

STATE OF MICHIGAN
DEPARTMENT OF ATTORNEY GENERAL



MIKE COX
ATTORNEY GENERAL

6545 MERCANTILE, STE. 15
LANSING, MICHIGAN 48911

May 11, 2006

Mary Jo Kunkle
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
P.O. Box 30221
Lansing, MI 48909

Dear Ms. Kunkle:

Re: Consumers Energy Company
MPSC Case No. U-14526
Errata to Staff's Reply Brief

The Michigan Public Service Commission Staff submits the following errata to its Reply Brief filed on May 10, 2006:

Line 3 of the first paragraph on page two, the word "base" should read "based".

Line 7 of the last paragraph on page three should read:

theory about what modifications should be made to the Commission's finding to adopt Staff's methodology for determining net stranded costs.

Enclosed are corrected pages two and three and Attachment 1, which was inadvertently omitted from the original filing.

Very truly yours,

Kristin M. Smith (P46323)
Assistant Attorney General
Public Service Division
6545 Mercantile Way, Suite 15
Lansing, MI 48911
Telephone: (517) 241-6680

KMS/pw

Encs.

c: Parties of Record
Larry Bak

On January 1, 2004, 2000 PA 141 (Act 141) Section 10d(2) mandated that rates for retail customers be determined in the same manner as before the rate freeze. Therefore, since Consumers Energy's stranded costs are computed based upon the revenue required to cover its fixed costs of generation, when Consumers has less revenue available to cover its fixed costs of generation its stranded costs increase, it requires more revenue from ROA customers to cover its fixed generation costs. In 2004, Consumers Energy required more revenue from ROA customers to cover its fixed generation costs because actual and imputed PSCR revenues were no longer available to cover its fixed generation costs.

II. STAFF RESPONSE TO CONSUMERS ENERGY

Staff agrees with Consumers Energy's summary on page one of its Initial Brief:

(I)n summary, this approach measures, for the relevant time period (in this case, calendar year 2004), whether Consumers Energy collected sufficient revenues to cover its fixed generation costs. It is essentially a standard revenue requirement calculation, limited to certain generation-related fixed costs and revenues available to cover those costs.

Consumers Energy has concisely articulated the stranded cost methodology that the Commission adopted in Case No. U-12639. The definitions and standards employed by Energy Michigan and the AG do not meet this concise definition.

III. STAFF'S RESPONSE TO ENERGY MICHIGAN

A. The revenue requirement methodology for calculating stranded costs is not new and is not flawed.

Energy Michigan (EM) argues "that the new staff method of allocating third party sales, which is incorporated in the Staff method of calculating stranded costs, is flawed." Staff disagrees. Energy Michigan misstates the Commission's reason for using 100% of the net third party sales revenue (non-jurisdictional sales revenue above the \$17.4 million contained in frozen PSCR base rates) as an offset to the calculation of stranded costs. Energy Michigan states that

“[t]he Commission’s theory is that if the departure of retail customers for ROA service causes stranded costs, then that departure also allows the utility to sell unneeded power into the market and thereby partially recover revenue that is lost or stranded when customers leave retail service. U-12639, December 20, 2001, p. 10”. The Commission espoused no such theory.

In Case No. U-12639 the Commission established its methodology for determining stranded costs²:

The Commission finds that it should adopt the Staff’s proposed methodology for determining net stranded costs. The Staff has proposed the most direct approach to determining net stranded costs, i.e., costs that would have been recovered under regulation that cannot be recovered under competition, offset by mitigation (such as market sales of capacity and energy that are freed up when customers choose alternative suppliers) and stranded benefits (such as generation assets with below market costs).

Thus, the Commission determined the method for computing stranded costs, based upon a finding of fact, and then gave its reason for that determination, and then defined, by way of example, net stranded costs. The Commission, as part of its definition of stranded costs, then gave a mitigation *example*. This example was not a theory. It merely gave one example of a situation that may *mitigate* stranded costs. Stranded (generation related) costs were to be mitigated to the extent possible. Contrary to EM’s assertions, the Commission did not espouse a theory about what modifications should be made to the Commission’s finding to adopt Staff’s methodology for determining net stranded costs. The Commission, quite simply and directly, adopted Staff’s proposed methodology for determining net stranded costs.

