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January 18, 2002

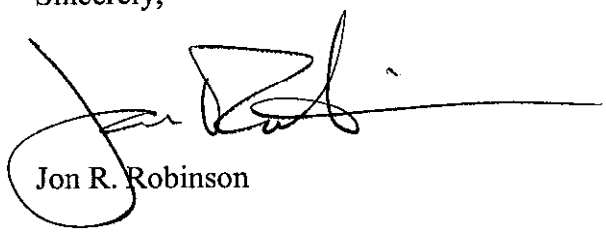
Ms. Dorothy Wideman
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
P.O. Box 30221
Lansing, MI 48909

Re: Case No. U-12639

Dear Ms. Wideman:

Enclosed for filing in the above-captioned case are an original and four copies of the "**Petition For Clarification And Rehearing Of Consumers Energy Company**". I have also enclosed a Proof of Service.

Sincerely,



Jon R. Robinson

CC: Hon. Daniel E. Nickerson, Jr., ALJ
Parties per Attachment 1 to
Proof of Service

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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter, on the Commission's own Motion, to implement the provisions of Section 10a(10) of 2000 PA 141.	))))	Case No. U-12639

PETITION FOR CLARIFICATION AND REHEARING OF CONSUMERS ENERGY COMPANY

Consumers Energy Company ("Consumers Energy") petitions the Commission for clarification and/or rehearing of the Opinion and Order dated December 20, 2001 ("December 20 Order") issued in this proceeding. In support of this petition, Consumers Energy says as follows:

1. Consumers Energy seeks to ensure that its understanding of the December 20 Order is accurate with respect to the net stranded cost calculation methodology adopted in the order. Because of the possibility of multiple interpretations of certain aspects of the December 20 Order, and because these differing interpretations potentially represent a difference of millions of dollars, Consumers Energy believes further clarification, including the establishment of the precise calculation called for by that methodology, is critical.

2. Consumers Energy understands the December 20 Order to have left open the correct manner of implementing the Staff stranded cost methodology. That is, the Commission appears at several places in the December 20 Order to have recognized that the calculation presented by the Staff in the U-12639 proceeding may require some corrections. See e.g., pages 14, 20, 21 of December 20 Order. The Commission is requested to confirm this understanding.

3. Similarly, Consumers Energy understands the December 20 Order to have authorized the recalculation of stranded costs/benefits for 2000 in a manner that corrects errors in the Staff calculation for 2000. See page 14 of December 20 order and pages 4-9 of Consumers Energy Replies to Exceptions. That is, Consumers Energy does not understand the December 20 Order to have definitively determined that stranded benefits of $97 million exist for Consumers Energy for 2000, but rather understands that order to have deferred a final determination of the stranded costs/benefits for 2000 to a future proceeding. The Commission is requested to confirm this understanding.

4. (A) Consumers Energy believes that, in implementing the Staff methodology, the Commission does not intend to exclude the capacity cost of power supply option arrangements from the revenue requirement associated with fixed generation costs. At page 17 of the December 20 Order, however, the Commission states that "contracts for the purchase of unneeded capacity and energy are avoidable, and thus not stranded." Emphasis added. This statement introduces ambiguity into the manner in which the Staff calculation will be performed, in particular because the Commission fails to define "unneeded capacity" and fails to find that Consumers Energy purchased "unneeded capacity" in 2000. For example, the Commission presumably did not mean to imply that capacity owned or purchased to maintain adequate reserve margins is "unneeded" simply because, for weather conditions or other reasons, the capacity was not used or was used infrequently in a particular year.

(B) As is apparent from the annual summer reliability filings Consumers Energy has made with the Commission for the past 4 years,[1] such reliability power supply options arrangements have been important elements of the power resources that Consumers Energy

[1] See filings in Cases No. U-11677 for 1998, U-11889 for 1999, U-11292 for 2000, and U-12702 for 2001. These are hereinafter referred to collectively as "summer reliability filings."

acquires to assure reliable service to retail Michigan customers. These reliability options arrangements are made well in advance of the period for which they apply, often involve multi-year contracts, and typically provide for an up-front fixed capacity payment that provides the Company with the right, but not the obligation, to call upon a specific supplier to deliver power under pre-specified terms and conditions. These agreements must be completed well ahead of time (including the payment of capacity premiums and the arranging of firm transmission) to ensure security of supply. If this right is exercised (i.e., if the option is "struck"), there is an additional energy payment associated with the actual physical delivery of the power. The reliability options purchased by Consumers Energy since 1998 have all been intended for physical delivery; i.e., they have not been mere financial hedges. The capacity provided by these reliability options arrangements is the equivalent of capacity supplied by long term power purchase agreements from other sources.

