

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of )  
**CONSUMERS ENERGY COMPANY** for approval of )  
a gas cost recovery plan and authorization of gas cost ) Case No. U-20233  
recovery factors for the 12 months ending )  
March 31, 2020. )  
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At the January 23, 2020 meeting of the Michigan Public Service Commission in Lansing,  
Michigan.

PRESENT: Hon. Sally A. Talberg, Chairman  
Hon. Daniel C. Scripps, Commissioner  
Hon. Tremaine L. Phillips, Commissioner

**ORDER**

On December 28, 2018, Consumers Energy Company (Consumers) filed an application, with supporting testimony and exhibits, requesting approval of its gas cost recovery (GCR) plan and factors for the 12-month period from April 2019 through March 2020. Concurrently with the application, Consumers filed the utility’s five-year forecast with supporting testimony and exhibits. Consumers requested the Commission approve a “base GCR ceiling factor of not less than \$3.1246 per Mcf [thousand cubic feet] plus additional amounts contingent on future events.” Consumers’ application, p. 2. Consumers requested that “contingent GCR ceiling factors be

calculated using the GCR Factor Ceiling Price Adjustment (Contingency) Mechanism set forth in the Company's filing . . .” *Id.*<sup>1</sup>

### Procedural History

A prehearing conference in this proceeding was held on February 7, 2019, before Administrative Law Judge Suzanne D. Sonneborn at which she granted intervenor status to the Michigan Department of the Attorney General (Attorney General). The Commission Staff (Staff) also participated in the proceeding. On August 22, 2019, an evidentiary hearing was held before Administrative Law Judge Kandra K. Robbins (ALJ). The record consists of 262 pages of testimony and 51 exhibits admitted to the record.

### Proposal for Decision

On November 19, 2019, ALJ Robbins issued a Proposal for Decision (PFD) in which she set forth a summary of the parties' positions and testimony with references to specific testimony and exhibits. PFD, pp. 2-25. She identified and discussed four contested issues for resolution:

(1) Consumers' request for tariff language changes to the requirements for GCR and supplier refunds; (2) Consumers' peak day design process; (3) the amount of Consumers' GCR factor; and (4) the Attorney General's recommendation that the Commission expressly require Consumers to

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<sup>1</sup> The filing is required pursuant to 1982 PA 304, MCL 460.6h. MCL 460.6h(2) provides that the Commission may include a gas cost recovery clause in the rates or rate schedule of a gas utility but is not required to do so. MCL 460.6h(3) sets forth the filing requirement for a gas utility to request a gas cost recovery factor in its rate schedule. MCL 460.6h(6) provides that the Commission shall evaluate the reasonableness and prudence of the decisions underlying the gas cost recovery plan filed by the gas utility. The Commission may approve, disapprove, or amend the utility's plan, and may approve, reject, or amend the 12 monthly gas cost recovery factors requested by the gas utility. MCL 460.6h(7) provides that the Commission shall evaluate the decisions underlying the gas utility's five-year forecast, the requirements for which are set forth in MCL 460.6h(4). The Commission may indicate any cost items in the five-year forecast that the Commission would be unlikely to permit the gas utility to recover from its customers in the future.

submit a gas purchase strategy evaluation with its next GCR plan application. The ALJ considered the first issue to be resolved because Consumers withdrew its proposal to change the tariff language; she then recommended that the Commission approve Consumers' filed GCR plan utilizing an updated GCR factor of \$3.0311 per Mcf with an updated contingent adjusted matrix as recommended by the Staff. The ALJ also recommended that the Commission expressly state its expectations that Consumers will present results of an evaluation regarding the utility's gas purchase strategy in the next plan case. *Id.*, pp. 26-31.

#### Exceptions and Replies to Exceptions

The Notice of PFD provided for exceptions to be filed on or before December 10, 2019, and replies to exceptions to be filed on or before December 27, 2019. On December 10, 2019, Consumers filed the utility's exceptions and the Attorney General and the Staff filed letters indicating they would not be filing exceptions. On December 27, 2019, the Attorney General filed her replies to exceptions, as did the Staff.

#### Peak Day Design Process

Consumers defines the peak day design requirement as the total maximum daily load for all gas customers that the utility would expect to serve during the most extreme cold weather conditions.<sup>2</sup> 2 Tr 106-107. The utility asserted that it uses a 4% weather probability of CTN weather for design winter planning and has done so for GCR planning purposes for over 25 years.

