 1620. In addition, the Staff conducted an analysis using the risk premium model "and a review of gas ROE authorizations from other state jurisdictions from 2022-2023" in making its recommendation. *Id*.

The Attorney General recommended the adoption of an ROE of 9.85%. 6 Tr 2441. The Attorney General utilized the DCF method, the CAPM, and the Utility Risk Premium approach in deriving her recommendation. 4 Tr 1512; *see also*, Exhibit AG-23. Regarding the selection of the proxy group, the Attorney General indicated that "[t]he Commission should reject the Company's peer groups which include water utilities and Southwest Gas Holdings, Inc. (Southwest Gas) due to its pending divestiture of its pipeline construction business" and should instead adopt the Attorney General's "proposed peer group as a better comparable group of companies for DTE Gas." 4 Tr 1497.

ABATE recommended adoption of an ROE no greater than 9.45%, arguing that the company's requested ROE is excessive. *See*, 4 Tr 1336-1337. ABATE also argued that, if the company's proxy group was properly adjusted, the company's analysis would demonstrate a lower ROE. 4 Tr 1361-1364. ABATE indicated that it utilized various models resulting in a reasonable range of 9.10% to 9.80%, not to exceed an ROE of 9.50%. ABATE's initial brief, p. 33 (citing 4 Tr 1390-1391).

CUB testified that DTE Gas's requested ROE is inflated above what is reasonable "due to several overestimated inputs into [the company's] DCF and CAPM analysis as well as [its] use of

a Risk Premium model that essentially recycles the overestimations of ROE by other regulatory commissions." 4 Tr 956. Similarly, Ann Arbor contended that the company has consistently recommended ROEs that are above average "despite consistently being proven wrong by the review of rating agencies, the Company's long history of earning its authorized ROE, and its 'deliver[y of] premium shareholder returns' even when an ROE significantly below [DTE Gas's] recommendation is authorized by the Commission." 3 Tr 519. Further, Ann Arbor contended that DTE Gas improperly considers the risk of decarbonization in making an ROE recommendation. *See*, Ann Arbor's initial brief, pp. 4-8.

The ALJ first addressed the issue of the appropriate proxy group. *See*, PFD, pp. 197-199. The ALJ concluded that Chesapeake Utilities Corporation (Chesapeake Utilities), NiSource Inc., Southwest Gas, and UGI Corporation (UGI) are not appropriate proxy companies and that "the ROE estimates for DTE's water proxy companies shall not be considered." *Id*., p. 199. In that regard, the ALJ noted that adjustments must be made to the ROE analyses to exclude these companies. With respect to the company's financial leverage adjustments, the ALJ agreed with the Staff, the Attorney General, and ABATE that the adjustments are "unnecessary, inappropriate, and have previously been rejected by the Commission." PFD, p. 202 (citing January 31, 2017 order in Case No. U-18014).

In addition, the ALJ noted that the parties' CAPM estimates should be considered, given "that FERC [Federal Energy Regulatory Commission] appears to recognize the use of both the historical and forward-looking CAPM analyses." PFD, p. 203 (citing *Assoc of Bus Advocating Tariff Equity Coalition of MISO Transmission Customers et al v Midcontinent Independent System Operator et al*, 169 FERC ¶ 61129 (Nov 21, 2019) (FERC Opinion No. 569)). However, the ALJ concluded that the ECAPM analysis should not be considered because FERC does not recognize this model

and the Commission has not previously recognized the use of the ECAPM model. PFD, p. 204. With regard to the DCF method, the ALJ noted that FERC requires a multi-stage DCF analysis but the ALJ stated that he considered "all DCF calculations made as both the single-stage and multi-stage DCF models are used and recognized." *Id*., p. 206.

The ALJ also noted that FERC rejected the use of the risk premium method in FERC Opinion No. 569, but acknowledged that in *Assoc of Bus Advocating Tariff Equity Coalition of MISO Transmission Customers et al v Midcontinent Independent System Operator et al*, 171 FERC ¶ 61154 (May 21, 2020) (FERC Opinion No. 569-A) "FERC changed course and concluded that, with certain modifications, the Risk Premium model again was appropriate to use to estimate a reasonable ROE." PFD, p. 209. Ultimately the ALJ held that:

> as the Commission previously has considered Risk Premium model results, this [ALJ] concludes that it would be premature to reject the use of this model in this case before Staff and other intervenors (other than CUB) have addressed the reasons offered by FERC for rejecting the use of this model. This [ALJ] recommends that the Commission direct the parties in DTE's next rate cases to address whether this model remains an appropriate method for determining an ROE. This [ALJ] agrees with [sic] that DTE's regression-derived Risk Premium estimate is inflated and thus should not be considered.

PFD, p. 209.

The ALJ further concluded that the consideration of recently authorized ROEs is appropriate and consistent with Commission precedent. *Id*., p. 212. He stated that "the average of recently authorized ROEs from other states is 9.5%, with a range of 9.2% - 9.8%." *Id*., p. 213 (citing Exhibit AG-29 and 4 Tr 1339). The ALJ, therefore, reasoned that:

> it is axiomatic that under the Supreme Court standards a regulated utility's authorized return must be less than the return being earned by the general market. The evidence presently in this case indicates that an authorized ROE of 9.50% -- the average of ROE's authorized recently . . . is two percentage points above the recent historical returns for the general market.

PFD, p. 216. The ALJ further opined that:

> there is a current imbalance of what is a reasonable ROE under the two parts of the applicable [U.S.] Supreme Court standard. Under this [U.S.] Supreme Court standard, an appropriate return needs to be commensurate with returns on investments in other businesses having corresponding risks (which return is approximately 9.5%), while the return also should be no greater than the return being earned by the more risky, general market (which return is about 7%). Thus, a return of 9.5% and a return of 7% are both reasonable and excessive or insufficient at the same time depending upon which part of the standard is considered.
>
> As such and finding that neither of the two parts of this standard should be ignored in favor of the other part, in order to best come close to satisfying these two parts of this standard, this [ALJ] is compelled to find that the ROE should be set at 8% or 8.5%. However, authorizing a return in the 8% - 8.5% range likely is too drastic of a change to be made at once. Rather, a gradual change is more appropriate to let the market, DTE Energy's shareholders and the credit reporting agencies assess and adjust to the gradual change. Thus, this [ALJ] finds that an authorized an [sic] ROE of 9.4% is reasonable and supported, as being just below ABATE's and CUB's recommended ROEs, and just below the average of recently authorized ROEs, while also moving 50 basis points below DTE's currently authorized ROE towards the returns for the general market.

PFD, pp. 216-217.

The ALJ concluded that the record evidence also supported a finding that the ROEs proposed by the parties are "more than sufficient for DTE to maintain its credit and attract capital" and that even if the company's:

> credit rating were to be downgraded one rating level based on the equity ratio and/or ROE set by the Commission – and there is no record evidence which suggests that may occur – DTE would still have a "healthy" investment grade credit rating which ensures the maintenance of its credit and its ability to attract capital.

PFD, pp. 218-219. The ALJ also rejected DTE Gas's claim that if the Commission were to set the company's equity layer below the requested 51.5%, the Commission should also set the ROE higher than the requested 10.25%. The ALJ specifically noted that "the factors that the Commission considers in assessing a reasonable equity ratio and the factors that the Commission considers in assessing a reasonable ROE are not the same. In addition, the Commission has not agreed to the linkage between equity balance and ROE that DTE proposes." PFD, p. 221.

Further, the ALJ opined that the Commission's ruling in Case No. U-18322 was "problematic" and that it:

> purports to establish a new standard for establishing a reasonable ROE which is in direct conflict with the [U.S.] Supreme Court's standards which are controlling. That is, the [U.S.] Supreme Court's standards for setting a reasonable ROE are based on whether the returns are associated with commensurate business risks and whether the return is sufficient to maintain the utility's credit and attract capital, not whether there has been a "radical change" in general "economic conditions."

PFD, p. 225. Nevertheless, the ALJ concluded that "an authorized ROE of 9.40% represents a *gradual* but necessary move toward the range of general market returns." *Id*., p. 226 (emphasis added).

DTE Gas takes exception, stating that the ALJ's ROE of 9.4% is unsupported by the record. The company argues that the ALJ's rationale for disregarding certain models is flawed. Specifically, DTE Gas contends that the Commission is not required to restrict its consideration to a FERC-endorsed model and that "it is inappropriate for the ALJ to dismiss the use of the Risk Premium model as one of many used in support of recommendations in this case simply by preference." DTE Gas's exceptions, pp. 24-25. The company also argues that the ALJ's limited range of ROEs demonstrates an average of 9.5% and a midpoint of 9.75%. DTE Gas notes that the ALJ's recommendation of 9.4% falls below the average and midpoint, as well "the recommendations of every other party in the case." *Id*., p. 25.

DTE Gas further argues that the ALJ's initial recommendation of 8.0%-8.5% would be confiscatory and ignores the evidence on the record and is unsupported by the parties' recommendations. The company contends that the ALJ's reliance on general market returns is contrary to precedent and long-standing standards "which have governed utility rate setting for decades[.]" *Id*., p. 26. In addition, DTE Gas claims that the ALJ mischaracterized the company's requested ROE as excessive despite DTE Gas's proposal falling within the ALJ's range of

acceptable ROEs. The company notes its support for the conclusion that a reasonable ROE is not based upon a mathematical computation but requires a comprehensive examination of factors. However, DTE Gas contends that this rationale is lacking from the ALJ's recommendation.

The company also states that "[g]iven that ABATE and DTE Gas both supplied summaries of recent authorized ROEs from S&P [Standard & Poor] data in similar form, one cannot be found to be lacking when the other is 'consistent evidence' to be relied upon." *Id*., p. 27. Similarly, DTE Gas contends that the ALJ inappropriately over emphasizes CUB's reference to market observers, stating that authorized ROEs are too high on average compared to market-based rates for electric and gas utilities in the United States. The company further argues that it is inappropriate to rely on the "market observations" on record, as they are stale and cannot be considered expert opinion, and that the observations rely on only limited academic research and ignore the record evidence provided by the parties. *Id*., p. 28.

The Staff also takes exception to the ALJ's recommendation. Overall, the Staff contends that it does not object to the ALJ's reasoning that in each rate case, the parties put forth various models with the Commission reviewing each on a case-by-case basis. The Staff notes that the ALJ did not outright reject the risk premium model but asked the Commission to direct parties to address whether the model is appropriate in the next rate case. The Staff states that the Commission has not directed the use of the risk premium model or indicated that it does not rely on the risk premium model, and as such, parties are not required or barred from utilizing the risk premium model in making an ROE recommendation. "The Staff, therefore, sees no reason to require the parties to justify or analyze the [risk premium model] more or less than any other model." Staff's exceptions, p. 6.

Further, the Staff contends that the use of the risk premium model is in flux before FERC, and that while FERC opinions can "provide guidance and considerations for appropriate models to use in calculating ROE, these opinions are not dispositive." *Id*. The Staff also argues that CUB's position regarding the risk premium model may have been misinterpreted. Specifically, CUB disputed DTE Gas's "use of approved ROEs as part of its [risk premium model]" and the Staff similarly disagrees with the use of already approved ROEs. The Staff indicates that the record shows that the risk premium model should be based on objective data and not ROEs set by regulatory commissions. *Id*., p. 7 (citing 4 Tr 964). Thus, the Staff avers that when the risk premium model is traditionally utilized with market-based data, it is a reasonable methodology.

The Staff avers that, "[w]hile FERC requires ROE witnesses to use specific models which are weighted according to its own guidelines, the [Commission] does not and ought not to take up this practice." Staff's exceptions, p. 8. The Staff argues that the Commission should continue to stay agnostic on which models are to be presented and evaluate models on a case-by-case basis, because this approach "aligns well with *Bluefield* and *Hope*, which do not endorse a particular model or set of models[.]" Staff's exceptions, p. 9. Further, the Staff argues that evaluating models on a case-by-case basis "is paramount as many witnesses include different inputs and adjustments to their models." *Id*.

Ann Arbor also excepts, arguing that the ALJ included only broad statements regarding DTE Gas's improper consideration of certain risks within the company's ROE calculations. However, Ann Arbor argues that the ALJ "did not directly address whether the risk of obsolescence due to decarbonization was one of these improperly considered risks." Ann Arbor's exceptions, p. 8.

In reply to the Staff, DTE Gas states that it agrees with the Staff's exception "as it relates to the ALJ's recommendation that the Commission direct parties in the next rate case to address

whether the Risk Premium Model remains the appropriate method for determining [ROE]." DTE Gas's replies to exceptions, p. 26. DTE Gas states that the Commission should continue to review the "totality of the ROE estimations, recommendations, and defenses put forth by each party as it determines the appropriate ROE for a given utility." *Id*., p. 27. However, DTE Gas disputes the Staff's exceptions with respect to the company's risk premium model. Specifically, DTE Gas reiterates that "it is just as relevant for this Commission to consider the approved ROEs that similarly situated gas utilities have been awarded in other jurisdictions." *Id*., p. 28.

DTE Gas also replies to Ann Arbor, stating that this issue was only raised in post-hearing briefing and that "there is no record evidence to support Ann Arbor's position on the effect of obsolescence on depreciation or ROE determinations." DTE Gas's replies to exceptions, p. 29.

In reply, the Attorney General notes her appreciation for "the ALJ's careful and meticulous consideration of this issue and the clear conclusion that DTE and its shareholders have long enjoyed inflated ROEs." Attorney General's replies to exceptions, p. 14. Furthermore, the Attorney General avers that the record does, in fact, support the ALJ's recommendation and that DTE Gas is merely unhappy with the decision. The Attorney General also highlights DTE Gas's disbelief for a 50-basis point decrease while at the same time "arguing for a 35-basis point *increase*." *Id*., p. 15 (emphasis in original).

ABATE also replies to DTE Gas, arguing that the ALJ's recommended ROE of 9.4% falls within the range of evidence proposed by the parties on record. ABATE's replies to exceptions, pp. 5-6 (citing PFD, p. 148; 4 Tr 1416; 4 Tr 957-958). ABATE also argues that the company mischaracterizes the ALJ's analysis regarding recently authorized ROEs that was provided by the Staff, the Attorney General, and ABATE. ABATE's replies to exceptions, pp. 7-8.

MNSC responds to DTE Gas, stating that the ALJ properly discounted the use of the risk premium model based upon FERC's discussion and record testimony. MNSC's replies to exceptions, p. 12. MNSC also characterizes DTE Gas's reliance upon FERC Opinion No. 569-A as "puzzling" and "without merit." *Id*., pp. 13-14. Replying to the Staff, MNSC argues that its testimony not only disputes DTE Gas's application of the risk premium model but also the method itself. *Id*., p. 15. MNSC also replies that the Staff does not cite cases or Commission orders that support its position that the risk premium model is beneficial.

MNSC continues, arguing that the ALJ properly found DTE Gas's risk premium result is inflated and the "PFD provides cogent reasons for rejecting use of the risk premium model, but recommends a more modest step of requesting testimony on that issue in DTE's next rate case." *Id*., p. 17. MNSC avers that DTE Gas has not provided authority that the ROE must be set at the average or midpoint of the range of ROEs provided on the record or that the ALJ's recommended ROE is confiscatory. *Id*., pp. 18-21. MNSC states that the "recommended reduction to DTE Gas's ROE in this case is hardly new or unprecedented" and is "not only sound and thoroughly supported, a meaningful reduction in DTE's ROE to bring it closer to the market cost of equity is well overdue." *Id*., p. 22. MNSC also states that the ALJ properly weighed the credibility of the evidence, concluding the Staff, ABATE, and the Attorney General presented more persuasive evidence on this issue than DTE Gas. *Id*., p. 24. Overall, MNSC contends that "the great weight of the evidence demonstrates that the Commission should reduce the company's ROE to 9.4%." *Id*., p. 27.

The Commission finds that the ALJ thoroughly reviewed each parties' ROE evidence. The Commission generally agrees with the ALJ that there may be some flaws in the selection of proxy groups, and specifically agrees that "the ROE estimates for DTE's water proxy companies shall

not be considered." PFD, p. 199. Nevertheless, the Commission respectfully declines to adopt the ALJ's ROE recommendation of 9.4%. Even when considering the ALJ's averages of ROE estimates as "generated from the parties' methods as applied to the corrected proxy groups," the Commission is not convinced that the range of 9.0% to 10.5% with an average of 9.5% supports the ALJ's recommendation. The ALJ emphasized "an authorized ROE of 9.40% represents a gradual but necessary move toward the range of general market returns." PFD, pp. 226. The record reflects, however, that the "average authorized ROE decisions for 2022 was 9.53%, and the average in 2023 was 9.64%." 4 Tr 1632; *see also*, 4 Tr 1339. Thus, the Commission does not find the ALJ's recommended ROE to be supported by the evidence on this record.

With respect to the ROE methodologies, the Commission finds that it is not limited to considering methodologies as approved by FERC. Specifically, the Commission agrees with the Staff that:

> [t]he Commission has a history of staying agnostic on what models are presented, and hearing arguments both for and against any model on a case-by-case basis. This not only aligns well with *Bluefield* and *Hope*, which do not endorse a particular model or set of models but is paramount as many witnesses include different inputs and adjustments to their models. This flexibility in utilizing different inputs and adjustments cannot be accounted for in a system where the Commission directly prescribes the use of specific models to analysts.

Staff's exceptions, pp. 8-9. The Commission agrees that the evidence presented in each case should be considered in arriving at an approved ROE for the utility. As noted in the PFD, the appropriateness of the use of the risk premium model is in flux before FERC and, at this time, the Commission declines to make a bright line rule about the applicability or appropriateness of this, or any one model as a whole. Similarly, the Commission declines to require an additional analysis regarding the risk premium model in the company's next rate case as recommended by the ALJ. *See*, PFD, p. 209. The Commission will continue to review the evidence presented by the parties

giving appropriate weight and consideration to each methodology presented on each record in each case.

Notwithstanding the above, the Commission agrees with the ALJ's determination that DTE Gas's regression-derived risk premium model is inflated. *See*, PFD, p. 209. More specifically, the company's risk premium model employs the use of approved ROEs, which provides a limited data set as opposed to the Staff's model that utilizes earned ROEs. *See*, 4 Tr 1631. The Commission agrees with the ALJ that the company's use of a limited data set in its risk premium model results in an inflated ROE result in this case. In addition, the Commission adopts the ALJ's finding that the company's financial leverage adjustments are not appropriate or supported on the record, as consistent with prior Commission orders.

With respect to the ALJ's finding that the Commission's decision in Case No. U-18322 is "problematic" and in conflict with the controlling U.S. Supreme Court standards, the Commission disagrees. While the ALJ states that the language is concerning, even he adopts the principle of gradualism in his determination. Specifically, the ALJ stated that he was:

> compelled to find that the ROE should be set at 8% or 8.5%. However, authorizing a return in the 8% - 8.5% range likely is too drastic of a change to be made at once. Rather, a gradual change is more appropriate to let the market, DTE Energy's shareholders and the credit reporting agencies assess and adjust to the gradual change.

PFD, p. 217. The Commission continues to find that the Commission's long-practiced principle of gradualism is consistent with the standards set forth in *Bluefield* and *Hope*. As noted by the ALJ, a more gradual change in ROE allows the market, shareholders, and credit agencies to adjust – consistent with the U.S. Supreme Court ruling in *Hope*. As aptly quoted by the ALJ, the U.S. Supreme Court in *Hope* stated that the authorized ROE must be "sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital." *Hope*,

320 US 591, 603. The Commission's rationale is wholly consistent with this standard. More specifically, absent a radical change in underlying economic conditions, a significant change in the ROE may significantly affect the utility's ability to maintain its credit and attract capital. The Commission finds that this does not "lock in" an authorized ROE from a prior Commission decision as suggested by the ALJ. Rather, it is one factor to consider when evaluating the full range of evidence and proposed ROEs proffered by the parties to the case.

In addition, after carefully considering the evidence presented by all parties and even without considering the benefits of taking a gradual approach to adjustments to an ROE absent a radical change in underlying economic conditions, the Commission finds that the Staff's methodology is the most reasonable and reliable indicator of a reasonable ROE on this record, and adopts the Staff's recommended ROE of 9.80%. This represents a modest step down of 10-basis points from the company's current ROE of 9.90% and best reflects the myriad of factors that influence the determination of an appropriate ROE.

The Staff first described its proxy group selection and notes that due to limited available proxy companies, Chesapeake Utilities and UGI were utilized but that "these proxy companies did not materially affect Staff's recommendation of a 9.80% ROE . . . ." 4 Tr 1622. The Staff, however, disclosed the results of each proxy-based model excluding Chesapeake Utilities and UGI Corp, in footnotes in its presentation. Thus, the Staff reasonably considered additional data points by including these proxy companies but also transparently provided results excluding Chesapeake and UGI.

In that regard, the Staff presented an average adjusted DCF estimate of 10.51% (10.33% excluding Chesapeake and UGI) and an average CAPM cost of equity of 9.88% (9.77% excluding Chesapeake and UGI). 4 Tr 1624, 1628-1629. Overall, the Staff provided a summary of its

analysis indicating "that a reasonable range for DTE Gas's cost of equity to fall within is 9.30% - 10.30%. Within that range, Staff recommends a value of 9.80%, which is the midpoint of Staff's range, is a reasonable ROE for DTE and is appropriate for this rate case." 4 Tr 1632.

In addition, the ALJ summarized the parties' ranges of ROEs as follows: "DTE 10.25% with a range of 10.0% - 10.7%; Staff 9.80% with [a] range of 9.30% - 10.30%; the Attorney General 9.85% with a range of 9.51% - 10.42%; ABATE 9.45% with a range of 9.10% - 9.80%; and CUB 9.46% with a range of 8.9% - 9.14%." PFD, p. 200 (footnote omitted). Giving appropriate weight to the Staff's presentation, as well as the parties' ranges of ROE on record and other evidence, the Commission finds that the Staff's proposed ROE of 9.8% is well supported.

Given the above, the Commission finds that an ROE of 9.8% is reasonable and prudent, and therefore is adopted.

C. Cost Rates

1. Long-term Debt Cost Rate

DTE Gas calculated a projected long-term debt cost rate of 4.44%. 4 Tr 2202; Exhibit A-14, Schedule D2. The Attorney General utilized the company's cost rate. 4 Tr 1492. The Staff, however, used a long-term debt cost rate of 4.38%, stating that the differences in the rates "are due to projected interest rates on the bonds to be issued in 2024 and 2025." 4 Tr 1618. In rebuttal, DTE Gas utilized updated projections to reaffirm its projected long-term debt cost rate. 4 Tr 2210.

The ALJ concluded that the company's "projected long-term debt rate of 4.44%, which was confirmed with updated rate projections, should be adopted." PFD, p. 228.

No exceptions were filed on this issue.

The Commission finds that the ALJ's recommendation is well reasoned and supported on the record. Therefore, the Commission adopts the ALJ's recommendation on this issue.

2. Short-term Debt Cost Rate

DTE Gas projected a short-term debt cost rate of 5.95%. 4 Tr 2203-2204, Exhibit A-14, Schedule D3. The Attorney General again utilized the company's short-term debt cost rate. 4 Tr 1492. The Staff used a short-term debt cost rate of 4.46%, which is different than the company's rate "due to projected Short-Term Overnight Financing (SOFR) rates in 2024 and 2025." 4 Tr 1619. In rebuttal, DTE Gas stated that given the uncertainty of the occurrence and timing of potential rate cuts, "it is prudent to use the 2024 actual average short-term rate of 5.89%." 4 Tr 2211.

The ALJ found that DTE Gas's "projected short-term debt rate of 5.89%, which was calculated using updated rate projections, should be adopted." PFD, p. 229.

No exceptions were filed on this issue.

The Commission finds that the ALJ's recommendation is well reasoned and supported on the record. Therefore, the Commission adopts the ALJ's recommendation on this issue.

D. Overall Rate of Return

Given the above, the Commission adopts a 50% to 50% debt to equity capital structure, a long-term debt cost rate of 4.44%, short-term debt cost rate of 5.89%, an ROE of 9.8%, and an overall weighted cost of capital of 5.80%, as shown on the following table:

Description	Amount ($000)	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	2,749,081	39.59%	4.44%	1.76%
Common Equity	2,749,081	39.59%	9.80%	3.88%
Short-Term Debt	184,380	2.66%	5.89%	0.16%
Acc. Def. Fed. Income Tax	1,261,422	18.17%	0%	0%
Acc. Def. Inv. Tax Credit	0	0%	0%	0%
Total	6,943,963	100.00%		5.80%

VI. ADJUSTED NET OPERATING INCOME

Adjusted net operating income (NOI) is calculated by subtracting the company's operating expenses including depreciation, taxes, and AFUDC from the company's operating revenue. Adjusted NOI includes the ratemaking adjustments to the recorded NOI test year for projections and disallowances.

A. Throughput

Throughput represents the total gas sales and transportation volumes delivered to customers during the test year. Throughput is used to compute test-year revenues and is also used in determining certain rate design issues.

1. Sales Forecast

In Exhibit A-15, DTE Gas stated that it had approximately 1.3 million rate schedule customers in 2022, and that the projected test year customer count is forecasted to be 1,340,341. To calculate forecasted gas sales, the company stated that it considers current customer counts, new customer attachments, and customer consumption, adjusted for weather-normalization. DTE Gas noted that "[i]n Case No. U-15985, the Commission approved 15-year normal weather based upon 1994-2008. In each of DTE Gas'[s] filed rate cases since then, the Commission has continued to approve the average of the most recent 15 calendar years at the time of filing as 'normal weather' in that case." 2 Tr 208.

DTE Gas asserted that there are five components to projecting volumes in the residential sales market: (1) the expectation of normal weather heating degree days (HDDs) by region; (2) the forecast of the number of customers, by month, in the seven market areas in DTE Gas's service territory; (3) the usage per customer per HDD at varying temperatures; (4) the company's energy waste reduction (EWR) program; and (5) the expected changes, if any, in the company's

system-weighted heating value in British thermal unit per cubic foot. *See*, 2 Tr 214-215. According to the company, "[t]he number of DTE Gas's residential heating customers peaked in 2006 at a level of 1,158,586 customers. Customer count then declined by over 57,000 through 2012, to 1,101,255. Since that time, residential customers have grown to a total of 1,201,131 as of 2022. Annual net total customer growth through 2028 is projected to be approximately 8,200 to 8,700 annually." 2 Tr 217.

Although normalized demand was reduced from the spring of 2020 through the summer of 2021 because of the economic effects of the COVID-19 pandemic, DTE Gas noted that normalized consumption per residential customer has risen during the last two years and is approximately at pre-COVID-19 levels. In addition, the company stated that "[f]urther reasons that normalized consumption has decreased in recent years are higher levels of energy efficiency required in building codes as well as newer appliances being more energy efficient." 2 Tr 218.

DTE Gas contended that the same method for calculating residential sales is used for calculating commercial and industrial sales. According to the company, the number of commercial customers declined between 2007 and 2012 because of the economic downturn. However, DTE Gas stated that beginning in 2014, the number of commercial GS-1 customers began to increase and is expected to grow through 2028. DTE Gas noted that in 2019, normalized consumption was 438.2 thousand cubic feet (Mcf) per commercial customer but was reduced to 414.2 Mcf per commercial customer in 2020, and 404.5 Mcf per commercial customer in 2021 due to the economic effects of the COVID-19 pandemic. The company stated that although commercial sales have not returned to pre-COVID-19 levels, "[f]or [the] 12-months ended August 2022 and 2023, normalized demand in this class of customer rebounded strongly to 428.4 Mcf/customer and 427.7 Mcf/customer, respectively." 2 Tr 225. Regarding industrial sales,

DTE Gas asserted that volumes are expected to be approximately 1.0 billion cubic feet (Bcf) in 2024, decreasing slightly to 0.9 Bcf per year for rate schedule sales to customers through 2028. *See*, 2 Tr 226.

DTE Gas asserted that the company's actual natural gas sales were 164.6 Bcf in 2022, which was a colder-than-normal year. The company explained that the 2022 historical test year sales were adjusted using the 15-year weather normalization methodology approved in Case No. U-15985 "to calculate an adjustment for this colder weather. Actual 2022 total sales volumes were decreased by 1.8 Bcf . . . to arrive at weather normalized total sales of 162.7 Bcf." 2 Tr 205 (internal citations omitted). For 2023 normalized actual sales, DTE Gas noted that 2023 was a warmer-than-normal year. Thus, the company stated that "[a]ctual and forecasted 2023 total sales volumes of 151.1 Bcf were increased by 9.8 Bcf to arrive at weather normalized total sales of 160.9 Bcf." 2 Tr 206. DTE Gas asserted that the forecasted sales total of 109.7 Bcf for the transitional period of January 2024 to September 2024, and the forecasted sales total of 159.1 Bcf for the projected test year period were calculated using the 15-year weather normalization methodology approved in Case No. U-15985. *See*, 2 Tr 206.

To sum up the projected change in revenues from the normalized historical period to the projected test year, DTE Gas stated that:

> [t]otal operating revenue is expected to decrease by $13.1 million to $1,229.4 million, as shown on line 8, column (d) [of Exhibit A-13, Schedule C3]. The projected changes in revenue shown in column (c) include:
>
> - $3.8 million decrease in Gas Sales revenue
> - $0.9 million increase in End-User Transportation
> - $1.5 million increase in easement revenue from Exelon [Energy Company (Exelon)]
> - $16.7 million decrease from the discontinuation of the current IRM surcharge

- $1.4 million increase in off-system revenue, comprised of a $4.5 million decrease in transportation and exchange revenue and a $5.9 million increase in storage service revenue
- $3.5 million increase in other operating revenue[.]

4 Tr 2310.

The Attorney General contended that DTE Gas's projected revenues for gas sales, end-use transportation (EUT), Midstream Services, and the Home Protection Plus (HPP) appliance service program (ASP) are significantly understated and that the company failed to adequately explain or support the projected revenues. She claimed that the company's incremental revenue should be $19.640 million, explaining that:

> [i]n response to discovery, the Company provided actual weather-normalized gas sales and the number of customers for each year from 2018 to 2023 and for the forecasted years 2024, 2025, and the projected test year. From the data provided by the Company, in Exhibit AG-32, [she] calculated the average weather-normalized annual gas usage per customer for each of the customer classes. The analysis on lines 2 and 3 of Exhibit AG-32 shows that from 2018 to 2023, the average annual gas usage per residential customer (Rate A) declined from 95.67 Mcf to 92.62 Mcf, or an average of 0.6% annually. In contrast, the Company has projected a decline in gas usage of 1.0% in 2024 with an additional decline of 1.6% in 2025 for a cumulative decline of 2.3% between 2023 and the projected test year. The Company's projected test year sales forecast results in average annual gas usage per residential customer of 90.52 Mcf, which is the lowest level since at least 2018.

4 Tr 1514-1515 (footnote omitted). The Attorney General asserted that DTE Gas does not explain, analyze, or support this unusual decline in residential sales.

Regarding commercial sales, the Attorney General calculated that between 2018 and 2023, the average usage per customer decreased from 461.91 Mcf to 446.37 Mcf, which is an average annual decrease in usage per customer of 0.7%. However, the Attorney General noted that DTE Gas's "sales forecast shows the average usage per customer declining 2.0% in 2024 from 2023, with a further decrease of 1.6% in 2025, for a cumulative decline of 3.3% from 2023 to the end of the projected test year." 4 Tr 1515. She disputed the company's forecasted decline, asserting that

DTE Gas projected an increase of approximately 462 commercial sales customers from 2023 to 2025. Although the Attorney General acknowledged that the company's EWR program may "have some impact on customer usage, the forecasted increase in the number of residential and commercial customers should be a mitigating factor against the loss of sales from the 1% targeted reduction in energy conservation." 4 Tr 1515.

In addition, she objected to the historical gas usage period used by DTE Gas to forecast future gas sales. According to the Attorney General:

> the Company used two years of historical gas usage from August 2021 to July 2023 to develop the average customer historical gas usage factors. There are two events that impacted customer usage during this period, which negatively affected customer gas usage. First, the lingering effect of the Covid-19 pandemic continued into 2021 and likely continued to depress customer gas usage during the August to December 2021 period and potentially subsequent months into early 2022. Second, in 2022 gas prices spiked considerably, more than doubling from prior years. Such a large increase in gas bills forces customers to undertake added energy conservation steps, at least temporarily, until gas prices subside, which occurred beginning in early 2023.

4 Tr 1517.

Rather than using the two-year period proposed by DTE Gas, the Attorney General recommended that the Commission "use the latest year of actual gas sales and apply the actual five-year percentage decline trend that represents the net effect of sales losses from EWR and sales increases from customer additions and other changes in customer gas usage over a longer time period than two years." 4 Tr 1518. Applying this method, the Attorney General projected residential sales of 113,767 million cubic feet (MMcf) for the projected test year, which results in incremental revenue of $5.063 million for the projected test year. For Rate GS-1 commercial sales in the projected test year, she calculated an increase of 848 MMcf above the amount projected by DTE Gas, which results in an additional distribution sales revenue of $3.227 million.

MNSC also contended that DTE Gas's projected sales revenues are inaccurate. MNSC asserted that according to the U.S. Energy Information Administration (EIA), "[o]n average, DTE's sales per customer have declined about 30 percent over the 26-year period from 1997 to 2022." 4 Tr 849 (footnote omitted). MNSC stated that:

> DTE's gas demand forecast does not fully reflect potential future changes in gas demand and therefore is likely to be too high. This is mainly because DTE's load forecasting methodology heavily relies on historical trends and does not recognize any climate policy impacts that are likely to arise over the next decade (except small impacts from the continuation of the existing EWR programs).

4 Tr 850; *see*, MNSC's reply brief, pp. 14-15. Moreover, MNSC asserted that the company's projection fails to account for the increased use of electric heating.

To improve its load forecast, MNSC recommended that DTE Gas "develop its forecasts of gas customer counts and gas usage based on updated market conditions, including the latest data on the share of heat pump and gas furnace sales and installations." 4 Tr 855. In addition, MNSC requested that the Commission order the company to make all underlying data, models, and assumptions for its forecast publicly available so that interested persons and the Staff can review and analyze the company's forecast methods. Finally, MNSC contended that "DTE should be required to evaluate all capital expenditures and supply contracts against both its business-as-usual forecast and a policy-consistent forecast." 4 Tr 855.

In response to the Attorney General, DTE Gas argued that she uses an atypical time period to calculate customer sales. Specifically, the company stated that the Attorney General "chooses to analyze a period that begins before the Covid pandemic, spans the Covid pandemic, and concludes after the Covid pandemic. The Covid pandemic had a significant impact on consumption per customer," and caused a marked decline in customer usage. 2 Tr 231. Furthermore, DTE Gas

asserted that the time period selected by the Attorney General is arbitrary and, compared to the company's methodology, it fails to reflect accurate customer consumption.

DTE Gas also objected to the Attorney General's claim that the company's gain of residential and commercial customers in 2023 to 2025 will mitigate load loss. The company stated that the Attorney General "seems to be confused by the notion of 'consumption per customer.' . . . The number of customers that the Company may add or lose over a forecast period should have no impact on the assumptions around consumption per customer." 2 Tr 232-233.

Furthermore, DTE Gas disputed the Attorney General's claim that the company's calculated 1% reduction in year-over-year normalized consumption is overly optimistic. The company stated that:

> [t]he 1% EWR decline rate was approved by the [Commission] in the Company's most recent EWR filing, Case No. U-21322. It is worth noting here that the Attorney General's office was an intervening party to that case and had every opportunity to weigh in with that office's opinions and recommendations in setting the appropriate anticipated EWR rates.

2 Tr 233. In addition, DTE Gas contended that it analyzed the 12-month period ended April 2024 and found that consumption per customer for gas cost recovery (GCR) and gas customer choice (GCC) sales, on a normalized basis, is declining at a rate that, at this time, exceeds the company's 1% EWR assumption. Specifically, the company stated that "[o]n an Mcf basis, that normalized consumption per customer reduction goes from 119.6 to 116.0 (a 3.0% reduction) from just August to April. This would seem to indicate that annual GCR/GCC sales will be down 4 to 5 Bcf year-over-year." 2 Tr 234.

Next, DTE Gas asserted that "[t]he sales data that [MNSC] cites is actual sales data; it has not been normalized to account for changes in the weather, which have an enormous impact on residential gas consumption." 2 Tr 235. In addition, DTE Gas argued that the EIA data

demonstrates that there will be a significant growth in the company's customer base. Therefore, the company asserted that although "normalized sales per customer may be decreasing, the steady growth in customers over that time will offset to some extent the losses due to reductions in normalized usage per customer." 2 Tr 235.

DTE Gas also objected to the graph provided by MNSC regarding electric heating in Michigan. The company stated that "[i]n this graph, [MNSC] tries to make it appear as if all new heating is predominantly via electricity and that very little growth will be in utility gas. This graph is deceiving. It is a percentage-based graph and percentages can be greatly manipulated and deceptive." 2 Tr 235. According to DTE Gas, MNSC's graph actually shows that there are more than three million gas customers in Michigan, compared to 500,000 electric heat customers, and the number of gas customers is growing approximately 3% per year.

In response to MNSC's claim that the company's load forecast fails to account for future changes in gas demand and climate policy, DTE Gas contended that its methodology appropriately:

> examines customer behavior over a very recent period of time: 24-months ending July. (Note: the Company's forecast in this case was prepared in August 2023.) This process captures two full winter heating cycles of customer response to the weather that occurred over that time. Actual observed customer behavior over this recent period of time is used to then calculate a base upon which to project demand going forward. Adjustments such as EWR and heating value are applied to the forecast months to determine a projected Test Year forecast that is reflective of both recent customer behavior and programs approved by the Commission to be implemented by the Company to encourage energy waste reduction.

2 Tr 236-237. Furthermore, the company asserted that MNSC did not offer an alternative volumetric forecast or provide any suggestions for quantifiably amending DTE Gas's forecast to address their concerns.

The ALJ agreed with the Attorney General that DTE Gas significantly underestimated its residential and commercial gas sales volumes and the related projected test year revenues. He stated that "the Attorney General has adequately supported her assertion that the incremental forecasted revenue for the projected test year is $8,290,000" and recommended that the Commission adopt the Attorney General's forecasted revenue. PFD, p. 240.

DTE Gas excepts to the ALJ's recommendation. First, the company contends that the ALJ misconstrued MNSC's argument regarding the sales forecast and that the PFD on this point should be viewed "with extreme skepticism." DTE Gas's exceptions, p. 30. Second, DTE Gas asserts that the Attorney General's position regarding the sales forecast is contradictory and not based on record evidence. According to the company, the Attorney General's usage of a five-year time period that spans the COVID-19 pandemic produces skewed results and is completely arbitrary. DTE Gas reiterates that its proposed two-year time period is after the COVID-19 pandemic, which avoids anomalous data, and is "an approach routinely approved by the Commission." DTE Gas's exceptions, p. 31 (internal citations omitted). In addition, DTE Gas restates that, contrary to the Attorney General's proposed sales forecast, the company's proposed forecast properly incorporates the EWR loss rate approved by the Commission. Accordingly, DTE Gas requests that the Commission decline to adopt the ALJ's recommendation and, instead, approve the company's proposed sales forecast.

The Attorney General argues that she addressed DTE Gas's claim that her proposed five-year period is skewed and arbitrary:

> laying out that "[a]lthough the pandemic had a temporary effect on customer usage from 2020 to 2022, by using the change in usage from 2018 to 2023, [the Attorney General's witness] bypassed those years in between and his result is not skewed by the customer usage changes during the pandemic years of 2020 to 2022." The [Attorney General] also continues to point out that the two to three year period of

> gas usage favored by the Company is more susceptible to temporary customer usage variations than the five-year period used by [the Attorney General's witness].

Attorney General's replies to exceptions, p. 17 (quoting the Attorney General's initial brief, p. 79) (emphasis added in replies to exceptions). She requests that the Commission deny DTE Gas's proposed sales forecast and, instead, adopt the ALJ's recommendation.

The Commission notes that according to DTE Gas, its gas sales revenue will decrease approximately 2.2% from actual weather-normalized sales in 2022. The Attorney General disagrees, asserting that DTE Gas's projected test year gas sales forecast for residential Rate A and small commercial customers is significantly understated. To illustrate, the Attorney General used the weather-normalized gas sales and number of customers for the five-year period of 2018-2023 to show the average annual gas usage for residential Rate A and small commercial customers. *See*, Exhibit AG-32. She claims that during this five-year period, average annual gas usage per residential customer only declined 0.6% and average annual gas usage per small commercial customer only declined 0.7%.

DTE Gas objects to the Attorney General's calculation of annual gas usage for residential Rate A and small commercial customers. Rather than the five-year period of August 2018 to July 2023, the company proposes to use the time period of August 2021 to July 2023, stating that it "considers only the most recent twenty-four months of customer consumption . . . . A 24-month period offers sufficient time to capture customer behavior over two full heating cycles. It also is a short enough time frame to exclude customer behavior that may have become stale or obsolete." 2 Tr 232.

The Commission finds DTE Gas's position on this issue to be persuasive. The Attorney General's proposed five-year time period includes anomalous data for August 2019 through August 2021. As noted by DTE Gas, an analysis of customer behavior that includes this time

period "will naturally be skewed" because it was not a period of typical customer consumption. 2 Tr 231. The Commission finds that the company's proposed two-year period of August 2021 through August 2023 is more indicative of recent customer behavior and should be approved, which is consistent with past Commission precedent. *See*, December 9, 2016 order in Case No. U-17999, p. 27; September 13 order, p. 60; August 20, 2020 order in Case No. U-20642; December 9 order, pp. 101-102. Thus, the Commission finds that DTE Gas's projected test year gas sales of 159.1 Bcf is approved.

The Commission finds that although DTE Gas provided information explaining its sales forecast, it is unclear to the Commission how the company's sales forecast and gas delivery plan (GDP) intersect. Accordingly, in the company's next general rate case, the Commission finds that DTE Gas shall explicitly include the forecasted yearly sales for each major customer class for the 10-year gas delivery planning horizon, in coordination with its GDP. In addition, DTE Gas shall include for each year of the GDP a list of the amount of throughput expected on a peak demand day. Furthermore, the Commission notes that it will be closely observing how forecasting is incorporated into DTE Gas's holistic planning and decision-making for the cases filed with the Commission (i.e., GCR plans, IRP cases, general rate cases, and GDPs).

2. Cost of Gas

The Staff projected test year revenue of $1.190 billion, a $39.478 million decrease from DTE Gas's projected amount. The Staff explained that:

> through its witness Nyrhe Royal, [it] recommends an October 2024 through September 2025 jurisdictional average cost of natural gas of $4.1015/Mcf. This is a $0.2797/Mcf decrease from the $4.3812/Mcf, that the Company proposed for the 12-month period. Although Staff agrees with the approach that DTE Gas used to develop its test year's jurisdictional average cost of natural gas, Staff requested the Company utilize more recent data than DTE Gas had available to update the test year's jurisdictional average cost of natural gas when the case was prepared in 2023. The update included the volumes and costs of both the Company's fixed and

> floating supply, the transportation costs, and used a five-day average of New York Mercantile Exchange (NYMEX) settlement average from February 12-16, 2024, as shown in Exhibits S-11.3 and S-11.4. Neither DTE Gas nor intervenors have rebutted Staff's recommendation.

