

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of	)	
CONSUMERS ENERGY COMPANY for authority	)	
to increase its rates for the distribution of	)	Case No. U-21806
natural gas and for other relief.	)	
_____	)	

At the September 30, 2025 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

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

ORDER

TABLE OF CONTENTS

I.	HISTORY OF PROCEEDINGS -----	1
II.	LEGAL STANDARDS-----	2
III.	TEST YEAR -----	7
IV.	RATE BASE -----	10
V.	COST OF CAPITAL-----	150
VI.	ADJUSTED NET OPERATING INCOME -----	182
VII.	REVENUE DEFICIENCY-----	247
VIII.	COST OF SERVICE, RATE DESIGN, AND TARIFFS -----	249
IX.	RATE DESIGN-----	267
X.	OTHER ISSUES -----	286

I. HISTORY OF PROCEEDINGS

On December 16, 2024, Consumers Energy Company (Consumers) filed an application in this docket, with supporting testimony and exhibits, requesting authority to increase its retail rates for the distribution of natural gas by approximately \$248 million over the rates approved in the July 23, 2024 order in Case No. U-21490 (July 23 order). The company subsequently reduced its request to an increase of approximately \$217 million. *See*, Consumers' initial brief, p. 2. The request was based on a 12-month test year ending on October 31, 2026.

On December 20, 2024, the Administrative Law Judge James M. Varchetti (ALJ) issued a protective order for use in this matter. A prehearing conference was held on January 13, 2025, at which the ALJ recognized the intervention of the Michigan Department of Attorney General (Attorney General), and granted intervention to the Retail Energy Supply Association (RESA); the Michigan Environmental Council (MEC); the Citizens Utility Board of Michigan (CUB); Association for Businesses Advocating Tariff Equity (ABATE); Energy Michigan; the Ecology Center, the Environmental Law and Policy Center, the Union of Concerned Scientists, and Vote Solar (collectively, the Clean Energy Organizations (CEOs)), Lansing Board of Water and Light (LBWL), and Michigan State University (MSU). Consumers and the Commission Staff (Staff) also participated in the proceeding. On January 16, 2025, the Sierra Club filed a petition for late intervention. No objection was entered, and the ALJ granted intervention to the Sierra Club on January 23, 2025.

On April 23, 2025, the Staff, the Attorney General, MEC together with the Sierra Club (MEC/SC), CUB, ABATE, and MSU together with LBWL (MSU/LBWL) filed testimony and exhibits. On May 14, 2025, Consumers, the Staff, ABATE, MEC/SC, MSU/LBWL filed rebuttal testimony. On May 23, 2025, Consumers and the Attorney General filed revised testimony and exhibits. Evidentiary hearings were held on May 29 and 30, 2025 and June 2, 2025, at which time

the parties agreed to bind into the record testimony and exhibits, and the cross-examination of five witnesses took place.

On June 25, 2025, Consumers, the Staff, the Attorney General, ABATE, and MSU/LBWL filed initial briefs with MEC/SC and CUB filing a joint initial brief together as MSC.¹ Consumers, the Staff, the Attorney General, ABATE, MSU/LBWL, and MSC filed reply briefs on July 11, 2025. On August 14, 2025, the ALJ issued a proposal for decision (PFD) in this matter. Exceptions were filed by Consumers, ABATE, MSC, the Staff, and the Attorney General on August 28, 2025, and replies to exceptions were filed by Consumers, ABATE, MSC, the Staff, and the Attorney General on September 4, 2025. The record in this matter consists of 2,778 pages of transcript and 364 exhibits admitted into evidence.²

II. LEGAL STANDARDS

In its initial brief, Consumers stated that it provided expert opinion testimony and exhibits, and that each part of its case was supported by such detailed testimony and supporting exhibits. *See*, Consumers' initial brief, p. 2. Furthermore, Consumers stated that “[e]xpert opinion testimony is considered ‘substantial’ if offered by a qualified expert who has a rational basis for his or her views, whether or not other experts disagree” and to “‘hold otherwise would thus neutralize all expert testimony in cases of conflict and the party with the burden of proof would automatically lose. Const 1963, art 6, § 28, intends no such absurd result.’” *Id.* (quoting *Great Lakes Steel Div of Nat’l Steel Corp v Pub Serv Comm*, 130 Mich App 470, 481; 344 NW2d 321

¹ As noted, MEC/SC and CUB filed testimony separately but filed an initial brief, reply brief, exceptions, and replies to exceptions together as MSC. The Commission refers to these parties as MSC throughout this order when describing positions or arguments in this case unless it is necessary to refer to MEC/SC’s and CUB’s testimony separately.