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<sup>2</sup> Consumers' witness, Jonathon J. Guscinski's testimony is found, in its entirety, at 2 Tr 90-172. Mr. Guscinski provided testimony regarding the modeling process used to develop colder than normal (CTN) and normal weather purchase plans, the design 4% probability planning basis, design CTN weather deliveries, peak day design forecasting, the 4% probability incremental weighted degree day analysis, the combined GCR and gas customer choice storage inventory target, the monthly purchase decision process during the GCR plan year, and Consumers' late season purchase plan.

Consumers' brief, p. 10; 2 Tr 97, 99, 125. Consumers stated that a 4% likelihood of CTN weather is approximately equal to 15% additional degree days from the 15-year average for November through March. Consumers' brief, p. 10; 2 Tr 102; Exhibits A-5 through A-13, A-35.

In anticipation of the need to purchase gas at prices higher than the base GCR plan ceiling factor on the design's peak days, Consumers' GCR plan includes a contingency adjustment mechanism<sup>3</sup> with a fractional multiplier of 0.8184.<sup>4</sup> The fractional multiplier initially requested, 0.6557, was revised upward to 0.8184 with the testimony of Consumers' witness, Jason R. Coker,<sup>5</sup> Principal Rate Analyst for Consumers. 2 Tr 191; Exhibit A-3.

The Staff supported Commission approval of the GCR plan's contingency adjustment mechanism because it incorporates previously approved operation methodology, does not conflict with the current supply portfolio, and the fractional multiplier is lower than last year's fractional multiplier. PFD, pp. 18-19; 2 Tr 237. However, regarding the peak day design itself, the Staff voiced concerns that the utility should consider inclusion of operation updates occurring as a result of the January 2019 polar vortex. 2 Tr 239.

In rebuttal testimony, Consumers stated that the utility employs a wind adjusted weighted degree day (WAWDD) of 80 which was arrived at after the severe winter of 1994 and neither the polar vortex of 2013-2014 nor the polar vortex of 2019 reached the level of 80 WAWDD. PFD,

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<sup>3</sup> The contingency mechanism is also referred to as the GCR ceiling price adjustment.

<sup>4</sup> Consumers submitted revised testimony after the utility's filing to incorporate more recent data that resulted in the GCR plan's fractional multiplier increasing from 0.6557 to 0.8184. 2 Tr 180-185.

<sup>5</sup> Mr. Coker's testimony is found, in its entirety, at 2 Tr 175-191. Mr. Coker testified regarding GCR ceiling factors, including the contingency adjustment factors.

p. 23; 2 Tr 156-159. Consumers planned for WAWDD level of 80 for January 2019 peak days and asserted that on the actual severe gas days of January 30 and 31, 2019, the WAWDD fell below 80. The utility explained that its January peak day design provides for a level of 80 WAWDDs on each day of the month. PFD, pp. 22-23; 2 Tr 156.

This rebuttal testimony addressed the Staff's concern regarding the peak day design process. The Staff also noted that the increased fractional multiplier of 0.8184 contained in the contingency adjustment mechanism would provide the utility with increased adjustment flexibility, "allowing for an 81.84% recognition of market price fluctuation when making an adjustment . . ." Staff's reply brief, p. 1; 2 Tr 181. However, the Staff testified that the utility's contingent adjustment matrix needs to reflect the updated GCR factor, in addition to increased fractional multiplier. The Staff did not object to the peak day design process and plan. Staff's reply brief, p. 2; 2 Tr 237; PFD, p. 19.

The Commission is persuaded that Consumers' peak day design process and contingency adjustment mechanism with a fractional multiplier of 0.8184 are reasonable and prudent. The GCR plan's peak day design appears to be based on accurate data, reasonable assumptions, and conforms with the methodology previously approved by the Commission. PFD, p. 19; Consumer's brief, pp. 9-11; 2 Tr 48-50, 106-112, 125, 237. Further, the increased fractional multiplier will provide the utility with greater flexibility to set GCR at appropriate levels than did the original 0.6557 fractional multiplier. As the Staff testified, Consumers' contingent adjustment matrix must be updated to reflect the updated GCR factor and the increased fractional multiplier. 2 Tr 237; PFD, pp. 19, 31. Accordingly, the Commission approves Consumers' peak day design process and authorizes a fractional multiplier of 0.8184 for each of the 12 months in the GCR plan period with an updated contingent adjustment matrix.

