

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of
CONSUMERS ENERGY COMPANY
for determination of net stranded costs for
the year 2004.

Case No. **U-14526**
(e-file)

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

The Administrative Law Judge's (ALJ) Proposal for Decision recommended that the Commission find that Consumers Energy experienced no net stranded costs for 2004. Staff files the following exception.

The ALJ proposed an interesting, viable, yet, from the Staff's perspective, a new interpretation of stranded costs that has never been previously adopted nor implemented by the Commission. The ALJ correctly cited Staff's two-pronged approach to stranded costs.¹ In Case No. U-12639 Staff witness Paul Carlson testified that Staff intended the use of the revenue requirements method of calculating stranded costs to only represent the maximum level of stranded costs. Thus, the calculation of stranded costs was merely the first step in determining the level of stranded costs. After calculating stranded costs using the revenue requirements method, Mr. Carlson testified that "(I)f a company's sales should fall for reasons other than a loss of customers due to retail open access, a short-fall in the recovery of fixed costs may be

¹ PFD, page 13, discussing Staff witness Paul Carlson testimony in Case No. U-12639.

observed, but this short-fall would not be referred to as a stranded cost...”² Thus, the determination of stranded costs would include a second, and separate, step.

However, it is not clear that the Commission intended that the calculation of stranded costs using the revenue requirements method was meant to only represent the maximum level of stranded costs. The Commission, in Case No. U-12639, never mentions that the calculation of stranded costs should represent the maximum level of stranded costs. Nor does the Commission mention that a short fall in the recovery of fixed costs for reasons other than a loss of customers due to retail open access would not represent a stranded cost. Rather, the whole of the Case No. U-12639 Order indicates that the Commission’s intent was merely to calculate, and determine, stranded costs based upon the revenue requirements method. Since the Commission’s Order speaks for itself, the Staff, and the other parties to the stranded cost cases, has relied on the Case No. U-12639 Order to present their calculations of stranded costs.

Conclusion

A revenue requirements method has been consistently applied by the Commission for both Consumers Energy and Detroit Edison since the Commission issued its Case No. U-12639 Order. Both Consumers Energy and Detroit Edison, as well as Staff and the other interveners in the stranded cost cases, have relied on this application of the revenue requirements method.

The Commission should determine whether it wants to consistently apply the revenue requirements method of calculating stranded costs that it has applied in prior stranded cost proceedings or whether it wants to adopt the recommendation of the ALJ that adopted Staff's

² PFD, page 13, discussing Staff witness Paul Carlson testimony in Case No. U-12639.

position in Case U-12639, which required that the determination of stranded costs include a second, and separate, step.

Respectfully submitted,

**MICHIGAN PUBLIC SERVICE COMMISSION
STAFF**

A handwritten signature in black ink that reads "Kristin M. Smith". The script is cursive and fluid.

Kristin M. Smith (P46323)
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Dated: June 20, 2006

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PROOF OF SERVICE

STATE OF MICHIGAN)
) ss
COUNTY OF INGHAM)

Pamela A. Walters, being first duly sworn, deposes and says that on June 20, 2006, she served a true copy of the Michigan Public Service Commission Staff's Exceptions to the Proposal for Decision upon the following parties by depositing the same in a United States postal depository enclosed in an envelope bearing postage fully prepaid, plainly addressed as follows:

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Pamela A. Walters

Pamela A. Walters

Subscribed and sworn to before me
this 20th day of June, 2006.

Carol Ann Dane

Carol Ann Dane, Notary Public
State of Michigan, County of Eaton
Acting in the County of Ingham
My Commission Expires: 07/23/2011