² *In the matter, on the Commission’s own motion, to implement the provisions of Section 10a(19) of 2000 PA 141*, Opinion and Order, dated December 20, 2001, page 10.

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)	)	Case No. U-12639
of 2000 PA 141.	)	
_____	)	

QUALIFICATIONS AND TESTIMONY OF
PAUL A. CARLSON
MICHIGAN PUBLIC SERVICE COMMISSION

May 14, 2001

QUALIFICATIONS OF PAUL A. CARLSON

CASE NO U-12639

PART I

1 Q. Please state your name and business address.

2 A. My name is Paul A. Carlson. My business address is 6545 Mercantile Way,
3 Lansing, Michigan. I am supervisor of the Power Supply and Compliance Issues
4 Section of the Electric Division of the Michigan Public Service Commission. I
5 have been employed by the Commission since July 1972.

6 Q. What is your educational background?

7 A. I received a Bachelor of Arts degree from Hope College (Holland, Michigan) in
8 1969. My major field of study was economics. In the spring of 1972, I graduated
9 from Michigan State University with a Master of Arts degree, also in economics.
10 While in graduate school I studied in the areas of economic theory, econometrics,
11 industrial organization and finance.

12 Q. What has been your professional experience while an employee of the
13 Commission?

14 A. During my career, I have had the opportunity to gain experience in several aspects
15 of utility regulation. Between 1972 and 1977, my responsibilities were in the area
16 of finance and rate of return, although I also performed research on such topics as
17 the relationship between family income and energy use. From 1977 to 1982, as a
18 senior analyst, my primary area of responsibility was sales forecasting, but during
19 that time I also did some work in the area of rate design. After 1982 and through
20 the summer of 1987, I was supervisor of first a unit, then a section, in the Electric
21 Division, the responsibility of which was short- and long-term sales and load

QUALIFICATIONS OF PAUL A. CARLSON

CASE NO U-12639

PART I

1 forecasting. Since September of 1987, I have been supervisor of the Power
2 Supply and Compliance Issues Section.

3 Q. Have you had any specific assignments during your career which you feel were
4 especially significant?

5 A. Yes. I would mention that I was the Staff Case Coordinator for Consumers Power
6 Company Case No. U-7830. This was a major case which was especially long
7 and complex, but it gave me the opportunity to become familiar with the broad
8 range of issues which can arise in a major case.

9 In addition, I would note that I was a Work Group Coordinator for the
10 Michigan Electricity Options Study. My Work Group studied and prepared a
11 report on current electricity use and future demand projections. MEOS was a
12 two-year state-wide project and it occupied much of my time from about
13 mid-1985 to mid-1987.

14 Also, I would mention that in 1992 I was one of two staff witnesses in
15 Case No. U-10059/10061, the so-called "PSI line case." This case was significant
16 in that it was the only time in recent memory that the Public Service Commission
17 was asked to determine the public necessity of a company's planned capital
18 addition. The particular project in that case was a proposed transmission line and
19 interconnection between Consumers Power Company and PSI Energy, Inc.

20 Finally, I should also mention that I was case coordinator and a witness in
21 two cases related to extended outages at major nuclear power plants. One case

QUALIFICATIONS OF PAUL A. CARLSON

CASE NO U-12639

PART I

1 involved The Detroit Edison Company, the other Indiana-Michigan Power
2 Company.