Staff's initial brief, p. 29 (internal citation omitted).

Finding no disagreement among the parties on this issue, the ALJ recommended that the Commission approve the Staff's projected test year revenue of $1,189,887,000. *See*, PFD, p. 235.

No exceptions were filed on this issue. Therefore, the Commission finds the ALJ's recommendation on this issue to be reasonable and prudent and that it should be approved.

3. End-use Transportation

The company stated that EUT "customers are DTE Gas's largest Commercial and Industrial (C&I) customers. These customers purchase their natural gas from third-party gas suppliers and then contract with DTE Gas to transport and balance the customers' nominated gas supplies on the DTE Gas system for delivery to the customers' facilities." 2 Tr 42. DTE Gas's Rate Book includes four EUT rate schedules: Small Transportation (ST), Large Transportation (LT), Extra Large Transportation (XLT), and Extra-Extra Large Transportation (XXLT). DTE Gas noted that during the historical test year, it had 539 EUT customers who transported 146.6 Bcf. During the projected test year, the company expects to have 545 EUT customers who will transport 150.7 Bcf.

DTE Gas stated that:

> [t]he projected test year EUT and customer count forecast was developed using the 12-months ended August 2023 actual volumes as a base, adjusted for known and measurable changes resulting from:
>
> 1. The most recent natural gas consumption, production, and energy projections based on customer dialogue;
> 2. The five-year average use for utility and merchant power plant operations;
> 3. Permanent facility closures and load reductions, including reductions due to energy waste reduction;
> 4. Adjustment for the heat content of the gas supply, if appropriate;
> 5. Rate switching between rate classes;

6. Weather normalization;
7. Known load expansions and new facility additions;
8. Allocation of special contract volumes to the XXLT cost-based rate; and
9. Allocation of all volumes billed under an optional transportation rate to the applicable cost-based rate volumes.

> The 12-months ended August 2023 was used because it was the most recent data available to the Company at the time volumes were prepared for the filing of this rate case.

2 Tr 46-47.

In addition, the company asserted that for the projected test year, EUT volumes will increase by 4.1 Bcf compared to the 2022 historical test year. DTE Gas explained that the increase is a result of the following adjustments:

1. 4.8 Bcf increase due to applying the five-year average consumption for most power generation customers;
2. 0.3 Bcf increase due to operational changes resulting from new ownership;
3. 0.6 Bcf increase from new EUT customers;
4. 0.8 Bcf of permanent volume reduction due to EUT facility closings or customers no longer taking service under an EUT rate;
5. 0.8 Bcf reduction due to [EWR]; and
6. Remaining 0.03 Bcf increase due to the net impact of customer operational volume increases and decreases.

2 Tr 47. According to the company, the main factors that affect the volume of gas transported by DTE Gas's power generation customers are: (1) summer temperatures, (2) natural gas prices, (3) power plant outages, (4) new power generation customers added to EUT space, and (5) other power generation customers ceasing operations. 2 Tr 48.

DTE Gas contended that because of the significant year-to-year variation in the five factors above, the historical test year does not provide a reasonable forecast for the power generation volumes. Rather, the company asserted that a five-year average of power generation volumes provides a better forecast. DTE Gas noted that:

> [a] majority of the power generation customers operating behind the Company's gas system are gas peaking plants. These peaking plants typically use natural gas

> on extreme weather days (both hot or cold), during times when base load plants are experiencing outages, and/or for voltage support. Finally, the plants run when the regional electric system operator selects them to operate during any given day. In recognition of the high degree of variability in the operations of these facilities, using the five-year average is an appropriate methodology to forecast power generation volumes and is consistent with how projected test year volumes have been calculated in previous rate cases.

2 Tr 48. Accordingly, the company stated that it used the five-year period of September 2018 to August 2023 to forecast the power generation volumes, which range from a low of 54.7 Bcf to a high of 72.6 Bcf and result in an average annual power generation volume of 61.5 Bcf. DTE Gas noted that the Commission has approved the use of a five-year historical average for projecting power generation volumes in Case Nos. U-18999, U-20940, and U-20642.

The company asserted that its "EUT distribution, monthly customer charge, standby charges, and minimum commitment revenues for 2022 were $121.9 million" and its "projected EUT Revenue is $122.8 million (at current rates)," which "consist[s] primarily of distribution, monthly customer charge, and standby charge revenues." 2 Tr 52.

The Attorney General noted that in response to a discovery request, DTE Gas provided information showing that "[t]he gas deliveries to power generation customers for the twelve months ended March 2024 were 72.4 Bcf." 4 Tr 1520; Exhibit AG-35. Using this information, the Attorney General calculated an updated five-year average of gas deliveries of 64.1 Bcf, which is 2.6 Bcf higher than the 61.5 Bcf calculated by the company. Thus, she recommended that the Commission increase EUT volumes by 2.6 Bcf for transportation Rate XXLT.

In addition, the Attorney General requested that the Commission increase DTE Gas's forecasted EUT revenue. She explained that "[t]he current volumetric rate for Rate schedule XXLT is $0.1933 per Mcf. After multiplying this rate by the incremental volumes of 2,600,000 Mcf, [she] calculated additional revenue of $503,000." 4 Tr 1521.

DTE Gas noted that although the Attorney General agreed with the five-year average for calculating gas deliveries to power generation customers, she recommended using the most recent five-year period ending March 2024, rather than the company's filed five-year period ending August 2023. The company asserted that in the December 9 order, "the Commission agreed with the as-filed five-year average methodology used for the power generation customer future test year volumes and did not find it necessary to change the forecasting methodology from the longstanding precedent." 2 Tr 121. DTE Gas contended that its "projected test period volumes were developed at a point in time with a methodology consistent with prior rate cases," and the company argued that "[i]t is inappropriate to deviate from past practice and selectively update the time period as [the Attorney General] has proposed, as such inconsistent revisions could lead to a party to the case choosing (or not choosing) time periods that best suit a particular position." 2 Tr 121.

The ALJ found that the Attorney General's updated five-year average of gas deliveries to power generation customers should be approved because it is based on the most recent historical information. He stated that "DTE is misleading by attempting to rely on the Commission's prior order in case No. U-20940; in that case, the issue was whether a five-year or a three-year average was preferred, not as DTE implies here whether an 'as-filed' five-year average is preferred over a five-year average using the latest information." PFD, p. 248.

In exceptions, DTE Gas states that its:

> methodology for forecasting EUT power generating volumes is consistent with prior practice and avoids arbitrary time selection. The Company's EUT forecast was created using the most recent data available when the instant case was filed. Given that the Company is not afforded an opportunity to update EUT volumes after filing, the Company's EUT forecast was created using the most recent twelve months of data available when this case was prepared, adjusted for known and measurable changes.

DTE Gas's exceptions, p. 33. The company asserts that the Attorney General's proposed time period is selective and self-serving.

In reply, the Attorney General asserts that she "did not 'selectively update the time period that best suited [her] position.' The [Attorney General] put forth the most reasonable, prudent time period based on all of the available data provided by DTE." Attorney General's replies to exceptions, p. 18 (footnotes omitted). Accordingly, she requests that the Commission adopt the ALJ's recommendation.

The Commission agrees with the ALJ that the December 9 order is inapposite on this issue. In the December 9 order, the Commission determined that DTE Gas's proposed five-year average of gas deliveries to power generation customers provided a better projection than the three-year average proposed by the Attorney General. Furthermore, in Case No. U-20940, the company's "as-filed" five-year average contained the most recent data for gas deliveries to power generation customers that was available on the record. By contrast, in this case, DTE Gas provided a discovery response with updated power generation volumes for the 12-months ended March 2024. Therefore, the Attorney General's five-year average of gas deliveries to power generation customers that was calculated using DTE Gas's actual volumes for the 12-months ended March 2024 is based on more recent historical information than the five-year average, ended August 2023, proposed by DTE Gas. Accordingly, the Commission finds the ALJ's recommendation persuasive and that the Attorney General's proposed five-year average and increase in forecasted EUT revenue should be approved.

B. Midstream Services Revenue

DTE Gas noted that its Midstream services have two components. The company stated that the first component consists of the sale of storage and transportation services to off-system

customers; "[t]he second component is GIK [gas in kind] collected from off-system customers for the utilization of DTE Gas's storage and transmission system." 2 Tr 53. DTE Gas asserted that Midstream generated $110.2 million in revenue during the historical test period and the company projected $111.6 million in Midstream revenue for the projected test year, which includes $38.5 million for projected storage revenue and $73.2 million for transportation revenue. In addition, DTE Gas expects that for the projected test year, there will be 62.5 Bcf of company-owned storage available for sale to off-system customers, which is the same that was available in Case No. U-20940. Furthermore, the company projected $12.8 million in exchange revenue for the test year, which was developed using a three-year average of exchange revenue from 2020 through 2022.

The Attorney General disputed DTE Gas's forecasted revenues for exchange revenue. She stated that, in response to a discovery request, "the Company provided actual revenues from 2018 to 2023, with 2023 being the most recent year currently available. In addition, the Company provided the monthly adjustments made to monthly gas deliveries to DTE Electric from January 2020 to May 2022 . . . ." 4 Tr 1522. Accordingly, the Attorney General calculated a revised forecasted off-system transportation revenue of approximately $63.78 million and a revised exchange revenue of approximately $15.63 million, using the most recent three years of actual revenues (2021-2023). She asserted that her proposed revenue forecasts include more recent data than those provided by DTE Gas, and she recommended that the Commission adopt her forecasts.

DTE Gas objected to the Attorney General's proposed exchange forecast, stating that she "is inappropriately cherry-picking years to include in the average, which results in a higher projection. [The Attorney General] is choosing to remove a lower year, 2020, in favor of a higher year, 2023, which is a deviation from" the company's methodology that was approved by the Commission in

Case Nos. U-20642 and U-20940. 2 Tr 124. DTE Gas asserted that the correct method "is to use the 3-year average ending with the historical period actual," which is 2022 in this case. 2 Tr 123-124. Regarding off-system transportation services, DTE Gas asserted that the Attorney General inappropriately used an average to calculate the forecast. The company contended that the correct methodology "is to add revenue already under contract to the estimated revenue for assets available for sale," which is the methodology that was approved by the Commission in Case Nos. U-18999, U-20642, and U-20940.

The ALJ agreed with the Attorney General regarding exchange revenues, stating that "it is more reliable to use the most recent information which excludes an anomalous year (2020) adversely affected by COVID." PFD, p. 255. However, the ALJ found that DTE Gas's off-system transportation revenue calculation methodology "is the best approach for estimating future revenue." *Id*.

DTE Gas excepts, asserting that it "used the same methods of calculating forecasts in this case as it used in its last three rate case proceedings in Case Nos. U-20940, U-20642, and U-18999. This was, and is, a workable, accepted, consistent, and otherwise appropriate practice." DTE Gas's exceptions, p. 35 (internal citation omitted). The company contends that the Attorney General's proposed method is inconsistent, self-serving, and produces skewed results.

The Attorney General replies that the company merely reiterates the same arguments about exchange services revenue that were addressed by the Attorney General and rejected by the ALJ. She states that "[a]s pointed out in the [Attorney General]'s briefing, DTE's own witnesses agreed that the gas markets were affected in 2020 such as to have an effect on Exchange Services revenue that year." Attorney General's replies to exceptions, p. 19 (citing Attorney General's initial brief,

p. 86). Thus, the Attorney General asserts that the ALJ appropriately rejected DTE Gas's method for calculating projected exchange services revenue.

In exceptions, the Attorney General states that the ALJ failed to provide sufficient rationale for recommending that the Commission approve DTE Gas's off-system transportation revenue. She argues that "the ALJ's contention that 'using revenue under contract is the best approach for estimating future revenue' is inapt, as DTE's methodology also includes *estimated* revenue for assets *available* for sale. Therefore, DTE's estimation methodology is adding additional uncertainty and ambiguity to this process that the ALJ failed to address." Attorney General's exceptions, p. 17 (quoting PFD, p. 255) (emphasis in original). The Attorney General asserts that her method of "utilizing the most recent three-year average of actual revenues realized is the appropriate methodology" and that DTE Gas's proposed off-system transportation revenue should be increased by approximately $3.4 million. Attorney General's exceptions, p. 17.

DTE Gas replies that the Attorney General fails to support her claim that the ALJ erred in recommending that the Commission adopt DTE Gas's method for projecting off-system transportation revenue. The company states that "the PFD accurately captured that it is appropriate to add revenue under contract to the estimated revenue for assets available for sale, as opposed to utilizing an average for the Off-System Transportation services forecast." DTE Gas's replies to exceptions, p. 32 (internal citation omitted). DTE Gas reiterates that its methodology was approved by the Commission in previous rate cases.

The Commission finds the ALJ's recommendation persuasive. DTE Gas contends that its methodology to calculate a three-year average of Midstream exchange revenue, ending with the historical period actual, has been approved in prior rate cases. However, the Commission finds that the Attorney General's three-year average of Midstream exchange revenue from 2021-2023,

which excludes anomalous data associated with the 2020 COVID-19 pandemic, is based on more recent historical data and provides a better forecast of future exchange services revenue. *See*, 4 Tr 1522; Exhibit A-36, pp. 2-3.

Regarding off-system transportation revenue, the company explains that "there are specific considerations for valuing Off-System Transportation Services on the DTE Gas system, in that DTE Gas must ensure that it reserves sufficient transportation assets to deliver natural gas to its on-system customers. As on-system capacity requirements change, capacity remaining for off-system customers also changes." Exhibit AG-62, p. 8. DTE Gas states that it is inappropriate to use an historical average of off-system transportation revenue because it includes transportation capacity that is no longer available for sale, which provides an inaccurate forecast. *See*, DTE Gas's initial brief, p. 90. DTE Gas asserts that its proposed forecasting method is more accurate than the Attorney General's proposal because the company's method considers "[t]he off-system transportation revenue already under contract" and the "[f]orecasted revenue for remaining capacity available for sale." Exhibit AG-62, p. 8. The company's calculation for its forecasted off-system transportation revenue includes the expiration of four contracts that were not renewed, the long-term transportation contract with DTE Electric for the Blue Water Energy Center, and a new long-term transportation contract with Michigan Gas Utilities Corporation. The Commission finds that the Attorney General's proposed three-year historical average of off-system transportation revenue does not account for the variables discussed above. Therefore, the Commission finds that DTE Gas's forecasted off-system transportation revenue should be approved.

C. Other Operating Revenue

1. Exelon Energy Company Energy Sales Agreement

DTE Gas and Exelon have an agreement which, in part, grants Exelon the right to provide energy sales in a specific part of DTE Gas's service territory. *See*, 2 Tr 227. The company noted that it removed from the sales forecast customers who are now served by Exelon because these customers no longer receive gas from DTE Gas.

The Staff stated that it mostly agrees with DTE Gas's treatment of Exelon customers in this case, asserting that "[t]he Company properly excluded the difference between revenues and costs from rate design for other classes. This ensures that no other customers pay for this difference consistent with the Commission's prior determinations." 4 Tr 1642. However, the Staff noted that its treatment differs slightly from the company's method. The Staff contended that it "appropriately made the proposed revenue for Exelon equal to the figure reported in Staff's COSS [cost of service study] and Staff's treatment should be approved." 4 Tr 1642.

The ALJ agreed with the Staff and recommended that the Commission approve the Staff's proposed Exelon treatment. *See*, PFD, p. 244.

No exceptions were filed on this issue. The Commission finds the ALJ's recommendation on this issue to be reasonable and prudent and that it should be approved.

2. Home Protection Plus Appliance Service Program

DTE Gas offers the HPP/ASP to its customers for a prepaid annual fee or monthly charge. The company forecasted that HPP/ASP enrollment and gross revenue from the program will remain consistent with the 2022 historical test period of approximately 223,600 customers and $99.3 million, respectively. *See*, 2 Tr 83; Exhibit A-13, Schedule C3.

The Attorney General contended that DTE Gas failed to provide an accurate forecast of HPP/ASP revenues for the projected test year. She stated that:

> [i]n response to discovery, the Company provided the actual revenues for the HPP/ASP from 2018 to 2023 with related operating expenses. The revenue and cost schedule with the response shows a steady increase in revenues, with 2023 revenues reaching $103.9 million, or $4.0 million above the 2022 level. The schedule also shows the profit margin or net operating income between revenues and operating expenses. From this calculation, it is apparent that the year 2022 is not representative of the revenue and profit margin earned in the most recent year of 2023, or for that matter in any of the prior five years. In other words, using the 2022 revenues, operating expenses, and profit margin as a proxy for future test year amounts would result in an inaccurate and unreasonable forecast amount.

4 Tr 1523 (footnote omitted). The Attorney General noted that in DTE Gas's last three rate cases, the company has proposed using the actual revenue and related operating income from the historical test year to project HPP/ASP revenue and operating income but "those forecasts have fallen short of actual in every case." 4 Tr 1524; *see*, Exhibit AG-38. Additionally, she noted that in relation to the financial performance of the HPP/ASP, the company admits that "[p]rofit margins (absolute) do see a 'gradual' increase each year." Exhibit AG-63, p. 2. Thus, the Attorney General recommended that the Commission approve her proposed increase in HPP/ASP revenue and operating income of $4.62 million.

DTE Gas disagreed with the Attorney General's recommendation, asserting that the HPP/ASP:

> is subject to intense competition in the marketplace from independent contractors and other repair service companies. Average contracts decreased from the historical test period of 2022 to 2023, the year proposed by [the Attorney General], demonstrating the level of uncertainty this business carries. This decrease in average contracts further supports that the Appliance Repair Service is an optional cost from a customer perspective, and customers can cancel their HPP service at any time. Operating Expenses also carry a level of uncertainty and can be impacted by various factors.

2 Tr 126. The company noted that if the Commission were to consider an alternative methodology, DTE Gas recommends adopting a three-year average of the profit margin percentage and applying it to the most recent available full year of actual revenue. DTE Gas stated that "[u]sing this average profit margin percentage against the 2023 actual revenue of $103,901,000, results in a profit margin of $27,483,000 versus a profit margin of $25,682,000 in 2022 (the historical test year), or an increase of $1,801,000 as opposed to [the Attorney General]'s proposed increase of $4,617,000." 2 Tr 127.

The ALJ agreed with the Attorney General, finding that DTE Gas "has failed to support a reasoned opposition to using the 2023 revenue and operating expenses." PFD, p. 257. He recommended that the Commission adopt the Attorney General's proposed increase to the HPP/ASP revenue and operating income of $4.62 million.

DTE Gas asserts that the ALJ's recommendation "fails to acknowledge" the significance of the "intense competition in the marketplace" for this type of service and, as a result, there has been a decrease in the average number of contracts. DTE Gas's exceptions, p. 36. The company reiterates that the program is optional for customers and that weather variability affects customer utilization of the program. Accordingly, DTE Gas states that "2022 is a more accurate representation of a normal operating year for the HPP Appliance Service Program and is therefore more reasonable and prudent to use in calculating HPP Appliance Service Program costs and revenues." *Id*., p. 37 (internal citation omitted).

In addition, the company contends that:

> the PFD entirely ignores the Company's alternative proposal to use a three-year average of the profit margin percentage (against revenue for the corresponding year) and apply this percentage to the most recent available full year revenue actual. This methodology would smooth yearly variations in the components that make up profit margin and is consistent with other forecasted components of the Company's

> filing. The PFD fails to provide any rationale as to why such an alternative method is unreasonable or inappropriate.

Id. (internal citations omitted). DTE Gas requests that the Commission adopt the company's proposed 2022 revenues and operating expenses for the HPP/ASP.

The Attorney General replies that DTE Gas's exceptions repeat the arguments set forth in testimony and briefing. She states that:

> [a]s recognized by the ALJ, DTE's presentation is devoid of any reasonable rationale for not using the most recent available data to project these costs. Importantly, and unaddressed by DTE, over at least the last three cases DTE's forecasts have fallen short of actuals in every case, demonstrating that DTE has an inclination to understate the forecasted revenue and operating income of the appliance service program.

Attorney General's replies to exceptions, p. 20 (citing PFD, p. 257).

The Commission finds the ALJ's recommendation persuasive. As noted by the Attorney General, a review of DTE Gas's HPP/ASP revenue and net operating income from 2018 through 2023 shows a steady increase each year, despite the variation in average contracts. *See*, Exhibit AG-38, p. 2; Exhibit AG-63. In addition, the company provided 2023 HPP/ASP revenue and operating expense data, which is more recent compared to the 2022 data relied upon by DTE Gas, and the Attorney General contends that this is "the best forecast of operating income for the projected test year." 4 Tr 1523-1524. The Commission agrees. DTE Gas's use of 2022 data likely results in an underestimate of projected test year HPP/ASP revenue and operating expenses. Thus, the Commission finds that the Attorney General's proposed $4.62 million increase to HPP/ASP revenue and operating income is approved.

As an alternative to the Attorney General's proposal, DTE Gas recommends adopting a three-year average of the profit margin percentage (against revenue for the corresponding year) and applying this percentage to the most recent available full year revenue actual. However, the

Commission finds that DTE Gas fails to explain why a three-year average of profit margin applied to the 2022 revenue actual provides a better forecast than the Attorney General's proposal to use 2023 revenue and operating expenses to project HPP/ASP revenue for the test year.

D. Operating and Maintenance Expenses

DTE Gas projected $538.251 million in O&M expenses for the 12-month period ending September 30, 2025. 4 Tr 2314-2315; Exhibit A-13, Schedule C1, line 8. This amount represents a projected increase from the historical period of $75.2 million, which DTE Gas stated is "primarily due to inflation, higher transmission and distribution expenses, higher benefit expenses, and increased shared asset fees from DTE Electric." 4 Tr 2314; *see also*, Exhibit A-13, Schedule C1, line 8.

1. Inflation

DTE Gas stated that the company used a 2022 historical test year and assumed inflation rates of 3.2% in 2023, 2.9% in 2024, and 2.2% in 2025. 4 Tr 2314. To calculate composite inflation rates, DTE Gas stated that it used a labor and non-labor factor. 4 Tr 2315; *see also*, Exhibit A-13, Schedule C12. For the labor factor, DTE Gas averred that the company is required under collective bargaining agreements to increase pay rates by at least three percent annually for represented employees. 4 Tr 2634-2635. For non-represented employees, DTE Gas stated that compensation "is generally adjusted annually based on a review of pay practices for other employers, changes in the external competitive market and internal pay equity," and stated that all non-management employees received a three percent increase in 2023. 4 Tr 2635. Based on this information, DTE Gas stated that it determined annual labor rate escalations of three percent for 2023, 2024, and 2025. 4 Tr 2635; *see also*, Exhibit A-13, Schedule C12. For the non-labor factor, DTE Gas stated that it used the consumer price index (CPI)-Urban published by IHS Markit in

August 2023. The labor and non-labor rates were then used to calculate a composite inflation rate for 2023, 2024, and a nine-month proration for 2025. 4 Tr 2315.

The Attorney General disagreed with the company's proposed inflation adjustments and stated that DTE Gas's proposed rates were a result of blending the CPI forecasted inflation rate with a three percent forecasted annual wage increase for labor costs. 4 Tr 1530. The Attorney General argued that the Commission has rejected the use of such a "blended" inflation rate in recent rate cases and, as a result, advocated for the Commission to similarly reject the use of a blended rate in this case. 4 Tr 1530; Attorney General's initial brief, pp. 95-96. The Attorney General, instead, noted that the Commission has adopted the CPI-Urban area inflation rates to forecast future O&M expense increases when warranted. Additionally, the Attorney General used actual O&M expenses for 2023 to calculate CPI inflation adjustments for 2024 and to the end of the projected test year. 4 Tr 1530. The Attorney General stated that she used this O&M expense base, adjusted for $103.6 million of cost items that are not directly affected by inflation, and applied the CPI-only inflation rates of 2.6% for 2024 and 2.2% for a prorated nine-month period for 2025 to calculate a cumulative inflation adjustment of $14.961 million. 4 Tr 1531; *see also*, Exhibit AG-43. The Attorney General found that, when compared to DTE Gas's blended inflation adjustment for the same period, totaling $18.962 million, the difference in calculated inflation adjustments was approximately $4 million. In turn, the Attorney General proposed that the Commission adopt the Attorney General's inflation cost adjustment and remove $4 million from the company's forecasted O&M expenses for the projected test year. 4 Tr 1531; Attorney General's initial brief, p. 98.

ABATE also disagreed with DTE Gas's proposed inflation adjustments. ABATE argued that DTE Gas failed to support the company's proposed three percent wage inflation rate for labor

costs and asserted that this labor rate should not be relied on to increase O&M expenses for the projected test year. 4 Tr 1323; ABATE's initial brief, pp. 14-15. ABATE, instead, advocated for the use of the Gross Domestic Product Chained Price Index, which had inflation rates of 2.6% for 2023, 2.2% for 2024, and 2.2% for 2025, arguing that the CPI-Urban inflation rates were "well above the consensus industry experts' opinion of the [Gross Domestic Product] Chained Price Index." 4 Tr 1324. Relying on the Gross Domestic Product Chained Price Index, ABATE advocated for the Commission to adopt ABATE's proposed adjustments to the inflation factor and to reduce DTE Gas's projected O&M expenses by approximately $6.9 million. 4 Tr 1324-1325; ABATE's initial brief, p. 15.

In rebuttal, DTE Gas objected to the Attorney General's and ABATE's proposed disallowances. DTE Gas argued that it fully supported the calculation of a weighted average composite inflation rate and further argued that it would be inappropriate to "selectively update the non-labor inflation rate for the test period without also accounting for an updated labor rate for the test period." 4 Tr 1873. Additionally, DTE Gas contended that the non-labor rates proposed by the Attorney General were outdated and had increased for the pertinent time periods. 4 Tr 1873 (citing Exhibit A-34, Schedule X1); DTE Gas's initial brief, p. 93. As such, DTE Gas asserted that, "should the Commission choose to incorporate an updated non-labor inflation rate to calculate projected test period O&M expense in a final order in this proceeding, it would be appropriate to use the most recent CPI-[Urban] rate" and account for updated labor rates. 4 Tr 1873.

The ALJ agreed with the Attorney General and found that the Commission "customarily applies [the] CPI-Urban inflation rate used by the Attorney General and that the Commission does not support DTE's use of a blended inflation rate." PFD, p. 266 (citing May 8, 2020 order in Case

No. U-20561 (May 8 order), p. 86; December 9 order, pp. 120-121). The ALJ further found that ABATE did not provide support for its contention that the CPI-Urban inflation rate was above "the consensus industry experts' opinion of the [Gross Domestic Product] Chained Price Index." PFD, p. 266. Accordingly, the ALJ recommended that the Commission adopt the Attorney General's proposed disallowance of $4 million to DTE Gas's projected O&M expenses.

In exceptions, DTE Gas maintains its contention that the company fully supported the use of a weighted average composite inflation rate and that it is inappropriate to selectively update the non-labor inflation rate without accounting for updated labor rates. Additionally, DTE Gas argues that the ALJ failed to consider the company's rebuttal testimony advocating for the Commission to use the most recent CPI-Urban inflation rates and updated labor rates. DTE Gas's exceptions, pp. 40-41.

ABATE also excepts to the ALJ's finding that ABATE did not support the contention that the CPI-Urban inflation rate is above industry experts' opinions of the Gross Domestic Product Chained Price Index. According to ABATE, the record clearly provided that the CPI-Urban rates for non-labor, which were 4.1% for 2023, 2.9% for 2024, and 2.2% for 2025, were demonstrably above the Gross Domestic Product Chained Price Index inflation rates for the same periods. ABATE's exceptions, pp. 4-5.

In replies to exceptions, the Attorney General argues that DTE Gas's exceptions provided no new arguments or evidence on the issue, and that the company's original arguments were fully rebutted in the Attorney General's briefing. The Attorney General further reiterates her contention that the Commission has consistently adopted her analysis and proposals regarding the rejection of the use of a blended inflation rate. Attorney General's replies to exceptions, pp. 21-22.

ABATE replies that DTE Gas did not support its three percent assumption for labor cost increases and further argues that, when accounting for changes in the number of employees throughout the calendar year, the year-over-year change in average salaries is lower than DTE Gas's assumed increase. ABATE's replies to exceptions, p. 9.

In replies, DTE Gas agrees with the ALJ's finding that ABATE failed to support its proposed inflation rates and reiterates the company's contention that its own proposed inflation rates are more reasonable than the Attorney General's proposal. DTE Gas's replies to exceptions, pp. 32-34.

The Commission finds the ALJ's findings and recommendations to be well-reasoned and supported by the record in this case. The Commission agrees with the ALJ and finds that the Commission has customarily applied the CPI-Urban inflation rate proposed by the Attorney General, and further, that the Commission has previously rejected the use of a blended inflation rate. *See*, May 8 order, p. 86 ("The Commission also agrees with the ALJ's recommendation to apply the CPI-urban inflation rate (the rate customarily applied by the Commission) to the later years using the Attorney General's more recent calculations."); *see also*, December 9 order, p. 121 ("The Commission does not support DTE Gas's use of a blended inflation rate."). Accordingly, the Commission adopts the ALJ's recommended disallowance of $4 million from DTE Gas's projected O&M expenses for the projected test year.

2. Operations and Maintenance Savings

The Attorney General stated that DTE Gas took measures to reduce 2023 costs due to financial challenges at both DTE Electric and DTE Gas that resulted in O&M expense falling from $572.2 million in 2022 to $466.1 million in 2023. 4 Tr 1532. The Attorney General further stated that, after normalizing O&M expense to $452.1 million, the 2023 expense was still lower than the

normalized 2022 O&M expense. 4 Tr 1532. The Attorney General then compared the normalized 2023 O&M expense to the company's forecasted O&M expense for the same year to calculate an "O&M expense savings of $22,431,000, which should *be* included in the projected test year." 4 Tr 1532 (emphasis added); *see also*, Exhibit AG-45. Accordingly, the Attorney General argued that DTE Gas's projected O&M expense for the projected test year was overstated and proposed that the Commission remove $22.431 million from the company's forecasted O&M expense for the projected test year. 4 Tr 1533; Attorney General's initial brief, p. 98.

In rebuttal, DTE Gas argued that the Attorney General's use of historical O&M expense to adjust forecasted O&M expenses "breaches the regulatory construct of using a historical year at a point in time and making adjustments for known and measurable changes." 4 Tr 2048. With respect to transmission O&M expense, DTE Gas stated that it incorporated a known and measurable reduction of $2.385 million in O&M expense for the projected test year resulting from the Washington 10 contract expiration. However, DTE Gas argued that the use of the Attorney General's methodology would have resulted in a proposed disallowance of $1.755 million, which the company contends would have duplicated the known and measurable change already included in O&M expense for the projected test year. 4 Tr 2049; DTE Gas's initial brief, p. 95. As a result, DTE Gas urged the Commission to, at a minimum, reduce the Attorney General's proposed disallowance by $1.755 million to account for the known and measurable change relating to the expiration of the Washington 10 contract. DTE Gas's initial brief, p. 95.

Similarly, with respect to customer service O&M expense, DTE Gas stated that it incorporated a known and measurable reduction of $3.296 million associated with call volume savings in the O&M expense for the projected test year. 4 Tr 2440-2441; Exhibit A-13, Schedule C5.4, line 5, column (j). However, using the Attorney General's methodology, DTE Gas argued that a

proposed disallowance of $7.1 million would have resulted, which the company again contended would have duplicated the known and measurable change already incorporated in O&M expense for the projected test year. 4 Tr 2441.

The ALJ agreed with the Attorney General and recognized that known and measurable cost savings achieved by DTE Gas were appropriate to use in formulating projected O&M expense for the test year. PFD, p. 268. Additionally, the ALJ found that the Attorney General's proposed disallowance included specific savings from all seven categories of DTE Gas's projected O&M expense. *Id*., pp. 268-269. However, the ALJ determined that the Attorney General's proposed disallowance needed to be reduced to reflect the two instances where DTE Gas demonstrated that the proposed disallowance duplicated known and measurable changes, namely for transmission and customer service O&M expenses. *Id*., p. 269. Accordingly, the ALJ recommended that the Commission adopt a $17.379 million disallowance for O&M expense for the projected test year. *Id*.

In exceptions, DTE Gas disagrees with the ALJ's recommended disallowance and maintains the company's argument that the Attorney General's methodology was flawed and violated the regulatory construct of using a historical year as adjusted for known and measurable changes. DTE Gas's exceptions, p. 39.

In replies to exceptions, the Attorney General argues that DTE Gas provided nothing new and that the company's arguments were fully rebutted in briefing and addressed in the PFD. The Attorney General reiterates her contention that recognizing known and measurable cost savings is appropriate to use when formulating projected O&M expense for the test year. Attorney General's replies to exceptions, p. 21.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record in this case. The Commission agrees with the ALJ and finds that it is appropriate to use known and measurable cost savings to formulate projected O&M expense for the test year, and further agrees that it is appropriate to reduce the Attorney General's proposed disallowance to reflect the two instances where DTE Gas has demonstrated that the proposed disallowance would duplicate known and measurable changes incorporated in projected transmission and customer service O&M expenses. Accordingly, the Commission adopts a disallowance of $17.380 million[29] from DTE Gas's projected O&M expenses for the test year.

3. Transmission Integrity Management Program

The Transmission Integrity Management Program (TIMP) is a federally mandated program to identify and mitigate risks to gas transmission pipeline systems. 4 Tr 2008; *see also*, 49 CFR Part 192 subpart O. DTE Gas stated that the company incurs costs for TIMP Pipeline Integrity for compliance-related activities, which include, among other things, required pipeline integrity assessments. 4 Tr 2008.

For the test period, DTE Gas projected $23.01 million in O&M expense for TIMP Pipeline Integrity. 4 Tr 2012. DTE Gas stated that this amount represents a $6.67 million increase from the $16.34 million that was spent on O&M expense in the historical test year, which DTE Gas averred is attributed to an increased number of pipeline assessments the company plans to conduct

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[29] The Commission finds that there is a calculation error in the PFD. The Attorney General proposed a disallowance of $22.431 million as a result of O&M expense savings. *See*, 4 Tr 1532; *see also*, Exhibit AG-45. DTE Gas, in turn, identified known and measurable O&M expense reductions of $1.755 million associated with the Washington 10 contract expiration and $3.296 million associated with call volume savings. *See*, 4 Tr 2049, 2440-2441; DTE Gas's initial brief, p. 95; and Exhibit A-13, Schedule C5.4, line 5, column (j). Reducing the Attorney General's proposed disallowance by these known and measurable O&M expense reductions results in a total disallowance of $17.380 million.

during the projected test period. 4 Tr 2012. The company stated that expenses for pipeline assessments vary from year-to-year based on the specific pipelines being assessed, and that the increase in planned pipeline assessments during the projected test period is a result of the company's continual execution of its ILI program. 4 Tr 2012.

The Attorney General opposed DTE Gas's proposed O&M increase and advocated for the Commission to remove $6.7 million from the company's projected O&M expense. 4 Tr 1536. The Attorney General argued that DTE Gas's forecasted O&M expense for TIMP Pipeline Integrity was not credible or likely to be incurred given the company's historical record on TIMP-related spending. 4 Tr 1535-1536. Specifically, the Attorney General argued that, in Case No. U-20642 (DTE Gas's 2019 rate case), the company forecasted increased O&M expense for TIMP Pipeline Integrity, totaling approximately $18 million, for the 12 months ended September 2021. 4 Tr 1534-1535; *see also*, Case No. U-20642, Exhibit A-13, Schedule C5.2. However, the Attorney General argued that DTE Gas's projected O&M spending increase never materialized, and that actual O&M spending was just $10.3 million for 2020 and $13.5 million for 2021. 4 Tr 1535. Moreover, the Attorney General stated that, since 2021, when O&M expense was projected to exceed $18 million, "the Company has steadily reduced pipeline inspection costs to $16.3 million in 2022 and $8.6 million in 2023 with the number of inspections dropping from 12 in 2021 to only 4 in 2023." 4 Tr 1535. The Attorney General also noted that normalized O&M expense for 2023 was $1.5 million higher than the average O&M expense for TIMP Pipeline Integrity over the preceding three years. 4 Tr 1535. As such, the Attorney General argued that DTE Gas's lack of consistency in spending undermined the company's current projections for O&M expense for TIMP Pipeline Integrity. 4 Tr 1534.

In rebuttal, DTE Gas disagreed with the Attorney General's proposed disallowance and argued that the use of historical O&M spending as the only factor to determine forecasted O&M expense for TIMP Pipeline Integrity was inappropriate given that pipeline integrity requirements change significantly from year to year. 4 Tr 2050. DTE Gas stated that the company "forecasts its expenses on the best information available at the time by utilizing detailed project cost estimates along with historical spend for similar types of projects. Given a variety of factors, actual expenses can be higher or lower than the original projection." 4 Tr 2050. Additionally, DTE Gas argued that the use of an average cost over several years to determine future O&M expense would result in surpluses or shortfalls from year to year since the number of assessments conducted will vary. 4 Tr 2051.

The ALJ agreed with the Attorney General and found that, although the amount of pipeline remediation work may be difficult to predict, the company's historical O&M spending on TIMP Pipeline Integrity provides insight for future projected expenses. The ALJ further found that DTE Gas failed to rebut the Attorney General's claim that the company's pipeline inspection costs have steadily declined since 2021. Additionally, the ALJ noted that DTE Gas's use of the ILI program began in 2012, and that as such, the company's history of pipeline integrity work under that program was not so limited as to be unreliable for comparison purposes. Accordingly, the ALJ recommended that the Commission adopt the Attorney General's proposed reduction in O&M expense. PFD, p. 272.

In exceptions, DTE Gas disagrees with the ALJ's rationale for the recommended disallowance because, as the company asserts, federal regulations require the company to assess pipelines generally every seven years, and the expense for those assessments vary from year to year due to numerous factors. DTE Gas also argues that the use of a historical average to forecast future

expense is an inappropriate means to predict future remediation work, which is based on assessments and constitutes a significant expense for the company's TIMP Pipeline Integrity. Accordingly, DTE Gas urges the Commission to reject the ALJ's recommended disallowance. DTE Gas's exceptions, pp. 41-42.

In her reply to exceptions, the Attorney General agrees with the ALJ and argues that the use of historical costs is most appropriate in this instance. The Attorney General further argues that the Commission should disregard DTE Gas's arguments about factors impacting assessment costs given the Attorney General's testimony on declining pipeline assessment costs and the reality that the company has been operating the Pipeline Integrity program for a sufficiently long period to obtain information for comparison purposes. Attorney General's replies to exceptions, p. 22.

While acknowledging that DTE Gas has, at times, spent less on pipeline inspections than was originally forecasted, the Commission ultimately finds that DTE Gas provided sufficient evidence on the record to support its proposed level of spending for TIMP Pipeline Integrity during the projected test year. As it has in other instances in this order, the Commission finds that where there is a sufficient level of detail and internal approvals to show that the projected expenses are reasonable and prudent and are likely to actually be incurred, such evidence can be more compelling than the use of historical spending as the only factor to project future expenses. Here, there is no dispute that DTE Gas created its forecasted expense "utilizing detailed project cost estimates along with historical spend for similar types of projects." 4 Tr 2050. On this basis, the Commission finds the company's projected level of spending on TIMP Pipeline Integrity for the projected test year to be reasonable and rejects the Attorney General's proposed disallowance.

4. Maximum Allowable Operating Pressure Records Review Program

DTE Gas stated that the Maximum Allowable Operating Pressure (MAOP) Records Review program "is the review of pipeline records to ensure that the records are traceable, verifiable and complete (TVC), and substantiate [MAOP]." 4 Tr 618. DTE Gas asserted that it implemented the MAOP Records Review in response to a 2011 advisory bulletin issued by PHMSA, and that the company has developed and is implementing a reconfirmation plan for pipelines in HCAs without TVC records in compliance with requirements established through revisions to federal pipeline safety regulations, which were finalized on October 1, 2019, and became effective on July 1, 2020. 4 Tr 618, 620.

Based on responses received during discovery, the Attorney General calculated DTE Gas's O&M expense for MAOP Records Review to be $1.750 million for the projected test year. 4 Tr 1536-1537. The Attorney General asserted, however, that DTE Gas was solely responsible for ensuring that the company maintained adequate pipeline records, even before the issuance of the 2011 PHMSA advisory bulletin, and that the records requirements imposed by PHMSA regulations were basic operating requirements that date as far back as the 1950s and 1960s. 4 Tr 1537. As a result, the Attorney General argued that "[t]he fact that adequate records do not exist is not a problem that should be remedied entirely on the backs of customers." 4 Tr 1538. In turn, although she believed that an argument could be made to require the company to fully absorb the cost of remedying its records, the Attorney General proposed that the Commission adopt a disallowance of $875,000 (50% of the calculated O&M expense for the projected test period). 4 Tr 1538; Attorney General's initial brief, pp. 100-101.

In response to the Attorney General's arguments, DTE Gas argued that the proposed disallowance should be rejected because the Attorney General failed to provide any evidentiary

support for her contention that the current PHMSA obligations were basic operating requirements that predated the applicable regulations. DTE Gas further argued that the Attorney General failed to provide any basis for her proposal to disallow 50% of the MAOP Records Review O&M expense. DTE Gas's initial brief, pp. 98-99.

The ALJ agreed with DTE Gas and found that the company had adequately supported its projected O&M expense for MAOP Records Review. The ALJ further found that it would be unreasonable to hold DTE Gas to best practices before such practices were mandated by applicable regulations. As such, the ALJ recommended that the Commission reject the Attorney General's proposed disallowance. PFD, pp. 273-274.

The Attorney General excepts to the ALJ's recommendation and argues that the ALJ creates a standard that excuses DTE Gas from acting reasonably and prudently in the absence of an express regulation or law mandating such action. More specifically, the Attorney General argues that the ALJ excuses DTE Gas's past poor records management, a problem the Attorney General avers should not "be remedied entirely on the backs of customers, who had no ability to ensure that such records were kept." Attorney General's exceptions, p. 20. Accordingly, the Attorney General maintains her proposal and urges the Commission to remove $875,000 from DTE Gas's O&M expense for the projected test year. *Id*.

In replies to exceptions, DTE Gas supports the ALJ's recommendation and argues that the Attorney General is attempting "to create a standard whereby the Commission punishes utilities for failing to meet requirements at times when those requirements were nonexistent." DTE Gas's replies to exceptions, p. 35. DTE Gas, in turn, argues that this amounts to a hindsight analysis on which the Commission cannot base its decision. DTE Gas further argues that the Attorney General's proposed 50% reduction is baseless and unsupported by any evidence on the record.