### Gas Cost Recovery Factor

Consumers excepts to the ALJ's recommendation that the Commission adopt an updated GCR factor as proposed by the Staff and argues that the utility's proposed factor of \$3.1246 per Mcf was determined in a manner consistent with past methodology. Consumers contends that the figures used to determine the Staff's proposed factor of \$3.0311 per Mcf were not available when the utility prepared its application and there is no reason to believe the use of the newer figures results in a more accurate and favorable GCR factor or a more favorable over- or underrecovery at reconciliation. Further, Consumers argues that, if the factor is set too low, the utility may have difficulty adjusting it to a level that permits recovery of increased costs during the remainder of the year. The utility notes that it does not dispute the accuracy of the Staff's figures and calculations but does dispute the conclusion that the Staff's figures are more prudent than the utility's figures. Consumers' exceptions, pp. 2-4.

The Staff replies that it is neither reasonable nor logical to claim that the use of more recent data (when time permits) would be detrimental to the determination of an accurate, and consequently, reasonable and prudent, GCR factor. Staff's replies to exceptions, pp. 1-2; PFD, p. 18; 2 Tr 236-237. The Staff asserts that the Commission is not bound to approve Consumers' methodology merely because it approved it in the past. Finally, the Staff points out that, after Consumers filed its application, the utility used more recent data to revise upward its fractional multiplier from 0.6557 to 0.8184. Staff's replies to exceptions, pp. 1-2.

The ALJ supported her agreement with the Staff's recommendation of lowering Consumers' GCR factor to \$3.0311 per Mcf, stating that the "factor is calculated using the most current and up-to-date information regarding costs [and that the utility] does not dispute any of the figures used in calculating this number." PFD, p. 29.

The Commission is persuaded that using the more recent figures, as recommended by the Staff and provided by the utility through the audit process, to determine Consumers' GCR factor is reasonable and prudent. Staff's replies to exceptions; Exhibit S-4. The GCR provisions are designed to provide for timely recovery of estimated fuel costs; in fact, the statute provides for updates to be made during the course of the plan year. MCL 460.6h(10). It is common practice to update figures during the course of a proceeding to reflect information, assuming there is an opportunity to vet the new information. As the Staff points out, Consumers did not hesitate to use updated figures to revise upward its fractional multiplier after the utility filed its application.

Based on the record, the Commission is unable to state that the utility reasonably objects to the use of other updated figures that became available in a timely manner through the course of the proceeding. Consumers does not dispute the accuracy of the Staff's calculation (Consumers' exceptions, p. 4), the use of the updated figures does not appear to be burdensome to the utility relative to the new factor's integration into the GCR plan, and there does not appear to be persuasive evidence or argument that their use would hamper Consumers' ability to recover increased costs, should they occur. 2 Tr 190; Consumers' exceptions, p. 4; PFD, pp. 27-28. To the contrary, as the Staff remarked in its replies to exceptions, the use of Consumers' higher fractional multiplier of 0.8184 provides the utility with increased flexibility when dealing with market price fluctuations. *See*, Staff's replies to exceptions, p. 2. Therefore, the Commission approves a GCR factor of \$3.0311 per Mcf for the GCR plan period of April 2019 through March 2020.

#### Gas Purchase Strategy Evaluation

Consumers excepts to the ALJ's recommendation that the Commission should require the utility to include results of a gas purchase strategy evaluation in its next GCR plan case, arguing

that the recommendation is “unclear, unnecessary, and does not address the points of disagreement on record in the case.” Consumers’ exceptions, pp. 5-6; PFD, pp. 30-31. Consumers notes that the utility is in the process of evaluating its gas purchase strategy pursuant to the September 11, 2019 Statewide Energy Assessment (SEA) Final Report, the results of which would be included in future GCR filings. Consumers’ exceptions, pp. 5-7; 2 Tr 53-54.

The Attorney General replies that Consumers’ gas purchase strategy is “unnecessarily risky” (Attorney General’s replies to exceptions, p. 1) and repeats her disagreement with Consumers’ proposal to meet a significant portion of its peak day gas supply through city gate purchases.<sup>6</sup> The Attorney General submits that the evaluation will provide the Commission with needed information to hold Consumers to the mandate of the law. *Id.*, p. 7.

The Commission is not persuaded by the Attorney General’s<sup>7</sup> suggestion that other natural gas utilities operating in Michigan do not rely so heavily on city gate purchases as does Consumers, rendering Consumers’ purchase plan suspect. Mr. Coppola seems to assert that Consumers should develop a gas purchase plan that is substantially similar to other natural gas utilities operating in Michigan. PFD, pp. 20, 30; 2 Tr 256-257; Attorney General’s brief, pp. 6-7; Attorney General’s reply brief, p. 5. MCL 460.6h does not require a GCR plan to be justified against the GCR plans of other utilities and, accordingly, the Commission declines to find that Consumers’ gas purchase plan is risky because it is dissimilar to other gas utilities’ plans.