3 Q. Have you attended any short courses or seminars relating to utility regulation or
4 ratemaking?

5 A. Yes, I have. In July 1973, I attended the two-week National Association of
6 Regulatory Commissioners "Annual Regulatory Studies Program" at Michigan
7 State University; in March 1978, I attended the "Electricity Pricing and Regulation
8 Conference" presented by Executive Enterprises, Inc. in Washington, D.C.; in
9 November 1978, I attended a seminar entitled "Energy Forecasting Methods for
10 Facility Planning and Rate Design" sponsored by the University of Wisconsin; in
11 February 1979, I attended the "1979 Rate Symposium on Problems of Regulated
12 Industries" sponsored by the American University, Foster Associates, Inc., the
13 Missouri Public Service Commission, and the University of Missouri-Columbia;
14 and in August 1985, I attended a four-day course on electric sales and load
15 forecasting presented by the Center for Professional Advancement. I also
16 attended a three-day seminar entitled "Controlling the Cost of Coal and Coal
17 Related Long Term Contracts" which was presented by Escalation Consultants,
18 Inc. in March 1988. Finally, I have attended the EPRI Fuel Supply Seminar every
19 year from 1989 through 1998, except for 1991.

20 Q. Have you previously presented testimony before this Commission?

21 A. Yes, following is a list of cases in which I have submitted testimony.

QUALIFICATIONS OF PAUL A. CARLSON

CASE NO U-12639

PART I

	<u>Date</u>	<u>Company</u>	<u>Case No.</u>	<u>Type</u>
1	<u>Filed</u>			
2				
3	7/73	Detroit Edison Co.	U-4257	Income & Energy Use
4	8/73	Consumers Power Co.	U-4331 & U-4332	Income & Energy Use
5	8/74	Consumers Power Co.	U-4576	Rate of Return
6	3/75	Consumers Power Co.	U-4717	Rate of Return
7	10/75	Consumers Power Co.	U-4840	Rate of Return
8	6/76	Indiana & Mich. Electric	U-5073	Rate of Return
9	7/76	Michigan Power Co.	U-5070	Rate of Return
10	4/77	Fruitbelt Electric Coop.	U-5374	Rate Case
11	7/77	Consumers Power Co.	U-5331	Sales Forecast
12	10/77	Alpena Power Co.	U-5492	Rate Case
13	1/78	Detroit Edison Co.	U-5502	Sales Forecast
14	4/78	Southeastern Michigan	U-5694	Rate Case
15	5/78	Detroit Edison Co.	U-5108	Reconciliation
16	11/78	Michigan Power Co.	U-5885	Rate Case
17	2/79	Consumers Power Co.	U-5331	Reconciliation
18	4/79	Detroit Edison Co.	U-6006	Sales Forecast
19	8/79	Consumers Power Co.	U-5979	Sales Forecast
20	9/80	U.P. Power Company	U-6458	Sales Forecast
21	10/80	Detroit Edison Co.	U-6488	Sales Forecast
22	3/82	Consumers Power Co.	U-6923	Sales Forecast

QUALIFICATIONS OF PAUL A. CARLSON

CASE NO U-12639

PART I

1	4/82	(Advance Plan Hearing)	05-EP-3	Sales/Load Forecast
2	5/82	Detroit Edison Co.	U-6949	Sales Forecast
3	2/84	Detroit Edison Co.	U-7660	Sales/Load Forecast
4	12/87	Michigan Power Co.	U-8904	PSCR Plan
5	3/89	Wisconsin Public Service	U-9194	PSCR Plan
6	2/90	Indiana-Michigan	U-9458	PSCR Plan
7	5/92	Consumers Power Co.	U-10059 &	Transmission Line
8			U-10061	and Interconnection
9	12/94	Detroit Edison Co.	U-10702	PSCR Plan
10	8/95	Detroit Edison Co.	U-10427R	PSCR Reconciliation
11	6/96	Indiana-Michigan	U-10708R	PSCR Reconciliation
12	7/97	Detroit Edison Co.	U-10702R	PSCR Reconciliation
13	8/97	Detroit Edison Co.	U-11449	PSCR Suspension
14	5/98	Detroit Edison Co.	U-11528	PSCR Plan
15	8/98	Indiana-Michigan	U-11181R	PSCR Reconciliation
16	3/99	Detroit Edison Co.	U-11800	PSCR Plan
17	10/99	Detroit Edison Co.	U-11955 &	Market Price of
18		Consumers Energy Co.	U-11956	Electricity

TESTIMONY OF PAUL A. CARLSON

CASE NO. U-12639

PART II

1 Q. What is the purpose of your testimony in this case?

2 A. The purpose of my testimony in this case is two-fold. My overall task is to
3 present the Staff's calculation of stranded costs for the year 2000 for the Detroit
4 Edison Company and Consumers Energy Company. In addition, while I have
5 received inputs for these calculations from other witnesses in this case, I am also
6 sponsoring certain of the inputs as well.