Finally, DTE Gas contends that the Attorney General failed to identify any laws or requirements prior to 2011 that would have obligated the company to keep adequate records for its pipelines that are TVC. DTE Gas's replies to exceptions, pp. 35-36.

The Commission respectfully disagrees with the ALJ's recommendation regarding the MAOP Records Review. The Commission previously addressed DTE Gas's MAOP Records Review in Case No. U-20940 and determined that the 2019 revisions to federal pipeline safety regulations and the "2011 advisory bulletin are not new record keeping requirements and that DTE Gas was required previously by the MGSS to perform strength tests, including MAOP tests, and to maintain those records for the life of the pipeline." December 9 order, p. 33. As a result, the Commission instructed that, in future rate cases, "DTE Gas must adequately justify that the required [MAOP] work is a direct result of the new requirements in the regulations and not a result of the company's historically poor record keeping practices." *Id*., pp. 123-124.

The Commission acknowledges that DTE Gas provided testimony in this case asserting the need to implement a reconfirmation plan in conformance with the PHMSA revised regulations. *See*, 4 Tr 620. However, the Commission finds that reconfirmation of MAOP under the pertinent regulations are only required if the records necessary to establish MAOP are not TVC. *See*, 49 CFR 192.624(a)(1). Therefore, the Commission is not persuaded that DTE Gas's projected remediation work is not a result of the company's historically poor recordkeeping practices. The Commission, thus, finds that cost sharing is appropriate for the projected O&M expense for the MAOP Records Review. Accordingly, the Commission declines to adopt the ALJ's recommendation, and instead adopts the Attorney General's proposal to remove $875,000 from DTE Gas's O&M expense for the projected test year.

5. Leak Detection and Repair Program

DTE Gas included $10.28 million in O&M expense in the projected test year for LDAR. 4 Tr 2037. According to DTE Gas, these expenses were necessary to comply with PHMSA's NOPR on Gas Pipeline LDAR, which the company stated established minimum requirements for LDAR and the use of advanced leak detection technologies and practices. 4 Tr 2038. DTE Gas anticipated that the NOPR would go into effect on March 1, 2025, and that the company would spend an average of $14.92 million per year on compliance for the three-year period from 2025 to 2027. 4 Tr 2040.

Both the Attorney General and the Staff proposed disallowing DTE Gas's proposed O&M expense in the projected test year. The Attorney General advocated for the removal of $10.3 million from the company's O&M expense because she averred that it is "unknown when the new rule will be issued and how soon thereafter the Company will be required to fully comply with the requirements within the new rule." 4 Tr 1538. Further, the Attorney General maintained that even if the final rule became effective on March 1, 2025, it is unlikely that DTE Gas would be able to fully implement compliance by the end of the projected test year to justify the requested expenses. Additionally, the Attorney General argued that DTE Gas failed to present a comprehensive implementation plan or explain how the company's current expenses for detection and repair could not be redirected for compliance with the NOPR. 4 Tr 1538-1539; Attorney General's initial brief, pp. 101-102.

Similarly, the Staff stated that, absent the final published rule, it did not support DTE Gas's proposed expense. Accordingly, the Staff proposed a reduction in O&M expense in the amount of $10.276 million. The Staff, however, supported the use of a regulatory deferral mechanism for

DTE Gas's LDAR expense in the event the Commission did not support recovery. 4 Tr 1793; Staff's initial brief, pp. 61-62.

In rebuttal, DTE Gas stated that it did not wholly agree with the Attorney General's or the Staff's proposals. DTE Gas maintained that the NOPR is expected to go into effect six months after publishing of the final rule. However, DTE Gas "recognize[d] that there is a risk that the date of the final rule could change." 4 Tr 2052. As such, if the Commission finds that the proposed LDAR O&M expense should not be included in rates, DTE Gas requested that the Commission approve the use of a regulatory deferral mechanism. 4 Tr 2052; DTE Gas's initial brief, p. 100.

The ALJ agreed with the Attorney General and the Staff and found that DTE Gas's projected expense was premature and should not be recovered until a final LDAR rule is published and the actual effective date is known. Accordingly, the ALJ recommended a disallowance of $10.276 million[30] to the company's O&M expense for the projected test year. Additionally, the ALJ agreed with DTE Gas and the Staff that the Commission should approve a regulatory deferral mechanism for recovery of the future costs of compliance. PFD, p. 276.

In exceptions, DTE Gas objected to the ALJ's recommended disallowance on the basis that, although not yet finalized, the NOPR is expected to go into effect on March 1, 2025. DTE Gas, however, did not dispute the ALJ's recommendation to approve a regulatory deferral mechanism to recover costs in the event the LDAR O&M expense was disallowed. DTE Gas's exceptions, pp. 43-44.

In replies to exceptions, the Attorney General argues that DTE Gas's exception provides nothing new, with the Attorney General continuing to agree with the ALJ that recovery of the

[30] The PFD incorrectly recommended a proposed disallowance of $20.276 million instead of $10.276 million. This appears to be a typographical error.

O&M expense would be premature. The Attorney General also maintains her argument that a deferral mechanism is not fully supported and that in order to consider a deferral mechanism, the company must know what the final rule is and have a comprehensive plan for the costs of compliance. Attorney General's replies to exceptions, pp. 23-24.

The Commission finds the ALJ's findings, conclusions, and recommendations to be well-reasoned and supported by the record in this case, and accordingly, adopts the ALJ's recommendation to disallow $10.276 million from DTE Gas's LDAR O&M expense for the projected test year. The Commission further adopts the ALJ's recommendation to approve a regulatory deferral mechanism for the costs of compliance with the final rule.

6. Information Technology Adjustments

a. Information Technology Shared Asset Charge

Consistent with the decision set forth above in Part IV, Section B of this order, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, pp. 104-105. Furthermore, because DTE Gas agreed to the Shared Asset Deferral Mechanism Regulatory Asset decrease, the Commission also accepts the Staff's proposed disallowance of $290,000 in amortization expense. PFD, p. 313.

b. Information Technology Projects with Level 2 Cost Estimates

The Staff proposed an O&M disallowance of $120,780 for the 12 months ending September 30, 2025, related to IT projects with Level 2 cost estimates. 4 Tr 2135. The ALJ accepted the Staff's proposed O&M disallowance of $120,780. PFD, p. 313. Consistent with the decision set forth above in Part IV, Section A.2 of this order, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 313 (referencing 4 Tr 1601).

7. Corporate Membership Dues

DTE Gas sought to recover $1.8 million in O&M expense for corporate membership dues, with the top four corporate memberships—the American Gas Association (AGA), Gas Technology Institute-Operations Institute Technology Development (GTI-OTD), Gas Technology Institute-Utilization Technology Development (GTI-UTD), and Interstate Natural Gas Association of America (INGAA)—comprising $1.7 million of that total. 2 Tr 140; Exhibit A-34, Schedule X3.

FLO argued that DTE Gas failed to provide any evidence to support the value of the company's memberships, and further argued that these memberships are harmful to ratepayers. 4 Tr 1018-1019. Specifically, FLO asserted that the AGA has been an active advocate for expanding gas service, resisting electrification and energy efficiency, and advocating for unproven carbon capture and storage technologies. FLO also contended that these organizations are organized in the interest of their members and have a history of advocating for those interests, regardless of whether they align with ratepayers' interests. 4 Tr 1019. As a result, FLO requested that DTE Gas provide rebuttal testimony specifically identifying the corporate dues that are included in the case. 4 Tr 1019. FLO also requested the following:

> Should DTE Gas fail to provide the aforementioned information, the Commission should disallow the entire $2.796 million of Miscellaneous General Expenses. Should DTE Gas provide this breakdown, the Commission should disallow all corporate membership expenses for lack of support in the record. At the bare minimum, the Commission should disallow corporate membership expenses for the American Gas Association and any other memberships that are formally controlled by and organized in the financial interest of gas producers and distributors rather than ratepayers. Moving forward, the Commission should require detailed documentation of corporate membership expenses and the corresponding customer benefits as a condition of DTE Gas's next rate case filing, as it did for DTE Electric in [Case No.] U-20836.

4 Tr 1020.

In rebuttal, DTE Gas presented an exhibit identifying the company's corporate membership fees. Exhibit A-34, Schedule X3. Further, DTE Gas stated that its AGA membership "provides strategic business intelligence, essential conference, technical committees and various forums," and that the company's participation in the AGA provides benefits to customers that include mutual assistance coordination for contingency planning, technical committee and discussion group participation, pipeline safety information sharing, peer review program participation, and learning from industry experts. 2 Tr 141-142. DTE Gas also presented testimony regarding the benefits to customers gained from the company's memberships in GTI-OTD, GTI-UTD, and INGAA. 2 Tr 142-146.

The ALJ agreed with FLO and found that DTE Gas failed to justify why the company's corporate membership costs were in customers' interests, despite repeated attempts from the Commission to do so. PFD, pp. 278-279 (citing May 8 order, p. 200; November 18 order, p. 308). The ALJ found that DTE Gas's direct testimony regarding the company's exhibits did not identify expenses for corporate membership dues or explain why these costs were in customers' interests, and that the only detailed information on these costs was filed by way of improper rebuttal testimony. The ALJ further found that the company's description of the benefits gained from corporate memberships shows overlaps and redundancies, with repeated references to research and development initiatives. Accordingly, the ALJ recommended that the Commission adopt a disallowance of $1.779 million to O&M expense for corporate membership dues. PFD, p. 279.

In exceptions, DTE Gas argues that the ALJ mischaracterized the company's obligations concerning membership fees, noting that the ALJ based his determination on prior orders issued in rate cases for DTE Electric, not DTE Gas. Additionally, DTE Gas argues that the company provided detailed information regarding its corporate memberships through rebuttal testimony in

direct response to FLO's request to do so, and that the company was under no obligation to provide this information in its direct case given the ability of intervenors to request discovery on information they deem important. DTE Gas's exceptions, pp. 45-46. DTE Gas further argues that the record does not support the ALJ's conclusion that the memberships are redundant and asserts that each membership has a distinct purpose and unique benefit to ratepayers that should not be discounted merely because of the possibility of overlap between some ratepayer benefits. Finally, DTE Gas argues that the ALJ disregarded the Commission's previous approvals for DTE Gas's requests to approve corporate membership dues in prior cases. DTE Gas's exceptions, pp. 46-47.

FLO responds and argues that DTE Gas has not provided sufficient information to justify its corporate memberships, and that the company has the burden to demonstrate that the costs are just and reasonable, regardless of any direction given by the Commission and regardless of past Commission approval of these memberships. FLO's replies to exceptions, pp. 8-11.

The Commission respectfully disagrees with the ALJ's recommendation regarding corporate membership dues. The Commission agrees with DTE Gas that the ALJ's determination regarding the company's obligations to justify corporate membership dues stemmed from previous orders directed at DTE Electric, not DTE Gas. The Commission finds that, in previous orders, the Commission has not required DTE Gas to file detailed costs and justifications to support corporate membership dues. *See*, September 13 order and December 9, 2016 order in Case No. U-17999. Given this history, the Commission finds that DTE Gas has sufficiently justified the reasonableness of the costs of the company's corporate memberships as demonstrated in the company's rebuttal testimony and exhibit. *See*, 2 Tr 140-146; Exhibit A-34, Schedule X3. Accordingly, the Commission rejects the ALJ's recommended disallowance for these expenses.

The Commission, however, agrees that going forward DTE Gas should be required to identify expenses for corporate membership dues and explain in more detail why these costs are in customers' interests as part of the company's direct case in future rate cases. The Commission, therefore, directs DTE Gas to file in its future rate cases direct testimony and exhibits containing an itemized list of projected costs associated with corporate membership fees and justification for why these costs are truly required and in its ratepayers' interests.

8. Credit/Debit Card Merchant Fees

DTE Gas stated that with the exception of customers on rate schedules ST, LT, XLT, and XXLT, the company allows customers to use credit and debit cards to pay their utility bills. For the projected test year, DTE Gas proposed recovering $6.26 million in merchant fees. 2 Tr 96.

The Attorney General recommended that:

> the Commission disallow recovery of merchant fees for non-residential customers beginning with the costs included in the projected test year in this rate case. This proposal will remove $2,216,000 from forecasted expense for the projected year. Non-residential customers, which consists [sic] primarily of small to medium size commercial and industrial businesses, have more options and sophistication than residential customers to pay their gas and electric bills through other less costly means, such as Electronic Funds Transfer (EFT) and Automatic Clearing House (ACH).

4 Tr 1553. She noted that an EFT or ACH transaction charge is about $0.10-$0.11, compared to a merchant fee of $4.72 per transaction for the use of a credit card. The Attorney General asserted that "[t]his large disparity in cost is not reasonable and should be avoided." 4 Tr 1553.

DTE Gas disagreed, stating that "the 54,000 non-residential customers that utilized a card payment last year are largely small business customers that often utilize credit cards to run their businesses and who may not be as sophisticated as the [Attorney General] believes to use other tools such as [electronic data interchange]." 2 Tr 135. The company asserted that non-residential

customers appreciate the flexibility and convenience of using a debit/credit card to pay their utility bills.

The ALJ found DTE Gas's position persuasive and recommended that the Commission reject the Attorney General's proposed disallowance. He stated that "business customers apparently appreciate the flexibility and convenience to choose a card payment transaction as evidenced by the large number of customers who are doing so." PFD, p. 261.

The Attorney General excepts, stating that "DTE's argument that business customers appreciate the flexibility and convenience of using a credit card is unsupported by any citation or other customer-centric case study." Attorney General's exceptions, p. 19. She reiterates that credit card fees for non-residential customers should not be socialized across DTE Gas's customer base. Rather, the Attorney General contends that the company should give non-residential customers the option to pay a credit-card fee or use a fee-free method such as EFT because "[t]hose customers that truly value the 'flexibility and convenience' of using a credit card can continue to do so, while those customers that want to save the fees can utilize the other option." *Id*.

In reply, DTE Gas contends that "concerns regarding the socialization of merchant fees have already been considered both by the Company and MPSC Staff." DTE Gas's replies to exceptions, p. 37. The company also reiterates that many small business owners utilize credit cards to operate their businesses and they may not be as sophisticated as alleged by the Attorney General or have the expertise to utilize EFT or ACH.

The Commission respectfully declines to adopt the ALJ's recommendation. In this case, the Attorney General states that "[u]ntil about 2016, the Company charged the customer a convenience fee to use a credit or debit card given the high fees required by merchant banks and

institutions that issue credit/debit cards. On or about 2016, the Company removed the convenience fee and since that time we have seen an explosive growth in the use of credit/debit cards by customers." 4 Tr 1552. She notes that DTE Gas's merchant fees peaked in 2021 at nearly $7.1 million, were somewhat reduced by the company's recently implemented policies that restrict the use of credit/debit cards by some non-residential customers, but states that the forecasted fees are still significant, totaling approximately $6.26 million.

The Attorney General also notes that in Consumers' 2024 general electric rate case, Case No. U-21389, Consumers stated that merchant fees had significantly increased in recent years and it planned to change its policy and assess card service fees to customers using debit/credit cards to pay utility bills. *See*, 4 Tr 1538 in Case No. U-21389. Furthermore, the Attorney General notes that "[a]n August 16, 2023, article in the Detroit Free Press reported that [Consumers] had announced to its customers that it would limit the use of debit and credit cards and assess a $2.99 fee for use of a debit or credit card for bill payment." 4 Tr 3083 in Case No. U-21389. Similarly, in the immediate case, the Attorney General contends that DTE Gas should impose a merchant fee for customers using a credit/debit card to pay utility bills.

The Commission notes that DTE Gas has taken steps to minimize merchant fees. In Case No. U-20162, DTE Gas "proposed excluding industrial customers on rate schedules ST, LT, XLT and XXLT from using credit or debit cards," and in Case No. U-20561, the company "proposed limiting the ability of debit or credit card payments to [C&I] customers whose preceding calendar year aggregate annual energy bill was more than $75,000 . . . ." 2 Tr 94. As a result of these mitigation measures, non-residential merchant fee expense has decreased from 2019 to 2022. *See*, 2 Tr 95.

However, the Commission agrees with the Attorney General that although small businesses and small-to-medium size C&I customers may appreciate the flexibility and ease of paying their utility bills with a credit card, the merchant fee of $4.72 per transaction should not be socialized across DTE Gas's customer base. Therefore, the Attorney General's proposed $2.22 million disallowance for merchant fees associated with small businesses and small-to-medium size C&I customers is approved. As noted by the Attorney General, "[g]iving non-residential customers the option of paying a fee associated with a credit card payment or using a fee-free method such as EFT is a small nudge DTE should utilize to reduce costs." Attorney General's exceptions, p. 19.

Finally, the Commission notes that because the merchant fees associated with residential customers was not contested in this case, it is not addressed in this order. However, the Commission finds that the same reasoning would apply: it is not reasonable or prudent to socialize over the utility's customer base the merchant fees for customers who choose to pay by credit card.

9. Lobbying Costs

Ann Arbor contended that it was inappropriate for DTE Gas to recover costs for lobbying local officials in the company's rates. Specifically, Ann Arbor argued that the Commission has regularly disallowed the recovery of costs associated with efforts to shape local government policy and that ratepayers should not pay for these expenses. However, Ann Arbor stated that it could not quantify a recommended disallowance for lobbying expenses because DTE Gas did not track these costs. As a result, Ann Arbor proposed that the Commission require DTE Gas to keep records of the amount of time the company's employees spent lobbying local officials to ensure that such amounts would not be included in rates. 3 Tr 523.

In response to this argument, DTE Gas argued that Ann Arbor's recommendation is irrelevant and stated that the company's expenses related to lobbying are not included in rates and are not

being sought for recovery in this case. In support of this position, DTE Gas noted that expenses for "Regional Relations Political Advocacy," totaling $220,000, were removed as part of the rate case adjustments. DTE Gas's initial brief, pp. 103-104; *see also*, Exhibit A-13, Schedule C5.6, p. 1, n. 1. Accordingly, DTE Gas argued that any new requirements for special recordkeeping would be unwarranted. DTE Gas's initial brief, p. 104.

The ALJ agreed with DTE Gas and recommended that the Commission reject Ann Arbor's proposal for additional lobbying recordkeeping requirements. PFD, p. 280.

No party filed exceptions on this issue.

The Commission finds the ALJ's recommendation on this issue to be well-reasoned and supported by the record. The Commission, therefore, adopts the ALJ's recommendation.

10. Employee Benefits Expenses

DTE Gas projected employee pension and benefit expenses of $43.1 million for the projected test year, which consists of "post-retirement benefits such as pension costs, OPEB [other post-employment benefits] costs such as post-employment health care, the new hire VEBA [voluntary employees' beneficiary association], and DTE Gas's Employee Savings Plan (ESP); active healthcare costs; and other benefits and costs such as vacation expense, life insurance, and general benefit expenses and administration fees." DTE Gas's initial brief, pp. 104-105.

a. Other Post-Employment Benefits

DTE Gas stated that OPEB costs "relate to the provision of retiree medical, dental, prescription drug, and life insurance benefits." 4 Tr 2609. DTE Gas projected that the company's OPEB costs would increase from negative $38.683 million in the historical test year to negative $13.223 million during the projected test year. After adjustments for the portion of OPEB costs transferred and capitalized, DTE Gas projected the net OPEB expense to be negative

$6.255 million, which the company proposed to continue to defer to the accumulated regulatory liability and to not include in the proposed revenue requirement. 4 Tr 2611; Exhibit A-13, Schedule C5.11.

The Attorney General contended that, as a result of changes to the OPEB plan, DTE Gas has been reporting negative expense in recent years that has been recorded to a regulatory liability account. 4 Tr 1549-1550. The Attorney General stated that as of December 2023, the balance of the regulatory deferred account was $68.123 million, with the liability balance forecasted to grow to $81.3 million by the end of December 2025. 4 Tr 1550; *see also*, Exhibit AG-51, p. 2. Moreover, the Attorney General asserted that the company's OPEB expense would likely continue to be negative through at least 2030, and that the expense would likely continue to be negative for many years given the company's new VEBA and a declining retiree base in the OPEB plan. 4 Tr 1550. As a result, the Attorney General argued that, given the large increase sought by the company, it would not be fair or reasonable for DTE Gas to continue to defer the negative OPEB expense and not pass a portion of the deferred regulatory liability account balance to customers. 4 Tr 1550; Attorney General's initial brief, p. 115. Accordingly, the Attorney General proposed that DTE Gas amortize the regulatory liability account balance of $68.136 million (as of December 2023) over a seven-year period and include the resulting amortization expense of $9.734 million in the projected test year as a reduction to O&M expenses. 4 Tr 1550-1551; Attorney General's initial brief, p. 115. In support of this proposal, the Attorney General noted that the Commission recently found merit to a similar proposal in DTE Electric's rate case, being Case No. U-21297. 4 Tr 1551.

DTE Gas responded to the Attorney General's proposal and argued that her recommendation was based on speculation that OPEB expense would continue to be negative for many years to

come and further argued that changes in asset returns and discount rates could result in positive expense amounts that would make the Attorney General's proposal inappropriate. DTE Gas also argued that the inclusion of a negative cost in the revenue requirement would detrimentally impact the company's cash flow. Accordingly, DTE Gas advocated for the Attorney General's proposal to be rejected, or alternatively, for the company to be allowed to continue to defer OPEB expense incurred in 2024 and future periods to mitigate the uncertainty underlying future expenses. DTE Gas's initial brief, pp. 106-107.

The ALJ agreed with the Attorney General, noting the Commission's recent decision in Case No. U-21297, and recommended that the Commission adopt her proposal to disallow $9.734 million from O&M expenses for the projected test year. The ALJ, however, also recommended that DTE Gas be permitted the continued deferral for OPEB expenses incurred in 2024 and future periods. PFD, pp. 283-284.

No party filed exceptions on this issue.

The Commission finds that the ALJ's recommendation is well-reasoned, supported on the record, and should be adopted. Notably, the Commission finds that the ALJ's recommendation is consistent with the Commission's decision in the December 1 order, which addressed the same arguments posed in this case. Additionally, the Commission finds persuasive the ALJ's recommendation to authorize continued deferral of OPEB expense incurred in 2024 and future periods, as such deferral will reduce the uncertainty associated with future OPEB expense.

b. Employee Savings Plan

DTE Gas projected $13.116 million in O&M expense for the company's ESP, which "allows eligible employees the opportunity to contribute a certain percentage of their annual earnings that the Company matches, generally up to 6% of annual salaries and wages for non-represented

employees and for most represented groups." 4 Tr 2613-2614. Additionally, DTE Gas stated that employees hired after DTE Gas's defined benefit pension plans were closed to new hires generally received an additional company contribution of four percent of their pay, with some represented employees receiving a contribution of eight percent of employee pay. 4 Tr 2614. DTE Gas's projected ESP O&M expense was developed based on the company's 2022 expense, as adjusted for forfeitures and as escalated by the most recent five-year average of the annual increase in ESP costs, being 8.40%. 4 Tr 2614.

The Staff stated that it did not agree with DTE Gas's escalation of the 2022 expense used to calculate ESP expense for the projected test year. Specifically, the Staff argued that the difference in forfeitures was immaterial and that it unnecessarily inflated the 2022 expense. Instead, the Staff stated that it projected DTE Gas's ESP O&M expense for the test year by updating the company's 2023 expense and using a five-year average annual growth rate (AAGR) from years 2019 through 2023, being 7.15%. 4 Tr 1652; Exhibit S-9.2. Applying this rate to the historical 2023 expense, the Staff projected an O&M expense of $11.483 million, which was $1.683 million lower than the company's projected O&M expense for the test year. 4 Tr 1652.

In rebuttal, DTE Gas argued that the Staff's use of the 2023 historical year as a starting point for its calculations was improper because the company capitalized an abnormally high proportion of ESP costs for that year. 4 Tr 2678. The company, in turn, stated that it applied a 2022 capitalization rate to normalize 2023 expense, which increased the expense by $500,000. 4 Tr 2341. DTE Gas then used this normalized expense to adjust the Staff's projections, which resulted in an increase to the Staff's projected ESP O&M expense of $631,000. 4 Tr 2679; Exhibit A-29, Schedule S2.

The ALJ agreed with the Staff that the historical amount for 2022 should not be increased and agreed with the Staff's use of 2023 expense and the five-year AAGR to forecast O&M expense for the projected test year. As a result, the ALJ recommended that the Commission adopt a $1.683 million disallowance based on the Staff's revised O&M expense. PFD, p. 285.

In exceptions, DTE Gas argues that the ALJ ignored additional evidence that the company presented on the issue. Specifically, DTE Gas argues that the ALJ failed to account for the company's testimony regarding the abnormally high proportion of capitalized ESP costs in 2023 and that the 2022 capitalization rate was more appropriate. DTE Gas's exceptions, p. 47 (citing 4 Tr 2341). Accordingly, DTE Gas urged the Commission to reject the ALJ's recommended disallowance. DTE Gas's exceptions, pp. 47-48.

The Commission finds that the ALJ's recommendation is well-reasoned, supported on the record, and should be adopted. The Commission agrees with the Staff that DTE Gas's averred difference in forfeitures is immaterial and that it unnecessarily inflated the 2022 expense. The Commission is not persuaded by the company's arguments that the Staff's reliance on the 2023 historical year as the starting point for its calculations was inappropriate.

c. Active Healthcare

DTE Gas stated that the company's active healthcare expense consists of medical, dental, and vision benefits for active employees, and projected an increase from $18.053 million in the historical test year to $22.041 million for the projected test year. 4 Tr 2615; Exhibit A-13, Schedule C5.9 Revised. According to DTE Gas, the projected increase reflects the normalization of historical active healthcare expense to reflect a historical average of constant dollar costs and annual escalations for the adjusted medical plan trend of 5.1% in 2023, 5.0% in 2024, and 4.0% in 2025. 4 Tr 2616; Exhibit A-13, Schedule C5.9.3. DTE Gas asserted that the year-to-year

volatility of actual active healthcare costs made the use of any one historical period's cost an unreliable starting point for determining projected expenses, which necessitated the normalization of actual 2022 costs through a five-year average cost per employee on a constant dollar basis of $10,897. 4 Tr 2617-2620; Exhibit A-13, Schedule C5.9.3. The company noted that, in Case No. U-21297, the Commission declined to adopt a constant dollar normalization for active healthcare expense, stating that "the Company did not sufficiently demonstrate that the 'proposed constant dollar normalization will not result in compounded inflationary pressures' ([December 1] Order, p. 232)." 4 Tr 2623-2624. DTE Gas, however, contended that the use of a constant dollar adjustment in this case would not result in compound inflationary pressures, and that "the constant dollar Active Healthcare costs adjustment merely recasts the Company's historical Active Healthcare costs for the impact of historical medical cost escalations." 4 Tr 2624.

The Staff objected to DTE Gas's use of a constant dollar average and adjusted healthcare trend rates to project the company's active healthcare expense. Specifically, the Staff argued that the use of a constant dollar average to inflate historical costs was unreasonable and that the method has been rejected by the Commission in previous cases. 4 Tr 1653 (citing December 1 order, p. 232). The Staff also argued that the generalized healthcare trend rates relied on by the company were not reflective of the company's own AAGR, which the Staff averred was only 0.92% for the years 2019 through 2023. 4 Tr 1653; Exhibit S-9.3. In turn, the Staff calculated the projected active healthcare expense using the company's actual AAGR applied to an unadjusted 2023 expense, which resulted in a reduction of $5.32 million from DTE Gas's proposed expense for the projected test year. 4 Tr 1653; Exhibit S-9.1.

The Attorney General also objected to DTE Gas's proposed increase for active healthcare expense. She noted that DTE Gas's forecasted active healthcare O&M expense represented a

21% increase from the adjusted actual 2022 expense. 4 Tr 1540. Additionally, the Attorney General argued that the company's use of a $10,897 constant dollar adjusted cost per employee was "divorced from reality," and was 7.5% higher than the actual 2022 cost. 4 Tr 1540. The Attorney General further argued that the company was compounding inflationary increases on top of inflationary increases over the seven-year period from 2018 to 2025 and she advocated for the Commission to reject this method. 4 Tr 1540-1541. The Attorney General then calculated her own forecasted expense of $17.157 million, which was lower than the company's projection by $4.884 million for the projected test year. To arrive at this forecast, the Attorney General utilized a 2.4% average rate of increase as applied to the actual 2023 costs for subsequent years through the end of the test period. 4 Tr 1541; Exhibit AG-47.

In response to the Staff's and the Attorney General's proposals, DTE Gas disagreed with the use of actual 2023 active healthcare costs as the starting point for the projected expense. Specifically, DTE Gas argued that because actual active healthcare costs are volatile from year to year, the only means of producing a reliable starting point is through the use of a constant dollar normalization adjustment. DTE Gas's initial brief, pp. 110-112. The company further argued that the Attorney General's rejection of the constant dollar adjustment was conclusory and that the Commission's rejection of such an adjustment in Case No. U-21297 was inconsistent with its previous decisions concerning emergent replacement expenditures. *Id*., pp. 112-114 (citing November 18 order, p. 63; December 1 order, p. 76). Additionally, DTE Gas disagreed with the Staff's and the Attorney General's escalation factors, arguing that both parties failed to identify any underlying flaws with the company's adjusted projections. DTE Gas's initial brief, p. 115. Moreover, the company noted that the Staff's proposed escalation factor assumed that DTE Gas's active healthcare costs would escalate by less than one third of the overall price inflation of 3.2%,

as measured by the CPI. *Id*. Accordingly, DTE Gas urged the Commission to adopt the company's approach for projecting expenses. However, the company argued that if the Commission adopted the Attorney General's approach, the Commission should adjust the 2023 actual cost to account for the abnormally high level of capitalized costs in that year and to account for the impact of a one-time credit from Express Scripts. Consequently, DTE Gas noted that these adjustments would result in a corrected projected active healthcare expense of $18.707 million for the test year. *Id*., p. 117.

The ALJ agreed with the Staff and the Attorney General and found that DTE Gas unreasonably inflated the company's historical 2022 expense by using a constant dollar average, which the ALJ found had been previously rejected by the Commission. The ALJ also recognized that the Commission previously agreed that using an AAGR was the most reasonable method for calculating the actual increase in active healthcare expense. PFD, p. 289 (citing December 1 order, p. 232). Finally, the ALJ recommended that the Commission adopt the Attorney General's proposed disallowance of $4.844 million, finding that the proposed escalation rate of 2.4% was more reasonable than the Staff's proposed rate of 0.92%, which the ALJ noted was less than one third of the overall CPI price inflation. PFD, pp. 289-290.

In exceptions, DTE Gas objects to the ALJ's recommendation and argues that the ALJ failed to address evidence in the record demonstrating the reasonableness of the company's methods for projecting active healthcare expenses. Additionally, DTE Gas argues that the ALJ ignored the company's proposed adjustments to the Attorney General's projected active healthcare expense, which the company asserts would have increased the Attorney General's projection by $1.55 million. As such, DTE Gas urged the Commission to reject the ALJ's recommendation, or

in the alternative, to adopt the company's proposed corrections and increase the Attorney General's projected expense by $1.55 million. DTE Gas's exceptions, pp. 48-50.

In replies to exceptions, the Attorney General again argues that using a constant dollar adjustment is inappropriate and further argues that DTE Gas's exceptions on the issue provide nothing new and were previously rebutted. Attorney General's replies to exceptions, p. 24.

The Commission finds that the ALJ's recommendation is well-reasoned, supported on the record, and should be adopted. The Commission finds that, similar to previous cases, the use of a constant dollar normalization is inappropriate and unreasonable. *See*, December 1 order, p. 232. The Commission further finds the ALJ's adoption of the Attorney General's escalation rate to be the more reasonable of the two options presented.

11. Employee Compensation

a. Incentive Compensation

DTE Gas projected $18.511 million in incentive compensation expense to be included in the revenue requirement. 4 Tr 2644; DTE Gas's initial brief, p. 118. DTE Gas stated that the company's incentive compensation plan consists of two short-term incentive plans—the AIP and the REP—and one multiple-year plan known as the long-term incentive plan (LTIP), which is available to all managers and above and up to ten percent of other eligible non-represented exempt employees. 4 Tr 2648. The company argued that the request to include incentive compensation expense in the revenue requirement "is based on the prevalence of incentive compensation programs that enable DTE Gas to be competitive with other employers and reflects a necessary cost of the Company doing business that should appropriately be reflected in revenue requirements." DTE Gas's initial brief, pp. 118-119. In support of the expense, DTE Gas stated that it conducted a comprehensive analysis of the customer benefits that would be derived from the

achievement of financial and operating metrics included in the company's short- and long-term incentive plans compared to their costs. DTE Gas averred that the aggregate benefits exceeded the costs of the incentive plans by $2.781 million. 4 Tr 2658; Exhibit A-19, Schedule I5 Revised.

The Staff stated that, of the $18.511 million projected for the incentive compensation expense, $12.174 million was related to the achievement of financial performance measures, and $6.364 million was related to non-financial operating objectives. 4 Tr 1699; Exhibit S-8.0. The Staff argued that the Commission has consistently excluded O&M expenses based on financial performance measures because it has found that these measures specifically benefit shareholders, whereas ratepayers specifically benefit from measures related to reliability and customer satisfaction. 4 Tr 1699-1701; Staff's initial brief, pp. 53-54. Accordingly, the Staff found that the inclusion of the incentive compensation plan's non-financial operating objectives was reasonable but proposed a disallowance of $12.147 million associated with the achievement of financial performance measures. 4 Tr 1701. The Staff further proposed a disallowance of $2.017 million related to restricted stock and performance shares awarded as part of the LTIP. The Staff maintained that both awards were tied to value created for shareholders and that excluding these expenses would be consistent with the Commission's longstanding position of disallowing compensation expenses related to financial metrics. 4 Tr 1701-1702; Staff's initial brief, pp. 56-57.

The Staff also disagreed with DTE Gas's proposed modifications to the incentive compensation mechanism. Specifically, the Staff asserted that, because the Commission has consistently disallowed recovery in rates for financially based incentive compensation, the mechanism should not include the financial metrics portion of the incentive compensation. 4 Tr 1702. Additionally, the Staff argued that the incentive compensation included in the

mechanism at 100% target level was reasonable and would avoid unnecessary and excessive rates for ratepayers. 4 Tr 1703; Staff's initial brief, pp. 55-56.

The Attorney General also proposed a disallowance to DTE Gas's incentive compensation expense. The Attorney General contended that the company's three incentive plans are too heavily skewed toward measures that directly benefit shareholders and not ratepayers. With respect to the AIP and REP, the Attorney General argued that nearly half of the incentive payout at target level relates to DTE Gas and DTE Electric achieving net income, earnings per share, and cash flow goals, all of which the Attorney General contended have no direct relationship to customer benefits. 4 Tr 1545; Attorney General's initial brief, p. 110. Moreover, for the LTIP, the Attorney General asserted that the plan is designed to induce management to create shareholder value and is weighted heavily on total shareholder return. 4 Tr 1546. The Attorney General also cast doubt on the validity of the customer benefits calculated by the company. 4 Tr 1547. As a result, the Attorney General proposed a disallowance of $12.1 million to the company's incentive compensation expense related to financial measures. The Attorney General further proposed that the Commission allow recovery of only 55% of the incentive compensation expense related to non-financial operating objectives, asserting that this percentage represented the actual performance results of the company's achievement of target level performance over the last five years, resulting in a disallowance of $2.9 million. 4 Tr 1548 1549. Finally, the Attorney General proposed that the Commission remove $1.057 million of excess amortization from O&M expense for the projected test year. 4 Tr 1542-1543; Attorney General's initial brief, pp. 108-109.

ABATE also proposed a disallowance to the company's incentive compensation expense. Like the Attorney General, ABATE argued that all three incentive compensation programs contained measures that are impacted by financial performance, and that these programs should

not be paid by ratepayers. 4 Tr 1326. ABATE further argued that the Commission has consistently disallowed incentive compensation costs tied to financial measures, and that DTE Gas failed to provide evidence demonstrating that customers actually benefit from incentive compensation tied to financial metrics. 4 Tr 1327; ABATE's initial brief, pp. 16-17. Accordingly, ABATE proposed that the Commission disallow $12 million in incentive compensation expense related to financial performance. 4 Tr 1327.

With respect to the proposed disallowance of incentive compensation expense tied to financial measures, DTE Gas responded that the Staff premised its proposed disallowance exclusively on the Commission's traditional practice of excluding these costs and failed to recognize the overall reasonableness of the company's compensation practices. DTE Gas further argued that "[t]he mere fact that a small portion of the variable compensation is based on multiple measures, including financial, should not alone be determinative of whether these costs are appropriately included in DTE Gas's projected revenue requirement." DTE Gas's initial brief, p. 119 (citing 4 Tr 2669-2671). Additionally, with respect to expense tied to restricted stock, DTE Gas argued that the use of stock to deliver awards for the LTIP did not make such an award a financial measure dependent on future stock price or financial objectives because the expense is recognized based on the value of the stock on the date it is granted. *Id*., pp. 119-120.

Concerning the proposal to disallow a portion of incentive compensation expenses related to non-financial operating objectives, DTE Gas argued that the Attorney General's "singular focus on whether actual performance was at, above, or below the Target level is inaccurate and fails to recognize the gradients of performance within the ranges that are the basis for actual payouts." DTE Gas's initial brief, p. 121 (citing 4 Tr 2675-2677). Accordingly, DTE Gas urged the Commission to reject the proposed disallowances to incentive compensation expense.

The ALJ agreed with the Staff, the Attorney General, and ABATE and recommended the disallowance of $12.147 million of incentive compensation expense related to financial performance measures. The ALJ found that the Commission has consistently disallowed recovery in rates for financially based incentive compensation, citing as an example the Commission's finding in the December 9 order. PFD, p. 299. The ALJ further agreed with the Staff and the Attorney General and recommended a disallowance of $2.017 million for incentive compensation related to the LTIP's award of restricted stock. The ALJ, again, found that the Commission has disallowed restricted stock compensation related to financial measures in previous cases. *Id*., pp. 299-300 (citing December 1 order, pp. 238-239).

Regarding recovery of incentive compensation for non-financial operating objectives, the ALJ agreed with the Attorney General and found that DTE Gas should "not recover as if it will achieve all operating measures at the 100% target level." PFD, p. 300. Accordingly, the ALJ recommended a disallowance of $2.864 million. Finally, the ALJ found that the Attorney General's calculation of the working capital balance was flawed and unsupported, and as a result, recommended that the Commission reject her proposed disallowance of $1.057 million in amortization expense. *Id*., p. 294.

In exceptions, DTE Gas objects to the ALJ's recommended disallowance for incentive compensation related to non-financial operating objectives and argues that the ALJ misunderstood how the non-financial incentive program works. Specifically, DTE Gas asserts that measures that are less than target can still generate payouts and that there is a wide range of situations where a payout of some kind can occur. DTE Gas, in turn, argues that the ALJ failed to recognize "the gradients of performance that are the basis for actual payouts," and argues that the Commission should reject the proposal accordingly. DTE Gas's exceptions, p. 50.

In replies, the Attorney General contends that there was no misunderstanding of how the company's incentive compensation works and that DTE Gas failed to provide any new arguments that were not previously rebutted. The Attorney General maintains her position that the Commission has been consistent with its treatment of these costs, and that there is no reason to apply a different reasoning in this case. Attorney General's replies to exceptions, p. 25.

The Commission finds the ALJ's findings and recommendations to be well-reasoned and supported by the record in this case. The Commission agrees with the ALJ and finds that the Commission has consistently disallowed incentive compensation expense related to financial performance measures. *See*, December 1 order, pp. 238-239; December 9 order, pp. 162-163. The Commission further agrees with the ALJ with regards to incentive compensation related to the LTIP's award of restricted stock based on the evidence and the arguments put forth by the Staff and consistent with the Commission's decision in Case No. U-21297.

Finally, the Commission agrees with the ALJ's recommendation of adopting the Attorney General's proposed partial disallowance of incentive compensation tied to non-financial operating metrics, agreeing that DTE Gas should "not recover as if it will achieve all operating measures at the 100% target level." PFD, p. 300. While DTE Gas argues that the ALJ failed to recognize "the gradients of performance that are the basis for actual payouts," DTE Gas's exceptions, page 50, the Attorney General expressly considered this argument in making her recommendation on the appropriate percentage to include as an O&M expense, finding that the 55% number "represents the percentage of performance measures that have been achieved at target level or higher over the past five years from 2019 to 2023." 4 Tr 1548. Accordingly, the Commission adopts the ALJ's recommendations regarding DTE Gas's incentive compensation.

b. Voluntary Separation Incentive Plan

The Attorney General stated that DTE Gas offered a Voluntary Separation Incentive Plan (VSIP) in January 2024 to 422 DTE Gas employees and 1,622 DTE Corporate Services employees. Of these employees, the Attorney General noted that 42 DTE Gas employees and 249 DTE Corporate Services employees accepted the VSIP, with employee reductions occurring in the first half of 2024. The Attorney General further stated that DTE Gas indicated that up to $6.3 million of labor cost savings could be achieved in 2025. 4 Tr 1533. As a result, the Attorney General proposed reducing the company's O&M expenses by $3.2 million, which the Attorney General stated was conservatively only half of the company's estimated labor savings for the projected test year. 4 Tr 1534; Attorney General's initial brief, pp. 96-97.

In response, DTE Gas argued that the Attorney General's proposed reduction was inappropriate and that it would be premature to include any VSIP savings because the company is continuing to assess the need to fill key vacated positions. Accordingly, DTE Gas argued that it would be prudent to wait until any savings are actually incurred before reflecting any savings in the revenue requirement. DTE Gas, in turn, advocated for the rejection of the Attorney General's proposed reduction. However, DTE Gas stated that in the event the Commission believes that some amount of savings should be reflected in the revenue requirement, the Commission should prorate the amount of reduction for the nine months ending September 30, 2025, which would equate to a reduction of only $2.35 million to O&M expenses. DTE Gas's initial brief, p. 122.

The ALJ agreed with the Attorney General that the company's VSIP savings should be reflected as a reduction to the company's O&M expenses. The ALJ further agreed with DTE Gas that the reduction should be prorated for the nine months ending September 30, 2025.

Accordingly, the ALJ recommended that the Commission adopt a disallowance of $2.35 million to account for VSIP savings. PFD, p. 302.

In exceptions, DTE Gas reiterates its contention that any reduction is premature because the company is continuing to assess the need to backfill key positions. DTE Gas also argues that the ALJ inappropriately accounted for alleged savings without also accounting for the corresponding cost to achieve such savings, which the company contends are $8 million. As a result, DTE Gas urges the Commission to reject the ALJ's proposed reduction. DTE Gas's exceptions, p. 51.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record and, therefore, adopts the ALJ's recommendation to disallow $2.35 million from O&M expenses for the projected test period.