² The record in this case also contains confidential transcript and exhibits filed under seal.

(1983)). Thus, the company contended, through its exhibits and expert testimony, that it met its burden of proof.

In her initial brief, the Attorney General discussed Consumers' burden of proof "to demonstrate that its proposals are just and reasonable." Attorney General's initial brief, p. 14. The Attorney General stated that in "administrative cases a party seeking relief must prove his, her, or its claim by a preponderance of the evidence." *Id.* (citing *Dillon v Lapeer State Home & Training School*, 364 Mich 1, 8; 110 NW2d 588 (1961); and *BCBSM v Governor*, 422 Mich 1, 88-89; 367 NW2d 1 (1985)). The Attorney General also noted that "even uncontradicted evidence" can be rejected by the Commission. Attorney General's initial brief, p. 14 (citing *Woodin v Durfee*, 46 Mich 424, 427; 9 NW 457 (1881); *accord*, *Yonkus v McKay*, 186 Mich 203, 211; 152 NW 1031 (1915); and *Cuttle v Concordia Mut Fire Ins Co*, 295 Mich 514, 519; 295 NW 246 (1940)).

In its reply brief, Consumers reasserted that the Commission "can properly rely on the testimony of a qualified expert and that testimony constitutes competent evidence." Consumers' reply brief, p. 4 (citing *Attorney General v Pub Serv Comm*, 174 Mich App 161, 170; 435 NW2d 752 (1988)). Consumers also asserted that the Commission "may weigh conflicting expert testimony of qualified experts to determine which evidence meets the preponderance of the evidence." Consumers' reply brief, p. 4 (citing *Aquilina v General Motors Corp*, 403 Mich 206, 211-212; 267 NW2d 923 (1978); and *Great Lakes Steel Div of Nat'l Steel Corp v Pub Serv Comm*, 130 Mich App 470, 481; 344 NW2d 321 (1983)). Consumers argued that it presented qualified expert testimony and exhibits to support its requested relief, that such expert testimony is "substantial" and that as such, it met its burden of proof. Consumers' reply brief, p. 5. Furthermore, Consumers argued that a utility may recover its reasonable cost of service with "just

and reasonable” rates that are sufficient to cover “all reasonable costs of doing business.” *Id.* (citing *General Telephone Co v Pub Serv Comm*, 341 Mich 620, 631; 67 NW2d 882 (1954)).

The Attorney General also addressed the evidentiary standards in her reply brief, stating that Consumers misstated such with “statements intended to bolster the testimony and exhibits of its witnesses.” Attorney General’s reply brief, p. 4. The Attorney General argued that “merely looking at the constitutional standard alone does not determine whether burdens of proof are met” because there is also a statutory test of reasonableness. *Id.*, p. 5 (citing *Great Lakes Steel Div of Nat’l Steel Corp v Pub Serv Comm*, 130 Mich App 470, 480; 344 NW2d 321 (1983)). The Attorney General reasserted her statement that “Consumers must prove its proposals are reasonable and prudent by a *preponderance of the evidence*.” Attorney General’s reply brief, p. 6 (emphasis in original). She also reasserted that merely “presenting substantial evidence alone, is not enough” because while the burden of proving a fact falls upon the presenting party, “the other party does not have the burden of proving the opposite fact.” Attorney General’s reply brief, pp. 6-7 (citing *Kar v Hogan*, 339 Mich 529, 539; 251 NW2d 77 (1976)). Thus, the Attorney General contended, “Consumers always has the burden of proof to support the requests that make up its application.” Attorney General’s reply brief, p. 7.