7 Q. Which exhibits are you sponsoring?

8 A. I am sponsoring four exhibits: Exhibit S-___(PAC-1), "Detroit Edison 2000
9 Stranded Costs"; Exhibit S-___(PAC-2), "Consumers Energy 2000 Stranded
10 Costs"; Exhibit S-___(PAC-3), "Detroit Edison 2000 Third Party Sales
11 Contribution"; Exhibit S-___(PAC-4), "Consumers Energy 2000 Third Party
12 Sales Contribution".

13 Q. Please describe the methodology used in Exhibits S-___(PAC-1) and S-___(PAC-
14 2) to calculate stranded costs.

15 A. As discussed in Mr. Celio's testimony, Staff is using a revenue requirement
16 approach to estimating stranded costs. Staff recognizes that companies have fixed
17 costs in the form of investments in generating plants and purchased power
18 agreements (as well as in the form of certain regulatory assets) which were
19 expected to have been recovered over time through the sale of electricity to
20 customers. If a company loses sales due to retail open access, the full recovery of
21 these fixed costs may be impaired. The Staff approach to stranded cost is to first
22 calculate the annual level of these fixed power supply costs, and then to compare

TESTIMONY OF PAUL A. CARLSON

CASE NO. U-12639

PART II

1 the amount of these annual fixed costs to the revenues from the sale of electricity
2 which are applicable to meet these fixed costs. If the revenues received which are
3 applicable to meet fixed costs are less than those costs, then the short-fall
4 represents the maximum level of stranded cost.

5 Q. Why do you say that such a short-fall is the maximum level of stranded cost?

6 A. If a company's sales should fall for reasons other than a loss of customers due to
7 retail open access, a short-fall in the recovery of fixed costs may be observed, but
8 this short-fall would not be referred to as a stranded cost, if that term is used to
9 refer to short-falls caused by retail open access.

10 Q. Is the same format used to calculate stranded cost in both Exhibits S-____(PAC-1)
11 and S-____(PAC-2)?

12 A. Yes, it is. Line 1 shows the annual amount of fixed costs associated with
13 production plant and the capacity costs of purchased power agreements.
14 Line 2 shows the amount of revenue collected from sales to ultimate customers
15 which is applicable to meet fixed costs, while Line 3 provides an estimate of the
16 amount of contribution to fixed costs realized from sales to third parties. Line 4 is
17 the sum of the two prior lines and is the total amount of revenue applicable to the
18 recovery of fixed costs.

19 Line 5 shows the amount by which fixed costs of generation and purchases differ
20 from revenues. By convention, a positive number indicates the possibility of
21 stranded costs for the year. A negative number indicates that applicable revenues
22 exceed fixed costs.

TESTIMONY OF PAUL A. CARLSON

CASE NO. U-12639

PART II

1 Finally, Line 6 shows the level of certain regulatory assests and retail open access
2 implementation costs, which the Commission has ruled to be a part of the
3 stranded cost calculation. When added to Line 5, the result is total maximum
4 potential stranded cost which is shown on Line 7.

5 Q. Which Staff witness is the sponsor of each of these lines?

6 A. Mr. Geml developed the figures for Lines 1 and 6. Mr. Bailey developed the
7 figures for Line 2. I developed the figures for Line 3, and, of course, made the
8 calculations leading to the final results shown in the exhibits.