12. Natural Gas Distribution

DTE Gas proposed the following expenses for the projected test period O&M:

$141.9 million for natural gas distribution
$0.11 million for Mega Rule—Corrosion—Distribution Portion
$0.10 million for Legacy Cross Bore Inspections

4 Tr 2027, Table 17; Exhibit A-13, Schedule C5.3; 4 Tr 2035, Table 19; 4 Tr 2036, Table 20.

There were no objections to these cost categories and the ALJ did not issue a recommendation on Natural Gas Distribution. Finding the company's proposed expenses to be reasonable and supported by record evidence, the Commission adopts DTE Gas's proposed spending levels for these categories subject to LDAR and all other adjustments in this order.

13. Responsibly Sourced Gas

DTE Gas explained that responsibly sourced gas (RSG) is natural gas that has been third-party verified to have met certain environmental targets during production and that DTE Gas's purchase of RSG reduces the methane intensity of its supply portfolio, thereby benefitting the company's

customers through avoided emissions contributing to climate change. 2 Tr 67-70. In addition to purchases of RSG made in 2022 and 2023, DTE Gas forecasted the purchase of 4,000,000 dekatherms (Dth) of RSG with a premium price of $0.045 per Dth, resulting in a total expected premium of $180,000, requested for recovery as an O&M expense for the projected test year. *See*, 2 Tr 81; Exhibit A-13, Schedule C5.2. DTE Gas also requested that the Commission provide guidance as to the integration of RSG into the company's supply portfolio. 2 Tr 80-81; Exhibit A-22, Schedule L3.

Citing MCL 460.6h, the Staff objected to the inclusion of RSG premiums in the company's rates, explaining that the premiums cannot be included in the GCR filing until such time as the Commission has an approved state or federal mandate to reduce or mitigate carbon emissions. 4 Tr 1813-1814.

The Attorney General also objected to the inclusion of RSG premiums, citing the Commission's previous warning in Case No. U-21064 that RSG premiums were unlikely to be recovered in a GCR reconciliation case. The Attorney General contended that DTE Gas did not present sufficient evidence in this case to enable the parties to determine whether the RSG purchased would significantly contribute to the company's greenhouse gas (GHG) reduction goals or achieve societal benefits. 4 Tr 1556-1565.

Similarly, the CEOs opposed DTE Gas's recovery of RSG premiums, arguing that the purchases will have a limited impact because upstream emissions are much smaller than the downstream emissions associated with customers' consumption. 4 Tr 781-785. MNSC also opposed the inclusion of RSG premiums for similar reasons including the lack of significant impact associated with RSG purchases, a detailed plan for carbon emissions reduction, and a standard certification process, as well as uncertain cost-effectiveness. 4 Tr 917-929.

MNSC questioned the benefits of DTE Gas's Natural Gas Balance (NGB) program and requested that the Commission not approve the NGB program until there has been a full assessment of the program's net benefits. MNSC added that if the company pursues the program, it should be at its shareholders' expense. 4 Tr 929.

Citing the lack of verifiable benefits and a uniform certification process, as well as the ultimate further use of fossil fuels, FLO also objected to recovery of RSG premiums. 4 Tr 1012-1014.

The ALJ agreed with the Staff and the opposing intervenors that RSG premiums should not be included for recovery in this case. The ALJ reasoned that the company did not adequately demonstrate that the purchase of RSG would significantly contribute to the company's GHG reduction goals. Further, the ALJ agreed that the current lack of industry standards for RSG business operations and the recent legislative and U.S. Environmental Protection Agency initiatives for methane reduction in gas production lend support to excluding RSG premiums at this time. The ALJ then quoted the October 12, 2023 order in Case No. U-21064 (October 12 order) in which the Commission reminded DTE Gas of the need to provide more robust support for RSG recovery in terms of expected benefits compared to the costs of a third-party verification process in order for these expenses to be approved for inclusion in customer rates. PFD, p. 380 (quoting October 12 order, p. 17). Thus, the ALJ recommended that the Commission adopt the opposing parties' proposed disallowance of $180,000 associated with RSG premiums.

DTE Gas excepts to the ALJ's recommendation and asserts that it demonstrated that the company's purchase of RSG will significantly contribute to its GHG reduction goals. DTE Gas points to testimony on the record regarding the prevention of 4,000 to 8,000 metric tons of carbon dioxide being released as a result of the purchase of 4,000,000 Dth of RSG. DTE Gas's

exceptions, p. 59 (citing 2 Tr 81). DTE Gas then repeats that the company's 2022 Sustainability Report, which outlined the company's net zero goals, includes the use of RSG. DTE Gas's exceptions, p. 59 (citing 2 Tr 127-128). DTE Gas argues that the still emerging federal and industry standards do not constitute a reasonable basis for disallowance and again contends that the company is being proactive in its decarbonizing efforts. DTE Gas's exceptions, pp. 59-60 (citing 2 Tr 130). Lastly, DTE Gas excepts to the ALJ's failure to address the company's alternative request to defer recovery of certain RSG premium costs until legislation is developed or a regulatory mechanism is defined. DTE Gas's exceptions, p. 60.

In exceptions, MNSC argues that the Commission should discontinue ratepayer funding for the NGB program for the same reasons that the ALJ recommended disallowing the $180,000 in RSG premiums. MNSC contends that the ALJ did not address MNSC's evidence showing the same flaws with the NGB program including: (1) a lack of industry standards to ensure the additionality of its claimed emissions reductions, (2) the lack of significant contribution to DTE Gas's total GHG reduction goals, and (3) the lack of demonstrated benefits to customers. While acknowledging that DTE Gas is not seeking cost recovery in this case for the NGB program, MNSC asks the Commission to direct DTE Gas to cease ratepayer funding, whether voluntary or not, for the NGB program. MNSC's exceptions, pp. 24-27.

In replies to exceptions, the CEOs express support for the ALJ's recommendation and maintain that the company did not support its purchase of RSG or justify its focus on RSG as a decarbonization strategy. The CEOs repeat their reasons for opposing RSG as a decarbonization strategy and request that the Commission adopt the ALJ's recommendation. CEOs' replies to exceptions, pp. 4-5.

MNSC, in its replies to exceptions, states that DTE Gas disagreed with the ALJ's finding that the company did not show that RSG would significantly contribute to its GHG reduction goal but offered no evidence to support its disagreement. MNSC recalls its testimony and the company's showing that there is no third-party verification or industry standards for RSG emissions reductions. In addition, MNSC reiterates that federal emissions guidelines may have rendered RSG emissions reductions meaningless and that only 5% of DTE Gas's value chain are upstream emissions that can be reduced by RSG. MNSC contends that DTE Gas ignored this evidence as well as the more effective emissions reductions strategies that MNSC presented in this case. As such, MNSC avers that it is unreasonable for customers to pay for the uncertain and insignificant emissions reductions resulting from RSG. MNSC's replies to exceptions, pp. 27-29.

In its replies to exceptions, DTE Gas responds to MNSC's arguments regarding the NGB program. DTE Gas states that recovery for the NGB program is not requested in this case, the program is not part of the ratemaking framework, and the program's expenses are borne by shareholders. Thus, DTE Gas states that the program is not at issue and contends that MNSC's exception is inappropriate. The company also notes that the Commission recently approved an extension of the NGB pilot program, with some changes, in the September 26, 2024 order in Case No. U-21408. DTE Gas's replies to exceptions, p. 50.

In replies to exceptions, FLO requests that the Commission adopt the PFD, contending that DTE Gas did not present any new facts or arguments in its exceptions. FLO recalls support from its initial brief rebutting the company's claims of the significance of emissions reductions from the use of RSG. FLO's replies to exceptions, pp. 7-8.

Finding the ALJ's recommendation to be well-reasoned and supported by persuasive evidence on the record, the Commission adopts the ALJ's recommendation to disallow the $180,000 in RSG

premiums. In addition, the Commission finds that the company's alternative request for deferred accounting treatment is not appropriate at this time.

As to the NGB program, the company is not seeking recovery for the costs of this program in this case and the Commission recently approved an extension of the program. *See*, September 26, 2024 order in Case No. U-21408, p. 4. The Commission is not persuaded by MNSC's presentation in this case to direct the closure of the voluntary pilot program, particularly when MNSC conceded that it has not conducted a thorough investigation of NGB benefits and costs. *See*, 4 Tr 926.

14. Manufactured Gas Plant Remediation Expense

DTE Gas discussed the history of manufactured gas plants (MGPs) and the environmental issues with such. *See*, 4 Tr 2403-2404. The company stated that there are federal and state regulations that apply to handling MGP remediation, such as the federal Comprehensive Environmental Response, Compensation and Liability Act, and the Michigan Environmental Response Act, Public Act 307 of 1982 (Act 307). 4 Tr 2404. DTE Gas stated that "[i]n 1994, the State [of Michigan] amended [Act 307] and re-codified it as Part 201 of the Michigan Natural Resources and Environmental Protection Act (NREPA)," Public Act 451 of 1994. 4 Tr 2404-2405.

DTE Gas asserted that utilities have responsibilities as current owners or operators of MGP facilities. The company provided a list of its former MGP sites in Michigan, which includes 13 former MGP sites and nine former holder sites, describing holder sites as being "sites where gas was not manufactured but rather a location where gas was primarily stored in a 'holder' prior to distribution to customers." 4 Tr 2408-2409. The company noted that pursuant to Part 201 of NREPA, it conducted an initial site investigation of its former MGP and holder sites and found

that 14 former MGP sites and two holder sites required additional investigation. *See*, 4 Tr 2409. DTE Gas also testified that "[t]he Remedial Investigation, Initial Response Action, Feasibility Study and Remedial Action phases are all in progress or have been completed for the 14 former MGP sites," and the company has received closure for eight of the former MGP sites and two of the holder sites, along with partial remediation closure on other former MGP sites. 4 Tr 2409-2410. Given this remediation work, "DTE Gas has incurred remediation costs of approximately $112.5 million to date," which includes seven previous rate cases as well as $6.4 million for this case. 4 Tr 2412.

The Staff "determined that the Company's environmental response activities, as well as the actual costs associated with those activities, are reasonable and prudent." 4 Tr 1710. The Staff thus recommended that the Commission approve DTE Gas's proposed remediation expenses of $6.4 million. *See*, 4 Tr 1711.

There were no objections to this evidence, nor a recommendation by the ALJ. As such, the Commission adopts DTE Gas's evidence as proffered.

15. Customer Service Operations and Maintenance Expenses

Consistent with the decision set forth above in Part VI, Section D.2 of this order, the Commission adopts the ALJ's findings and conclusion on this issue subject to all other adjustments in this order. *See*, PFD, pp. 268-269.

a. Customer Accounts Expense

DTE Gas forecasted $55.2 million for its Customer Accounts Expenses category. *See*, 4 Tr 2428. There were no objections to the evidence provided by the company, nor a recommendation by the ALJ. As such, the Commission adopts DTE Gas's evidence as proffered.

b. Customer Service and Informational Expenses

DTE Gas forecasted $5.6 million for its Customer Service and Informational Expenses category. *See*, 4 Tr 2434. There were no objections to the evidence provided by the company, nor a recommendation by the ALJ. As such, the Commission adopts DTE Gas's evidence as proffered.

16. Marketing Expenses

DTE Gas forecasted $57 million for marketing O&M expenses during the projected test period. *See*, 2 Tr 116; Exhibit A-13, Schedule C5.5. There were no objections to the evidence provided by the company, nor a recommendation by the ALJ. As such, the Commission adopts DTE Gas's evidence as proffered subject to all other adjustments in this order.

17. New Hire Voluntary Employees' Beneficiary Association and Employee Savings Plan Costs

DTE Gas forecasted $3.256 million for its New Hire Retiree VEBA expense for the projected test year, which is an increase based on its new hires. *See*, 4 Tr 2612. There were no objections to the evidence provided by the company, nor a recommendation by the ALJ. As such, the Commission adopts DTE Gas's evidence as proffered.

Consistent with the decision set forth above in Part VI, Section D.10.b of this order, the Commission adopts the ALJ's findings and conclusion on Employee Savings Plan Costs. *See*, PFD, pp. 283-285.

18. Other Employee Benefits

DTE Gas forecasted $45.683 million in employee pension and benefits costs for the projected test year. 4 Tr 2634; Exhibit A-13, Schedule C5.9 Revised, line 26. There were no objections to the evidence provided by the company, nor a recommendation by the ALJ. As such, the Commission adopts DTE Gas's evidence as proffered.

OPEB costs are discussed above. Accordingly, and consistent with the decision set forth in Part VI, Section D.10.a of this order, the Commission adopts the ALJ's findings and conclusion on this issue.

19. Labor Cost Escalation

DTE Gas stated that it is contractually obligated to provide a 3% annual pay rate increase to all non-management employees. *See*, 4 Tr 2634-2635. Consistent with the decision set forth above in Part VI, Section D.1 of this order, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, pp. 266.

20. Rents Expense

DTE Gas stated that Exhibit A-13, Schedule C5.6, line 15 showed a "$4.8 million increase in rent expense." 4 Tr 2319. The company asserted that it pays for jointly used building assets of DTE Electric. *See*, 4 Tr 2320. DTE Gas contended that the increase in rent expense was "mostly attributable to the Shared Asset charge," which was projected "from DTE Electric for the projected test period at $50.8 million" based on Case No. U-21297. 4 Tr 2321. The company also explained that the increase from the historical 2022 charge was $1.1 million and "also reflects $3.8 million for the amortization of Shared Asset charges both deferred to the regulatory asset during 2022 and projected to be deferred through September 2024." 4 Tr 2321.

The Attorney General noted that DTE Gas's forecasted $4.8 million increase in rent expense is a 9% increase over the 2022 adjusted historical period. *See*, 4 Tr 1542. She also pointed out that in discovery, the company provided actual 2023 rent expense and stated that "[i]t is also updated for the reduction in the projected period costs resulting from the Order in Case No. U-21297. The total change from the Company's filed position is a reduction in rent expense of $2.5 million." Exhibit AG-48 (internal citation omitted). Thus, the Attorney General recommended that

$2.5 million be removed from DTE Gas's forecasted O&M expense. 4 Tr 1542 (referencing Exhibit AG-48).

Likewise, the Staff suggested a disallowance in Shared Asset charges for a total of $2.2 million in O&M reductions consisting of $290,000 in Shared Asset Amortization and $1.931 million in a Shared Asset Charge. *See*, Staff's initial brief, pp. 47-50; Staff's reply brief, p. 6.

The ALJ recommended that the Commission adopt the Attorney General's proposed $2.5 million disallowance. PFD, p. 314.

No exceptions were filed on this issue.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. Accordingly, the Commission approves the Attorney General's proposed $2.5 million disallowance in rent expense.

21. Corporate Aircraft Use

The Attorney General stated that in discovery, she requested that DTE Gas report its cost and use of a privately hired corporate jet aircraft. *See*, 4 Tr 1554. DTE Gas "reported that it leases a fractional share of an aircraft for use by executives at the Vice President level and above for business travel" and that several executives "took 16 trips on the corporate leased aircraft in 2022 to . . . meetings and conferences. The cost billed to the Company in 2022 was $68,910," with $74,769 included in DTE Gas's current rate case for the projected test year. 4 Tr 1554-1555. The Attorney General recommended that the Commission disallow recovery of costs for the use of the jet because it does "not directly benefit customers but instead may benefit shareholders." 4 Tr 1555. Furthermore, the Attorney General highlighted that DTE Gas's use of a corporate jet flies in the face of DTE Energy's goal of achieving net zero GHG emissions by 2050. 4 Tr 1555.

As such, the Attorney General recommended that approximately $75,000 be disallowed for corporate jet expenses. 4 Tr 1555.

The ALJ agreed with the Attorney General as "DTE does not support the reasonableness of these expenses nor otherwise rebut the Attorney General's assertions" and, therefore, he recommended that the Commission adopt the proposed $74,769 disallowance. PFD, p. 315.

No exceptions were filed on this issue.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. Accordingly, the Commission approves the Attorney General's proposed $74,769 disallowance.

22. Other Fees

DTE Gas explained that the TCARP loops the existing Lincoln-Traverse City pipeline with the existing Frankfort pipeline, installs six interconnects and a new gate station, and modifies 12 existing gate stations. *See*, 4 Tr 1970-1976; *see also*, DTE Gas's initial brief, p. 44 (citing 4 Tr 1970). The company stated that "[t]he projected test period O&M for TCARP Transmission Fees is $10.72 million." 4 Tr 2021.

DTE Gas also asserted that the "projected test period O&M for TCARP Regulatory Asset Amortization is $5.69 million," although it was $0 in the historical 2022 test year. 4 Tr 2022.

DTE Gas further stated that in "2022, $2.39 million was spent" on O&M transmission expenses for the Washington 10 Storage Contract Expiration. 4 Tr 2023. The company noted that because the storage contract will be expiring without renewal, it will result in "a reduction of O&M expense." 4 Tr 2023.

DTE Gas explained that the pipeline safety management system (PSMS) "is a holistic approach to improving pipeline safety that includes the identification, prevention, and remediation of safety hazards" and that the program "is central to the effective maintenance of all pipeline

safety activities." 4 Tr 2024, 2025. The company stated that the projected O&M expense for PSMS is $1.18 million for the test year. 4 Tr 2023-2024.

Next, DTE Gas noted that Quality Assurance (QA) expenses "include labor resources to build the QA program, complete the quality gap analysis of workstreams, create the quality framework, and performance of QA audits/assessments." 2 Tr 2025. The company projected QA expenses of $1 million for the test year. 4 Tr 2025.

There were no objections to the evidence provided by DTE Gas on these issues, nor a recommendation by the ALJ. As such, the Commission adopts DTE Gas's evidence as proffered.

The PFD includes in this section a brief description of the O&M spending for RSG premiums. *See*, PFD, p. 316. That issue is more fully discussed above.

E. Lost and Unaccounted For and Company Use Gas, Gas-in-Kind

DTE Gas defined Lost and Unaccounted For (LAUF) gas as "the difference between booked sources of gas and booked disposition of gas" with LAUF gas being the difference between sources of gas and the disposition of gas "on an annual or monthly basis." 4 Tr 2061. DTE Gas further explained that "[s]ources of gas greater than the disposition of gas for a pipeline system represent losses, and sources of gas less than the disposition of gas represent gains" with LAUF gas having the ability to be "either permanent or temporary." 4 Tr 2061. The company also described the major causes of LAUF gas as metering inaccuracy, leaks and theft, and "other metering and billing issues that result in over- or under-recording of deliveries." 2 Tr 2061-2062.

DTE Gas explained that it categorizes LAUF gas as transmission, leaks, or theft and other, and then the company calculates the monthly gain or loss of those categories. *See*, 4 Tr 2062. The company acknowledged that some of the categories are "difficult to identify quantitatively."

4 Tr 2062. Furthermore, DTE Gas contended that there are temporary situations that cause LAUF gas to fluctuate monthly and annually such as:

> 1) preliminary final accounting entries,
> 2) unbilled revenue calculation,
> 3) transactions captured in a subsequent month,
> 4) actual meter reads following a previously estimated read, and
> 5) rebilling a settlement billing of customers who stole gas in a previous period or an adjustment for meters not registering accurately.

4 Tr 2062-2063. The company stated that it attempts to control and reduce LAUF levels based on the three LAUF categories delineated above. *See*, 4 Tr 2063.

DTE Gas stated that its projected LAUF gas volume for the test period is 5.4 Bcf. 4 Tr 2064; Exhibit A-15, Schedule E9. The company explained that the volume "is based on the five-year January 1, 2018 to December 31, 2022 average and is higher than the 4.6 Bcf filed in Case No. U-20940." 2 Tr 2064. The company contended that the Commission and the Staff "have supported the use of a five-year average in DTE Gas's last six fully litigated general rate cases" to allow the company to minimize "the impact of swings in the unaccounted-for nature of LAUF gas[.]" 4 Tr 2064.

Next, DTE Gas explained that Company Use (CU) volume is "predominantly fuel that is used to operate and maintain DTE Gas's transmission and storage facilities." 4 Tr 2069. The company noted that examples of CU volumes are "fuel used for compressors, gas processing at storage fields and station heaters. Company Use also includes [GIK] that the Company provides to various third-party pipeline companies it has transportation agreements with that are necessary for DTE Gas to reliably serve its customers." 4 Tr 2069. DTE Gas also explained that "[c]ompressor fuel is the largest component and comprises over 70% of the total Company Use volume" with 4.5 Bcf projected for the test year based on Exhibit A-15, Schedule E11. 4 Tr 2069-2070.

DTE Gas stated that GIK is "gas (expressed as a percentage of throughput) that is supplied by customers to offset Company Use gas and [LAUF] gas." 2 Tr 40. The company asserted that it is recommending "maintaining GIK rates that were approved by the Commission in Case Nos. U-18999 and U-20940 and utilized in the settlement agreement for Case No. U-20642." 2 Tr 41. DTE Gas explained that the GIK rates utilized in Case Nos. U-18999, U-20940, and U-20642 "support the current off-system and end-use transportation competitive business environment without additional risk to load and revenue loss" and that the rates "provide a contribution to the recovery of LAUF for all other rate classes." 2 Tr 41. The company cited Exhibit A-15, Schedule E14, line 17, column (c), which states that the "GIK percentage for the GCR/GCC sales rate customers is equivalent to 2.09% and amortized in base rates for these customers." 2 Tr 42.

The Staff "recalculated [LAUF] and [CU] gas based on changes in Staff's projections." 4 Tr 1721. The Staff recommended that the Commission approve $22.151 million for LAUF gas and $18.310 million for CU gas. 4 Tr 1722.

The Attorney General disagreed with DTE Gas's projected test year costs for CU and LAUF gas because, since early September 2023 when the company projected its costs, "gas costs have declined substantially." 4 Tr 1526. In addition, the Attorney General noted that DTE Gas has testified to various programs such as a net zero GHG reduction that would "result in lower LAUF gas volumes[,]" and therefore recommended that the LAUF volume be reduced by 529 MMcf or "9.8% of the LAUF gas volume forecasted by the Company for the projected test year." 4 Tr 1526-1527. Given DTE Gas's substantial program investment, the Attorney General contended that "it is reasonable to expect progressively lower LAUF gas volumes in the coming years." 4 Tr 1527. Accordingly, she recommended that CU and LAUF gas be reduced from "the

Company's forecasted amount of $43,209,000 to $38,276,000 for a total expense reduction of $4,932,000" which "includes the cost savings of $2,762,000 due to a lower cost of gas rate and the $2,170,000 related to lower LAUF volumes." 4 Tr 1528.

DTE Gas objected, asserting that various factors such as "metering inaccuracies, theft, and other billing issues will not be impacted by the Company's net zero goal." 4 Tr 2075-2076. Notably, DTE Gas argued, "leaks will never be fully eliminated." 4 Tr 2076. Furthermore, DTE Gas stated that because LAUF is subject to yearly variances, "using a five-year average minimizes the impact of swings resulting from the unaccounted for nature of LAUF and is a reasonable and prudent methodology." 4 Tr 2076.

The ALJ found persuasive the Attorney General's reduction of 529 MMcf in LAUF volume because it was "reasonable to expect progressively lower LAUF gas volumes in the coming years" and as such, recommended that the Commission approve the Attorney General's disallowance of $4.932 million. PFD, p. 309.

DTE Gas excepts, asserting that the ALJ failed to explain why it would be reasonable to expect the LAUF volume to be lower in the future. The company argues that its net zero goal is a "*net goal*", not an "absolute goal" and "to the extent the [ALJ] relies on this [absolute goal] argument in recommending the LAUF disallowance, the [ALJ's] recommendation should be rejected as unreasonable and unsupported." DTE Gas's exceptions, p. 54 (emphasis in original) (internal citations omitted). Additionally, DTE Gas argues, "if LAUF is adjusted, [GIK] revenue must also be adjusted . . . because GIK revenue is calculated to recover costs related to LAUF and CU Gas." DTE Gas's exceptions, p. 54 (citing DTE Gas's initial brief, p. 129).

The Staff excepts to the ALJ's recommendation, but solely on "the dollar amount used because it is inconsistent with [the] Staff's cost of gas accepted by the ALJ." Staff's exceptions,

p. 9. The Staff states "that LAUF, CU, and GIK should be recalculated [to a LAUF amount of $22,151,000 and a CU amount of $18,310,000] based on Commission decisions about volume and cost of gas." *Id*. (citing Staff's initial brief, pp. 47, 13).

The Attorney General replies to DTE Gas, stating that the company's exceptions provide no new information and that DTE Gas's arguments were fully rebutted. The Attorney General reiterates that it is reasonable to expect lower LAUF gas volumes in the coming years because gas costs have declined and because the company has made "net zero declarations." Attorney General's replies to exceptions, p. 27. She states that "DTE should not be able to garner goodwill by making public declarations, but then turn around and argue in its findings that the reductions may not be significant enough to have an effect on LAUF gas." *Id*.

In replies to exceptions, the Staff addresses DTE Gas's exceptions that GIK must be adjusted to reflect its LAUF. *See*, Staff's replies to exceptions, p. 6 (citing DTE Gas's exceptions, p. 54). The Staff states that regardless of the position that is adopted, it recommends "that the dollar amounts for LAUF, CU, and GIK be recalculated for the final order based on those decisions." Staff's replies to exceptions, p. 6.

The Commission respectfully disagrees with the ALJ's recommendation to adopt the Attorney General's proposed disallowance on this issue. Rather, the Commission finds that the Staff's calculations for LAUF gas and CU gas "account for normal variations that occur." 4 Tr 1722. As such, the Commission approves $22.151 million for LAUF gas and $18.31 million for CU gas.

F. Uncollectible Expense

DTE Gas stated that it uses "a historical three-year average of actual net write-offs plus direct expense for 2020-2022 and adjusted for revenue growth" to project its uncollectible expenses. DTE Gas's initial brief, p. 124 (citing 4 Tr 2234). The company stated that the three-year average

was approved in its last rate case, Case No. U-20940, and the company thus "calculated $35.149 million of . . . uncollectible accounts expenses." DTE Gas's initial brief, p. 124 (citing 4 Tr 2235) (internal citations omitted).

The Staff testified that while DTE Gas's methodology "is consistent with Staff's direct write off method, the revenue amount used is excessive." 4 Tr 1650. The Staff noted that DTE Gas included energy optimization revenue in its uncollectible accounts expense, however the Staff opined that is improper because it was not included in the general rate case, and thus, DTE Gas should use the "total current revenue projected test year billing determinants at the current base rates" per the Staff's Exhibit S-6, F2, page 1, line 14, column (d). 4 Tr 1651. The Staff contended that this would result in a downward adjustment of $14.470 million from DTE Gas's calculation of $35.149 million, per Exhibit S-9.5. *See*, 4 Tr 1651. The Staff also argued that using DTE Gas's future projected rates was improper because they were projected "prior to audit and . . . are speculative." Staff's initial brief, p. 63.

The Attorney General used DTE Gas's most recent revenues and 2023 net charge-offs to calculate an uncollectible accounts expense of $26.018 million for the projected test year, which was $9.131 million lower than DTE Gas's forecast of $35.149 million. 4 Tr 1529.

DTE Gas asserted that it disagrees with the Staff for three reasons:

> First, Staff's claim that using proposed rates will result in an iterative calculation is both unjust and unreasonable. Second, the exclusion of EO [energy optimization] Revenue from calculating uncollectible expense denies DTE Gas a chance to recover EO costs until they can be rolled into the EWR surcharges, which is also unjust and unreasonable. Finally, there is a mismatch between the revenues Staff used to calculate write-offs and the revenues used to calculate uncollectible expense.

DTE Gas's initial brief, p. 125.

The ALJ agreed with the Staff and the Attorney General that DTE Gas's projected uncollectible expense is inflated. *See*, PFD, p. 305. The ALJ further found that the Staff's calculation is most accurate and reasonable because "it uses the current known rates in its projection," thus, the ALJ recommended that the Commission adopt the Staff's proposed disallowance of $14.47 million. *Id*.

In exceptions, DTE Gas argues that to use present rates means using stale rates and denies the company "a reasonable chance to recover the uncollectible costs that it will be incurring." DTE Gas's exceptions, p. 52 (citing DTE Gas's initial brief, p. 125). DTE Gas further asserts that, by accepting the Staff's proposed calculation, the ALJ ignored the company's evidence, resulting in unjust rates. DTE Gas's exceptions, p. 52.

Next, DTE Gas contends that the ALJ failed to consider the company's alternative position that proposed two calculation adjustments "to ensure better alignment with uncollectible expense." *Id*. "First, Staff's methodology needs to adjust historical revenue to also exclude any revenue Staff has excluded from projected revenue" to increase the company's uncollectible expense by $3.965 million. *Id*. (citing DTE Gas's initial brief, pp. 126-127). Second, DTE Gas recommends using the Staff's proposed revenue, rather than present revenue, which results in a $0.984 million increase to the Staff's proposed uncollectible expense. DTE Gas's exceptions, pp. 52-53.

In reply to DTE Gas, the Staff asserts that the company's exceptions should be rejected for the reasons set forth in Staff's briefing. *See*, Staff's replies to exceptions, p. 7.

Responding to DTE Gas's claim that to use present rates is to use stale rates, the Attorney General argues that the company provided no new information and that its arguments were fully rebutted and addressed. *See*, Attorney General's replies to exceptions, p. 26. The Attorney General reiterates that DTE Gas's projected uncollectible expense is overstated and is "another

instance of DTE attempting to game the use of a projected test year in its favor." *Id*. As such, the Attorney General contends that DTE Gas's exception should be rejected and that her recommended calculation should be adopted.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record and agrees with the ALJ that DTE Gas's projected uncollectible expense is inflated. The Commission finds the Staff's calculation to be most accurate and reasonable and, therefore, the Staff's proposed disallowance of $14.47 million is approved.

G. Depreciation and Amortization

The Staff objected to DTE Gas's depreciation and amortization expense of $243.219 million for the test year and suggested a decrease of $13.827 million. *See*, 4 Tr 1750. Of the $13.827 million decrease, $442,000 is an adjustment based on DTE Gas's "historic and projected capital expenditures" and $13.385 million "is a result of using the depreciation rates approved in Case No. U-20118." 4 Tr 1750. However, the Staff noted, its depreciation amount was based on "using the current approved depreciation rates from Case No. U-20118 at the time DTE made its rate case filing" because DTE Gas filed its rate case with rates that have not yet been approved in the depreciation case, Case No. U-21384. 4 Tr 1751. The Staff recommended that if an order is issued for Case No. U-21384 before this current matter is decided, then "the Commission should implement the new[ly] ordered depreciation rates in the instant rate case. Until Depreciation Case No. U-21384 is resolved, the currently approved rates from Case No. U-20118 should be used." 4 Tr 1752.

The Attorney General suggested a depreciation amount of $3.409 million for the projected test year based on Mr. Coppola's proposed reductions in capital expenditures as shown in Exhibit AG-20. *See*, 4 Tr 1566; Exhibit AG-20.

The ALJ found the Staff's proposal persuasive, stating that "the currently approved depreciation rates from Case No. U-20118 should be used until an order is issued in Case No. U-21384." PFD, p. 324. The ALJ also found that the "depreciation expense should be recalculated based on the determinations in the final order [in Case No. U-21384.]" PFD, p. 324.

Earlier in its November 7, 2024 Commission meeting, the Commission issued an order in DTE Gas's depreciation case, Case No. U-21384. Ordering paragraph B on page 22 of the November 7 order states that "[t]he revised depreciation rates shall become effective concurrent with the implementation of new final general service rates, as set forth in the final decision in DTE Gas Company's general rate case, Case No. U-21291." As such, the depreciation rates and impacts from Case No. U-21384 have been incorporated to calculate the company's depreciation expense in the amount of $217,018,000.

H. Property and Other Taxes

DTE Gas proposed a recovery of $114.1 million in property tax expense. *See*, 4 Tr 2382; Exhibit A-13, Schedule C1. The company also proposed a recovery of $16.9 million in other tax expense, $13.6 million in payroll taxes, and $3.3 million in public utility assessment fees. *See*, 4 Tr 2383; Exhibit A-13, Schedule C7.

The Staff proposed a decrease of $58,000 to DTE Gas's property tax expense for the test year based on the company's historical and projected capital expenditures. *See*, 4 Tr 1752; Exhibit S-3, Schedule C-1, line 11, column (d).

DTE Gas responded that the Staff's methodology was largely consistent with its own, but "fails to account for some aspects of property tax expense calculation" and, therefore, should be rejected. DTE Gas's initial brief, p. 132. The company explained that the Staff "failed to distinguish the components of the capital expenditure reduction . . . and apply the correct STC

[State Tax Commission] multiplier to CWIP [construction work in progress]." *Id*. In addition, DTE Gas averred that the Staff "did not utilize the monthly capital expenditures in its attempt to consider the subsequent year impact of capital expenditure allowances." *Id*.

The Attorney General recommended a $5.019 million reduction in DTE Gas's projected property tax expense to align with proposed reductions to capital expenditures. 4 Tr 1566.

DTE Gas disagreed with the Attorney General's proposed disallowance, stating that "not all capital expenditures are subject to property tax in the same way." DTE Gas's initial brief, p. 131; *see also*, 4 Tr 2389. In addition, the company argued that because property tax liability is based on the property's taxable value as of December 31 of the prior year, "any disallowances of capital will not impact the property tax liability until the subsequent calendar year." DTE Gas's initial brief, p. 131; *see also*, 4 Tr 2389-2390. DTE Gas also claimed that the Attorney General did not calculate true cash value, which should be calculated by multiplying the STC multiplier by the cost of the property. Furthermore, the company argued that the Attorney General failed to "expens[e] the property tax liability over a two-year period." DTE Gas's initial brief, p. 131; *see also*, 4 Tr 2390-2391. Finally, DTE Gas asserted that the Attorney General's methodology is flawed because it did not "appropriately parse out projected test period property tax expense across the 2024 and 2025 calendar year." DTE Gas's initial brief, p. 131; *see also*, 4 Tr 2391.

The ALJ agreed with DTE Gas that the Staff's and the Attorney General's methodologies were "overly broad and general, and thus are unreasonable and unsupported." PFD, p. 311. Therefore, he recommended that the Staff's and the Attorney General's disallowances should be rejected.

The Attorney General excepts, asserting that the ALJ failed to explain why the Attorney General's calculations are "overly broad and general." Attorney General's exceptions, p. 21

(quoting PFD, p. 311). The Attorney General reiterates the arguments set forth in briefing and "continues to argue that [property tax expense] is a straightforward calculation, based on capital expenditure reductions . . . and the corresponding reduction of property tax expense." Attorney General's exceptions, p. 21. She states that if "the Commission does not accept certain [aspects] of the [Attorney General's] proposed capital expenditure reductions, that will change the amount of [the property tax] calculation." *Id*. The Attorney General asserts that the ALJ's recommendation is unsupported and that the Commission should approve the Attorney General's proposed reduction of $5.019 million.

DTE Gas replies, asserting that it "presented evidence that the [Attorney General's] calculations failed to account for multiple aspects." DTE Gas's replies to exceptions, p. 38. Specifically, DTE Gas explains that, unlike the Attorney General's calculation, the company's calculation includes "the time that construction costs reside in CWIP for purposes of property taxes." *Id*. In addition, DTE Gas claims that the Attorney General failed to properly expense the company's property tax liability. The company states that these differences in the Attorney General's calculation "demonstrate significant deviation from the Company's calculations" and thus, should be rejected. *Id*., p. 39.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. Accordingly, DTE Gas's proposed recovery of $114.1 million in property tax expense is accepted.

I. Other General Taxes

DTE Gas forecasted $16.87 million in other general taxes for the test year. 4 Tr 2327; Exhibit A-13, Schedule C1, line 12. There were no objections to the evidence provided by the company,

nor a recommendation by the ALJ. As such, the Commission adopts DTE Gas's evidence as proffered.

J. State and Local Income Tax

DTE Gas forecasted $8.889 million in state and local income tax for the test year. 4 Tr 2327; Exhibit A-13, Schedule C1, line 13. The Staff projected $13.385 million in state and local income tax. *See*, Staff's initial brief, p. 66. As noted by the Staff, the difference between the parties' state and local income tax calculations is the result of various adjustments to DTE Gas's projected revenue and expenses. State and local income taxes have been recalculated based on the decisions in this order and, thus, the Commission approves state and local income tax of $16.917 million.

K. Federal Income Tax

DTE Gas forecasted $8.948 million in federal income tax for the test year. 4 Tr 2327; Exhibit A-13, Schedule C1, line 14. The Staff projected $22.397 million in federal income tax. *See*, Staff's initial brief, p. 67. As noted by the Staff, the difference between the parties' federal income tax calculations is the result of various adjustments to DTE Gas's projected revenue and expenses. Federal income tax has been recalculated based on the decisions in this order and, thus, the Commission approves federal income tax of $32.961 million.

L. Other – Customer Deposits Interest

DTE Gas forecasted $406,000 in other – customer deposit interest for the test year. Exhibit A-13, Schedule C1, line 15. There were no objections to the evidence provided by the company,

nor a recommendation by the ALJ. As such, the Commission adopts DTE Gas's evidence as proffered.

M. Allowance for Funds Used During Construction

DTE Gas stated that its total AFUDC was $4.7 million for projects ending September 30, 2025. Exhibit A-13, Schedule C11.

The Attorney General objected to DTE Gas's proposed AFUDC because "several project costs included in construction work in process for large projects . . . will not be in-service before the end of the projected test year." 4 Tr 1567. Thus, the Attorney General recommended an AFUDC disallowance of $2.21 million.

The ALJ agreed with the Attorney General that an adjustment should be made for projects not in-service by the end of the projected test year and recommended a disallowance of $2.113 million.[31] *See*, PFD, p. 312.

In exceptions, DTE Gas argued that the Attorney General's proposed disallowance should be rejected because one of its projects, the Fort Street Main Replacement project, is expected to be completed within the test year. DTE Gas's exceptions, pp. 54-55 (citing 4 Tr 1981).

The Attorney General replies that inclusion of the Fort Street Main Replacement project "is premature[,]" was fully addressed in the Attorney General's testimony and initial brief, and thus, her proposed disallowance means that DTE Gas "is not disadvantaged by the capital expenditures disallowance as it claims in exceptions." Attorney General's replies to exceptions, p. 27 (citing Exhibit AG-66, p. 3).

[31] This is a revised amount based on discovery response AGDG-7.202a, b-AFUDC.

The Commission respectfully declines to adopt the ALJ's recommendation. The Commission finds that there may be reasonable and prudent costs associated with projects not completed within the test year and that the Fort Street Main Replacement project has incurred reasonable and prudent costs. Particularly, the Commission agrees with DTE Gas that the Fort Street Main Replacement project is not premature in light that it is expected to be completed within the test year. DTE Gas's exceptions, pp. 54-55 (citing 4 Tr 1981). As such, the Commission approves AFUDC of $3.403 million in this case.

N. Operating Income Adjustments

DTE Gas projected a negative operating income adjustment of $1.35 million. Exhibit A-13, Schedule C1, line 20. There were no objections to the evidence provided by the company, nor a recommendation by the ALJ. As such, the Commission adopts DTE Gas's evidence as proffered.

VII. REVENUE DEFICIENCY

In exceptions, DTE Gas notes that the revenue deficiency set forth in the PFD is $97,950,000. However, the company states that after a review of the specific disallowances in the PFD, DTE Gas determined that the revenue deficiency recommended by the ALJ should be approximately $87 million. *See*, DTE Gas's exceptions, pp. 3-4. The Staff agreed, asserting that the updated revenue deficiency for the PFD should be $87,132,000. *See*, Staff's exceptions, p. 2.

Consistent with the findings and determinations made in this order, the Commission finds that DTE Gas has a revenue deficiency for the test year of $113,788,000, computed as follows:

Rate Base	$6,888,851,000
Overall Rate of Return	4.58%
Required Rate of Return	5.80%
Income Required	$399,241,000
Adjusted Net Operating Income	$315,246,000
Income Deficiency	$83,995,000
Revenue Conversion Factor	1.3547
Revenue Deficiency	$113,788,000

VIII. OTHER ISSUES

A. Revenue Decoupling Mechanism

DTE Gas explained that the RDM eliminates the potentially negative financial impact of programs such as EWR programs, which result in lost energy sales. 4 Tr 1854-1855. DTE Gas stated that its current RDM, approved in the December 9 order, is a simple revenue tracker which reconciles the distribution revenue amount approved in that order with actual weather-normalized distribution revenue. 4 Tr 1855. The RDM currently has a cap of 2.25% of sales consistent with the statutory mandate that the cap be set at 150% of legislated EWR targets. 4 Tr 1855. The RDM excludes large general service customers and EUT customers and will terminate when new rates are implemented under this order. DTE Gas proposed to continue the current RDM.

FLO argued that the RDM should be terminated because it disincentivizes customer energy waste reduction. 4 Tr 1029. FLO contended that the RDM has not been effective because EWR reconciliation has resulted in a credit. 4 Tr 1030-1031. FLO noted that DTE Gas intends to expand gas usage, and argued that both the IRM and RDM simply encourage DTE Gas to overspend on capital while being insulated from lower energy usage. 4 Tr 1033.

DTE Gas countered that MCL 460.1089(5) directs the Commission to give deference to a utility's RDM proposal, and that the RDM has broad statutory authorization. DTE Gas noted that it has used the same RDM methodology in its last five rate cases. DTE Gas's initial brief, p. 139.

The ALJ recommended that the Commission approve continuation of the RDM. PFD, p. 365.

No exceptions were filed on this issue. The Commission adopts the findings and recommendations of the ALJ.

B. Demand Response Pilots

DTE Gas explained that it piloted two residential gas demand response (DR) programs (known as Smart Savers and Energy Action Days) and one commercial DR program. 2 Tr 111. The Smart Savers program targeted residential customers who agreed to allow DTE Gas to adjust their thermostats by up to four degrees during events, and the Energy Action Days program used behavioral science to encourage usage reduction during times of high demand. DTE Gas reported that the Smart Savers events resulted in load reduction, but the other two programs did not. 2 Tr 112-115. DTE Gas concluded that the DR programs overall were not effective and proposed to discontinue them, and sought recovery of $2.6 million in deferred DR costs associated with the two years of the programs. 2 Tr 115.

MNSC argued that, based on the data provided by the company, the Smart Savers program should be continued. 4 Tr 933. MNSC noted that the program led to a 36% to 72% reduction in gas usage during the last five gas events. 4 Tr 932; Exhibit MEC-27. MNSC also noted that DTE Gas failed to assess the cost-effectiveness of the DR pilot programs.

The CEOs also argued that DTE Gas should continue the DR programs, and that the company's conclusion that the programs were a failure is actually based on the company's failure to set clear objectives. 4 Tr 739-740. The CEOs noted that DTE Gas also failed to do a benefit

cost analysis (BCA) either before or after the pilots were commenced or concluded, and failed to track the costs of the individual programs, which would have provided more information on each program's success. 4 Tr 744. The CEOs also argued that the request for cost recovery should be denied. 4 Tr 751.

DTE Gas countered that it had clear objectives and that the company's decision is based on performance. 3 Tr 470-472. DTE Gas noted the snapback effect of the Smart Savers program, which refers to the fact that usage increases (sometimes significantly) when a DR event comes to an end. 3 Tr 471.