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<sup>6</sup> City gate purchases are those that occur, as need arises, at specific points where a utility receives gas from a natural gas pipeline company or transmission system.

<sup>7</sup> Mr. Sebastian Coppola testified on behalf of the Attorney General. His testimony is found, in its entirety, at 2 Tr 241-260.

Neither is the Commission persuaded that Consumers' gas purchase strategy is unnecessarily risky due to reliance on city gate purchases which may only be available at higher prices when severe weather requires more supply or not available at all due to high demand, as testified to by Mr. Coppola. Consumers' witness, Mr. Michael H. Ross,<sup>8</sup> Director of Gas Supply, persuasively testified to the utility's comprehensive assessment of the cost of firm transportation (FT), the market availability of city gate supply, storage utilization, and the warmer-than-normal operating plan, and stated his opinion that "in the current supply environment, winter city gate price risk is not a compelling reason by itself to add incremental firm transportation." 2 Tr 59. Mr. Ross also testified that the utility examined historical data and market supply expectations and found that city gate purchases are trending at lower prices as source diversity and regional pipeline capacity have increased (2 Tr 38) and, thus, the reasons for having large amounts of FT capacity for the purpose of controlling price volatility and ensuring supply reliability have decreased (2 Tr 44). The Commission agrees but reminds Consumers that "the Commission intends to continue to scrutinize all proposals for future investments for reasonableness and prudence in the appropriate contested case proceedings. The Commission observes that its recommendations [in the SEA Final Report of September 11, 2019] related to planning, evaluation tools for diversity and resilience, and expectations for utilities in fuel cost recovery and rate cases will improve the regulatory review processes to ensure ratepayers are getting the value from investments and more safe, secure, and affordable service." September 11, 2019 order in Case No. U-20464, p. 9.

Finally, MCL 460.6h sets forth detailed requirements for a GCR plan and the associated five-year forecast. In addition, the contested proceeding process provides opportunity for the parties to present and scrutinize all aspects of each component and calculation. Therefore, the

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<sup>8</sup> Mr. Ross's testimony is found, in its entirety, at 2 Tr 23-90.

Commission respectfully disagrees with the ALJ that it is necessary to expressly state expectations that Consumers will present results of an evaluation regarding the utility's gas purchase strategy in its next plan case, and finds that, in consideration of the evidence of record, Consumers appears to have appropriately developed a gas purchase plan that is reasonable and prudent.

#### Consumers Five-year Forecast

After reviewing the evidentiary record, the Commission is persuaded that Consumers' five-year forecast is reasonable and prudent. The record does not appear to include any expenses that the Commission would not permit the recovery of in the future and the parties did not elucidate any objections or concerns related to the forecast. Accordingly, the Commission accepts the five-year forecast.

#### Conclusion

The Commission approves Consumers' GCR plan with amendments as discussed above. The Commission accepts Consumers' five-year forecast.

THEREFORE, IT IS ORDERED that:

A. Consumers Energy Company's gas cost recovery plan for the 12-month period of April 2019 through March 2020 is approved with the amendments discussed in the body of this order.

B. A base gas cost recovery ceiling of \$3.0311 per thousand cubic feet and a gas cost recovery contingency adjustment factor multiplier of 0.8184 with an updated contingent adjustment matrix are approved for the April 2019 through March 2020 gas cost recovery plan period.

C. Consumers Energy Company's five-year forecast associated with its April 2019 through March 2020 gas cost recovery plan is accepted.

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 [mpscedockets@michigan.gov](mailto:mpscedockets@michigan.gov) and to the Michigan Department of the Attorney General - Public Service Division at [pungpl@michigan.gov](mailto:pungpl@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

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Sally A. Talberg, Chairman

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Daniel C. Scripps, Commissioner

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Tremaine L. Phillips, Commissioner

By its action of January 23, 2020.

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Lisa Felice, Executive Secretary

# PROOF OF SERVICE

STATE OF MICHIGAN )

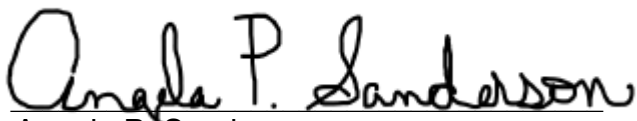
Case No. U-20233

County of Ingham )

Brianna Brown being duly sworn, deposes and says that on January 23, 2020 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 23<sup>rd</sup> day of January 2020.



Angela P. Sanderson  
Notary Public, Shiawassee County, Michigan  
As acting in Eaton County  
My Commission Expires: May 21, 2024

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