(C) As shown in the summer reliability filings made by Consumers Energy, the reliability options contracts for capacity and energy purchased by Consumers Energy have been necessary in order to achieve a 15% reserve margin for planning purposes. This margin has been calculated assuming certain amounts of retail open access (and/or Rate DA) load would exist, and would therefore not require Consumers Energy service during system peak conditions. Such options purchases are necessary in order to provide reliable service to full-service customers. Prior to the PSCR clause suspension and PA 141 rate freeze, the cost of options purchases (capacity and energy) was recoverable via the PSCR mechanism. (Consumers Energy notes that the agreements recently approved by the Commission in Case No. U-13162 are essentially identical to reliability option contracts.)

(D) Consumers Energy assumes that the Commission intends for these capacity costs to be included in the calculation of the generation revenue requirement called for in the Staff stranded cost methodology. The Staff method is a year-by-year approach that is intended to determine the extent to which the generation revenue requirement associated with supplying generation service is being recovered via the existing frozen rates. To the extent a significant cost associated with supplying that generation service is excluded from the revenue requirement calculation, it no longer is accomplishing the desired goal. Further, service reliability would be significantly impaired if Consumers Energy did not enter into these power supply options arrangements. The capacity costs associated with these arrangements are "avoidable" only in the sense that, while Consumers Energy might elect not to enter into such contracts, foregoing these options would have a detrimental impact on service reliability. Finally, PA 141 does not permit stranded cost responsibility to be allocated to utility shareholders. If the Commission adopts the Staff's capacity cost revenue requirement approach, then all capacity costs must be included in the formula. Consumers Energy requests that the Commission confirm that, for purposes of the Staff stranded cost methodology, the capacity cost of option arrangements are included in the calculation of the revenue requirement associated with fixed generation resources.

5. Consumers Energy believes that the Commission does not intend to double-count revenues from third party sales in applying the Staff's methodology. The Staff's approach applies the revenues from annual third party wholesale transactions as a credit against the stranded costs otherwise determined. Already included in Consumers Energy's rates as a result of the PSCR process, however, are revenues from third party sales that were applied as reductions to power supply costs. The Commission is requested to confirm that only third party

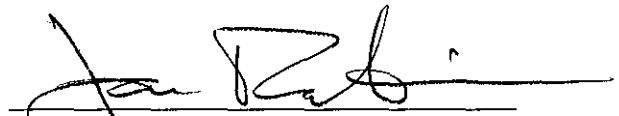
wholesale revenues in excess of the amount already reflected in current rates should be applied as a credit in the stranded cost calculation.

6. Consumers Energy assumes that it was not the Commission's intent to impair reliability, deny recovery of costs associated with capacity necessary in order to achieve a 15% reserve margin, or deny stranded cost recovery. Thus, to the extent the order would do so, these would be unintended consequences justifying a rehearing.

7. It is important that the Commission's intent be clear. If the Commission determines that Consumers Energy's understanding of the December 20 Order as described above is inaccurate in some material respect, then Consumers Energy seeks rehearing and restates its objections to the Staff methodology as set forth in the Company's Brief, Reply Brief, Exceptions and Replies to Exceptions filed August 20, 2001, September 4, 2001, November 26, 2001 and December 3, 2001, respectively, in this case. Those objections are incorporated by reference herein. Unless informed otherwise, however, Consumers Energy will, in future cases, proceed assuming that its understandings set forth above in this petition are correct.

Respectfully submitted,

CONSUMERS ENERGY COMPANY

Dated: January 18, 2002 By: 

Jon R. Robinson
212 West Michigan Avenue
Jackson, Michigan 49201
Attorney for Consumers Energy Company
(517) 788-0698

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter, on the Commission's Own Motion, to Implement the Provisions of Section 10a(10) of 2000 PA 141	))))	Case No. U-12639

PROOF OF SERVICE

STATE OF MICHIGAN)
) SS
COUNTY OF JACKSON)

Sammie B. Dalton, being first duly sworn, deposes and says that she is employed in the Legal Department of Consumers Energy Company; that on January 18, 2002 she served a copy of the **"Petition For Clarification And Rehearing Of Consumers Energy Company"** upon the persons listed in Attachment 1 hereto, at the addresses listed therein, by depositing the same on January 18, 2002, in the United States mail in the City of Jackson, Michigan with first-class postage thereon fully paid.

Sammie B. Dalton

Subscribed and sworn to before me this 18th day of January, 2002.

Barbara L. Morris
Notary Public, Jackson County, Michigan
My Commission Expires: 12/22/05

ATTACHMENT 1 -- TO CASE NO. U-12639

Administrative Law Judge

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