The ALJ recommended that DTE Gas recover the full $2.6 million investment in DR costs, and that the company should continue offering the Smart Savers program because DTE Gas's own evaluation showed that this pilot resulted in large gas usage reductions during events. PFD, p. 368. The ALJ determined that DTE Gas had failed to support the decision to discontinue this particular pilot.

In exceptions, DTE Gas explains that it agreed to conduct gas DR pilots as a result of the settlement of Case No. U-20642 and was authorized to defer costs for implementation of the pilots up to $4 million subject to a reasonableness and prudency review. DTE Gas's exceptions, pp. 56-57. DTE Gas states that it deferred a total of $2.6 million in DR pilot costs over the two-year bridge and test period. The company contends that the data shows that the pilot programs were not effective. In particular, DTE Gas argues that while customers decreased their gas usage during the Smart Savers events, each event resulted in a "large" snapback, meaning that gas usage increased at the conclusion of the event. *Id*., p. 58 (quoting 3 Tr 471). The company contends that the CEOs and the ALJ both ignored this evidence and the ALJ erred in stating that the company failed to offer contrary evidence.

In reply, the CEOs argue that they addressed snapback and offered strategies for how to reduce it in their testimony. The CEOs contend that DTE Gas's decision to end the program is premature. CEOs' replies to exceptions, p. 4.

In its reply, MNSC again notes that only one event resulted in an increase to overall usage and that they also offered recommendations for mitigating snapback. MNSC's replies to exceptions, p. 31.

The Commission adopts the findings and recommendations of the ALJ. DTE Gas supported the reasonableness of the incurred costs for the slate of pilots that it implemented. 2 Tr 116; 4 Tr 2298. Of the five events that were called under the Smart Savers program, one resulted in an increase to gas usage. 2 Tr 113. The company did not mention snapback until its rebuttal testimony where it stated that snapback is problematic, whether or not it is associated with peaks. 3 Tr 471. However, MNSC (using the company's data) showed that all other days produced gas savings. 4 Tr 932-934. The Commission also agrees with the CEOs' observation that DTE Gas failed to design the Smart Savers program with clear objectives and failed to establish any evaluation criteria. MNSC and the CEOs also described ways to address snapback, including pre-heating, staggering customer reintegration, and using remote capabilities. 4 Tr 931-933, 749.

The Commission encourages DTE Gas to consider putting additional effort into the program, including setting clearer objectives and evaluation criteria, identifying quantitative and qualitative benefits that the company seeks to measure, tracking the program's costs, considering ways to mitigate snapback, evaluating whether the benefit of peak usage decrease could outweigh the effects of snapback, evaluating what worked and what did not work from the first round of the pilot, and evaluating the cost-effectiveness of various aspects of the pilot. *See*, 4 Tr 743-747. The Commission approves the company's request for continued deferred accounting associated with

continuation of the Smart Savers program. The Commission realizes that snapback is real and that it has the potential to exacerbate an emergency; however, effective program design may mitigate such an effect, and the Commission encourages the company to continue to refine its approach to gas demand response to unlock opportunities to provide value to its customers. Finally, the Commission notes that it may consider, as part of future GCR plan and reconciliation cases, the impact of a utility's suite of DR programs and whether effective programs could have mitigated any GCR costs at issue.

C. Energy Assistance

DTE Gas testified that its energy assistance programs available to low-income and non-low-income customers include the Affordable Payment Plan or Low-Income Self Sufficiency Program and the Residential Income Assistance (RIA) and Low-Income Assistance (LIA) credits. For non-low-income customers, the company explained that it provides energy assistance through a 25% match of the Low Income Home Energy Assistance Program Direct Support program and EWR services. 4 Tr 2217. For the RIA, DTE Gas projected a test year participation level of 70,000 customers per month for a total of $14.78 million, inclusive of the current fixed monthly charge increase from $13.50 to the proposed rate of $17.60. 4 Tr 2225-2227. For the LIA, DTE Gas projected a participation level of 33,000 customers and proposed to increase the credit from $30 to $40 per month. 4 Tr 2228-2230.

The Staff and FLO opposed several aspects of the LIA and RIA credits. Citing the ongoing Energy Affordability and Accessibility Collaborative (EAAC), which is charged by the Commission with evaluating and improving energy assistance programs with input from interested participants, the Staff recommended that the Commission reject DTE Gas's proposal to increase the LIA credit until similar proposals are fully examined within the EAAC. 4 Tr 1763-1764. FLO

recommended that the Commission should (1) expand the amount, enrollment, and transparency of the LIA credit and (2) clarify that the purpose of the RIA is to cover 100% of each bill's monthly customer charge and that participation in the LIA does not disqualify customers from participation in the RIA. 4 Tr 1170. FLO also advocated for a proposed timeline on DTE Gas's Payment Stability Plan (PSP)/Percentage of Income Payment Plan (PIPP), which the company implemented as a pilot in 2022. 4 Tr 2224. The Staff opposed several of FLO's recommendations to the company's RIA and LIA credits and its PSP/PIPP program. *See*, 4 Tr 1773-1779.

The ALJ agreed with DTE Gas that the LIA credit should be increased from $30 to $40 per month and reasoned that the company had shown that the LIA is effective, the increase is in the interest of customers, and the increase would not change the structure of eligibility requirements or recovery mechanisms. PFD, p. 393. However, the ALJ also found several of the criticisms levied against the company's energy assistance programs to be well-taken and recommended that the intervenors' issues be further evaluated. The ALJ specifically noted the Staff's agreement that the most vulnerable customers would benefit from additional assistance but that the Staff was not persuaded that DTE Gas provided the analysis and collaborative input necessary to inform changes to the energy assistance programs. While the ALJ found that the record supported the assertion that DTE Gas is also not adequately advertising the available assistance, he concluded that this proceeding was not the proper venue to address these issues and that the EAAC workgroup discussions will result in more informed decisions on these matters. Thus, the ALJ recommended that any final assessments and changes by the Commission should await the completion of the EAAC's work. PFD, pp. 393-394.

The Staff excepts to the ALJ's recommendation to increase the LIA credit and the ALJ's agreement with DTE Gas that the LIA credit is effective. The Staff contends that apart from the

company's assertion in testimony, there is no evidence on the record that the LIA credit is effective. Staff's exceptions, pp. 3-4 (citing 4 Tr 2238). The Staff again argues that increasing the LIA credit is premature and urges the Commission to first review the recommendations of the Affordability, Alignment, and Assistance (AAA) subcommittee of the EAAC. The Staff maintains that it is improper to contravene the Commission's directive to consider the EAAC-AAA's evaluation by adjusting the LIA and RIA programs without the collaborative's analysis. Staff's exceptions, pp. 4-5.

In exceptions, FLO argues that the ALJ's recommendation fails to provide reasoning for rejecting FLO's proposal to increase the LIA credit to cover 70% of a typical customer's monthly distribution and customer charges. FLO argues that the ALJ's reasoning for adopting the LIA credit increase to $40 per month also applies to FLO's request for a larger increase and should be adopted. FLO repeats its arguments in support of it position, arguing that increasing the LIA credit beyond $40 per month would not change the eligibility requirements or recovery mechanisms. Further, FLO contends that DTE Gas could raise the LIA credit to cover 70% of monthly customer and distribution charges, consistent with the company's own stated goals, without incurring costly expenditures. FLO argues that the ALJ did not find that increasing the LIA credit to the 70% coverage mark would result in costly expenditures on a level much different from DTE Gas's proposed increase to $40 per month. FLO's exceptions, pp. 11-12. FLO then repeats its rebuttals to DTE Gas's reasons for opposing an increase to the credit beyond $40 per month. *Id*., pp. 13-15. Thus, FLO asks the Commission to increase the LIA credit to a value set to 70% of the typical customer's monthly distribution and customer charges.

In replies to exceptions, the Staff requests that the Commission reject FLO's assertion that the same reasoning applied by the ALJ to increase the LIA credit to $40 per month can be applied to

FLO's proposal to raise the credit beyond $40. The Staff reasons that increasing the LIA credit has a material impact on non-participating customers, "whether it is an 'expenditure' or not." Staff's replies to exceptions, pp. 6-7.

MNSC, in its replies to exceptions, disagrees with the Staff's position and requests that the Commission adopt the PFD. MNSC's replies to exceptions, pp. 33-34. MNSC contends that the ALJ's finding that the LIA credit program is effective is supported by the company's, the Staff's, and FLO's testimonies and, therefore, the Staff's argument that it is premature to increase the LIA credit should be rejected. *Id*., pp. 34-35 (citing 4 Tr 1047, 1761-1762, 2225-2231). MNSC further argues that the Staff provides no authority for its opposition to increasing the LIA credit beyond its presumed reference to orders in Case Nos. U-20836 and U-20757 directing DTE Electric to file a report detailing its LIA credit enrollment and defining the scope of the EAAC. MNSC's replies to exceptions, pp. 35-36 (citing November 18 order, p. 407 and December 21, 2023 order in Case No. U-20757 (December 21 order), pp. 9-10). MNSC asserts that these directives do not limit the issues that can be addressed in this case and, therefore, the Commission should adopt the ALJ's recommendation to increase the LIA credit. MNSC's replies to exceptions, pp. 36-37.

In its replies to exceptions, DTE Gas responds to the Staff's and FLO's exceptions pertaining to the LIA credit. As to the Staff's assertion that only the company's evidence supported the effectiveness of the credit, the company counters that the Staff did not provide any evidence to rebut the company's evidence showing the LIA credit to be an effective program. DTE Gas further states that the ALJ's recommendation granting immediate relief to customers is compelling. DTE Gas's replies to exceptions, pp. 42-43.

Turning to FLO's argument that the ALJ failed to provide a reason as to why he rejected FLO's proposal, DTE Gas points out that the ALJ found the criticisms expressed by some of the

parties to be well-taken and recommended those criticisms be addressed by the EAAC instead. Thus, the company states that the ALJ discussed FLO's proposal as part of the larger affordability discussion to be deferred to the EAAC. DTE Gas then defends the ALJ's recommendation as striking a balance between customers' needs and the burden on the company and notes that the issue will continue to be reevaluated in future rate cases. Further, while FLO argues in exceptions that the ALJ provided no reason not to increase the LIA credit to FLO's proposed level, the company argues that FLO's contention ignores the legal obligation for the Commission's decision to be supported by record evidence. *Id*., pp. 43-44.

DTE Gas also addresses FLO's arguments surrounding affordability in general. DTE Gas contends that FLO's arguments are largely policy arguments that are not an appropriate basis for exceptions. The company states that "there is no legal basis for suggestions that the Commission should otherwise function as an agency to advance what certain parties may consider to be appropriate policy changes." *Id*., p. 45. DTE Gas avers that the PFD, as well as the Commission's order, must be based on law and the record, and therefore, the EAAC is the proper venue for policy discussions. DTE Gas's replies to exceptions, pp. 45-46.

In response to the Staff's recommendation to await the conclusion of the EAAC's analysis before adjusting the LIA credit, FLO repeats its arguments that energy affordability poses an urgent risk to some customers, that the problem continues to worsen, and that the EAAC has been ongoing for years. FLO asks the Commission to reject the Staff's position and adopt FLO's proposal. FLO's replies to exceptions, pp. 3-4.

The Commission finds the ALJ's recommendation to be well-reasoned and based on persuasive evidence on the record. While the Commission agrees with the Staff that many of the issues pertaining to affordability and the company's energy assistance programs are well suited for

the holistic and participatory process of the EAAC, the Commission also agrees with the company's sentiments that a good solution now does not need to be passed over in favor of a potentially better solution later. Therefore, the Commission finds it reasonable to take the narrow action of increasing the LIA credit within the confines of this rate case given the rate increase that is being requested and the evidence in this case attesting to the current effectiveness of the program. *See*, 4 Tr 2225-2231. The Commission clarifies, however, that it maintains the previous directives to the EAAC and AAA to assess assistance program issues such as enrollment assignment and caps, revisions to the LIA/RIA programs, and the overall effectiveness of utilities' affordability assistance programs.

In this case, the Commission is persuaded by DTE Gas's testimony that an increase in the LIA credit to $40 per month is appropriate and will lend impactful assistance to low-income customers. Further, DTE Gas's proposed increase is based on the company's requested rate increase in this case and tracks approximately with the company's current stated goals of covering 70% of the customer's distribution and customer charges. *See*, 4 Tr 2230-2231. While FLO suggests that the company adjust the credit to the 70% level now, the Commission finds that the company's proposal, based on the increased rate request here, constitutes a more-reasoned basis for the time being.

The Commission awaits and will consider the final findings of the AAA of the EAAC and consider their recommendations for future updates and changes to the LIA/RIA programs and other matters related to affordability, including but not limited to energy assistance programs and design and fulfilling the Commission's ability under MCL 460.11(2) to establish low-income rates in future rate cases.

D. Methane Leak Detection and Vegetation Management

Ann Arbor raised concerns that methane leaks from DTE Gas's pipeline system were causing damage to trees within the city and cited to its Methane Detection Report in support. 3 Tr 526; Exhibit AA-3. Ann Arbor recommended that the company focus efforts on repairing leaks rather than replacing entire pipelines, which comes at a higher cost, and compensate Ann Arbor for the value of its lost trees or replace damaged trees. 3 Tr 529. Ann Arbor added that the Commission should require DTE Gas to track all expenses related to tree death and soil remediation to ensure that these costs are excluded from rates. 3 Tr 530.

DTE Gas disputed that methane was the cause of any tree damage in the city and stated that the company already repairs leaks in its system as well as takes measures to protect trees from damage during maintenance and construction activities. 4 Tr 2053.

The ALJ agreed with DTE Gas that Ann Arbor did not sufficiently support its contention that methane leaks are the cause of dying and damaged trees within the city. While pointing out that Ann Arbor is free to pursue any cause of action it finds necessary, the instant rate case proceeding is not the appropriate venue to do so. The ALJ found persuasive the company's evidence that it takes measures to protect vegetation and that it remediates damage to trees. Further, the ALJ agreed that it would be cost prohibitive for DTE Gas to track all expenses related to tree death and soil remediation. Thus, the ALJ recommended that the Commission reject Ann Arbor's claims and proposals. PFD, pp. 396-397.

Ann Arbor takes exception to the ALJ's findings and recommendation. Ann Arbor points to its expert testimony on the record regarding the impact of methane gas on tree health and its expert report identifying locations of methane leaks, including 50 leak locations where other potential sources of methane were ruled out. Ann Arbor then recalls its testimony where 31 trees within the

city had methane gas in their root zones and/or drip lines. Ann Arbor argues that DTE Gas did not dispute the existence of gas leaks in these identified locations and asserts that the ALJ erred in his findings and recommendation. Ann Arbor's exceptions, pp. 9-10 (citing 3 Tr 486-490). Alternatively, Ann Arbor requests that if the Commission agrees with the ALJ's statement that Ann Arbor may pursue any other cause of action it feels necessary for damages caused by gas leaks, the Commission provide guidance as to the proper venue for such claims. Ann Arbor's exceptions, p. 10.

In its replies to exceptions, DTE Gas disagrees with Ann Arbor's exceptions and contends that the City's assertions that its trees are being damaged by gas leaks on DTE Gas's system are arbitrary and unsupported by actual evidence. The company repeats its position that Ann Arbor failed to demonstrate that methane is the cause or sole source of damage to any dying trees or damaged vegetation, and that Ann Arbor's claims were rebutted. DTE Gas states that Ann Arbor ignores the company's evidence of its measures to protect trees during maintenance and construction and remediation efforts in repairing damage to trees and vegetation. DTE Gas's replies to exceptions, pp. 46-47.

Finding the ALJ's recommendation to be well-reasoned and based on persuasive evidence on the record, the Commission adopts the PFD on this issue. The Commission finds that Ann Arbor has not presented sufficient evidence to demonstrate that DTE Gas has violated any statute or rule for which the Commission is tasked by the Legislature to administer. Further, the Commission agrees with the ALJ that a general rate case is not the proper venue in which to litigate potential statute or rules violations pertaining to gas leaks on DTE Gas's distribution system. As such, the Commission adopts the ALJ's recommendation. The Commission echoes the ALJ that this decision does not foreclose other legal avenues available to Ann Arbor.

E. Environmental Justice and Energy Transition

1. Energy Transition

MNSC contended that DTE Gas must adjust its load forecast and customer count forecast methodology to account for the energy transition to renewable energy sources, electrification, greater energy efficiency, and the resulting decrease in natural gas deliveries, which may cause some of DTE Gas's assets to be unnecessary and appropriate for removal from rate base. 4 Tr 830-845. MNSC testified that DTE Gas's current rate case does not reflect this changing landscape and shows continued capital investment as if the company does not need to meet Michigan's emissions reduction targets. MNSC asked the Commission to direct DTE Gas to adjust its GDP to model emissions reduction pathways to meet the State of Michigan's decarbonization goals and to report the costs, benefits, and risks for each pathway. MNSC also contended that the company's decarbonization approach should be considered in a holistic, participatory forum like a Future of Heat docket. Further, MNSC recommended that the Commission also direct DTE Gas to develop an interim plan with decarbonization pathways by July 2025 or its next general rate case. 4 Tr 734-736, 929.

FLO asserted that DTE Gas is proposing to maximize profitable capital investment in its gas system without consideration for the long-term impacts on low-to-moderate income (LMI) and Black, Indigenous, and People of Color (BIPOC) communities. Also citing the energy transition to renewable energy sources and electrification, as well as DTE Gas's current plan to expand its gas system, FLO argued that the Commission should direct DTE Gas to conduct integrated gas and electric distribution resource planning to shorten the mid-transition period and accelerate an equitable clean energy transition. FLO also recommended that DTE Gas conduct an integrated infrastructure and equity analysis with DTE Electric and Consumers that includes a comparative

BCA between electrification and gas system reinvestment. 4 Tr 1023-1040. Additionally, FLO called for an energy affordability analysis and a pause in shutoffs coupled with customer protections and a cohesive, unified energy assistance program to replace DTE Gas's current disjointed programs. 4 Tr 1066-1129, 1152-1158.

The ALJ agreed that the energy landscape is shifting away from fossil fuels to renewable energy sources and that this transition may result in substantial reductions to the amount of natural gas delivered. Finding that DTE Gas's GDP included little, if any, assessment of how this energy transition would be accomplished and at what cost, the ALJ recommended that DTE Gas be directed to update its GDP to include its assessment of how, when, and at what cost the transition will occur. PFD, p. 409.

DTE Gas excepts to the ALJ's findings and recommendations regarding the energy transition and notes that this issue is interwoven with environmental justice (EJ) issues because "the ongoing energy transition presently distributes burdens and benefits inequitably, and that specific communities bear 'the greatest costs and receive the lowest benefits from the system[.]'" DTE Gas's exceptions, pp. 60-61 (quoting 4 Tr 986). Therefore, DTE Gas argues that requiring the company to conduct a study of the energy transition while simultaneously recommending that the Commission await the conclusion of the EAAC's work are incongruous recommendations. The company suggests that any assessments of the energy transition should also await the conclusion of the EAAC. DTE Gas's exceptions, p. 61.

In exceptions, the CEOs contend that the ALJ was correct in finding that DTE Gas failed to consider the energy transition in its GDP but that the ALJ's recommended remedy fell short. The CEOs ask the Commission to direct the company to provide additional detail in its revised GDP including: (1) a set timeframe for DTE Gas to modify its GDP; (2) notice that the plan should be

revised prior to the Commission approving further spending; (3) DTE Gas should consider the impacts of declining demand, compliance with the State's emissions reduction goals, and electrification; and (4) the company should consider these factors through a scenario and sensitivity analysis with extensive input from interested persons. CEOs' exceptions, pp. 3-4.

In exceptions, MNSC supports the ALJ's findings that the energy transition is shifting society away from fossil fuels and agrees that DTE Gas did not properly assess this transition in its GDP. However, MNSC contends that the ALJ's recommendation for DTE Gas to update its GDP is misguided because the company has shown that it is unwilling to consider NPAs. MNSC adds that any energy transition assessment requires participation from interested parties and again calls for the Commission to initiate a Future of Heat docket. MNSC's exceptions, pp. 27-29.

In its replies to exceptions, Ann Arbor responds to MNSC's disagreement with the ALJ's recommendation for DTE Gas to update its GDP and MNSC's recommendation for a Future of Heat docket. While recognizing the importance of a proactive and collaborative planning process, Ann Arbor asks the Commission to ensure that decisions in this case are consistent with the decisions in DTE Gas's currently pending depreciation proceeding in Case No. U-21384. Specifically, Ann Arbor requests "that the legal question regarding the accounting and ratemaking treatment of the risk of obsolescence of assets due to decarbonization is answered before commencing such efforts." Ann Arbor's replies to exceptions, p. 3. Ann Arbor then points to findings and recommendations made by the ALJ in Case No. U-21384 that the potential for obsolescence and declining customer demand should be considered in setting depreciation rates and that DTE Gas should conduct a study of potential impacts of significant reduction in natural gas usage using five of the seven scenarios proposed in Ann Arbor's Climate Policy Impact Study in that case. Ann Arbor's replies to exceptions, pp. 3-4 (citing PFD in Case No. U-21384, filing

#U-21384-0078, pp. 43, 51, 56). Ann Arbor asks that, if the Commission adopts the ALJ's recommendation in Case No. U-21384, any Future of Heat docket be conducted in a harmonious manner with the Climate Policy Impact Study and not as a replacement for the Climate Policy Impact Study. Ann Arbor further suggests that any Future of Heat proceeding should have a specific agenda with clear goals, a set completion date, and a limited scope. Ann Arbor's replies to exceptions, pp. 4-5.

In their replies to exceptions, the CEOs respond to DTE Gas's exceptions regarding the energy transition and EJ, which the company addressed together. The CEOs disagree with DTE Gas's suggestion that the energy transition study cannot be done without the EAAC's completed work. Rather, the CEOs assert that it is entirely possible for the company to assess the impacts of the energy transition on its GDP without final findings by the EAAC. CEOs' replies to exceptions, pp. 2-3. The CEOs further contend that the company's support for the EAAC's work is inconsistent—in its initial brief, the company said it would explore how to incorporate the Michigan Department of Environment, Great Lakes, and Energy's MiEJScreen tool into its planning process when the CEOs pointed out in exceptions that DTE Gas already uses the tool without guidance from the EAAC. *Id*., p. 3 (citing DTE Gas's initial brief, p. 158; CEOs' exceptions, p. 6). In sum, the CEOs ask that the Commission direct the company to adopt the ALJ's recommendation with additional detail regarding the required analysis of the energy transition and to utilize the MiEJScreen tool in the planning process of its next rate case. CEOs' replies to exceptions, p. 3.

In its replies to exceptions, MNSC responds to DTE Gas's position that it should not do anything related to the energy transition until the conclusion of the EAAC. MNSC asks the Commission to reject this position for the following reasons: (1) DTE Gas offered no substantive

facts or authority disputing the ALJ's findings that the energy transition is threatening the company's business-as-usual approach, (2) there is no need to await the conclusion of the EAAC's work because the energy transition is not included in the EAAC's scope of work, (3) the Staff recently indicated that the EAAC's work would continue into 2025, and (4) assessing and addressing the energy transition is urgent because the misalignment between expanding gas infrastructure and decreasing demand increases the risk of DTE Gas customers paying for stranded assets. MNSC's replies to exceptions, pp. 31-33.

Responding to MNSC's recommendation for a Future of Heat docket, DTE Gas disagrees with this recommendation and incorporates its positions described in its exceptions on this issue. DTE Gas argues as follows:

> Calling on DTE Gas to update its Gas Delivery Plan to include an assessment or study of the energy transition while simultaneously finding that the Commission should await the conclusion of its EAAC workgroup are at odds. These two findings grant the Commission the benefit of the EAAC's ultimate finding but deprive DTE Gas of the same findings by requiring it to update its Gas Delivery Plan before the workgroup has concluded. Similarly, initiating a Future of Heat docket while the EAAC's work is ongoing would likely lead to duplicative work and topics.

DTE Gas's replies to exceptions, p. 49. The company states that if the Commission is inclined to initiate a Future of Heat proceeding, it would be appropriate for all gas and electric utilities in the state to be involved. *Id*.

In its replies to exceptions, FLO responds to DTE Gas's exceptions in which the company contends that, because the energy transition and affordability issues are interwoven, the company should await the final conclusions and recommendations from the EAAC. FLO asks the Commission to reject this position and contends that DTE Gas takes issue with affordability only when it is convenient to do so. FLO contends that by applying the company's own logic, the Commission should not rule on the company's rate increase request, which would impact

affordability, until the EAAC concludes. Recalling its discussion of the affordability crisis raised in its initial brief, FLO asks the Commission to grant affordability relief in this case. FLO's replies to exceptions, pp. 1-3. Included in its response to the Staff's exceptions regarding the LIA credit, FLO also recommends that the Commission direct the EAAC to expedite the development of more comprehensive and effective solutions to the affordability crisis. *Id*., p. 4.

Responding to MNSC's recommendation for a Future of Heat proceeding as well as the CEOs' position on such a docket, FLO emphasizes that in whatever proceeding the Commission opts to utilize, equity must be addressed. FLO argues that the burden of the energy transition should be assessed in a way that avoids a disproportionate impact on LMI households. *Id*., pp. 5-6.

The Commission agrees with the ALJ's recommendation that DTE Gas provide an updated GDP that includes consideration of the energy transition. It is clear from the record in this case that the transition away from fossil fuels and the eventual trend of declining natural gas demand will have impacts on the future of the natural gas system and that these impacts were not sufficiently considered in the company's GDP as filed. Thus, DTE Gas shall file an updated GDP consistent with the ALJ's recommendation showing how it has considered various energy transition pathways and the associated costs and risks of each.

To lend further clarity to the ALJ's recommendation, the Commission adds that DTE Gas shall include in its updated GDP information pertaining to how the company intends to achieve emissions reductions as part of its corporate goals and the State's emissions reductions goals with an estimated timeline for achieving those goals and interim goals; alternatives to capital investment, such as pipeline repairs and NPAs; historical trends of natural gas demand, projected demand, and impacts of changing demand; and the projected impacts of the transition towards

electrification and decarbonization, including the portion of its distribution system that DTE Gas anticipates will be most immediately impacted. DTE Gas shall take steps to meaningfully engage interested persons in the development of its updated GDP and shall file the plan in this docket no later than December 31, 2025.

As to MNSC's recommendation for a Future of Heat docket, the Commission notes that there were multiple competing proposals on what studies should be performed, including Ann Arbor's recommendation for a Climate Policy Impact Study in DTE Gas's depreciation proceeding in Case No. U-21384. At this time, the Commission finds that its directive for DTE Gas to file an updated GDP is sufficient to allow for further evaluation of various decarbonization pathways and changing natural gas demand trends, as discussed above.

2. Environmental Justice

The CEOs requested that DTE Gas be directed to use the MiEJScreen tool to inform its capital investment decisions as well as the design and implementation of its customer programs in its next rate case. 4 Tr 756-757. DTE Gas claimed that its existing methodology for risk and prioritization is reasonable for capital investment decisions but that the company intends to explore how the MiEJScreen tool may be used in its existing planning process. The company stated that it will include an outline of its findings in the GDP in its next rate case. 2 Tr 139-140.

The ALJ found the criticism against DTE Gas with respect to affordability to be well-taken and worthy of further evaluation. However, the ALJ stated that many of the affordability issues raised in this case are being addressed in the EAAC workgroups and that some of the recommendations made by intervenors would benefit from further analysis and informed decision-making. The ALJ also found that the instant record supported the assertion by some intervenors that the company is not adequately advertising its assistance programs. However, like the other

affordability matters, he determined that it was not appropriate to address the issue in this rate case. The ALJ found the record in this case to be insufficient to resolve these issues and recommended that these issues and proposals be addressed in the EAAC workgroups with a final Commission decision at its conclusion. PFD, pp. 393-394.

DTE Gas excepts to the ALJ's finding that it is premature to address issues regarding affordability and energy assistance and objected to his recommendation that the Commission should await the conclusion of the EAAC's work. As noted above, DTE Gas insists that the energy transition issue is tied to the EJ issue and argues that the ALJ's recommendations on these two issues are inconsistent with one another. DTE Gas's exceptions, pp. 60-61.

The CEOs except to the extent that, while the ALJ discussed the CEOs' proposal for the MiEJScreen tool, he did not discuss or act on the CEOs' detailed recommendations regarding the analysis of metrics described in their briefing and testimony. The CEOs ask that the Commission direct DTE Gas to utilize the MiEJScreen tool in its next case and the metrics described by the CEOs in pages 23 to 28 of their initial brief. CEOs' exceptions, pp. 5-7.

FLO excepts to the ALJ's recommendation to defer decisions regarding affordability and EJ until the conclusion of the EAAC's work. FLO repeats its arguments on the record that low-income customers are in need of relief now and argues that the parties generally agreed that DTE Gas's assistance offerings are insufficient. FLO disagrees with the ALJ's "middle ground" approach, which recommended an increase in the LIA credit but no further action. FLO's exceptions, p. 4. FLO asks the Commission to act in this case to address affordability or, at the very least, substantially increase the LIA credit and require DTE Gas to improve its customer education regarding assistance programs. *Id*.

FLO recalls its previously made arguments regarding the importance of affordability, the impact of energy burdens on customers, and the Commission's responsibility to set just rates and consider affordability in doing so. FLO contends that the Commission has recognized the urgency of energy affordability but has failed to act and that the EAAC has not produced tangible results for ratepayers. *Id*., pp. 5-6 (citing November 18 order and March 1, 2024 order in Case No. U-21389 (March 1 order), p. 289). FLO questions the Commission's continued reliance on the EAAC given the current pace of its work and lack of meaningful progress. FLO asks that if the Commission continues to defer to the EAAC, that it also impose a moratorium on shutoffs for non-payment, a recommendation which FLO states the ALJ ignored. FLO argues that a moratorium would be reasonable and that DTE Gas did not demonstrate that such a moratorium would be unjust or unreasonable. FLO's exceptions, pp. 6-9.

Further, FLO excepts to the ALJ's recommendation regarding advertising for the company's energy assistance programs. While the ALJ noted that the company's outreach may not be adequate, FLO contends that his recommendation to refer the matter to the EAAC is misguided. FLO insists that rate cases are the appropriate forums to address customer service and outreach issues. *Id*., pp. 9-10. FLO calls for the Commission to take action to address the company's insufficient outreach and cites, in support, the March 1 order where the Commission directed Consumers to engage in customer outreach and engagement. *Id*., pp. 9-11.

In replies to exceptions, the Staff agrees with the ALJ's reasoning and maintains its position that the Commission should await the completion of the EAAC's work. Staff's replies to exceptions, p. 8.

DTE Gas responds to the CEOs' arguments in exceptions that the ALJ failed to act on the CEOs' recommendations and instead combined the CEOs' proposal with broader concerns about

energy assistance. The company disagrees and states that the EAAC, which is working to define key terms surrounding equity, is the appropriate place for equity considerations. DTE Gas adds that any decision regarding equity may become obsolete by the findings of the EAAC and, accordingly, the ALJ was correct in his recommendation to reserve these issues for the EAAC. DTE Gas's replies to exceptions, pp. 47-48.

In their replies to exceptions, the CEOs respond to DTE Gas's exceptions regarding the energy transition and EJ, which the company addressed together. As described above, the CEOs disagree with DTE Gas's position that any action to update its GDP should not be done until the EAAC concludes its work. The CEOs repeat their request for the Commission to direct DTE Gas to utilize the MiEJScreen tool in the planning process of its next rate case. CEOs' replies to exceptions, p. 3.

The Commission generally agrees with the ALJ's assessment regarding the issue of energy burdens and affordability in this case. The parties have presented criticisms regarding the company's energy assistance programs, its approach to incorporating equity and affordability into its planning and ratemaking processes, as well as frustration at the pace of progress in the EAAC. The issues being addressed by the EAAC and the AAA subcommittee, including the energy assistance programs of multiple utilities, the nature and structure of energy assistance and efficiency programs, customer protections, and energy burdens on LMI and BIPOC households are complex and require careful deliberation and participation from all interested persons. Thus, as alluded to *supra*, the Commission agrees with the ALJ that the EAAC is currently working to address several issues surrounding affordability and the Commission will await its final findings and recommendations.

Notwithstanding, the Commission finds it appropriate to address some of the intervenors' positions that were not explicitly addressed by the ALJ. First, the Commission finds the CEOs' recommendation to direct DTE Gas to utilize the MiEJScreen tool in its next rate case planning process to be reasonable. The company has indicated its willingness to explore this option, and the Commission finds that the incorporation of the MiEJScreen tool would be beneficial in helping the company understand the impacts of its capital investments on its customers, including those living in EJ communities; the energy burdens of its customers; and the effectiveness of various programs, such as energy efficiency, DR, and heating assistance programs. *See*, 2 Tr 139-140; 4 Tr 754-761, 773-774. At this time, the Commission finds that the company's incorporation of the MiEJScreen tool into its planning is sufficient and therefore declines to adopt the additional metrics recommended by the CEOs. However, the Commission will continue to evaluate whether such metrics are appropriate to include in the planning process for future rate cases.

Second, as to the reporting requirements implemented in Case No. U-20757, the Commission declines to reinstate the monthly reporting requirement and maintains the directive for these reports to be submitted quarterly as described in the December 21 order. *See*, December 21 order, p. 22. However, the Commission repeats that the data included in these reports should be in an accessible and analyzable format. Therefore, filing utilities shall ensure that the reports filed in Case No. U-20757 are available in an accessible and analyzable format, such as .csv or .xslx files.

Third, with respect to the issues raised with the shutoff notices, the Commission reminds DTE Gas of its obligations pursuant to the Commission's billing rules pertaining to shutoff notices. *See*, Mich Admin Code, R 460.136–R 460.144. Specifically, the billing rules require a utility to provide a customer notice within a specified time from the intended shutoff and the notice is required to include, among other things, the date on or after which the utility may shut off service.

Mich Admin Code, R 460.140. Failure to comply with the full requirements of these rules or evidence of repeated violations may result in further investigation or the initiation of a show cause proceeding by the Commission. Lastly, the Commission declines to impose a moratorium on shutoffs, at this time, finding that there is no persuasive evidence on this record to support doing so.

IX. COST OF SERVICE, RATE DESIGN, AND TARIFFS

A. Cost of Service Study

1. Allocation Method and Rate XXLT

A COSS determines the cost of providing service to each customer class and is used to allocate the revenue requirement among the customer classes; that is, once the Commission has determined the amount of total revenue to which the utility is entitled, the COSS is used to determine how much of that revenue requirement is paid by each customer class, such as residential, small commercial, large industrial, etc.

DTE Gas indicated that its proposed primary[32] COSS relies upon the same method for determining the cost to serve as was applied in Case No. U-20940 and approved in the December 9 order. 4 Tr 2145-2151; Exhibit A-16, Schedules F1.1 and F1.2. The COSS applies the average and peak (A&P) method for allocating functionalized transportation costs and non-customer related distribution costs, and a blended method of 50% peak and 50% percentage of storage capacity for allocating storage costs. 4 Tr 2151. The A&P method has been used in the company's last five rate cases and was also supported (and applied) by the Staff in its COSS in the instant case. *See*, 4 Tr 1728-1732; Revised Exhibit S-6.0. For the test year, DTE Gas used the

[32] In the December 9 order, page 201, the Commission required DTE Gas to provide an alternate COSS as well, which is discussed below.

January design day peak requirement of 2.5 Bcf, as indicated in the company's most recent GCR plan case, Case No. U-21271. 4 Tr 2152-2153.

MPLP and ABATE objected to the use of the A&P method for cost allocation based on the effect of the method on customers served under a particular rate, Rate XXLT.

MPLP argued that the COSS proposed by DTE Gas does not accurately reflect cost causation and the company should use a peak day demand allocation because this would better reflect the actual design of the system. 4 Tr 791. MPLP contended that its recommended method is similar to the straight fixed variable method used by FERC to allocate pipeline costs. As an alternative, MPLP argued that a 75/25 allocation method (allocating 75% of fixed costs on a demand basis and 25% of fixed costs on an average energy basis) would also be superior to the method the company is currently proposing. 4 Tr 791.

MPLP stated that it performed its own COSS and found that large transportation customers are providing revenues significantly in excess of their cost of service. 4 Tr 802; Exhibit MPL-2. MPLP explained that it operates a 123 MW gas-fired cogeneration facility and is a gas transportation customer of DTE Gas being served under Rate XXLT. MPLP asserted that Rate XXLT customers are already overpaying and DTE Gas proposed a 14.7% overall average increase for Rate XXLT in this case. 4 Tr 805. MPLP averred that switching to the peak day allocation method would result in a significant decrease to Rate XXLT, and the 75/25 method would result in a more modest decrease to this rate. MPLP noted that when rates are not cost-based, then some customers are subsidizing other customers. MPLP argued that it is time for a change to the allocation method, and that, if the Commission rejects its proposal for an allocation based on 100% demand, then it should adopt the 75/25 proposal which, like the A&P method, recognizes a role for throughput at 25%. MPLP objected to the fact that the A&P method results in a variable

percentage for throughput and demand, and argued that its proposed alternatives will lead to greater rate stability.

ABATE also argued that the A&P allocation method does not reflect actual cost causation and that DTE Gas has proposed inappropriate cost increases for Rates XLT and XXLT. 4 Tr 1261. ABATE contended that DTE Gas's own evidence shows that design day peak demand is the load characteristic that drives investment in transmission and distribution capacity costs, and that allocation on that basis would produce an accurate measure of cost of service. 4 Tr 1261. ABATE recommended the average and excess demand (AED) allocation method, because it will assign transmission and distribution capacity costs to the lower load factor, weather-sensitive customer classes. ABATE asserted that Rate XXLT should see no rate change and that Rate XLT should see a minor increase. Alternatively, ABATE recommended a system average increase across all classes, which would act as a compromise position. ABATE contended that the Staff's proposals also over-allocated costs to these transportation customers. 4 Tr 1286-1292.

In response to MPLP's and ABATE's allocation method arguments, DTE Gas noted that the Commission has consistently approved the A&P method since 1988, beginning with Case No. U-8812. 4 Tr 2178. In response to ABATE's proposed system average increase, DTE Gas argued that it is arbitrary and does not track cost causation. DTE Gas also contended that the company should not be required to provide yet another COSS using the AED method. 4 Tr 2177-2178.

The Staff was not convinced by ABATE's criticisms of the A&P method. 4 Tr 1726. The Staff explained that the A&P methodology is one of the three most commonly used allocation methods for demand-related costs according to the National Association of Regulatory Utility Commissioners Gas Distribution Rate Design Manual (NARUC Manual). The Staff opined that

the A&P method reflects an appropriate compromise between the coincident and non-coincident demand methods and between the interests of high and low load factor customers, because different customer classes use the distribution system differently. 4 Tr 1667, 1728-1729. The Staff indicated that, in any case, DTE Gas does not appear to have the records necessary to perform the allocation method that the intervenors prefer. The Staff contended that use of the 75/25 allocation method would also result in an incorrect XXLT rate. 4 Tr 1668. The Staff also asserted that ABATE failed to show that an equal percent increase would result in a more reasonable allocation. 4 Tr 1667-1671. The Staff argued that the A&P method properly recognizes the usage of the system and allocates costs on that basis. 4 Tr 1672-1673.

On the method of cost allocation, the ALJ was not persuaded by ABATE's or MPLP's arguments and recommended that the A&P method be maintained. The ALJ found that:

> the Commission has long-held its approval of using two demand/capacity allocation methods as approved in DTE's last five gas rate cases, including Case No. U-20940, with the Average and Peak (A&P) allocation method being approved for allocating functionalized transportation costs and non-customer related distribution costs, and for storage costs, a blended method of 50% cost allocation on the Peak method and 50% cost allocation on the percentage of storage capacity. Moreover, this PFD finds that neither ABATE nor MPLP have offered compelling reasons why the Commission should adopt a changed approach to its allocation methods. Indeed, this PFD finds that the evidence and arguments put forth by ABATE and MPLP in this case have been effectively rebutted by DTE and Staff here, and that the same or similar arguments have been consistently rejected by the Commission in the past. See, e.g., Case No. U-20940, Order, December 9, 2021, p. 190-210.

PFD, pp. 360-361.

In exceptions, MPLP again argues that allocation should be done based solely on peak demand rather than through a weighted peak demand and a weighted throughput, claiming that "[i]f DTE's system was designed to meet average throughput, it would be impossible for DTE to deliver enough gas to meet customer demands on the coldest days in the winter." MPLP's exceptions,

p. 5. MPLP argues that Rate XXLT customers are subsidizing other customers because their rates are not cost-based. MPLP explains that when throughput increases then more costs are allocated on throughput, even though high-pressure customers may use the delivery system more efficiently on a per unit basis. MPLP contends that it is unreasonable that the costs to high load factor customers increase when efficiency (the system load factor) increases. MPLP avers that 100% of fixed delivery system costs should be allocated based on demand and none on throughput, because the system is designed to meet peak demand. *Id*., p. 7. MPLP posits that DTE Gas's transportation rates are not competitive and this change would make them competitive. *Id*., p. 8; 4 Tr 802; Exhibit MPL-2. MPLP contends that simply because the A&P method constitutes a compromise position does not make it the most reasonable or cost-based method. MPLP also notes that the A&P method involves varying cost allocations based on throughput which change from case to case. In the interests of rate gradualism, MPLP supports its alternative 75/25 method as another sort of compromise, since it considers throughput but fixes it at 25% rather than the variability that is built into the A&P method. Finally, MPLP notes that the 75/25 method has been used by the Commission for setting electric rates for many years.

Similar to MPLP, in its exceptions ABATE argues that the A&P method fails to reflect cost causation, and that the ALJ erred in finding that neither ABATE nor MPLP supported the need for a change. ABATE contends that DTE Gas failed to rebut its design day demand allocation method proposal. ABATE's exceptions, p. 5. ABATE argues that DTE Gas acknowledged that its system is designed to meet peak day demand, "while the demands of all rate classes every other day of the year are simply met by varying the pressure and amount of gas in the mains which are built to satisfy that Peak Day demand requirement." *Id*., p. 6 (citing ABATE's initial brief, pp. 39-56 and Exhibit AB-1). ABATE asserts that:

> [t]he fixed cost of transmission and distribution main capacity designed to meet the system peak demand therefore remains the same every day of the year, irrespective of operating pressure and distribution main capacity utilization. As such there is no causal link between transmission and distribution main capacity cost and annual throughput; these costs are instead entirely related to the system's Peak Day design. (*Id*.) As such, any cost allocation method that does not allocate costs consistent with this reality, such as the A&P method recommended by the PFD, does not align with class cost of service principles.