9 Q. What do the figures on Line 3 of Exhibits S-____(PAC-1) and S-____(PAC-2)
10 show?

11 A. These figures indicate that sales to third parties – essentially sales other than sales
12 to ultimate customers or to smaller utilities and cooperatives for resale –
13 contributed revenues which were available in 2000 to cover fixed costs. As
14 shown on Exhibit S-____(PAC-1), third party sales contributed about \$71 million
15 to Edison's fixed costs in 2000. For Consumers the amount of this contribution
16 was about \$45 million, as shown on Exhibit S-____(PAC-2).

17 Q. How were the third party contributions to fixed costs calculated?

18 A. The first step was to determine the total revenues received from third party sales
19 in 2000. These revenues were simply taken from each company's Account 447 of
20 the annual report to the Michigan Public Service Commission. As the annual
21 reports have not yet been filed with the Commission, selected pages from the

TESTIMONY OF PAUL A. CARLSON

**CASE NO. U-12639
PART II**

1 reports were provided to the Staff upon our request. The amount of these
2 revenues are shown on Line 1 of Exhibits S-____(PAC-3) and S-____(PAC-4).

3 Q. What was the next step in this calculation?

4 A. The next step was to determine the amount of fuel and purchased power cost
5 associated with the revenues from third party sales. To do this, I estimated each
6 company's fuel and purchased power cost on a dollars per megawatt-hour basis.

7 The source of the data used for this calculation was also annual report data
8 provided to the Staff. Then this dollars per megawatt-hour figure was multiplied
9 by third party sales volumes to arrive at a dollar amount of fuel and purchased
10 power. These figures can be found on Line 2 of Exhibits S-____(PAC-3) and S-
11 ____ (PAC-4).

12 Q. Once these calculations had been made, what did you do?

13 A. Once the cost of fuel and purchased power associated with third party sales had
14 been calculated, this cost was subtracted from third party revenues to obtain the
15 contribution to fixed costs from these sales. The result of these calculations can be
16 found on Line 3 of Exhibits S-____(PAC-3) and S-____(PAC-4), and it is these
17 amount which also appear on Exhibits S-____(PAC-1) and S-____(PAC-2).

18 Q. When all of the various inputs were assembled on Exhibits S-____(PAC-1) and S-
19 ____ (PAC-2) what results were obtained?

20 A. In the case of both Detroit Edison and Consumers Energy 2000 revenue levels
21 were found to be more than adequate to recover each company's fixed production
22 costs, regulatory assets, and implementation costs. This conclusion follows from

TESTIMONY OF PAUL A. CARLSON

CASE NO. U-12639

PART II

1 the fact that the Staff's calculation of potential stranded costs resulted in a
2 negative value of \$463,112,000 for Detroit Edison and \$97,201,000 for
3 Consumers Energy. Thus, it is Staff's conclusion that no costs were stranded
4 during 2000.

5 Q. Given that the Staff's stranded cost calculation resulted in a negative value, what
6 recommendation would Staff make to the Commission?

7 A. As discussed by Mr. Celio in his testimony, it is Staff's recommendation that any
8 over-recovery of fixed costs be carried forward to the next year. Thus, the
9 negative values calculated in this case should be used in a subsequent stranded
10 cost proceeding as an offset to any stranded cost determination.

11 Q. Does that conclude your testimony?

12 A. Yes, it does.

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)	)	Case No. U-12639
of 2000 PA 141.	)	
_____	)	

EXHIBITS OF
PAUL A. CARLSON
MICHIGAN PUBLIC SERVICE COMMISSION

May 14, 2001

DETROIT EDISON COMPANY
2000 STRANDED COSTS

		\$000	Source
Line No.			
1	Rev. Req. of Fixed Costs of Direct Generation	\$1,031,859	GFG-1
	Contribution to Fixed Costs:		
2	From Ultimate Customers	\$1,448,117	LB-1
3	From Third Party Sales	\$74,959	PAC-3
4	Total Contribution to Fixed Costs	<u>\$1,523,076</u>	Line 2 + Line 3
5	Stranded Fixed Costs of Direct Generation	(\$491,217)	Line 1 - Line 4
6	Rev. Requirement of Regulatory Assets	\$28,105	GFG-1
7	Total Stranded Costs	<u>(\$463,112)</u> =====	Line 5 + Line 6