ABATE's exceptions, p. 6. ABATE further notes that the Staff supports the A&P method simply because it provides a compromise between customer classes and not because it actually reflects how customers cause costs. ABATE notes that the NARUC Manual also refers to this method as representing a compromise, and that the ALJ acknowledged it to be a compromise between the interests of high and low load factor customers. ABATE asserts that this is not an endorsement of the method, and that the compromise actually results in a dubious form of balance that shifts costs to high load factor customers. *Id*., p. 7.

ABATE maintains that the peak day design method would reflect the actual cost of service and is (like the A&P method) one of the three most commonly used allocation methods. ABATE further maintains that the Staff is incorrect in positing that the A&P allocator allocates primarily on the basis of peak day demand because it allocates about 64% of any cost it is applied to on peak day demand. ABATE's exceptions, p. 8. ABATE contends that the claim ignores the reality within the transportation classes, where "average demand comprises 86% of the peak day allocator for Rate XXLT, and 76% of the peak day allocator for Rate XLT." *Id*. ABATE also argues that the averages used in both the A&P method and the AED method are mathematically identical because they are both based on average annual throughput and are weighted using the system load factor. ABATE contends that the Staff failed to show that the costs to deliver an average amount of gas on a peak day are different from the costs on an average day, and, even if they were, what makes that relevant. *Id*., p. 9. Like MPLP, ABATE argues that "if the system was designed to

meet average throughput, it would be impossible for DTE to deliver enough gas to meet customer demands on the coldest days in winter" and thus ABATE supports a design day peak demand allocation method. *Id*.

Further, ABATE argues, the AED method removes the peak day from the excess element of allocation that is built into the process because it is "based upon removing the entirety of the average demand figure when determining excess demand." *Id*., p. 9. ABATE avers that the AED method incorporates average demand once, while the A&P method incorporates it twice, which skews the allocation away from cost causation. ABATE advocates for a changed approach, and urges the Commission to adopt the peak day design, or the AED method, or approve an equal percent increase across classes, in order to avoid burdening high load factor customers with exorbitant rates.

In reply, the Staff argues that the exceptions filed by ABATE and MPLP simply repeat arguments made in briefing that were rebutted by the Staff, and should be rejected. Staff's replies to exceptions, pp. 4-5.

In its reply, DTE Gas notes that the Staff provided a detailed explanation as to why a design or peak day allocation method would not actually reflect the way the system is used and would incorrectly allocate fewer costs to certain customer classes. DTE Gas's replies to exceptions, pp. 40-41 (citing 4 Tr 1671).

Beginning with the issue of the overall cost allocation in the COSS, the Commission agrees with the ALJ and the Staff and approves the continued use of the A&P method. As DTE Gas notes, this method has been in use since 1988 and is one of the three most commonly used demand allocation methods according to the NARUC Manual. 4 Tr 1728. The Commission is not persuaded by the evidence presented by MPLP and ABATE that the A&P method fails to allocate

costs on a cost-of-service basis, particularly in light of the Staff's explanation of the characteristics inherent in the A&P method. 4 Tr 1670-1673, 1728-1732. The Commission observes that there is no statutory requirement applicable to gas service which duplicates the requirement for the setting of cost-based rates for electric service in MCL 460.11(1). But the Commission would note that, even with regard to electric service, the statute requires the Commission to ensure the setting of "electric rates equal to the cost of providing service to each customer class." MCL 460.11(1). It does not require the setting of rates equal to the cost of providing service to each individual customer, but rather that customer's class. Classes are arranged on the basis of similarities, and MPLP and ABATE fail to show that the members of the Rate XXLT class do not belong together. The fact that an allocation method may embody a compromise does not render that method unreasonable. The Commission is not bound by any formula or method when carrying out its legislative function of ratemaking, and may make pragmatic adjustments when such adjustments are warranted. *Ford Motor Co v Pub Serv Comm*, 221 Mich App 370, 373-375; 562 NW2d 224 (1997); *see also, Meridian Twp v East Lansing*, 342 Mich 734, 749; 71 NW2d 234 (1955). The Staff provided a convincing explanation of how costs are actually caused, and the Commission finds that the A&P method continues to provide reasonable cost allocation among the classes.

2. Distribution – Other Charge

MPLP objected to the allocation of the Distribution – Other (DO) costs, arguing that DTE Gas proposes to base this allocation on total class usage but only 4.5% of Rate XXLT usage is at the low-pressure distribution level. 4 Tr 791. MPLP argued that, over time, a small number of customers have begun to be served at low-pressure while on Rate XXLT, but the rate was originally established as a transportation/high-pressure rate. Thus, MPLP argued, only low-pressure customers should have to pay the DO costs through a separate charge because it was

created as a result of their joining Rate XXLT and requiring low-pressure distribution service, a type of service that is not required by transportation and high-pressure customers. MPLP proposed a new cost of service allocation, rate design, and tariff addressing the DO costs and charge.

In response to MPLP's proposal for a DO charge specific to certain Rate XXLT customers, DTE Gas contended that transportation rate classes were originally designed on the basis of volumes, not delivery type, and thus the proposal would be unfair to customers that are already connected. 4 Tr 2179. DTE Gas argued that these costs were incurred to serve all distribution volumes, at both high and low pressures, and thus it would be improper to base the surcharge on low-pressure volumes only.

In response to MPLP's arguments regarding the DO costs and charge, the Staff countered that MPLP failed to show that these costs are only related to low-pressure service. 4 Tr 1666. The Staff noted that a majority of the volumes on Rate XXLT are taking service from the high-pressure distribution system. The Staff argued that an additional charge solely related to low-pressure volumes ignores the cost difference that exists between all pressures (transmission, high, and low) and the reality of breakeven-based cost classes.

The ALJ did not make a specific recommendation regarding the cost allocation of the DO costs or the request to render it a separate charge within the company's rate design.

In exceptions, the Staff notes that the ALJ failed to make any recommendation on the topics of the DO costs or separate charge. The Staff seeks a determination maintaining the current treatment of these costs. Staff's exceptions, p. 10.

MPLP also notes that the ALJ failed to make a finding on these issues. MPLP argues that the costs associated with the DO costs are caused solely by a few low-pressure distribution customers,

and thus should be paid only by those customers. MPLP asserts that the types of costs included in the DO costs such as land and land rights, structures and improvements, and compressor and regulating station equipment should not be allocated to customers served at the transmission level. MPLP's exceptions, p. 14. MPLP contends that its COSS, Exhibit MPL-5, shows that this is the case. *See also*, Exhibit MPL-9; Revised Exhibit MPL-10. MPLP notes that these DO costs were not assigned to Rate XXLT customers back when Rate XXLT was exclusively utilized by transportation and high-pressure distribution customers. MPLP states that the June 3, 2010 order in Case No. U-15985, pages 94-95, removed distribution plant and operating costs in establishing Rate XXLT. MPLP asks that the DO charge be levied exclusively on low-pressure distribution customers, or include high-pressure distribution service volumes but not transmission service volumes. Alternatively, MPLP argues, the Commission should establish a transmission-only rate, because allocating distribution costs to transmission-only customers would be "a blatant rate subsidy that should be avoided" in order to ensure competition. MPLP's exceptions, p. 16.

MPLP further argues that the DO costs are caused by low-pressure distribution customers and thus they should pay an additional separate charge to recover those costs, which is a proposal that the ALJ also failed to address. *Id*. MPLP explains that, while the argument immediately above relates to the need to revise the COSS to reflect the correct allocation of the DO costs, the instant argument relates to the need to revise the rate design and proposed tariffs to reflect the correct responsibility for the DO costs. MPLP notes that there are only seven customers on Rate XXLT and three of them are taking service at the transportation level. Thus, MPLP contends, the DO costs are over-allocated to Rate XXLT and should not be applied to all seven customers, including MPLP. Rather, MPLP concludes that the correct amount of DO costs attributable to low-pressure

volumes is $249,000, and this amount should be recovered as a new surcharge for customers taking service at low pressure.

MPLP notes that the Staff admitted that the design of transportation rates is "effectively arbitrary." *Id*., p. 18 (quoting 4 Tr 1668). MPLP argues that transportation customers have advocated for rate reform in Case Nos. U-15985, U-20642, and U-20940. MPLP states that:

> [t]he response has generally been to place the burden of proof on transportation advocates to propose perfect alternative rates against a backdrop of DTE failing to maintain accurate records and resistance to change in cases that are already over-burdened with too many other issues to contend with. Adherence to arbitrary breakeven points has resulted in millions of dollars being forcibly shifted from transportation rate to transportation rate from case to case. The result is years of inaccurate rates and subsidization for DTE's largest customers.

MPLP's exceptions, p. 18. MPLP suggests manual billing as an option since there are only four customers involved. MPLP goes on to argue that:

> [e]ven if the underlying costs have not been definitively proven to be exclusively associated with low-pressure distribution service, opposing parties have likewise not shown that the underlying costs are not exclusively associated with low-pressure service. . . . At a minimum, the three Rate XXLT customers taking service at the transportation level should not pay for distribution costs. MPLP is not opposed to including high-pressure distribution service volumes in the allocation of the distribution-other costs and applying distribution surcharge to high-pressure distribution service as well as low-pressure distribution service. If the Commission, however, will not limit the recovery of distribution costs to Rate XXLT customers taking distribution service, then the Commission should direct DTE to propose a transmission-only rate for DTE's transmission customers in DTE's next general rate case.

Id., p. 19.

In replies to exceptions, the Staff maintains that MPLP's arguments regarding the DO costs, with respect to both cost allocation and the need for a separate surcharge, should be rejected for the reasons previously articulated. Staff's replies to exceptions, p. 6.

In replies to exceptions, DTE Gas maintains that this charge includes facility related costs that should apply to all distribution-served customers. DTE Gas's replies to exceptions, p. 41 (citing 2 Tr 2179). Moreover, the company explains, its system will not accommodate MPLP's proposal:

> [B]ecause customers with multiple meters may have some meters served from high-pressure distribution and other meters served from the low-pressure distribution, the Company would need to bill surcharges on an individual meter basis. However, the current DTE Gas billing system is not capable of billing surcharges on an individual meter basis and implementing such a billing system change would require incremental time and expense working with an external IT contractor.

DTE Gas's replies to exceptions, pp. 41-42 (citing 2 Tr 123).

The Commission finds that allocation of DO costs should continue as currently applied. The company and the Staff showed that DO costs include cost attributes that should apply to all distribution customers; and MPLP failed to demonstrate how the low-pressure customers make up the sole source of the components of DO costs, and why, even assuming that they do, the charge should not be applied to all customers in the class taking service under Rate XXLT. As the Staff noted, "[t]he proportion of the costs in these Other Distribution plan accounts that are associated with transmission, high-pressure, and low-pressure mains is not on the record in the instant case." 4 Tr 1667. MPLP's arguments regarding DO costs must collapse when it fails to explain the fact that a "substantial portion (in fact, a majority) of the volumes on XXLT are also taking service from the high-pressure distribution system." 4 Tr 1666.

3. Alternate Cost of Service Study

In the December 9 order, pages 186-201, the Commission found that DTE Gas should be required to provide a second COSS in its next rate case, known as the alternate COSS, which was filed in this case. 4 Tr 2162. DTE Gas states that the alternate COSS applies the same methodology as was required in Case No. U-20940, revised to reflect updated costs and

supplemental studies. As required (and unlike the primary COSS), the alternate COSS splits distribution main plant costs and IRM main replacement program costs between high-pressure and low-pressure customers. 4 Tr 2163; Exhibit A-24, Schedule N1-Revised. DTE Gas explains that high-pressure distribution main costs are allocated to customers taking service from the company's high-pressure and low-pressure distribution system, while excluding volumes taken from the transmission system; and low-pressure distribution main costs are allocated to customers taking service from the low-pressure distribution system only. 4 Tr 2163. The Staff performed a primary and alternate COSS as well. 4 Tr 1720; Revised Exhibits S-6.0, S-15.0

DTE Gas argued that the alternate COSS should no longer be required because its preparation is manually-intensive and time consuming. 4 Tr 2162-2174. The company requested that, if the alternate COSS continues to be required, DTE Gas should be allowed to reuse certain workpapers prepared for the instant case in its next gas rate case, which would be updated every five years.

The Staff continued to support the use of the alternate COSS as a guide to how revenue responsibility should be shifted between transportation schedules to maintain breakeven points. 4 Tr 1663. The Staff also argued that allowing DTE Gas to reuse certain workpapers means that the associated data would not be updated for each rate case. The Staff urged rejection of the proposal.

The ALJ recommended that the Commission continue to require DTE Gas to file the alternate COSS in future rate cases, and that the Commission reject the proposal to reuse certain workpapers. PFD, p. 361. The ALJ agreed with the Staff that reusing the workpapers would not ensure that all the necessary data had been updated.

In exceptions, DTE Gas explains that the second alternate COSS that the company provided in Case No. U-20940 split distribution main plan and IRM main replacement program costs into

high- and low-pressure, and these costs were later updated by the Staff to reflect the costs approved in that case. DTE Gas's exceptions, p. 55 (citing 4 Tr 2162). The December 9 order, page 210, required the company to provide the same type of alternate COSS in its next rate case, which DTE Gas states that it has provided, updated to reflect the proposed costs in the instant case and updated supplemental studies. DTE Gas argues, however, that the alternate COSS requires considerable time and resources and has not yet been found to provide an allocation method that better aligns with cost causation for all rate classes. The company contends that the alternate COSS requirement should be dropped, or that the Commission should allow DTE Gas to reuse workpapers TJK-15 and TJK-16, which would, in any case, provide all of the necessary data. DTE Gas's exceptions, p. 56.

In exceptions, MPLP argues that the ALJ erred by failing to recommend that the Commission reject the alternate COSS because it also applies the A&P method (but attempts to separate the costs of distribution mains between high-pressure and low-pressure mains). MPLP's exceptions, p. 11. MPLP contends that neither the company's nor the Staff's alternate COSSs should be used to inform rate design because the allocation method requires correction. MPLP contends that the Staff's proposed rate increase for Rate XXLT is $9.9 million or 31.5%, which is double the rate increase proposed by DTE Gas. *Id*., p. 13. Despite causing a significant rate subsidy, MPLP states, the "Staff plows forward with manipulating transportation rates based on the alternative study." *Id*.

In reply, the Staff argues that MPLP's and the company's exceptions should be rejected for the reasons previously stated. Staff's replies to exceptions, pp. 5-6.

The Commission adopts the findings and recommendations of the ALJ. The Staff showed that the alternate COSS continues to prove useful. After explaining that the alternate COSS excludes

transmission volumes from certain cost allocations and reflects the fact that certain distribution costs are split between high-pressure, low-pressure, and transmission customers, the Staff goes on to explain that it is not advisable to switch to the alternate COSS for all cost allocation at this time because:

> recognizing the difference in costs in rates should be accompanied by a reexamination of the structure of rates. If the additional COSS were to be used directly, it may also be appropriate to set up different rates for different levels of service, as only the customers served at each of those levels are responsible for the costs allocated based on volumes at those levels. The scope of this redesign, as well as determining the best way to approach it, is too large for the context of a 10-month rate case. Instead, as a stopgap, Staff has used the additional COSS, as modified for Staff's adjustments (hereafter referred to as Staff's Alternate COSS) as a guide to how revenue responsibility should be shifted between transportation schedules when adjustments must be made to maintain the current breakeven points. This better reflects the differences in cost between the current schedules and the mix of service levels on each, moving toward a more rational distribution of revenue responsibility.

4 Tr 1663. The alternate COSS helps to "guide the appropriate increases amongst the transportation class schedules." 4 Tr 1664. DTE Gas did not dispute the Staff's description of how the alternate COSS works and how it is used to shape the relative increases between transportation rate classes. On rebuttal, DTE Gas proposed the reuse of certain workpapers, but the Commission is not persuaded that doing so would ensure that properly updated information is made available as part of the alternate COSS. The Commission finds that DTE Gas shall continue to submit the alternate COSS with updated information.

MPLP's objections are addressed above.

4. Customer Charge

DTE Gas proposed to increase the monthly customer service charge for residential customers from the current $13.50 to $17.60, and for small commercial customers served under Rate Schedule GS-1 from $40.00 to $50.00. 2 Tr 98-99. Noting that the company's calculation of the

customer charges relied on a combination of historical and projected costs, the Staff recommended that the customer charge rely solely on historical costs. 4 Tr 1721. The Staff explained that the test year projections used by DTE Gas are allocated between cost categories (such as transmission and distribution) based on the historical allocations. The Staff argued that that breakdown is likely to be wrong, because the money may not be spent in the same way or on the same projects as in the past. Noting that cost compositions change from year to year, the Staff argued that reliance on historical costs ensures that the customer charge includes only the appropriate costs. 4 Tr 1721. The Staff recommended a residential customer charge of $14.50/month, a school customer charge of $270.00/month, and a Rate GS-1 customer charge of $50.00/month. 4 Tr 1641-1642; Exhibit S-6.0, Schedule F3.

The Attorney General also disagreed with DTE Gas's proposals, arguing that the residential increase could produce rate shock and discourage conservation. 4 Tr 1568. She advocated maintaining the current residential charge, or, in the interests of rate gradualism, increasing the monthly charge by no more than $1.00 to $14.50/month; and maintaining the Rate GS-1 charge at $40.00/month. 4 Tr 1569.

DTE Gas countered that the Staff and the Attorney General did not use cost-based calculations and that the company's method of splitting distribution plant based on historical ratios is common practice. 4 Tr 2173-2174.

The ALJ recommended adoption of the Staff's proposed customer charges, finding that the Staff's method ensures that the appropriate costs are included in the customer charge. The ALJ stated that he:

> recommends that the Commission adopt Staff's recommendations of the following customer charges: Residential - $14.50, School - $270.00, and GS-1 $50.00, with all other customer charges being determined by rate design. This PFD notes that

> Staff's proposed Residential charge of $14.50 coincides with the alternative charge proposed by the Attorney General.

PFD, p. 361.

In exceptions, DTE Gas supports its proposed $17.60 monthly charge, arguing that splitting distribution plant by applying historical ratios is a common practice, and noting that customer service costs also reflect test year cost projections made at the account level. DTE Gas's exceptions, pp. 63-64 (citing 4 Tr 2173). DTE Gas contends that its approach has been used since 2016.

In exceptions, the Attorney General argues that the PFD is confusing but she objects to the recommendation to adopt the Staff's proposal and requests maintenance of the current rates of $13.50 and $40.00 per month. Attorney General's exceptions, pp. 22-23. The Attorney General argues that the ALJ failed to consider rate shock concerns for small businesses at $50.00 and failed to recognize that fixed monthly charges discourage energy conservation.

In reply, DTE Gas contends that the Attorney General's proposal is arbitrary and should be rejected. DTE Gas's replies to exceptions, p. 52.

The Commission agrees with the ALJ and approves the Staff's proposed monthly customer charges. The Staff showed that relying on the historical composition of the various cost accounts for projections may be problematic because cost compositions tend to change from year to year. 4 Tr 1721. Thus, the Commission agrees that the appropriate residential monthly charge should be set at $14.50, which was also recommended as an alternative by the Attorney General; the monthly school customer charge should be $270.00; and the monthly Rate GS-1 charge should be $50.00.

B. Tariff Changes for All Customers

DTE Gas proposed changes to the following tariffs under Section C of the company's rate book: Section C3.1, Section C3.2, Section C3.3, Section C3.4, and Section C8.9. DTE Gas's

initial brief, pp. 159-160; 2 Tr 103-107; 4 Tr 2165-2166. The company included its revised tariff changes for all customers in Exhibit A-16, Schedule F5.1. ABATE recommended that DTE Gas revise the language in Section C3.3.D.1.a. pertaining to base period volumes for System Supply Customers to mirror that of Consumers' equivalent tariff. Specifically, ABATE proposed the following language:

> The customer shall notify the Company of any adjustment to base period volumes using any reasonable method of the customer's choice, including but not limited to written request, phone call, or email. The Company shall notify the customer if the base period adjustment is accepted or rejected within 60 days of the request. A failure to affirmatively notify the customer shall be treated as an acceptance. If the requested adjustment is rejected, the Company shall provide the customer a written explanation detailing the reasons for the rejection. A customer may request an adjustment to its base period volumes two (2) times during a calendar year.

4 Tr 1293. DTE Gas disagreed with ABATE's proposed revision, stating that it would be a poor use of resources and would ultimately provide very little real-world benefit. 2 Tr 136.

The ALJ agreed with ABATE that it is reasonable to provide DTE Gas's customers the same level of flexibility with respect to adjustments to base period volumes as Consumers' customers. Thus, the ALJ recommended that the Commission adopt ABATE's proposed tariff change. PFD, p. 412.

DTE Gas takes exception to the PFD and argues that ABATE's proposed language would:

> require DTE Gas to be able to administer base period volume change requests from System Supply customers— customers who are largely non-contract customers that have a simplified relationship with DTE Gas as compared to EUT customers—and spend resources to analyze, record, and recall the data upon a curtailment event for System Supply customers[.]

DTE Gas's exceptions, p. 62 (citing 2 Tr 136). DTE Gas states that the ALJ ignored the company's testimony that System Supply customers are the last to be curtailed and, therefore, ABATE's changes would result in a poor use of resources that deliver very little benefit. DTE Gas contends that the ALJ stated without explanation that DTE Gas's customers should have the same

level of flexibility for adjustments to base period volumes as Consumers' customers. Thus, DTE Gas asks the Commission to reject the ALJ's recommendation. DTE Gas's exceptions, p. 62.

The Commission respectfully declines to adopt the ALJ's recommendation. The Commission finds that beyond its assertion that its added language would provide flexibility to customers that is comparable to Consumers' customers, ABATE did not explain its position further or address the tariff issue or DTE Gas's rebuttal beyond its direct testimony. *See*, 4 Tr 1293. The Commission finds persuasive DTE Gas's explanation as to why the added language is not necessary for these particular System Supply customers and that it would be resource intensive without significant benefit. Therefore, the Commission adopts the company's proposed revisions to its Section C3.3 tariff and rejects ABATE's added revisions thereto.

C. Tariff Changes for Sales Rate Schedules

DTE Gas proposed three changes to the Section D tariffs, namely: (1) a revised IRM, (2) changes to the RIA and LIA credits, and (3) changes to the monthly customer charges and distribution charges for each rate schedule. 2 Tr 107; Exhibit A-16, Schedule F5.1. DTE Gas stated that no party opposed these changes. The Staff testified that it is standard practice for the tariff to reflect the Commission's decision in a rate case once it is made, meaning that the RIA and LIA credits should reflect whatever the Commission approves. Therefore, per the Staff, these changes are not uncontested as the company states.

The ALJ agreed with the Staff's position. PFD, p. 413.

No exceptions were filed on this issue.

The Commission agrees with the ALJ's recommendation. The three changes proposed by DTE Gas shall reflect the final decisions regarding the IRM, the RIA and LIA credits, and the monthly customer and distribution charges, as described in this order.

D. Tariff Changes for Sales Customers

DTE Gas's proposed changes to its tariffs for sales customers include: (1) changes to the company's proposed monthly charges and distribution charges for Rates A, 2A, GS-1, GS-2, and S and (2) changes to the proposed IRM for each rate schedule as reflected in the revised sheets available in Exhibit A-16, Schedule F5.1. 2 Tr 107. DTE Gas contended that no party opposed these changes. DTE Gas's initial brief, p. 161.

The ALJ noted where in the record these changes could be found but did not make a recommendation in this particular section. PFD, p. 413.

While DTE Gas contended that the changes to the tariffs for sales customers are uncontested, the proposal incorporates changes to the monthly customer service charge, changes to the RIA and LIA credits, and the company's proposed IRM, all of which were contested issues in this case. Therefore, the Commission incorporates its decisions for each of these issues into the tariff changes for sales customers. DTE Gas shall revise its tariff sheets for sales customers to reflect the approvals in this order.

E. Tariff Changes for End-Use Transportation Service

DTE Gas proposed changes to Section E1 through E14 of the company's rate book pertaining to EUT service, as follows:

> (1) Reflect the Company's proposed Monthly Service Charges and Transportation Charges for each EUT rate schedule in Section E14;
>
> (2) Add language in Section E2.2 Nominations, Accounting and Control, to resolve an unintentional gap prohibiting DTE Gas from returning gas to EUT customers who had remaining gas in storage at the end of their contract;
>
> (3) Revise Section E4.5 to clarify the rules and penalties associated with [operational flow orders]; and

(4) Revise the Unauthorized Gas Usage Charge provision in Section E14 to provide DTE Gas with additional flexibility in providing limited penalty relief in certain situations.

DTE Gas's initial brief, pp. 161-162 (internal cites omitted); *see also*, 2 Tr 107. The company contended that these changes were unopposed and should be accepted. DTE Gas's initial brief, p. 162.

The ALJ described these changes in the PFD but did not make a recommendation.

No exceptions were filed on this issue and the matter appears to be uncontested. Therefore, the Commission adopts the changes to Section E1 through E14 for EUT service as proposed by DTE Gas. *See*, DTE Gas's initial brief, pp. 161-162; 2 Tr 107-109.

F. Tariff Changes for Off-System Storage and Transportation Service

DTE Gas proposed to increase the TOS-F (Section E25) and TOS-I (Section E26) not to exceed rate from $0.4233 per million British thermal units (MMBtu) to $0.5410 per MMBtu. The company also replaced the Gas Quality requirements in Section E17 with a reference to Section E3 Gas Quality, which defined the Gas Quality requirement previously in the tariff. DTE Gas also revised the tariff such that in sections relating to Off-System Storage and Transportation, "ANR, ML7" was removed from Imbalance and Penalty Charges paragraphs in Sections E25, E26, E27, and E28. 2 Tr 109-110; Exhibit A-16, Schedule F6.

The Staff takes exception to the PFD, stating that while the ALJ described the company's recommended Off-System Storage and TOS rates, rate design, and tariff changes, he did not make a corresponding recommendation. The Staff argues that the TOS rate should use the calculation based on the Staff's methodology in Revised Exhibit S-6.0, Schedule F6, reasoning that it is appropriate because the Staff's other rate design methodology was recommended by the ALJ. Staff's exceptions, p. 10 (citing 4 Tr 1640; PFD, p. 361).

No replies to exceptions were filed.

Having reviewed the record in this matter, the Commission finds that the Staff's position should be adopted as it is consistent with the rate design methodology adopted in this order.

G. Individual Customer Attachment Program

The CAP is designed to enable the expansion of cleaner, safer, more reliable, and more affordable gas to new customers and that offers a financing mechanism to new gas service customers. Under the CAP, the costs of installing the necessary gas facilities for expansions are charged to new customers and the costs are balanced by the revenue generated by the newly attached customers over a 20-year period. DTE Gas contended that 20-year timeframe allows for a thorough evaluation of the financial feasibility of the expansion and that this timeframe is used by other utilities participating in the CAP. DTE Gas's initial brief, pp. 165-166.

MNSC challenged the 20-year period used to set rates, arguing that it is unreasonable for the company to set rates based on the assumption that the customer's gas use will remain constant over 20 years. MNSC recommended that DTE Gas amend its tariffs and associated calculations to reflect a 10-year timeframe for CAP, beyond which DTE Gas will not provide cost support for new customer attachments. Under this framework, the customer would pay the net cost of connection up front or over a period that ends in or before 2034, the end of the 10-year period. 4 Tr 858-859. DTE Gas opposed MNSC's position. DTE Gas's initial brief, pp. 166-168.

The ALJ agreed with DTE Gas that a 10-year period was not reasonable at this time. The ALJ acknowledged MNSC's concerns that, given the transition away from fossil fuels in the utility industry, an extended period may mean that existing customers are subsidizing new customers to construct assets that may be abandoned. However, the ALJ contended that MNSC's position constitutes a fundamental change and without significant evidence showing what the future holds

for the housing market and how these proposed changes would affect the housing market, MNSC's position is unreasonable. Thus, the ALJ recommended that the Commission reject MNSC's proposal. PFD, pp. 418-419.

MNSC takes exception to the PFD and asks the Commission to reverse the ALJ's recommendation and require changes to the CAP. MNSC recalls testimony on the record regarding DTE Gas's method for calculating the contributions that CAP customers make for a new market attachment, referred to as CIAC. MNSC repeats its contention that the assumptions DTE Gas relies on to arrive at CIAC are unreasonable and do not cover the full incremental revenue requirements of the facilities used for new or expanded attachments. Thus, MNSC states that other DTE Gas customers must cover the shortfall. MNSC notes that the ALJ found merit in MNSC's evidence regarding subscription levels and usage but ultimately declined to adopt its recommendations and instead accepted DTE Gas's claims that changing the CAP would negatively affect Michigan's housing market. MNSC's exceptions, pp. 7-9.

MNSC then recalls support from its testimony and exhibits, as well as DTE Gas's testimony, to argue that DTE Gas's assumptions that gas usage will remain the same for 20 years is unreasonable. MNSC also argues that the company's customer participation projections are overestimated and that DTE Gas's IRM revenue expectations are unrealistic. MNSC's exceptions, pp. 9-16. MNSC repeats its recommendations regarding the CAP and asks the Commission to: (1) direct DTE Gas to revise Rule C8.8 to use expected incremental revenues from the date of attachment until 2034, (2) require DTE Gas to use customer adoption rates for the CAP based on historical experience when calculating new attachment surcharges, and (3) disallow from rate base the $838,000 in new market capital expenditures for Mesick-Buckley and $912,000 for Peach Ridge. *Id*., pp. 16-17.

MNSC argues that the ALJ's recommendation not to make any changes to the CAP is inconsistent with the ALJ's findings elsewhere in the PFD regarding the energy transition and that the Mesick-Buckley and Peach Ridge new market capital expenditures should be disallowed. *Id*., p. 18 (citing PFD, pp. 101, 418). MNSC disagrees with the ALJ that there is merit to DTE Gas's claims about the impact on the housing market and points to cross-examination of DTE Gas's witness, which undermined the support the company offered for its claim. MNSC's exceptions, pp. 18-20 (citing 3 Tr 397-398, 437-439; Exhibit A-30, Schedule T2, p. 7; Exhibit A-30, Schedule T1, p. 5). MNSC contends that DTE Gas's claims, even if true, are not relevant to the Commission's consideration in approving rates and tariffs allocated based on cost causation. MNSC asserts that requiring existing customers, many of whom live in rented or older housing, to subsidize the shortfall from new attachments to promote the purchase of $400,000 newly constructed homes is untenable. Lastly, MNSC states that the ALJ failed to address the evidence regarding the CAP tariff's unrealistic assumption that IRM surcharge revenues will remain at the same level for the next 20 years. Thus, MNSC asks the Commission to reject the ALJ's recommendation and adopt MNSC's proposed changes to the CAP. MNSC also includes in its exceptions its proposed revisions to the tariff language in Rule C8. MNSC's exceptions, pp. 20-23.

In its replies to exceptions, DTE Gas disagrees with MNSC's arguments and recommendations regarding the CAP and supports the ALJ's recommendation. DTE Gas contends that it provided ample evidence showing the problems with MNSC's recommendations and that switching to a 10-year period ignores the viability of homes beyond 20-years, the consistency with CAP programs of other utilities, and the financial burden such a change puts on homeowners. DTE Gas's replies to exceptions, pp. 52-54 (citing 3 Tr 396-398; DTE Gas's initial brief,

pp. 166-168). DTE Gas also states that MNSC incorrectly calculated customer connections by using data that did not contain an accurate depiction of the total customer count spanning a five-year period. DTE Gas's replies to exceptions, p. 54 (citing 3 Tr 399; DTE Gas's initial brief, p. 168). Thus, the company requests that the Commission adopt the ALJ's recommendations. DTE Gas's replies to exceptions, p. 54.

The Commission finds the ALJ's recommendation to be well-reasoned and based on persuasive evidence on the record and thus, the Commission adopts the PFD on this issue. The Commission agrees with the ALJ that while MNSC's concerns are well-taken, they are not demonstrative of subsidization in base rates occurring such that MNSC's suggested changes to the CAP are appropriate at this time.

However, the Commission finds that the record in this case indicates that there is potential for shortfalls in recovery from CAP participants, which the company is then proposing to later include in base rates. *See*, 3 Tr 414-416; 4 Tr 468, 868-877. The objective of the CAP, as acknowledged by DTE Gas, is to enable the expansion of gas utilities without requiring existing customers to subsidize the expansions. 3 Tr 397. And yet, on cross-examination, the company explained that if an attaching new customer project or attachment under the CAP does not meet its projected revenues, the undercollection is covered by the company's shareholder until it is included for recovery in the next rate case. *See*, 3 Tr 414-416.

The Commission agrees with the company's position that a 10-year period over which to balance the revenue generated from the attachment against its costs does not account for the useful life of those assets. Further, the complete electrification of homes is not a foregone conclusion such that adjusting the CAP calculation to a 10-year period is appropriate without significantly greater evidentiary support. However, the Commission is concerned that DTE Gas has not

sufficiently considered the impacts of the energy transition or declining gas demand in the assumptions used to arrive at the CIAC amounts used in the CAP tariff. Therefore, in its next general rate case, DTE Gas shall provide a thorough justification for its CIAC and CAP methodology, including whether it is appropriate to revise its assumptions to include declining gas demand, customer adoption rates for the CAPs based on historical experience when calculating new attachment surcharges, and how the company intends to avoid subsidization by existing customers.

H. Proposed Monthly Customer Charges and Rate Schedule Economic Break-Even Points

DTE Gas proposed a $17.60 monthly customer charge for its Residential Rate A and contended that the same charge should apply to the Rate 2A-Meter Class I. DTE Gas also proposed that the monthly customer charge for Rate 2A-Meter Class II and Rate GS-1 be set at $50.00. Using the economic break-event points and the Rate GS-1 monthly customer charge, DTE Gas proposed monthly customer charges for the remaining rate schedules as follows: (1) $925 for Rate GS-2, (2) $275 for Rate S, (3) $3,300 for EUT Rate ST, (4) $9,100 for EUT Rate LT, (5) $20,000 for EUT Rate XLT, and (6) $230,000 for EUT Rate XXLT. 2 Tr 99; Exhibit A-16, Schedule F2.

The Staff disagreed with DTE Gas's method of splitting test-year capital into separate accounts using historical ratios because cost compositions change from year to year. The Staff proposed to use historical adjusted costs, rather than projected test-year costs, to calculate the monthly customer charge for the residential class. Thus, Staff proposed the following monthly customer charges: (1) $14.50 for Residential, (2) $270.00 for Schools, and (3) $50.00 for GS-1. The Staff testified that all other customer charges are determined by rate design. 4 Tr 1721; Exhibit S-6, Schedule F-1.1, p. 6.

The Attorney General proposed maintaining the current residential monthly customer charge for Rate A and Rate 2A-1, which is set at $13.50, and maintaining the current Rate GS-1 monthly charge of $40.00. Alternatively, the Attorney General recommended that the Commission limit any increase to the monthly customer charge to no more than $1.00. 4 Tr 1569. DTE Gas opposed the Staff's and the Attorney General's proposals. 4 Tr 2173-2176.

The ALJ agreed with the Staff's proposed customer charges and noted that they coincided with the alternative proposed by the Attorney General. The ALJ then noted that DTE Gas stated that the proposed economic break-even points between the various rate schedules are as follows:

GS-1 to GS-2	14,000 Mcf per year
GS-1 to S	2,183 Mcf per year
GS-1 to ST	14,500 Mcf per year
ST to LT	100,000 Mcf per year
LT to XLT	700,000 Mcf per year
XLT to XXLT	3.5 Bcf per year.

PFD, p. 416; *see also*, 2 Tr 100. The ALJ described DTE Gas's position that the minimum optional rate under rate schedules ST and LT should remain at $0.23 per Mcf and that the minimum optional rate under rate schedules XLT and XXLT should remain at $0.18 per Mcf and $0.05 per Mcf, respectively. PFD, p. 416; *see also*, 2 Tr 101.

The Attorney General takes exception to the ALJ's recommendation regarding the monthly customer service charges and explains that the ALJ addressed the customer service charge issue in multiple places in the PFD. Attorney General's exceptions, pp. 22-23 (citing PFD, pp. 329-332, 358-361, 415). The Attorney General excepts to the ALJ's recommendation on page 361 of the PFD, which the ALJ restated in the monthly customer service charge section of the PFD on page 415 of the PFD. The Attorney General asserts that the ALJ failed to address the Attorney General's concern over rate shock for small commercial customers and that the increase would send improper signals to customers because fixed monthly charges discourage energy

conservation. Thus, the Attorney General advocates for maintaining the current monthly residential rate of $13.50 and small commercial rate of $40.00. Attorney General's exceptions, p. 23.

DTE Gas excepts to the ALJ's agreement with the Staff, citing four reasons: (1) the company's current method for splitting distribution plant using historical ratios is reasonable because it reflects investments made in the distribution system, (2) not all costs embedded in the residential customer charge rely on historical ratios in that customer service costs reflect test-year cost projections made at the account level, (3) the current approach has been used in Commission-approved customer charges since 2016 and there is no evidence on the record suggesting that this approach produces inaccurate costs or harms customers, and (4) using historical costs for one subpart of rate design while using forecasted costs for others is inconsistent. Thus, DTE Gas asks the Commission to reject the ALJ's recommendation. DTE Gas's exceptions, pp. 63-64.

In its replies to exceptions, DTE Gas disagrees with the Attorney General's exceptions and recalls the company's arguments presented in testimony and briefing that the Attorney General's proposal is arbitrary, unsupported by cost-based calculations, and not aligned with accepted regulatory practice. The company repeats the reasonableness of its own proposal and asks the Commission to reject the Attorney General's exceptions. DTE Gas's replies to exceptions, pp. 51-52.

Finding the ALJ's recommendation to be well-reasoned and based on persuasive evidence on the record, the Commission adopts the PFD. The Commission finds that the ALJ's recommendation pertaining to the customer charge is consistent with the Commission's other decisions described *supra* in this order. *See*, Part IX. A.4., *supra*.

THEREFORE, IT IS ORDERED that:

A. Based on the findings in this order adopting a October 1, 2024 through September 30, 2025 test year, rate base of $6,888,851,000, an authorized rate of return on common equity of 9.80%, and an authorized required rate of return of 5.80%, DTE Gas Company is authorized to implement rates that increase its annual revenues by $113,788,000, over the rates approved in the December 9, 2021 order in Case No. U-20940.

B. DTE Gas Company is authorized to implement rates consistent with the revenue deficiency approved by this order on a service rendered basis for service provided on and after November 21, 2024, as reflected in Attachment A (a summary of revenue by rate class), Attachment B (tariff sheets), and Attachment C (infrastructure recovery mechanism surcharge) to this order. Within 30 days of November 7, 2024, the date of this order, DTE Gas Company shall file tariff sheets substantially similar to Attachment B. After the tariff sheets have been reviewed and accepted by the Commission Staff for inclusion in the company's tariff book, DTE Gas Company shall promptly file the final tariff sheets in this docket and serve all parties.

C. In its next general rate case, DTE Gas Company shall explicitly include the forecasted yearly sales for each major customer class for the 10-year gas delivery planning horizon. For each year of the delivery plan, DTE Gas Company shall list the amount of throughput expected on a peak demand day.

D. DTE Gas Company shall utilize the depreciation rates approved in the November 7, 2024 order in Case No. U-21384.

E. In future rate cases, DTE Gas Company shall file direct testimony and exhibits containing an itemized list of projected costs associated with the company's corporate membership fees, as well as justification for why these costs are truly required and are in the interests of ratepayers.

F. DTE Gas Company shall continue to provide the alternate cost of service study as described in this order.

G. DTE Gas Company shall update its gas delivery plan and file the updated plan in the instant docket, Case No. U-21291, no later than December 31, 2025, as described in this order.

H. DTE Gas Company shall utilize the Michigan Department of Environment, Great Lakes, and Energy's MiEJScreen Tool in its planning processes, as described in this order, in its next general rate case.

I. DTE Gas Company shall ensure that the reports filed in Case No. U-20757 are in an accessible and analyzable format, such as a .csv or .xslx document.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26. To comply with the Michigan Rules of Court's requirement to notify the Commission of an appeal, appellants shall send required notices to both the Commission's Executive Secretary and to the Commission's Legal Counsel. Electronic notifications should be sent to the Executive Secretary at LARA-MPSC-Edockets@michigan.gov and to the Michigan Department of Attorney General - Public Service Division at sheac1@michigan.gov. In lieu of electronic submissions, paper copies of such notifications may be sent to the Executive Secretary and the Attorney General - Public Service Division at 7109 W. Saginaw Hwy., Lansing, MI 48917.

MICHIGAN PUBLIC SERVICE COMMISSION

Daniel C. Scripps, Chair

Katherine L. Peretick, Commissioner

By its action of November 7, 2024.

Lisa Felice, Executive Secretary

Michigan Public Service Commission
DTE Gas Company
Summary of Projected Test Year Ending 09/30/2025
Proposed Gas Revenue Increase
FOR ORDER

Case No: U-21291
ATTACHMENT A
Page No. 1 of 4

Line No.	(a) Rate Class	(b) Test Year MMcf	(c) Annual Operating Revenues ($000) Test Year Current	(d) Test Year Proposed	(e) Increase / (Decrease) Revenues ($000)	(f) Percent
Jus	**Residential**					
1	Rate A	112,464	1,125,079	1,129,798	4,720	0.42%
2	Rate 2A	4,027	35,363	36,111	748	2.12%
3	Total Residential Services	116,492	1,160,441	1,165,909	5,468	0.47%
	General Services					
4	GS-1/GS-2	40,985	355,402	352,967	(2,435)	-0.69%
5						
	School					
6	Rate S	1,600	10,575	9,707	(868)	-8.21%
7	Subtotal Gas Sales Revenues	159,077	1,526,418	1,528,583	2,165	0.14%
	Transportation					
8	Rate ST	17,061	46,063	39,110	(6,953)	-15.09%
9	Rate LT	19,248	30,967	26,324	(4,643)	-14.99%
10	Rate XLT	29,772	29,299	29,541	242	0.83%
11	Rate XXLT	87,253	31,826	40,215	8,389	26.36%
12	Exelon	12,036	13,145	18,236	5,091	38.73%
13	Total Transportation Services	165,370	151,301	153,427	2,127	1.41%
14	**Total**	324,447	1,677,719	1,682,011	4,292	0.26%
15	Less: GCR Revenues (included above)		578,996	578,996	-	
16	Less: Currently Approved IRM Surcharge Revenue (included above)		126,295	-	(126,295)	
17	Less: 2025 IRM Surcharge Revenue (included above)		-	16,796	16,796	
18	Base Revenues		972,428	1,086,218	113,790	11.70%

Line No.	(a) Rate Class	(b) Current Rates ($/Mcf)	(c) Proposed Rates ($/Mcf)
	Residential		
1	Rate A		
2	Customer Charge	13.50	14.50
3	Low Income Assistance Credit	(30.00)	(40.00)
4	RIA Credit	(13.50)	(14.50)
5	Distribution Charge	3.8859	4.4616
6	Rate 2A		
7	Customer Charge Meter Class 1	13.50	14.50
8	Customer Charge Meter Class 2	40.00	50.00
9	Distribution Charge	3.8859	4.4616
10	Rate S		
11	Customer Charge	225.00	270.00
12	Distribution Charge	2.7736	2.5916
	General Services		
13	GS-1		
14	Customer Charge	40.00	50.00
15	Distribution Charge	3.8069	4.0371
16	GS-2		
17	Customer Charge	750.00	925.00
18	Distribution Charge	3.1984	3.2871

Line No.	(a) Rate Class	(b) Current Rates ($/Mcf)	(c) Proposed Rates ($/Mcf)
	Transportation Service		
1	Rate ST Small Transportation Serivce		
2	Customer Charge	2,780	2,780
3	Transportation Charge - Cost Based	1.4906	1.3997
4	Transportation Charge - Market Floor	0.2300	0.2300
5	Transportation Charge - Market Ceiling	2.7512	2.5695
6	Rate LT Large Transportation Serivce		
7	Customer Charge	6,780	4,995
8	Transportation Charge - Cost Based	0.9427	1.0640
9	Transportation Charge - Market Floor	0.2300	0.2300
10	Transportation Charge - Market Ceiling	1.6554	1.8981
11	Rate XLT Extra Large Transportation Serivce		
12	Customer Charge	17,250	14,460
13	Transportation Charge - Cost Based	0.7060	0.8414
14	Transportation Charge - Market Floor	0.1800	0.1800
15	Transportation Charge - Market Ceiling	1.2321	1.5027
16	Rate XXLT Extra Large Transportation Serivce		
17	Customer Charge	169,835	177,935
18	Transportation Charge - Cost Based	0.1933	0.2873
19	Transportation Charge - Market Floor	0.0500	0.0500
20	Transportation Charge - Market Ceiling	1.2321	1.5027

Michigan Public Service Commission Case No: U-21291
DTE Gas Company ATTACHMENT A
Comparison of Present and Proposed Customer Charges Page: 4 of 4
For Sales and Transportation Rate Schedules
FOR ORDER

Line No.	(a) Description	(b) Current	(c) Per Cost of Service Study (1)	(d) Proposed
	SALES RATE SCHEDULES			
1	Rate A (Residential Rate)	$ 13.50	$ 44.80	$ 14.50
2	* Current: $13.50 credit applicable to RIA			
3	* Current: $30 credit applicable for Low Income Assistance			
4	Rate 2A (Residential Multiple Family Dwelling)			
5	Meter Class I	$ 13.50	$ 244.80	$ 14.50
6	Meter Class II	$ 40.00		$ 50.00
7	Rate GS-1 (Non-Residential General Service)	$ 40.00		$ 50.00
8			$ 189.71	
9	Rate GS-2 (General Service Large Volume Rate)	$ 750.00		$ 925.00
10	Rate S (School Rate)	$ 225.00	$ 2,171.79	$ 270.00
	TRANSPORTATION RATE SCHEDULES			
11	Rate ST	$ 2,780.00	$ 6,590.6	$ 2,780.00
12	Rate LT	$ 6,780.00	$ 27,048.9	$ 4,995.00
13	Rate XLT	$ 17,250.00	$ 154,473.8	$ 14,460.00
14	Rate XXLT	$ 169,835.00	$ 400,299.3	$ 177,935.00

(1) Source: Exhibit A-16 Schedule F1

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Definition Combination and Changes)

Revised Sheet No. A-26.00

(Continued from Sheet No. A-25.00)

TECHNICAL TERMS AND ABBREVIATIONS (Contd.)
(FOR ALL CUSTOMERS)

II. Definitions of additional technical terms and abbreviations are contained in the following sections:

A. Section C - Part I - Company Rules and Regulations (For All Customers)

(1) Rule C2.7 Controlled Service Definitions

(a) Alternate fuel capability
(b) Commercial Customer use of natural gas
(c) Industrial Customer use of natural gas
(d) Use of natural gas for services essential for public health and safety
(e) Residential Customer use of natural gas

(2) ***Rule C3.1 Curtailment of Gas Service Definitions***

(a) Blanket Certificate Customer
(b) Capacity Deficiency
(c) Capacity Restriction
(d) Commercial Gas Requirements
(e) Deliveries
(f) End Use Customer
(g) Force Majeure
(h) Gathering Systems
(i) Industrial Gas Requirements
(j) Requirements for Plant Protection
(k) Requirements for Services Essential for Public Health and Safety
(l) Residential Gas Requirements
(m) Supply Deficiency
(n) System Supply
(o) System Supply Customers

(3) Rule C4.5 (B) Definition of Standby Service

(4) Rule C4.4 Centrally Metered Installation – Definition of a Centrally Metered Installation

(a) Centrally Metered Installation

(Continued on Sheet No. A-27.00)

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Combine Curtailment Definitions)

(Continued from Sheet No. C-9.00)

C2. CONTROLLED SERVICE (Contd.)

C2.8 Penalties for Violation

Any gas used by a customer in additional equipment installed by an existing gas sales customer following the declaration of a controlled service condition and for which the customer has not received authorization, shall, during the period when a gas controlled service condition has been instituted pursuant to this Rule, be subject to excess use charges of $10 per Mcf plus the highest city-gate price reported in Gas Daily for locations in the East North Central Region of the United States during the month in which the infraction occurred, with such charges being in addition to the rates set forth in the applicable Company Rate Schedule. Failure of the customer to pay such excess use charges when due shall constitute sufficient cause for the Company to shut off gas service to such customer. The Company reserves the right to shut off service to any customer who violates any of the provisions of this Rule.

C3. CURTAILMENT OF GAS SERVICE

C3.1 ***Curtailment of Gas Service Definitions***

The following terms used in this rule shall have the meanings hereinafter set forth:

Blanket Certificate Customer is a transportation customer who has contracted with the Company to transport gas in interstate commerce pursuant to a blanket certificate issued to the Company by the Federal Energy Regulatory Commission (FERC).

Capacity Deficiency shall mean emergency situations whereby load temporarily exceeds the capacity of the Company's pipeline system to deliver volumes commensurate with such load, but such that the full design capacity of the system is unaffected. See Section C3.4D(3) of this Rule.

Capacity Restriction shall mean restriction affecting deliveries to customers due to force majeure or other damage to the Company's facilities such that the full design capacity of the pipeline system is not available. See Section C3.D(1) of this Rule.

Commercial ***Gas Requirements*** shall include all service to customers engaged primarily in the furnishing or sale of goods or services including schools, local, state and federal government agencies and other public or private institutions for use other than those involving manufacturing or electric power generation.

Deliveries shall mean both transportation and sales volumes.

End Use Customer is a customer under the Company's sales and transportation Rate Schedules where the gas is used or consumed on the customer's premises to which the gas was delivered.

(Continued on Sheet No. C-11.00)

(Continued from Sheet No. C-10.01)

C3. CURTAILMENT OF GAS SERVICE (Contd.)

C3.1 Curtailment of Gas Service Definitions (Contd.)

Force Majeure shall mean acts of God, strikes, lockouts, or other industrial disturbances; acts of the public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms (including but not limited to hurricanes or hurricane warnings), crevasses, floods, washouts, arrests and restraints of the government, either Federal or State, civil or military, civil disturbances. Force majeure shall also mean shutdowns for purposes of necessary repairs, relocation, or construction of facilities; failure of electronic data capability; breakage or accident to machinery or lines of pipe; the necessity of testing (as required by governmental authority or as deemed necessary by the Company for the safe operation thereof), the necessity of making repairs or alterations to machinery or lines of pipe; failure of surface equipment or pipelines; accidents, breakdowns, inability to obtain necessary materials, supplies or permits, or labor to perform or comply with any obligation or condition of service, rights of way; and any other causes, whether of the kind herein enumerated or otherwise which are not reasonably within the control of the Company. It is understood that the settlement of strikes and lockouts or controversies with landowners involving rights of way shall be entirely within the Company's discretion and that the above requirement that any force majeure be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts or controversies with landowners involving rights of way by acceding to the demands of the opposing party when such course is inadvisable in the discretion of the Company.

Gathering Systems shall include but is not necessarily limited to, the Company's existing Wet Header System and laterals.

Industrial *Gas Requirements* shall include all service to customers engaged primarily in a process which creates or changes raw or unfinished materials into another form or product including the generation of electric power.

Requirements for Plant Protection shall mean such minimum volumes of gas as required to prevent physical harm to the plant facilities or danger to plant personnel when such protection cannot be afforded through the use of an alternate fuel. This includes the protection of such material in process as would otherwise be destroyed, but shall not include deliveries required to maintain plant production. For the purposes of this definition, propane and other gaseous fuels shall not be considered alternate fuels. It is the Customers sole responsibility to provide and update DTE with any plant protection volumes for their facility.

(Continued on Sheet No. C-11.00)

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Combine Curtailment Definitions)

(Continued from Sheet No. C-9.00)

C3. CURTAILMENT OF GAS SERVICE (Contd.)

C3.1 Curtailment of Gas Service Definitions (Contd.)

Requirements for Services Essential for Public Health and Safety shall mean gas purchased for food processing and for use by or in connection with hospitals, convalescent homes, nursing homes, medical centers and clinics; water and sewage treatment and waste disposal facilities; civil defense centers and public utility buildings; newspapers, radio and television stations; fire stations, police stations, jails and penal institutions; and such other uses of gas as are found qualified by the Commission as requirements for services essential for public health and safety; provided, however, that requirements for boilers which have alternate fuel capability shall not qualify as requirements for services essential for public health and safety without the express authorization of the Commission after hearing.

Residential gas requirements shall include all direct natural gas usage for space heating, cooking, water heating, and other residential uses in a single family dwelling or in an individual flat or apartment; or to two or more households served by a single meter (one customer) in a multifamily dwelling, or portion thereof. A multifamily dwelling includes such living facilities as, for example, cooperatives, condominiums and apartments; provided each household within such multifamily dwelling has the normal household facilities such as bathroom, individual cooking and kitchen sink. A multifamily dwelling does not include such living facilities as, for example, penal or corrective institutions, motels, hotels, dormitories, nursing homes, tourist homes, military barracks, hospitals, special care facilities or any other facilities primarily associated with the purchase, sale or supplying (for profit or otherwise) of a commodity, product or service by a public or private person, entity, organization or institution.

Supply Deficiency shall mean emergency situations whereby the Company is temporarily unable to procure gas supplies commensurate with its system requirements.

System Supply shall mean supply sold directly to customers and includes gas delivered to Gas Customer Choice customers for this curtailment tariff only. It does not include End Use Transportation or Off System customers.

System *Supply Customer* shall mean those customers who purchase all of their natural gas requirements from the Company***, which includes Gas Customer Choice for the purposes of this curtailment tariff only.***

(Continued on Sheet No. C-11.00)

(Continued from Sheet No. C-10.0*2*)

C3. CURTAILMENT OF GAS SERVICE (Contd.)

C3.2 Curtailment Priorities

For purposes of curtailment, five categories are established with Priority Five constituting the lowest priority and Priority One the highest.

Priority One - Residential gas requirements, commercial and industrial gas requirements of 1,250 Mcf or less per the base period month being curtailed, requirements for plant protection, and requirements for services essential for public health and safety.

Priority Two – Commercial and industrial gas requirements of 1,250 Mcf to 8,334 Mcf per the base period month being curtailed.

Priority Three - Commercial and industrial gas requirements of 8,334 Mcf to 41,667 Mcf per the base period month being curtailed.

Priority Four - Commercial and industrial gas requirements in excess of 41,667 Mcf per the base period month being curtailed.

Priority Five - Non-residential customers having gas requirements in excess of 41,667 Mcf per the base period month being curtailed and having installed alternate fuel capability available on short notice (only the alternate fuel load will be curtailed) and all sales of System Supply gas to non-System Supply customers.

C3.3 Curtailment of Gas Service for Gas Supply Deficiency

A. Determination of Need for Curtailment

(1) If at any time the Company cannot provide continuous service to its ***System Supply Customers*** because of an inability to procure sufficient gas volumes from its interstate pipeline suppliers or other suppliers, and reliable short term supplies are not available at reasonable and prudent prices, the Company has the right to curtail the distribution of ***System Supply*** gas to its ***System Supply Customers*** in accordance with the provisions of this Rule.

(2) In implementing this Rule, however, all sales of ***System Supply*** to other than ***System Supply Customers*** shall be curtailed prior to curtailing, limiting or interrupting the distribution of gas to ***System Supply Customers.***

(3) The Company may separately institute curtailment of its ***System Supply*** gas in the integrated and non-integrated portions of its total system, consistent with the inability to procure sufficient gas volumes in each respective portion of its system.

(4) This Curtailment Rule does not apply to gas owned by parties other than the Company.

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Capitalize Defined Terms)

(Continued from Sheet No. C-11.00)

C3.3 Curtailment of Gas Service for Gas Supply Deficiency

B. Notice of Curtailment

(1) The Company shall provide not less than 90 days advance written notice of curtailment to all ***System Supply Customers*** expected to be curtailed, except where actions by foreign, federal, state, or local government or regulatory agencies preclude the giving of such notice.

(2) The Company may immediately curtail or interrupt the distribution of ***System Supply*** gas to non-***System Supply Customers***, by oral notice or otherwise, to the extent and for such duration as the Company in its sole judgment shall deem necessary.

(3) Notification of curtailment shall specify the starting date, an estimate of the length of time the curtailment is expected to be in effect, and the classification of the priorities to be curtailed. Prior to and during the period of curtailment, all customers in curtailment priorities to be affected shall be given not less than 30 days advance written notice of the authorized volumes to which they will be entitled for the following month.

(Continued on Sheet No. C-12.00)

Continued from Sheet No. C-11.00)

C3. CURTAILMENT OF GAS SERVICE (Contd.)

C3.*3* Curtailment of Gas Service for Gas Supply Deficiency (Contd.)

C. Method of Curtailment

(1) Prior to curtailment, the Company will make a Public Service Announcement for voluntary dial-down actions by ***System Supply Customers.***

(2) Curtailments shall be made in accordance with the curtailment priorities set forth in Section ***C3.2,*** beginning with the lowest priority category and proceeding to the next highest priority category. The total curtailment shall equal the estimated deficiency of gas brought about by the demands of all customers purchasing ***System Supply*** gas in the integrated and/or non-integrated portions of the Company's system.

(3) Curtailments may be simultaneously instituted in more than one curtailment category provided that gas usage falling within a lower priority category has been completely curtailed.

(4) When curtailment of less than 100% of the sales volume in a particular curtailment priority is required, the available volumes shall be allocated to each customer assigned to that priority, on a pro-rata basis, using the customer's base period volumes that correspond to the month being curtailed. ***With respect to Priority Two, Three and Four, each of those categories shall be regarded as completely curtailed when all requirements other than requirements for plant protection have been curtailed.***

D. Base Period

(1) Base Period for System Supply Customers

(a) For the purpose of determining the customer's volumes within each Curtailment Priority Category, a twelve month base period shall be established. Such base period shall be fixed for the term of the curtailment. The base period volumes shall consist of the twelve consecutive monthly consumptions ending June of each year. In those instances where the customer has encountered strikes, interruption of gas service or unavoidable operational abnormalities, the Company may make reasonable adjustments to normalize the customer's requirements. Base period volumes may be adjusted for equipment added or deleted.

(b) In determining monthly consumptions, the Company shall determine the gas used during each month of the period described above for all buildings, parts of buildings, and equipment associated with each customer's gas billing in accordance with the Company's Rules and Regulations. Volumes specified in Curtailment Priorities One through Five shall apply in the aggregate for all equipment of the same end use rather than on a unit of equipment basis.

(c) The monthly consumption so determined, with such adjustments as provided above, shall then be used as the monthly requirement specified in the Curtailment Priority Categories. In determining a customer's Curtailment Priority Category, the applicable monthly requirement in the base period shall be used.

(Continued on Sheet No. C-13.00)

(Continued from Sheet No. C-12.00)

C3. CURTAILMENT OF GAS SERVICE (Contd.)

C3.*3* Curtailment of Gas Service for Gas Supply Deficiency (Contd.)

(2) Base Period for Non-System Supply Customers

A base period is not established pursuant to this Rule for non-***System Supply Customers***. The distribution of ***System Supply*** gas to non-***System Supply Customers*** is subject to Curtailment Priority Five whereby the Company has sole discretion in determining the extent and duration of curtailment of such customers.

E. Rate Adjustments

A customer shall not be liable for any part of a monthly service charge provided in a Rate Schedule if such customer's consumption under that rate is completely curtailed for the entire billing period. No other rate adjustments will be permitted.

***F*. Enforcement**

(1) The Company reserves the right to inspect the customer's equipment, to install special metering, and to immediately terminate gas service for violations of this Rule, as provided by Rule ***71***, Technical Standards for Gas Service, R 460.***2371***, Shutoff of Service. Once gas service is terminated, the Company may withhold such service until it is satisfied that the terms and conditions of this Rule will be observed.

(2) There is nothing in this Rule that shall prevent a customer from challenging before the Commission the continuation of a curtailment or that shall abridge the customer's right to appeal any such determination to the Commission.

(Continued on Sheet No. C-14.00)

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Remove ANR-ML7 price reporting location)

Revised Sheet No. C-14.00

(Continued from Sheet No. C-13.00)

C3. CURTAILMENT OF GAS SERVICE (Contd.)

C3.3 Curtailment of Gas Service for Gas Supply Deficiency (Contd.)

***G.* Penalties for Violation**

Any gas used by a customer in excess of the volumes authorized during the period when a curtailment has been instituted pursuant to this Rule shall be subject to Unauthorized Gas Use Charges. The charge for such Unauthorized Gas Usage shall be $1.00 per 100 cubic feet plus the highest price reported in Gas Daily in the midpoint column of the Daily Price Survey for the following locations for the month in which the Unauthorized Gas Use occurred: Dawn, Ontario; Chicago city-gates; Consumers city-gate; or MichCon city-gate. Unauthorized Gas Use Charges are in addition to those normal charges made under the applicable Rate Schedules, for all gas taken by Customer in excess of the cumulative volume delivered to Company (less Gas-in-Kind) on behalf of Customer. In the event Gas Daily discontinues its reporting such prices, the Company will select a comparable reporting service. Failure to pay an excess use charge when rendered shall subject the customer to termination of gas service.

(Continued on Sheet No. C-15.00)

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Renumber, Remove Definitions)

(Continued from Sheet No. C-14.00)

C3. CURTAILMENT OF GAS SERVICE (Contd.)

C3.***4*** Curtailment of Gas Service During an Emergency

(Continued on Sheet No. C-1***6***.00)

(Continued from Sheet No. C-15.00)

C3. CURTAILMENT OF GAS SERVICE (Contd.)

C3.*4* Curtailment of Gas Service During an Emergency (Contd.)

A. Steps Prior to Curtailment

When there is adequate time during an emergency situation, and if applicable, the following steps, ***not necessarily in this order,*** will be implemented by the Company prior to the enforcement of the curtailment plan established by this Rule.

(1) Interrupt service provided under an "interruptible" rate or contract then in effect;

(2) Implement contingency contracts for emergency gas supply purchases established in advance. Seek to purchase additional gas supplies at prices which shall be regarded as reasonable and prudent;

(3) Curtail deliveries to any customer in excess of volumes allowed under contracts;

(4) Request that ***End Use Customers*** balance deliveries with use and authorized storage withdrawal volumes on a daily basis;

(5) Make a public service announcement for voluntary dial-down actions by ***System Supply Customers***;

(6) Ask ***End Use Customers*** to voluntarily reduce use and/or increase deliveries.

(Continued on Sheet No. C-17.00)

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Capitalize, reflect change in Defined Terms)

(Continued from Sheet No. C-16.00)

C3. CURTAILMENT OF GAS SERVICE (Contd.)

C3.*4* Curtailment of Gas Service During an Emergency (Contd.)

B. Notice of Curtailment

If a curtailment becomes necessary, Company shall provide notice to the Commission and all affected ***customers*** of the nature, probable duration and extent of such curtailment. Such notice will be given as far in advance as possible.

C. Method of Curtailment

(1) If a curtailment becomes necessary due to ***Capacity Restriction***, the Company shall determine the amount of firm service capacity that is available (residual firm capacity). The Company shall allocate that residual firm capacity between (i) transportation service provided pursuant to a FERC blanket certificate (Blanket Certificate Customers) and (ii) all other services (Other Customers), such allocation being made pro rata between such two classes of service, based upon the total volumes scheduled for service within each class on the applicable day.

(2) The residual firm capacity which is allocated to Blanket Certificate Customers shall be allocated pro rata among the members of that class, based upon volumes scheduled for service by members of that class on the applicable day.

(Continued on Sheet No. C-18.00)

(Continued from Sheet No. C-17.00)

C3. CURTAILMENT OF GAS SERVICE (Contd.)

C3.*4* Curtailment of Gas Service During an Emergency (Contd.)

(3) The residual firm capacity which is allocated to the Other Customers shall be curtailed in accordance with the curtailment priority categories set forth in Section F of this Rule, beginning with Curtailment Priority Five and proceeding to the next highest priority category.

(a) Curtailments may be simultaneously instituted in more than one curtailment priority category provided that gas usage falling within a lower priority category is being completely curtailed.

(b) If system deliverability permits only partial delivery of gas to a given priority category of use, curtailment will be effected on the basis of a pro rata sharing using the base period deliveries to customers for that priority category. If a customer has entered into an arrangement for voluntary reduction of use and/or increase in deliveries pursuant to Paragraph B(6) above, the volumes associated with such voluntary reductions of use or increase in deliveries shall be attributed to that customer's pro rata share.

(c) Upon notice of a curtailment, the Company shall give customers with multiple locations, the option to select which location will be subject to the curtailment, consistent with the practical and physical operational constraints of the Company's system.

(4) If curtailment becomes necessary due to an emergency situation resulting in a ***Supply Deficiency***, with no associated ***Capacity Deficiency***, the Company shall curtail gas service in accordance with Section C3.***4***D(3)(b), subject to the following conditions.

(a) ***End Use Customers*** shall have the option of having electronic remote metering installed or of establishing a means acceptable to the Company and the ***End Use Customer*** of determining daily consumption at the ***End Use Customer's*** expense. Negative daily imbalances incurred shall be curtailed pursuant to priorities determined as in Section C3.***4***E, Base Period. Usage in balance with deliveries (flowing pipeline supplies) on a daily basis is exempt from curtailment under this paragraph.

(b) Blanket ***Certificate Customers*** are exempt from curtailment.

(Continued on Sheet No. C-19.00)

(Continued from Sheet No. C-18.00)

C3. CURTAILMENT OF GAS SERVICE (Contd.)

C3.*4* Curtailment of Gas Service During an Emergency (Contd.)

(5) If curtailment becomes necessary due to an emergency situation resulting in a ***Capacity Deficiency***, the Company shall curtail gas service in accordance with Section C3.***4***D(3)(b).

Blanket ***Certificate Customers*** are exempt from curtailment.

E. Base Period

(1) For the purpose of determining the customer's volumes within each curtailment priority category, a twelve month base period shall be established. Such base period shall be fixed for the term of the curtailment. The base period volumes shall consist of the twelve consecutive monthly deliveries ending June of each year. In those instances where the customer has encountered strikes, interruption of gas service or unavoidable operational abnormalities, the Company shall make reasonable adjustments to normalize the customer's requirements. Base period volumes shall be adjusted for equipment added or deleted and new loads.

(2) In determining monthly deliveries, the Company shall determine the gas used during each month of the period described above for all buildings, parts of buildings, and equipment associated with each customer's gas billing in accordance with the Company's Rules and Regulations. Volumes specified in Curtailment Priorities One through Five shall apply in the aggregate for all equipment of the same end use rather than on a unit of equipment basis.

(3) The monthly deliveries so determined, with such adjustments as provided above, shall then be used as the monthly requirement specified in the Curtailment Priority Categories. In determining a customer's Curtailment Priority Category, the applicable monthly requirement in the base period shall be used.

(Continued on Sheet No. C-20.00)

(Continued from Sheet No. C-19.00)

C3. CURTAILMENT OF GAS SERVICE (Contd.)

C3.*4* Curtailment of Gas Service During an Emergency (Contd.)

F. Curtailment Priority *Details Specific to Gas Service During an Emergency*

(***1***) The gas requirements for district heating systems shall be classified, to the extent practicable, into the same priority categories as the Company's ***System Supply Customers*** and ***End Use Customers*** if the operator of the district heating system provides the Company with the information necessary to make such a classification and an affidavit verifying the accuracy of such information. Information regarding such end use profile shall be provided for each priority category in a manner similar to the information regarding the base period volumes of other customers as set forth in paragraph E above.

(***2***) The volumes of gas destined to end users of other local distribution companies (LDC) shall be classified into the same priority categories as the Company's ***System Supply*** and ***End Use Customers*** if the LDC provides the Company with the information necessary to make such a classification and an affidavit verifying the accuracy of such information. Such information shall be provided for each priority category in a manner similar to the information regarding the base period volumes of other customers as set forth in paragraph E above. Any volumes for which the LDC fails to provide such information shall be presumed to be in Priority Four.

(Continued on Sheet No. C-21.00)

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Renumber, Capitalize Defined Terms)

(Continued from Sheet No. C-21.00)

C3. CURTAILMENT OF GAS SERVICE (Contd.)

C3.*4* Curtailment of Gas Service During an Emergency (Contd.)

G. Diversion of Customer-Owned Gas During Gas Emergencies

If the Company determines that its ability to deliver gas is inadequate to support continuous service to its customers on its system and it ***diverts Customer gas for Company use under an OFO or*** enforces the curtailment plan established in this Rule, the Company shall give ***End User Customers*** the option to 1) have their curtailed deliveries injected into storage with the suspension of any penalties and with no other additional charges; or 2) ***within 90 days,*** sell to the Company their flowing pipeline supplies that have been curtailed. The price of the purchased gas will be negotiated between the ***End User Customers*** and the Company but be limited to the higher of a) the customer's reasonable costs associated with using alternate fuels during the period of diversion, b) the actual cost of the customer's diverted gas, or c) the highest city gate price of gas for DTE Gas's ***End User Customers*** contained in the publication Gas Daily, delivered into DTE Gas's system during the period of diversion. The Company shall not divert gas from ***End User Customers*** who do not have title to the gas being transported unless the owner of such gas voluntarily agrees that its gas may be purchased, borrowed or otherwise diverted by the Company pursuant to Option 1 or 2 above. Nothing in these Rules relieves the Company from its obligation, under Act 304, of demonstrating the reasonableness and prudency of its gas purchases.

H. Rate Adjustments

A customer shall not be liable for any part of a monthly service charge provided in a Rate Schedule if such customer's consumption under that rate is completely curtailed for the entire billing period. No other rate adjustments will be permitted unless otherwise provided by contract.

I. Enforcement

(1) The Company reserves the right to inspect the customer's equipment, to install special metering, and to immediately physically interrupt gas service for violations of this Rule, as provided by Rule B1, Technical Standards for Gas Service, R 460.2373, Shutoff of Service. Once gas service is terminated, the Company may withhold such service during the period of the curtailment until it is satisfied that the terms and conditions of this Rule will be observed.

(2) There is nothing in this Rule that shall prevent a customer from challenging before the Commission the continuation of a curtailment or that shall abridge the customer's right to appeal any such determination to the Commission.

(3) The Company shall, when acting reasonably and prudently in accordance with these Rules, not be liable for any loss, cost, damage, injury, or expense (incidental or consequential damages) that may be sustained by customer by reason of partial or complete curtailment of gas service.

(Continued on Sheet No. C-23.00)

(Continued from Sheet No. C-22.00)

C3. CURTAILMENT OF GAS SERVICE (Contd.)

C3.*4* Curtailment of Gas Service During an Emergency (Contd.)

J. *Billing*

The Company shall have up to 6 months to assess adjustments to the customer's bill which may include applicable credits or excess charges.

***K.* Penalties**

Any gas used by an ***End Use Customer*** in excess of the volumes authorized during the period when a curtailment has been instituted pursuant to this Rule shall be subject to Unauthorized Gas Use Charges. The charge for such Unauthorized Gas Usage shall be $1.00 per 100 cubic feet plus the highest price reported in Gas Daily in the midpoint column of the Daily Price Survey for the following locations for the month in which the Unauthorized Gas Use occurred: Dawn, Ontario; Chicago city-gates; Consumers city-gate; or MichCon city-gate. Unauthorized Gas Use Charges are in addition to those normal charges made under the applicable Rate Schedules, for all gas taken by Customer in excess of the cumulative volume delivered to Company (less Gas-in-Kind) on behalf of Customer. In the event Gas Daily discontinues its reporting such prices, the Company will select a comparable reporting service. Failure to pay an excess use charge when rendered shall subject the customer to termination of gas service.

C4. APPLICATION OF RATES

C4.1 Service to Which Rates Apply

The characteristics of and limitations on the service to which rates applicable in the Districts covered by these Rules and Regulations apply are described under the caption "Who May Take Service" in the respective Rate Schedules.

C4.2 Choice of Rates

Upon request, investigation will be made and assistance will be given to the customer to determine whether the rate under which ***the customer*** is being billed is the most advantageous. The Company does not guarantee that each customer will be served under the most favorable rate at all times, and will not be responsible for notifying the customer of the most advantageous rate.

After the customer has selected the rate under which he elects to take service, the customer will not be permitted to change from that rate to another rate until at least twelve months have elapsed. Neither will the customer be permitted to evade this Rule by temporarily terminating service. However, the Company may, at its option, waive the provisions of this paragraph where it appears that an earlier change is requested for permanent rather than for temporary or seasonal advantage. The intent of this Rule is to prohibit frequent shifts from rate to rate.

(Continued on Sheet No. C-27.00)

(Continued from Sheet No. C-41.00)

C8. CUSTOMER ATTACHMENT PROGRAM (Contd.)

C8.9 Model Assumptions

A. Incremental Revenues

The incremental revenues will be calculated based on current rates and a forecast of the timing and number of Customer attachments as well as Customers' annual consumption levels.

B. Incremental Costs

(1) Carrying Cost Rate

The Carrying Cost Rate will be a pre-tax weighted rate of long-term debt and common equity. The cost will be equal to and weighted in proportion to those authorized in Company's most recent rate order. Based on DTE Gas's rate order in Case No. ***U-21291,*** dated, ***_____, 2024,*** the Carrying Cost Rate is equal to ***8.86%***.

(2) Plant in Service

Plant in Service shall reflect Company's estimated cost to construct distribution mains, Customer service lines, meters and pressure regulators or regulating facilities for the Project. The timing of the facility investment, primarily service lines, will correspond with the projected timing of Customer attachments.

(3) Carrying Costs

The Carrying Costs will be the product of the average of beginning and end-of-year net plant, Plant in Service minus accumulated depreciation minus deferred taxes, multiplied by the Carrying Cost Rate, noted in paragraph (1) above.

(Continued on Sheet No. C-43.00)

M.P.S.C. No. 1 – Gas
DTE Gas Company
(To Update Discount Rate)

Revised Sheet No. C-43.00

(Continued from Sheet No. C-42.00)

C8. CUSTOMER ATTACHMENT PROGRAM (Contd.)

C8.9 Model Assumptions (Contd.)

(4) Depreciation

Depreciation expense will be the product of Plant in Service multiplied by the appropriate prescribed depreciation rates approved for Company.

(5) Property Taxes and Other Operating Expenses

Property Taxes will be the product of Plant in Service multiplied by Company's average property tax rate. All Other Incremental Operating Expenses will be included as identified. Incremental O&M will, at a minimum, include a proportional cost for monthly meter reading, billing and mailing.

(6) Discount Rate

The Discount Rate will be a weighted rate of long-term debt and common equity. The cost will be equal to and weighted in proportion to those authorized in Company's most recent rate order. Based on DTE Gas's rate order in Case No*. **U-21291***, dated _____*, 2024*, the Discount Rate is equal to *7.12*%.

C8.10 Customer Attachment Project Areas

All gas sold in any area specifically listed below is subject to the following Customer Attachment Project (CAP) charges. CAP areas and charges shall be added to or removed from the list from time to time by Company.

CAP No	Charge	Cap Area	County	End
05371	$19.39	Bay Valley	Acme	11/2/2031
04872	$40.99	SUB BUTTRICK PRESERVE	Ada	01/19/2032
00966	$30.03	2134 S Us Highway 23 Greenbush	Alcona	09/18/2024
01136	$45.53	Sunrise Dr Greenbush	Alcona	12/12/2024
01337	$16.50	Crescent Rd, Harrisville	Alcona	09/11/2025
01700	$23.03	155 S Barlow Harrisville	Alcona	12/13/2026
03648	$64.25	N Lake Ritchie Rd, Fawn	Alcona	08/17/2030
04645	$26.71	11614 187th Ave	Alcona	10/07/2023
01295	$38.34	North Shore Road	Alger	08/17/2025
05451	$16.40	Norlin Way,Au Train Revised	Alger	09/07/2031
05484	$76.40	N Ridge Rd	Alger	11/18/2031
05995	$14.76	E9725 OLD INDIAN TOWN RD	Alger	10/27/2032
01045	$20.53	Lakewood Dr Alpena Mi	Alpena	08/26/2024
01047	$42.48	Bayview Drive Alpena Michigan	Alpena	12/08/2024

(Continued on Sheet No. C-44.00)

M.P.S.C. No. 1 – Gas
DTE Gas Company
(2025 IRM Rate Update)

D2. SURCHARGES AND INFRASTRUCTURE RECOVERY MECHANISM

D2.1 Surcharges

Rate Schedule No.		*U-21291* IRM Surcharge $/Customer
A	Residential	***$0.66***
2A	Multifamily Dwelling Class I	***$4.11***
2A	Multifamily Dwelling Class II	***$4.11***
GS-1	Non-Residential General Service	***$3.06***
GS-2	Large Volume	***$3.06***
	<100,000 Mcf	
	>100,000 Mcf	
S	School	***$46.03***
ST	Small Volume Transportation	***$151.07***
LT	Large Volume Transportation	***$733.48***
XLT	Extra Large Volume Transportation	***$4,258.38***
XXLT	Double Extra Large Volume Transportation	***$2,379.09***
	C&I/EUT Exploratory Program	

In addition to the above surcharges/ (credits), Rate Schedules A, 2A, GS-1, GS-2, and S are subject to Rule C7, Gas Cost Recovery, and may be subject to Rule C8, Customer Attachment Program.

The IRM is effective beginning with the first cycle of the January ***2025*** billing month and will change on a bill cycle basis thereafter each January based on the tables on Sheet No. D-2.01.

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Update IRM Surcharges)

Revised Sheet No. D-2.01

D2. SURCHARGES AND INFRASTRUCTURE RECOVERY MECHANISM (Contd.)

D2.2 Infrastructure Recovery Mechanism (IRM)

The IRM, approved in Case No. U-***21291***, is implemented on a bill cycle basis. The IRM is effective beginning with the first cycle of the January ***2025*** billing month and will change on a bill cycle basis thereafter each January based on the tables on Sheet No. D-2.01. The IRM is subject to an annual reconciliation of spend process and rates below any applicable cap may change based on the outcome of this process. Once implemented, the rate will be applied on the same basis as the monthly Customer Charge. The IRM will not expire until a final rate order superseding the IRM is issued in a general rate proceeding, however the rate may be lowered as a result of the annual reconciliation.

IRM for Sales Rate Schedule Customers:

$ per Month

	A	2A I/2A II	GS-1/ GS-2	S
2025	***$0.66***	***$4.11***	***$3.06***	***$46.03***
2026	***$2.26***	***$14.18***	***$10.57***	***$158.80***
2027	***$3.94***	***$23.88***	***$17.84***	***$265.78***
2028	***$5.51***	***$32.83***	***$24.52***	***$366.68***
2029 beyond	***$6.94***	***$40.86***	***$30.46***	***$460.77***

IRM for Transportation Rate Schedule Customers:

$ per Month

	ST	LT	XLT	XXLT
2025	***$151.07***	***$733.48***	***$4,258.38***	***$2,379.09***
2026	***$521.25***	***$2,530.79***	***$14,460.00***	***$7,351.62***
2027	***$871.90***	***$4,231.86***	***$14,460.00***	***$10,626.69***
2028	***$1,205.26***	***$4,995.00***	***$14,460.00***	***$13,546.21***
2029 beyond	***$1,520.25***	***$4,995.00***	***$14,460.00***	***$16,003.69***

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Update Rates)

Revised Sheet No. D-9.00

D5. RESIDENTIAL SERVICE RATE A

Character of Service

Who May Take Service

Subject to limitations and restrictions contained in orders of the Commission in effect from time to time and in the Rules and Regulations of the Company, service is available under this Rate Schedule to any residential customer for residential service as hereinafter defined. As used in this Rate Schedule "residential service" means service to any residential customer for any purpose, including space heating, by individual meter in a single family dwelling or building; or in an individual flat or apartment, or to not over four households served by a single meter (one customer) in a multifamily dwelling, or portion thereof. Residential premises also used regularly for professional or business purposes (such as doctor's office in a home, or where a small store is integral with the living space) are considered as residential where the residential use is half or more of the total gas volume; otherwise, these will be provided service under General Service Rate GS-1.

For purposes of rate application "residential usage" shall be usage consumed within an individual household, or reasonably appurtenant and related to, and normally with such a household, for such applications as space conditioning, cooking, water heating, refrigeration, clothes drying, incineration, lighting and other similar household applications.

Hours of Service

Twenty-four hours per day.

Rate

Customer Charge:	$***14.50*** per Meter per month, plus
Distribution Charge:	$***0.44616*** per 100 cubic feet
Gas Cost Recovery Charge:	As set forth on Sheet No. D-3.00

(Continued on Sheet No. D-10.00)

(Continued from Sheet No. D-9.00)

D5. RESIDENTIAL SERVICE RATE A (Contd.)

Low Income Energy Assistance Programs

When service is supplied to a customer taking service under Rate A at their primary residence, where the total household income does not exceed 150% of the Federal poverty level, either the Residential Income Assistance Service Provision credit or the Low Income Assistance Credit shall be applied during all billing months. These credits will be distributed at the Company's discretion.

To qualify for the Residential income Assistance Service Provision credit or Income Assistance Service Provision credit, a customer must verify they meet at least one of the following requirements in the past 12 months:

1. Receipt of:
   a. Home Heating Credit
   b. State Emergency Relief;
   c. Michigan Energy Assistance Program
   d. Medicaid or
   e. Supplementary Nutrition Assistance Program
2. If a low income customer cannot verify they meet any of the above requirements, a self-attestation form must be completed and provided to the utility.

If any Low Income Energy Assistance program results in a credit balance, that credit balance may only be applied to future billed amounts related to utility service provided to that customer under Rate A. In no case will a refund of such a balance be issued.

Residential Income Assistance Service Provision

The monthly credit for the residential Income Assistance Service Provision shall be applied as follows: Income Assistance Credit: $(***14.50***) per meter per month consistent with and equal to the Customer Charge.

Low Income Assistance Credit Pilot

This credit is available to up to 33,000 qualifying customers taking service under Rate A.

In addition to the income verification methods listed above, a customer may qualify for the Low Income Assistance Credit Pilot with proof of Enrollment in the Company's affordable payment plan as sanctioned under the Michigan Energy Assistance Program (MEAP) or having received one-time MEAP assistance in the past 12 months.

The monthly credit for the residential Low Income Assistance Credit shall be applied as follows: Income Assistance Credit: $(***40.00***) per meter per month, consistent with the Customer Charge.

General Terms and Surcharges

This Rate is subject to all General Terms and Conditions shown on Sheet No. D-1.00 and Surcharges shown on Sheet No. D-2.00.

(Continued on Sheet No. D-11.00)

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Update Rates)

Revised Sheet No. D-11.00

(Continued from Sheet No. D-10.00)

D5. RESIDENTIAL SERVICE RATE A (Contd.)

Low Income Assistance Credit Pilot (contd.)

The monthly credit for the residential Low Income Assistance Credit shall be applied as follows: Income Assistance Credit: $(***40.00***) per meter per month

General Terms and Surcharges

This Rate is subject to all General Terms and Conditions shown on Sheet No. D-1.00 and Surcharges shown on Sheet No. D-2.00.

Late Payment Charge and Due Date

A late payment charge of 2% of the bill, net of taxes, not compounded, may be added to any bill which is delinquent. The due date shall be 21 days following the date the bill was sent. A late payment charge will not be assessed against Customers participating in the Winter Protection Plan.

(Continued from Sheet No. D-13.00)

D6. MULTIFAMILY DWELLING SERVICE RATE 2A (Contd.)

Rate

Customer Charge (One of the following charges per Customer per month will be applied).

Meter Class I:	$***14.50*** per Meter per month
Meter Class II:	$***50.00*** per Meter per month
Distribution Charge:	$***0.44616*** per 100 cubic feet
Gas Cost Recovery Charge:	As set forth on Sheet No. D-3.00

General Terms and Surcharges

This Rate is subject to all General Terms and Conditions shown on Sheet No. D-1.00 and Surcharges shown on Sheet No. D-2.00.

Late Payment Charge and Due Date

A late payment charge of 2% of the bill, net of taxes, not compounded, may be added to any bill which is delinquent. The due date shall be 21 days following the date the bill was sent.

Gas Cost Recovery

This rate is subject to adjustments for fluctuations in the cost of gas as stated in Rule C7 of the applicable Rules and Regulations of Company.

Customer Contract

Applications for Gas Service shall be in writing upon application forms to be supplied by Company. Existing Customers who wish to connect space heating equipment must make written application for such service on forms to be provided by Company.

Meter Classification

For application of the Monthly Customer Charge in this Rate, Company's gas meters are designated in one of the following classifications:

Meter Class 1:	Meters with a rating of 400 Cubic Feet per Hour (Cfh) or less:
Meter Class II:	Meters with a rating in excess of 400 Cubic Feet per Hour (Cfu)

(Continued on Sheet No. D-15.00)

D7. GENERAL SERVICE RATE GS-1 AND GS-2

Availability

Subject to limitations and restrictions contained in orders of the Commission in effect from time to time and in the Rules and Regulations of Company, service is available under this Rate Schedule to any non-residential Customer, for any purpose.

Rates and Charges

Service Category	Customer Charge per Month	Distribution Charge
GS-1	$***50.00*** per meter	$***0.40371*** per 100 cubic feet
GS-2	$***925.00*** per Customer	$***0.32871*** per 100 cubic feet

Customer Charge for GS-2 is "per meter or Contiguous Facility."

Optional Remote Meter Charge $25.00 per Meter per Month

Customers may choose the Service Category under which they take service, consistent with the provisions of Rules C4.1, Classes of Service, C4.2, Choice of Rates and C4.3, Gas Not to be Submetered for Resale. When a Customer is selecting its initial Service Category, Company must advise them that the economic break even point between GS-1 and GS-2 is approximately 14,000 Mcf per year. After the initial selection is made, then it is Customer's responsibility to determine when it is appropriate to switch Service Categories, as permitted by Rule C4.2, Choice of Rates.