CONSUMERS ENERGY COMPANY
2000 STRANDED COSTS

		\$000	Source
Line No.			
1	Rev. Req. of Fixed Costs of Direct Generation	\$832,924	GFG-2
	Contribution to Fixed Costs:		
2	From Ultimate Customers	\$931,066	LB-2
3	From Third Party Sales	\$44,564	PAC-4
4	Total Contribution to Fixed Costs	\$975,630	Line 2 + Line 3
5	Stranded Fixed Costs of Direct Generation	(\$142,706)	Line 1 - Line 4
6	Rev. Requirement of Regulatory Assets	\$45,505	GFG-2
7	Total Stranded Costs	(\$97,201)	Line 5 + Line 6

DETROIT EDISON COMPANY
2000 THIRD PARTY SALES CONTRIBUTION

Line No.		MWh	\$	\$ per MWh
1	Sales to Third Parties	2,592,661	\$127,647,250	\$49.23
2	Cost of Fuel and Purchased Power for Third Party Sales		\$52,688,027	\$20.32
3	Net Contribution of Third Party Sales		<u>\$74,959,223</u>	

Sources

Sales to Third Parties, MWh, \$: WP

Cost of Fuel and Purchased Power for
Third Party Sales, \$ per MWh: WP

Cost of Fuel and Purchased Power for
Third Party Sales, \$: \$ per MWh * MWh

CONSUMERS ENERGY COMPANY
2000 THIRD PARTY SALES CONTRIBUTION

Line No.		MWh	\$	\$ per MWh
1	Sales to Third Parties (Acct. 447 Data)	1,802,639	\$76,983,621	\$42.71
2	Cost of Fuel and Purchased Power for Third Party Sales		\$32,419,162	\$17.98
3	Net Contribution of Third Party Sales		\$44,564,459	

Sources

Sales to Third Parties, MWh, \$: WP

Cost of Fuel and Purchased Power for Third Party Sales, \$ per MWh: WP

Cost of Fuel and Purchased Power for Third Party Sales, \$: \$ per MWh * MWh

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)

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss
COUNTY OF INGHAM)

Pamela A. Walters, being first duly sworn, deposes and says that on May 11, 2006, she served a true copy of the Errata to the Reply Brief of the Michigan Public Service Commission Staff 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:

Jon R. Robinson
John C. Shea
Rhonda M. Morris
Consumers Energy Company
One Energy Plaza
Jackson, MI 49201

Eric J. Schneidewind
Varnum, Riddering, Schmidt & Howlett
201 N. Washington Square, Suite 810
Lansing, MI 48933

John M. Dempsey
Jennifer L. Frye
Dickinson Wright, PLLC
215 S. Washington Square, Suite 200
Lansing, MI 48933

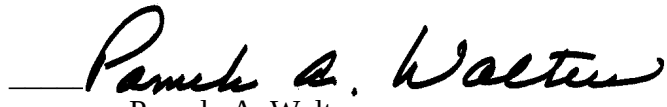
Michael J. Brown
Plunkett & Cooney, P.C.
325 E. Grand River Avenue, Suite 250
East Lansing, MI 48823

Michael E. Moody
Assistant Attorney General
Special Litigation Division
525 W. Ottawa
Lansing, MI 48909

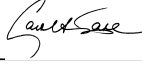
Gary B. Pasek
Midland Cogeneration Venture
100 Progress Place
Midland, MI 48640

Robert A. W. Strong
Clark Hill PLC
255 S. Old Woodward Avenue, 3rd Floor
Birmingham, MI 48009

Paul F. Novak
Clark Hill, PLC
212 E. Grand River Avenue
Lansing, MI 48906


Pamela A. Walters

Subscribed and sworn to before me
this 11th day of May, 2006.



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