Gas Cost Recovery Charge

The gas cost recovery factors are shown on Sheet No. D-3.00. The rate is subject to adjustments for fluctuations in the cost of gas as stated in Rule C7 of the applicable Rules and Regulations of Company.

General Terms and Surcharges

This Rate is subject to all General Terms and Conditions shown on Sheet No. D-1.00 and Surcharges shown on Sheet No. D-2.00.

Late Payment Charge and Due Date

A late payment charge of 2% of the bill, net of taxes, not compounded, may be added to any bill which is not paid on or before 21 calendar days from the date of mailing.

(Continued on Sheet No. D-18.00)

(Continued from Sheet No. D-18.00)

D*8.* SCHOOL SERVICE RATE S

Character of Service

Who May Take Service

Subject to limitations and restrictions contained in orders of the Commission in effect from time to time and in the Rules and Regulations of Company, service is available under this Rate Schedule to each individual school which shall make application for service and which shall by contract in writing agree that the gas supplied hereunder shall, during the term of such contract, be used only in the following buildings:

A. Buildings on property exempt from taxation under the laws of the State of Michigan which are located on the same site and used for school purposes to impart instruction to children, grades kindergarten through twelve, when provided by any public, private, denominational or parochial school, including all adjacent and appurtenant buildings owned by the same Customer which are located on the same site and which constitute an integral part of such school facilities.

B. Buildings on property exempt from taxation under the laws of the State of Michigan which are located on the same campus and used to impart instruction provided by colleges and universities when being operated under the laws of said State, including all adjacent and appurtenant buildings owned by the same Customer which are located on the same campus and which constitute an integral part of such college or university facilities.

Rate

Customer Charge:	$***270.00*** per Customer per month, plus
Distribution Charge:	$***0.25916*** per 100 cubic feet
Gas Cost Recovery Charge:	As set forth on Sheet No. D-3.00

Customer Charge is “per meter or Contiguous Facility.”

Optional Remote Meter Charge	$25.00 per Meter per Month

General Terms and Surcharges

This Rate is subject to all General Terms and Conditions shown on Sheet No. D-1.00 and Surcharges shown on Sheet No. D-2.00.

Late Payment Charge and Due Date

A late payment charge of 2% of the bill, net of taxes, not compounded, may be added to any bill which is not paid on or before 21 calendar days from the date of mailing.

(Continued on Sheet No. D-20.00)

(Continued from Sheet No. E-4.00)

Applicable for End-Use Transportation Service

E2. RECORDS, ACCOUNTING AND CONTROL

E2.1 Transmittal of Notices, Bills and Payments

All notices, bills and payments required or permitted to be given in connection with service shall be transmitted as specified in Customer's Contract shall be valid and sufficient if delivered in person, dispatched by first class mail, overnight mail, telex, facsimile or transmitted electronically.

E2.2 Nominations, Accounting and Control

A. Customer may designate a third party as agent for purposes of Nominating, and for giving and receiving notices related to Nominations. Customer shall provide Company with written notice of such designation. Any such designation shall be effective starting the Month following the receipt of the notice and will remain in effect until revoked in writing by Customer.

B. All Nominations shall be submitted through Company's electronic gas nomination system. Specific information to be included in the Nomination is posted on Company's electronic gas nomination system.

C. Customer, or its designated agent, shall notify Company's Gas Nominations Department of the daily quantity of gas that Customer is Nominating for delivery to Company on behalf of Customer. Such Nominations shall be submitted by the North American Energy Standards Board (NAESB) Standard Timely Deadline Eastern Clock Time prior to the effective Gas Day. Nominations made within a NAESB Standard Intraday Cycle shall be accepted at the sole discretion of Company. Customer, or its designated agent, shall provide Company with a Nomination for each Gas Day. (If a single nomination is received it shall be assumed to apply for each subsequent day of the month unless otherwise stated).

D. If Customer fails to provide a Nomination for any Month, the daily Nomination is assumed to be zero.

E. For Transportation Service Rate Schedules, Customer or Customer's authorized representative may transfer a portion of their load balancing storage account balance to another End-Use Gas Transportation Customer(s) ("Transferee Customer(s)") served by the Company under the following conditions: 1) Gas transferred to the Transferee Customer's load balancing storage account shall be considered as delivered to the Transferee Customer's Receipt Point under their Gas Transportation Agreement or Contract with the Company; 2) such transactions are prospective and may not be used to avoid penalties once charged; 3) load balancing storage transfer notifications must be received by the Company ten (10) business days prior to the first day of the month of the transfer; and 4) load balancing storage transfers will not be allowed during October and November ***with the exception of Customers withdrawing their gas retained by Company following the termination of their EUT Contract***.

E2.3 Customer Access to Data

The Company will make Customer information available to Customer, or its designated agent, in accordance with the applicable provisions of Section C12 Customer Protections, Customer Access to Data and Section E11(F), Transportation Standards of Conduct, of its tariff. Customer information will be available to Customer, or its designated agent, through the Company's electronic system within 10 days of such information becoming available to the Company. Customer information regarding gas delivered at the Delivery Point(s) by Company to Customer will be in compliance with Section E4.4B of Company's

(Continued on Sheet No. E-6.00)

(Continued from Sheet No. E-7.00)

Applicable for End-Use Transportation Service

E4. SERVICE REQUIREMENTS (Contd.)

E4.4 Measurement (Contd.)

B. All quantities of gas delivered at the Delivery Point(s) by Company to Customer, or for the account of Customer, shall be measured at the Delivery Point(s) by Company, or its designee, in accordance and in compliance with the measurement specifications contained in the Gas Measurement Report #3, Gas Measurement Report #7, Gas Measurement Report #8 and Gas Measurement Report #9.

E4.5 Notice of Operational Flow Order (OFO)

When there is adequate time during constrained operational conditions or an emergency situation, and if applicable, Company will implement an Operational Flow Order, or OFO. Unless specified otherwise in the Contract between the customer and Company, an OFO invokes the requirement that customers shall deliver at least the OFODQ Min or no more than the OFODQ Max as specified by the Company's OFO notice to customer.

A. DTE shall deliver any OFO notices to the person the Company is in regular communication with about Customer's day-to-day operations as it pertains to Company. If said contact is no longer in that position or is not available, it is the Customer's responsibility to update DTE with current and accurate contacts. Company shall be deemed to have provided valid notice of the OFO if notice is provided to any person at Customer with whom Company has regular communications about Customer's day-to-day operations as it pertains to DTE.

B. When Company has provided customer notification of an OFODQ Max, any nomination made by customer that is greater than customer's OFODQ Max shall be rejected by the Company.

C. When Company has provided customer notification of an OFODQ Min requirement, customer shall be deemed non-compliant and shall be charged for Unauthorized Gas Usage set forth in Sections E7 and E14, on any Gas Day customer has not nominated and delivered to the Receipt Point(s) quantities of natural gas equal to or greater than customer's required OFODQ Min. ***Should a customer determine the quantity nominated and delivered was equal to or greater than the customers' usage on the gas day(s), although nominated and delivered gas did not meet OFODQ min requirements, such a customer can seek an Unauthorized Gas Usage penalty waiver by providing Company with proof within 30 days of receiving the bill containing the Unauthorized Gas Use charges. The onus is entirely on the customer to identify and contact Company should they be a candidate for such a waiver.***

D. Should a customer assert that OFODQ Min compliance caused the customer to have Excess Storage at month-end, customer may request DTE to waive any related Excess Storage Charges for the month the OFO occurred and must provide documentation supporting their claim. The onus lies with the customer to notify DTE and provide evidence within 30 days of receiving the bill containing the Excess Storage charges. The Company reserves the right to waive such an Excess Storage Charge for the following month at its sole discretion.

The payment of Unauthorized Gas Usage Charge does not create the right to exceed the levels established by an OFO.

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Update for changes in operation of OFO)

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Update Rates, Provide for exception to 12 month requirement)

Revised Sheet No. E-14.00

(Continued from Sheet No. E-13.00)

Applicable for End-Use Transportation Service

E14. TRANSPORTATION SERVICE RATES ST, LT, XLT, XXLT

Availability

Subject to any restrictions, service under this Rate Schedule is available to any Customer who could otherwise purchase gas under any other Company Rate Schedule.

Customer that selects transportation service under this Rate Schedule must remain on this Rate Schedule for at least 12 Months before Customer is eligible for a non-Transportation Service Rate and shall continue on this rate Year to Year after the initial term of the Transportation Contract has expired unless otherwise agreed upon between Company and Customer. Customer eligible to request a return to sales rates must provide a minimum of 12 Months written notice to Company of its election to return to sales rates***, unless otherwise agreed upon between company and customer***.

Company reserves the right to deny a return to sales rates subject to Company's Controlled Service Rule C2.

Under this Rate Schedule, Company will transport gas for Customer from the Receipt Point(s) to the Delivery Point(s).

Rates and Charges

	Service Category	
	ST	**LT**
Monthly Charges		
Customer Charge	$***2,780*** Per Customer	$***4,995*** Per Customer
Customer Charge is "per meter or Contiguous Facility."		
Optional Remote Meter Charge	$25.00 Per Meter	$25.00 Per Meter
Transportation Rates		
Cost Based Rate	$***0.13997*** Per Ccf	$***0.10640*** Per Ccf
Optional Rates:		
Maximum Rate	$***0.25695*** Per Ccf	$***0.18981*** Per Ccf
Minimum Rate	$0.02300 Per Ccf	$0.02300 Per Ccf

(Continued on Sheet No. E-15.00)

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Update Rates)

Revised Sheet No. E-15.00

(Continued from Sheet No. E-14.00)

Applicable for End-Use Transportation Service

E14. TRANSPORTATION SERVICE RATES ST, LT, XLT, XXLT (Contd.)

Rates and Charges

	Service Category	
	XLT	**XXLT**
Monthly Charges		
Customer Charge	$***14,460*** Per Customer	$***177,935*** Per Customer
Customer Charge is "per meter or Contiguous Facility."		
Remote Meter Charge	$100.00 Per Meter	$100.00 Per Meter
Transportation Rates		
Cost Based Rate	$***0.08414*** Per Ccf	$***0.02873*** Per Ccf
Optional Rates:		
Maximum Rate	$***0.15027*** Per Ccf	$***0.15027*** Per Ccf
Minimum Rate	$0.01800 Per Ccf	$0.00500 Per Ccf

Annual Contract Quantity or ACQ

ACQ means an annual quantity of natural gas specified in the Contract between Customer and Company, that can be delivered to Company and is based on Customer's average 12 Month usage (determined from the last 36 Months of data), plus adjustments, approved at Company's sole discretion, for known or expected changes or special operating conditions (including Standby Service per Section C4.5). Company will utilize their best efforts to ensure that Customer's ACQ is reflective of Customer's annual consumption and allow Customer all reasonable opportunities to minimize the risk of Unauthorized Gas Usage Charges.

Maximum Daily Quantity or MDQ

MDQ means a daily quantity of natural gas specified in the Contract between Customer and Company, that can be delivered to Company and is based on Customer's highest historical Month usage (determined from the last 36 Months of data) divided by the number of days during that Month and multiplied by 110%, plus adjustments, approved at Company's sole discretion, for known or expected changes or special operating conditions (including Standby Service per Section C4.5). Provided, however, during September, October, and November, Customer's MDQ will be based on the daily average of Customer's September, October, and November, usage from the previous three years, plus 1.43% of Customer's ACQ divided by 30 days. The MDQ may be calculated and changed independently from the ACQ. Company and Customer may agree to use a different MDQ as part of the negotiations for an optional discount from the cost based rates set forth in the tariff. Company will utilize their best efforts to ensure that Customer's MDQ is reflective of Customer's maximum daily consumption and allow Customer all reasonable opportunities to minimize the risk of Unauthorized Gas Usage Charges.

(Continued on Sheet No. E-16.00)

Applicable for End-Use Transportation Service

E14. TRANSPORTATION SERVICE RATES ST, LT, XLT, XXLT (Contd.)

Unauthorized Gas Usage (Contd.)

A. If on any Gas Day the quantity of gas in customer's Load Balancing Storage is less than zero, then the quantity or imbalance of gas that is less than zero may be treated as unauthorized gas usage and may be charged an Unauthorized Gas Usage Charge.

B. If customer is deemed non-compliant on any Gas Day during an OFO per Section E4.5.B, the difference between the required OFODQ Min specified for the customer and the actual quantities nominated and delivered by the customer to the Company will be treated as unauthorized gas usage and shall be charged an Unauthorized Gas Usage Charge (unless specified otherwise in the Contract between the customer and Company).

A Customer subject to Unauthorized Gas Usage Charges as defined under the transportation service rates shall be subject to shut off of service as provided in Sections C1.5 and E4.3 of the Rate Book.

Unauthorized Gas Usage Charge

If Customer uses Company's system supply, then Customer shall pay Unauthorized Gas Use Charges. The charge for such Unauthorized Gas Usage shall be $1.00 per 100 cubic feet plus the highest price reported in Gas Daily in the midpoint column of the Daily Price Survey for the following locations for the month in which the Unauthorized Gas Use occurred: Dawn, Ontario; Chicago city-gates; Consumers city-gate; or MichCon city-gate. Unauthorized Gas Use Charges are in addition to those normal charges made under the applicable Rate Schedules, for all gas taken by Customer in excess of the cumulative volume delivered to Company (less Gas-in-Kind) on behalf of Customer. In the event Gas Daily discontinues its reporting such prices, the Company will select a comparable reporting service.

Any Unauthorized Gas Usage Charges and quantities relating to 1) non-compliance with a Notice of OFO or, 2) if Customer's Load Balancing Storage quantity on any Gas Day is less than zero during a Month, shall be taken into account when calculating total deliveries, Customer's unauthorized use of Company's system supply, and Unauthorized Gas Charges for the month (double counting of penalties shall not be allowed during a Month).

At the Company's sole discretion, Unauthorized Gas Use Charges may be waived if Customer experienced extenuating circumstance(s) or unusual operating condition(s) resulting in Unauthorized Gas Use Charge(s) and meets all the following criteria:

1. ***Customer takes corrective action promptly when Unauthorized Gas Usage is identified;***
2. ***Company determines the Unauthorized Gas Use did not cause undue strain on the Company's system;***
3. ***There is no evidence that Customer, its Supplier, or a third party may have financially benefitted from the Unauthorized gas use; and***
4. ***Customer has not had Unauthorized charges waived in the previous 12 billing months***

In the event Customer qualifies for such a waiver and Unauthorized Gas Use Charges are waived; the Customer is responsible for the cost of Unauthorized Gas Use which shall be equal to:

1. ***the higher of***
   a. ***the GCR factor in effect for the billing month the Unauthorized Gas Use occurred or***
   b. ***the Company's weighted average cost of gas purchased for the calendar month the unauthorized Gas Usage occurred***
2. ***plus $0.10 per 100 cubic feet.***

(Continued on Sheet No. E-18.00)

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Remove requirements; Add reference)

(Continued from Sheet No. E-25.00)

Applicable for Off-System Storage and Transportation Service

E17. GAS QUALITY

E17.1 Quality

A. The gas delivered to Company shall meet the requirements ***in Section E3***:

(Continued on Sheet No. E-27.00)

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Update rate and remove ANR-ML7 price reporting location)

(Continued from Sheet No. E-34.00)

Applicable for Off-System Storage and Transportation Service

E25. TRANSPORTATION OFF-SYSTEM (FIRM) SERVICE RATE TOS-F (Contd.)

Imbalance

Company and Customer shall work to keep the gas flow in balance at all times. If at any time, the volumes of gas received by Company at the Receipt Point(s) are greater or lesser than the gas delivered at the Delivery Point(s), Company may refuse, increase or decrease deliveries to correct the imbalances. If, upon termination of a Contract, Customer has not delivered to Company quantities of gas that are equal to those Customer has taken at the Delivery Point(s), Customer must deliver the deficient volumes to Company, within 60 days of the termination of Contract, at a mutually agreeable rate of delivery. If Customer fails to correct the imbalance within the 60 day period, then Customer shall pay an Unauthorized Gas Usage Charge to Company. The charge for such Unauthorized Gas Usage shall be $10.00 per MMBtu plus the highest price reported in Gas Daily in the midpoint column of the Daily Price Survey for the following locations for the month in which the Unauthorized Gas Use occurred: Dawn, Ontario; Chicago city-gates; Consumers city-gate; or MichCon city-gate. In the event Gas Daily discontinues its reporting such prices, the Company will select a comparable reporting service.

Gas in Kind

Company shall retain 1.00% of all gas received at the Receipt Point(s) to compensate it for the allowance for company-use and lost-and-unaccounted-for gas on Company's system. This volume shall not be included in the quantity available for delivery to Customer. In no event will Customer pay Gas-in-Kind more than once on the same volumes.

Rates

A. For contracts less than 365 days, a rate as mutually agreed to by Customer and Company and set forth in Contract, consisting of a demand portion and/or a commodity portion.

B. For contracts equal to or exceeding 365 days, a rate not to exceed $***0.4711*** per MMBtu, consisting of a demand portion and/or a commodity portion shall be mutually agreed to by Customer and Company and set forth in Contract.

Late Payment Charge and Due Date

A late payment charge of 2% shall be applied to the unpaid balance outstanding if the bill is not paid in full on or before the date on which the bill is due. The due date of Customer's bill shall be 21 days from the date bill was sent.

(Continued on Sheet No. E-35.01)

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Remove ANR-ML7 price reporting location)

Revised Sheet No. E-35.01

(Continued from Sheet No. E-35.00)

Applicable for Off-System Storage and Transportation Service

E25. TRANSPORTATION OFF-SYSTEM (FIRM) SERVICE RATE TOS-F (Contd.)

Penalty Charges:

Company is authorized to charge transportation customers Unauthorized Gas Usage Charge if Customer takes gas at one or more Delivery Points in excess of Customer's MDQ and/or ACQ without Company's prior consent. The charge for such Unauthorized Gas Usage shall be $10.00 per MMBtu plus the highest price reported in Gas Daily in the midpoint column of the Daily Price Survey for the following locations for the month in which the Unauthorized Gas Use occurred: Dawn, Ontario; Chicago city-gates; Consumers city-gate; or MichCon city-gate for all gas taken by Customer in excess of MDQ and/or ACQ (less Gas-in-Kind). In the event Gas Daily discontinues its reporting such prices, the Company will select a comparable reporting service.

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Update rate and remove ANR-ML7 price reporting location)

(Continued from Sheet No. E-36.00)

Applicable for Off-System Storage and Transportation Service

E26. TRANSPORTATION OFF-SYSTEM (INTERRUPTIBLE) SERVICE RATE TOS-I (Contd.)

Imbalance

Company and Customer shall work to keep the gas flow in balance at all times. If at any time, the volumes of gas received by Company at the Receipt Point(s) are greater or lesser than the gas delivered at the Delivery Point(s), Company may refuse, increase or decrease deliveries to correct the imbalances. If, upon termination of a Contract, Customer has not delivered to Company quantities of gas that are equal to those Customer has taken at the Delivery Point(s), Customer must deliver the deficient volumes to Company, within 60 days of the termination of Contract, at a mutually agreeable rate of delivery. If Customer fails to correct the imbalance within the 60 day period, then Customer shall pay an Unauthorized Gas Usage charge to Company. The charge for such Unauthorized Gas Usage shall be $10.00 per MMBtu plus the highest price reported in Gas Daily in the midpoint column of the Daily Price Survey for the following locations for the month in which the Unauthorized Gas Use occurred: Dawn, Ontario; Chicago city-gates; Consumers city-gate; or MichCon city-gate for all gas taken by Customer in excess of the cumulative volume delivered to Company (less Gas-in-Kind) on behalf of Customer. In the event Gas Daily discontinues its reporting such prices, the Company will select a comparable reporting service.

Gas in Kind

Company shall retain 1.00% of all gas received at the Receipt Point(s) to compensate it for the allowance for company-use and lost-and-unaccounted-for gas on Company's system. This volume shall not be included in the quantity available for delivery to Customer. In no event will Customer pay Gas-in-Kind more than once on the same volumes.

Rates

A. For contracts less than 365 days, a rate as mutually agreed to by Customer and Company and set forth in Contract, consisting of a demand portion and/or a commodity portion.

B. For contracts equal to or exceeding 365 days, a rate not to exceed $***0.4711***
per MMBtu, consisting of a demand portion and/or a commodity portion shall be mutually agreed to by Customer and Company and set forth in Contract.

Late Payment Charge and Due Date

A late payment charge of 2% shall be applied to the unpaid balance outstanding if the bill is not paid in full on or before the date on which the bill is due. The due date of Customer's bill shall be 21 days from the date the bill was sent.

(Continued on Sheet No. E-37.01)

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Remove ANR-ML7 price reporting location)

(Continued from Sheet No. E-37.00)

Applicable for Off-System Storage and Transportation Service

E26. TRANSPORTATION OFF-SYSTEM (INTERRUPTIBLE) SERVICE RATE TOS-I (Contd.)

Penalty Charges:

Company is authorized to charge Transportation customers Unauthorized Gas Usage Charge if Customer takes gas at one or more Delivery Points in excess of Customer's MDQ and/or ACQ without Company's prior consent. The charge for such Unauthorized Gas Usage shall be $10.00 per MMBtu plus the highest price reported in Gas Daily in the midpoint column of the Daily Price Survey for the following locations for the month in which the Unauthorized Gas Use occurred: Dawn, Ontario; Chicago city-gates; Consumers city-gate; or MichCon city-gate for all gas taken by Customer in excess of MDQ and/or ACQ (less Gas-in-Kind). In the event Gas Daily discontinues its reporting such prices, the Company will select a comparable reporting service.

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Remove ANR-ML7 price reporting location)

(Continued from Sheet No. E-37.01)

Applicable for Off-System Storage and Transportation Service

E27. CONTRACT STORAGE (FIRM) SERVICE RATE CS-F (Contd.)

Penalty Charges

Company is authorized to charge Storage Customers for Unauthorized Gas Use for any portion of Customer's injections into or withdrawals from storage that exceed the MDIQ, MDWQ, and/or MSQ set forth in the Customer's Storage Contract that is made by the Customer without Company's prior consent. Such a charge shall not apply to any gas tendered as Gas-in-Kind. In the event Customer withdraws gas from storage that is not in Customer's storage account prior to such withdrawal, Company is authorized to invoice Customer $10.00 per MMBtu plus the highest price reported in Gas Daily in the midpoint column of the Daily Price Survey for the following locations for the month in which the Unauthorized Gas Use occurred: Dawn, Ontario; Chicago city-gates; Consumers city-gate; or MichCon city-gate for such gas. In the event Gas Daily discontinues its reporting such prices, the Company will select a comparable reporting service.

Customer shall request the withdrawal of all its gas in storage for delivery to the Delivery Point(s) on or before the last Gas Day on the term of the Contract. If, upon termination of the Contract, Customer has not requested the withdrawal of all its gas in storage, then Customer's remaining volumes shall be deemed sold to Company at a rate of the MichCon City Gate Index as published in Gas Daily less $0.50 per MMBtu. Payment for the volumes left in storage shall appear as a credit on the last statement rendered by Company. To the extent that the credit exceeds the total charges in that statement, Company shall pay the difference to Customer.

(Continued on Sheet No. E-40.00)

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Remove ANR-ML7 price reporting location)

Revised Sheet No. E-41.00

(Continued from Sheet No. E-40.00)

Applicable for Off-System Storage and Transportation Service

E28. CONTRACT STORAGE (INTERRUPTIBLE) SERVICE RATE CS-I (Contd.)

Gas in Kind

Fuel for injection of 1.00% shall be paid for by Gas-in-Kind.

Rates

The Storage Charge shall be a rate as mutually agreed to by Customer and Company and set forth in Contract, consisting of a demand portion and/or a commodity portion.

Late Payment Charge and Due Date:

A late payment charge of 2% shall be applied to the unpaid balance outstanding if the bill is not paid in full on or before the date on which the bill is due. The due date of Customer's bill shall be 21 days from the date the bill was sent.

Penalty Charges:

Company is authorized to charge storage Customers for d Unauthorized Gas Use for any portion of Customer's injections into or withdrawals from storage that exceed the MDIQ, MDWQ, and/or MSQ set forth in the Customer's Storage Contract that is made by the Customer without Company's prior consent. Such a charge shall not apply to any gas tendered as Gas-in-Kind. In the event Customer withdraws gas from storage that is not in Customer's storage account prior to such withdrawal, Company is authorized to invoice Customer $10.00 per MMBtu plus the highest price reported in Gas Daily in the midpoint column of the Daily Price Survey for the following locations for the month in which the Unauthorized Gas Use occurred: Dawn, Ontario; Chicago city-gates; Consumers city-gate; or MichCon city-gate for such gas. In the event Gas Daily discontinues its reporting such prices, the Company will select a comparable reporting service.

Customer shall request the withdrawal of all its gas in storage for delivery to the Delivery Point(s) on or before the last Gas Day on the term of the Contract. If, upon termination of the Contract, Customer has not requested the withdrawal of all its gas in storage, then Customer's remaining volumes shall be deemed sold to Company at a rate of the MichCon City Gate Index as published in Gas Daily less $0.50 per MMBtu. Payment for the volumes left in storage shall appear as a credit on the last statement rendered by Company. To the extent that the credit exceeds the total charges in that statement, Company shall pay the difference to Customer.

(Continued on Sheet No. E-42.00)

M.P.S.C. No. 1 – Gas
DTE Gas Company
(Remove ANR-ML7 price reporting location)

(Continued from Sheet No. F-2.00)

GENERAL PROVISIONS (Contd.)

F1.8 Gas delivered into the Company's system shall comply with Rule B1, Technical Standards for Gas Service, Part 8, Gas Quality.

F1.9 Each supplier shall notify the Company's Gas Transportation Administration Department of the daily quantity of gas that the Supplier is nominating for delivery on behalf of each Supplier-designated Pricing Category. Such nominations shall be submitted in accordance with the Company's existing nomination procedures.

F1.10 A Supplier that falls short of the delivery schedule, described in F1.7, above, shall pay a per MMBtu "Failure Fee" for all shortages in the amount of $6.00 per MMBtu ($10.00 per MMBtu during periods of a Company-declared supply emergency in accordance with Rule C3.1, Curtailment of Gas Service for Gas Supply Deficiency plus the higher of (a) the cost of gas billed to sales customers pursuant to the Company's Rule C7 or (b) the highest price reported in Gas Daily in the midpoint column of the Daily Price Survey, for the following locations for the month in which the breach occurred or the month following such breach: Dawn, Ontario; Chicago city-gates; Consumers city-gates; or MichCon city-gates.

A Supplier that falls short of the required delivery schedule obligation to the extent that the cumulative unpaid Failure Fees exceed any cash deposit or alternative assurance described in F1.4, above, shall have its Alternative Supplier status revoked. Subject to Rule C2, Controlled Service, the Supplier's customers shall become sales rate customers of the Company.

F1.11 All customer billing and remittance processing functions for services provided under Rate CC will be performed by the Company. The Supplier will be charged a monthly fee of $0.30 per customer account. The Company will be responsible for credit and collection activities for the amounts billed directly to the customer by the Company. The Supplier must, at least three business days prior to the start of each billing month, furnish to the Company, in a format acceptable to the Company, the price per Mcf or Ccf to be billed to each Supplier-designated Pricing Category on its behalf, or the most recently supplied price will be used.

(Continued on Sheet No. F-4.00)

Michigan Public Service Commission
DTE Gas Company
Calculation of Monthly Charges for Proposed Infrastructure Recovery Mechanism
2025 Year 1
($000)
FOR ORDER

Case No: U-21291
ATTACHMENT C

Line No.	(a) Description	(b) Total Company	(c) Rate GS-1/GS-2	(d) Rate A	(e) Rate 2A	(f) Rate S	(g) Rate ST	(h) Rate LT	(i) Rate XLT	(j) Rate XXLT	(k) Exelon
	Allocation Factors										
1	Average & Peak (Alloc. 3)	1.0000	0.1648	0.4648	0.0154	0.0067	0.0452	0.0443	0.0610	0.1691	0.0287
2	A&P w/o XXLT (Alloc. 3a)	1.0000	0.1984	0.5594	0.0185	0.0080	0.0544	0.0534	0.0734	-	0.0346
3	Weighted Customers - All (Alloc. 5)	1.0000	0.2248	0.7386	0.0180	0.0030	0.0112	0.0027	0.0010	0.0003	0.0004
4	Customers - All (Alloc. 8)	1.0000	0.0683	0.9265	0.0046	0.0002	0.0003	0.0001	0.0000	0.0000	0.0000
	Revenue Requirement										
5	GRP - Main Replacement (1)	12,905	2,560	7,219	239	103	701	689	948	-	446
6	GRP - Meter Move-Out (2)	2,715	610	2,006	49	8	30	7	3	1	1
7	Pipeline Integrity (3)	1,176	194	547	18	8	53	52	72	199	34
8	Cathodic Protection (4)	-	-	-	-	-	-	-	-	-	-
9	Total - Revenue Requirement	16,796	3,364	9,771	306	119	785	748	1,022	200	481
10	Customers (5)	1,340,887	91,545	1,242,379	6,201	216	433	85	20	7	1
11	Monthly Charge $/Meter		$ 3.06	$ 0.66	$ 4.11	$ 46.03	$ 151.07	$ 733.48	$ 4,258.38	$ 2,379.09	
12	**Maximum customer charge**						**$ 2,780**	**$ 4,995**	**$ 14,460**	**$ 177,935**	
13	Adjustment for Maximum Cap	-					-	-	-	-	
14	Reallocate using Customers (Line 7)	-	-	-	-	-	-	-	-	-	-
15	Revised Rev Req (Lines 13, 22 & 24)	16,796	3,364	9,771	306	119	785	748	1,022	200	481
16	Customers (Line 14)	1,340,887	91,545	1,242,379	6,201	216	433	85	20	7	1
17	Revised Monthly Charge $/Meter		$ 3.06	$ 0.66	$ 4.11	$ 46.03	$ 151.07	$ 733.48	$ 4,258.38	$ 2,379.09	

Michigan Public Service Commission
DTE Gas Company
Calculation of Monthly Charges for Proposed Infrastructure Recovery Mechanism
2026 Year 2
($000)
FOR ORDER

Line No.	(a) Description	(b) Total Company	(c) Rate GS-1/GS-2	(d) Rate A	(e) Rate 2A	(f) Rate S	(g) Rate ST	(h) Rate LT	(i) Rate XLT	(j) Rate XXLT	(k) Exelon
	Allocation Factors										
1	Average & Peak (Alloc. 3)	1.0000	0.1648	0.4648	0.0154	0.0067	0.0452	0.0443	0.0610	0.1691	0.0287
2	A&P w/o XXLT (Alloc. 3a)	1.0000	0.1984	0.5594	0.0185	0.0080	0.0544	0.0534	0.0734	-	0.0346
3	Weighted Customers - All (Alloc. 5)	1.0000	0.2248	0.7386	0.0180	0.0030	0.0112	0.0027	0.0010	0.0003	0.0004
4	Customers - All (Alloc. 8)	1.0000	0.0683	0.9265	0.0046	0.0002	0.0003	0.0001	0.0000	0.0000	0.0000
	Revenue Requirement										
5	GRP - Main Replacement (1)	44,881	8,903	25,107	830	359	2,439	2,395	3,296	-	1,551
6	GRP - Meter Move-Out (2)	9,356	2,103	6,911	169	28	105	26	9	3	3
7	Pipeline Integrity (3)	3,633	599	1,689	56	24	164	161	222	614	104
8	Cathodic Protection (4)	-	-	-	-	-	-	-	-	-	-
9	Total - Revenue Requirement	57,871	11,605	33,707	1,055	411	2,708	2,581	3,526	618	1,659
10	Customers (5)	1,340,887	91,545	1,242,379	6,201	216	433	85	20	7	1
11	Monthly Charge $/Meter		$ 10.56	$ 2.26	$ 14.18	$ 158.80	$ 521.25	$ 2,530.79	$ 14,693.27	$ 7,351.62	
12	**Maximum customer charge**						**$ 2,780**	**$ 4,995**	**$ 14,460**	**$ 177,935**	
13	Adjustment for Maximum Cap	(56)					-	-	(56)	-	
14	Reallocate using Customers (Line 7)	56	4	52	0	0	0	0	-	0	0
15	Revised Rev Req (Lines 13, 22 & 24)	57,871	11,609	33,759	1,055	411	2,708	2,581	3,470	618	1,659
16	Customers (Line 14)	1,340,887	91,545	1,242,379	6,201	216	433	85	20	7	1
17	Revised Monthly Charge $/Meter		$ 10.57	$ 2.26	$ 14.18	$ 158.80	$ 521.25	$ 2,530.79	$ 14,460.00	$ 7,351.62	

Michigan Public Service Commission
DTE Gas Company
Calculation of Monthly Charges for Proposed Infrastructure Recovery Mechanism
2027 Year 3
($000)
FOR ORDER

Case No: U-21291
ATTACHMENT C
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Line No.	(a) Description	(b) Total Company	(c) Rate GS-1/GS-2	(d) Rate A	(e) Rate 2A	(f) Rate S	(g) Rate ST	(h) Rate LT	(i) Rate XLT	(j) Rate XXLT	(k) Exelon
	Allocation Factors										
1	Average & Peak (Alloc. 3)	1.0000	0.1648	0.4648	0.0154	0.0067	0.0452	0.0443	0.0610	0.1691	0.0287
2	A&P w/o XXLT (Alloc. 3a)	1.0000	0.1984	0.5594	0.0185	0.0080	0.0544	0.0534	0.0734	-	0.0346
3	Weighted Customers - All (Alloc. 5)	1.0000	0.2248	0.7386	0.0180	0.0030	0.0112	0.0027	0.0010	0.0003	0.0004
4	Customers - All (Alloc. 8)	1.0000	0.0683	0.9265	0.0046	0.0002	0.0003	0.0001	0.0000	0.0000	0.0000
	Revenue Requirement										
5	GRP - Main Replacement (1)	75,728	15,022	42,363	1,401	606	4,116	4,041	5,561	-	2,617
6	GRP - Meter Move-Out (2)	15,752	3,541	11,635	284	47	177	43	15	5	6
7	Pipeline Integrity (3)	5,247	865	2,439	81	35	237	233	320	887	151
8	Cathodic Protection (4)	-	-	-	-	-	-	-	-	-	-
9	Total - Revenue Requirement	96,727	19,428	56,437	1,766	688	4,530	4,316	5,896	893	2,773
10	Customers (5)	1,340,887	91,545	1,242,379	6,201	216	433	85	20	7	1
11	Monthly Charge $/Meter		$ 17.69	$ 3.79	$ 23.73	$ 265.63	$ 871.75	$ 4,231.71	$ 24,567.23	$ 10,626.54	
12	**Maximum customer charge**						**$ 2,780**	**$ 4,995**	**$ 14,460**	**$ 177,935**	
13	Adjustment for Maximum Cap	(2,426)					-	-	(2,426)	-	
14	Reallocate using Customers (Line 7)	2,426	166	2,248	11	0	1	0	-	0	0
15	Revised Rev Req (Lines 13, 22 & 24)	96,727	19,594	58,685	1,777	688	4,530	4,316	3,470	893	2,773
16	Customers (Line 14)	1,340,887	91,545	1,242,379	6,201	216	433	85	20	7	1
17	Revised Monthly Charge $/Meter		$ 17.84	$ 3.94	$ 23.88	$ 265.78	$ 871.90	$ 4,231.86	$ 14,460.00	$ 10,626.69	

Michigan Public Service Commission
DTE Gas Company
Calculation of Monthly Charges for Proposed Infrastructure Recovery Mechanism
2028 Year 4
($000)
FOR ORDER

Case No: U-21291
ATTACHMENT C
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Line No.	(a) Description	(b) Total Company	(c) Rate GS-1/GS-2	(d) Rate A	(e) Rate 2A	(f) Rate S	(g) Rate ST	(h) Rate LT	(i) Rate XLT	(j) Rate XXLT	(k) Exelon
	Allocation Factors										
1	Average & Peak (Alloc. 3)	1.0000	0.1648	0.4648	0.0154	0.0067	0.0452	0.0443	0.0610	0.1691	0.0287
2	A&P w/o XXLT (Alloc. 3a)	1.0000	0.1984	0.5594	0.0185	0.0080	0.0544	0.0534	0.0734	-	0.0346
3	Weighted Customers - All (Alloc. 5)	1.0000	0.2248	0.7386	0.0180	0.0030	0.0112	0.0027	0.0010	0.0003	0.0004
4	Customers - All (Alloc. 8)	1.0000	0.0683	0.9265	0.0046	0.0002	0.0003	0.0001	0.0000	0.0000	0.0000
	Revenue Requirement										
5	GRP - Main Replacement (1)	105,473	20,923	59,003	1,952	845	5,733	5,628	7,745	-	3,645
6	GRP - Meter Move-Out (2)	20,148	4,529	14,882	363	60	226	55	20	7	7
7	Pipeline Integrity (3)	6,688	1,102	3,109	103	45	302	297	408	1,131	192
8	Cathodic Protection (4)	-	-	-	-	-	-	-	-	-	-
9	Total - Revenue Requirement	132,309	26,554	76,994	2,417	949	6,261	5,979	8,173	1,138	3,844
10	Customers (5)	1,340,887	91,545	1,242,379	6,201	216	433	85	20	7	1
11	Monthly Charge $/Meter		$ 24.17	$ 5.16	$ 32.49	$ 366.33	$ 1,204.91	$ 5,862.19	$ 34,052.42	$ 13,545.86	
12	**Maximum customer charge**						**$ 2,780**	**$ 4,995**	**$ 14,460**	**$ 177,935**	
13	Adjustment for Maximum Cap	(5,587)					-	(885)	(4,702)	-	
14	Reallocate using Customers (Line 7)	5,587	381	5,177	26	1	2	-	-	0	0
15	Revised Rev Req (Lines 13, 22 & 24)	132,309	26,936	82,171	2,443	950	6,263	5,095	3,470	1,138	3,844
16	Customers (Line 14)	1,340,887	91,545	1,242,379	6,201	216	433	85	20	7	1
17	Revised Monthly Charge $/Meter		$ 24.52	$ 5.51	$ 32.83	$ 366.68	$ 1,205.26	$ 4,995.00	$ 14,460.00	$ 13,546.21	

Michigan Public Service Commission
DTE Gas Company
Calculation of Monthly Charges for Proposed Infrastructure Recovery Mechanism
2029 Year 5
($000)
FOR ORDER

Case No: U-21291
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Line No.	(a) Description	(b) Total Company	(c) Rate GS-1/GS-2	(d) Rate A	(e) Rate 2A	(f) Rate S	(g) Rate ST	(h) Rate LT	(i) Rate XLT	(j) Rate XXLT	(k) Exelon
	Allocation Factors										
1	Average & Peak (Alloc. 3)	1.0000	0.1648	0.4648	0.0154	0.0067	0.0452	0.0443	0.0610	0.1691	0.0287
2	A&P w/o XXLT (Alloc. 3a)	1.0000	0.1984	0.5594	0.0185	0.0080	0.0544	0.0534	0.0734	-	0.0346
3	Weighted Customers - All (Alloc. 5)	1.0000	0.2248	0.7386	0.0180	0.0030	0.0112	0.0027	0.0010	0.0003	0.0004
4	Customers - All (Alloc. 8)	1.0000	0.0683	0.9265	0.0046	0.0002	0.0003	0.0001	0.0000	0.0000	0.0000
	Revenue Requirement										
5	GRP - Main Replacement (1)	134,215	26,625	75,082	2,483	1,075	7,295	7,162	9,856	-	4,638
6	GRP - Meter Move-Out (2)	21,776	4,895	16,084	392	64	244	59	21	7	8
7	Pipeline Integrity (3)	7,906	1,303	3,675	122	53	357	351	482	1,337	227
8	Cathodic Protection (4)	-	-	-	-	-	-	-	-	-	-
9	Total - Revenue Requirement	163,897	32,823	94,841	2,997	1,192	7,896	7,571	10,359	1,344	4,873
10	Customers (5)	1,340,887	91,545	1,242,379	6,201	216	433	85	20	7	1
11	Monthly Charge $/Meter		$ 29.88	$ 6.36	$ 40.28	$ 460.19	$ 1,519.67	$ 7,423.03	$ 43,162.38	$ 16,003.11	
12	**Maximum customer charge**						**$ 2,780**	**$ 4,995**	**$ 14,460**	**$ 177,935**	
13	Adjustment for Maximum Cap	(9,365)					-	(2,477)	(6,889)	-	
14	Reallocate using Customers (Line 7)	9,365	639	8,678	43	2	3	-	-	0	0
15	Revised Rev Req (Lines 13, 22 & 24)	163,897	33,462	103,519	3,041	1,193	7,899	5,095	3,470	1,344	4,873
16	Customers (Line 14)	1,340,887	91,545	1,242,379	6,201	216	433	85	20	7	1
17	Revised Monthly Charge $/Meter		$ 30.46	$ 6.94	$ 40.86	$ 460.77	$ 1,520.25	$ 4,995.00	$ 14,460.00	$ 16,003.69	

Michigan Public Service Commission
DTE Gas Company
Calculation of Monthly Charges for Proposed Infrastructure Recovery Mechanism
Summary of Monthly Per Meter Charges by Year
FOR ORDER

Case No: U-21291
Exhibit: C
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Line No.	(a) Description	(b) Rate GS-1/GS-2	(c) Rate A	(d) Rate 2A	(e) Rate S	(f) Rate ST	(g) Rate LT	(h) Rate XLT	(i) Rate XXLT	(j) Source
1	Year									
2	2025	$ 3.06	$ 0.66	$ 4.11	$ 46.03	$ 151.07	$ 733.48	$ 4,258.38	$ 2,379.09	Page 1
3	2026	$ 10.57	$ 2.26	$ 14.18	$ 158.80	$ 521.25	$ 2,530.79	$ 14,460.00	$ 7,351.62	Page 2
4	2027	$ 17.84	$ 3.94	$ 23.88	$ 265.78	$ 871.90	$ 4,231.86	$ 14,460.00	$ 10,626.69	Page 3
5	2028	$ 24.52	$ 5.51	$ 32.83	$ 366.68	$ 1,205.26	$ 4,995.00	$ 14,460.00	$ 13,546.21	Page 4
6	2029	$ 30.46	$ 6.94	$ 40.86	$ 460.77	$ 1,520.25	$ 4,995.00	$ 14,460.00	$ 16,003.69	Page 5

P R O O F O F S E R V I C E

STATE OF MICHIGAN)

Case No. U-21291

County of Ingham)

Brianna Brown being duly sworn, deposes and says that on November 7, 2024 A.D. she electronically notified the attached list of this **Commission Order via e-mail transmission**, to the persons as shown on the attached service list (Listserv Distribution List).

Brianna Brown

Subscribed and sworn to before me
this 7th day of November 2024.

Angela P. Sanderson
Notary Public, Shiawassee County, Michigan
As acting in Eaton County
My Commission Expires: May 21, 2030

Service List for Case: U-21291

Name	On Behalf Of	Email Address
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