The ALJ recited the legal standards applicable to a general rate case, first noting that the Commission applies the preponderance of the evidence standard when making findings of fact and weighing conflicting evidence in a case. PFD, pp. 10-11 (citing the January 31, 2017 order in Case No. U-18014 (January 31 order), p. 8 (rejecting a utility’s request to apply the substantial evidence test and agreeing that the Commission applies the preponderance of evidence standard)). As stated in MCL 460.557(4), the rate-making process necessarily involves a balancing of the investor and the consumer interests. A public utility is constitutionally protected from being

limited to rates that are so inadequate as to be confiscatory. *See, Fed Power Comm v Hope Natural Gas Co*, 320 US 591, 603 (1944). One of the factors relevant to the rate-setting process is the return a utility’s investors may reasonably expect given the risk profile of public utilities as business enterprises. *See, ABATE v Pub Serv Comm*, 208 Mich App 248, 269; 527 NW2d 533 (1994). The Commission has acknowledged that rates should be set so as to balance the interests of customers and shareholders such that the utility has the opportunity to earn a reasonable return on its investments. *See*, May 8, 2020 order in Case No. U-20561, p. 7.

When considering whether rates are just and reasonable, the result reached, not the methods employed, is controlling. *See, Hope Natural Gas Co*, 320 US at 603. The Commission has broad discretion in determining the appropriate amount of investment on which a return will be computed. For example, in discussing the Commission’s predecessor agency, the Michigan Railroad Commission, the Michigan Supreme Court has held that “[w]hat return a public utility shall be entitled to earn upon its invested capital and what items shall be considered as properly going to make up the sum total of that invested capital are questions of fact for the determination of the commission[.]” *City of Detroit v Michigan RR Comm*, 209 Mich 395, 433; 177 NW 306 (1920). Additionally, ratemaking is a legislative function, and the Commission is not bound by any particular method or formula in the exercise of this legislative function. *See, ABATE v Pub Serv Comm*, 208 Mich App 248, 258; 527 NW2d 533 (1994); *see also, Hope Natural Gas Co*, 320 US at 602. Citing the Commission’s broad discretion in ratemaking proceedings in the absence of any issues raising constitutional concerns, the ALJ noted his reliance on past Commission decisions for guidance in arriving at his recommendations in this case. PFD, p. 12.

The Attorney General takes exception to the ALJ’s described legal standard to the extent that she contends that the ALJ omitted a full description of relative evidentiary burdens of the parties.

The Attorney General states that the party seeking relief has the burden to prove by preponderance of the evidence that its proposals are just and reasonable. The burden on the moving party (i.e., Consumers) means that the other parties do not have the burden of proving the opposite fact and the Commission may reject even an uncontradicted claim, per the Attorney General. Thus, the Attorney General asks the Commission to consider the relative burdens of proof when weighing the evidence in this case. Attorney General's exceptions, pp. 3-4.

In replies to exceptions, the Attorney General mainly recites her previous arguments and quotes the May 8, 2020 order in Case No. U-20561, p. 12, which stated that “[t]he burden is on the utility to prove the accuracy of each and every test year projection.” Attorney General's replies to exceptions, p. 7. Per the Attorney General, “[i]t is not enough that a utility's projected capital expenditures be associated with a prudent capital project; instead, the projected capital expenditures must also be adequately supported.” *Id.*, p. 8.

The Commission has addressed the issue of burden of proof in a number of cases, most recently in the November 7, 2024 order in Case No. U-21291 (November 7 order) and 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.

November 7 order, pp. 8-9; *see also*, July 2 order, pp. 7-8 and October 25, 2017 order in Case No. U-18224, 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.” November 7 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); *Hope Natural Gas Co*, 320 US 591, 603; *Michigan Bell Tel Co v Mich Pub Serv Comm*, 332 Mich 7, 38; 50 NW2d 826 (1952).

III. TEST YEAR

As explained by the ALJ, a test year is the starting point for establishing just and reasonable rates for the rate-regulated utility and its customers and MCL 460.6a(1) allows a utility to use projected costs and revenue for a future consecutive 12-month period in developing its request for rates and charges. *See*, PFD, p. 12. In the instant case, Consumers used the 12-month period ending October 31, 2026, as the projected test year, the 22-month period ending October 31, 2025, as the bridge period,³ and calendar year 2023 as the historical year in developing the rates.

ABATE opposed Consumers’ use of a projected test year and protested the frequency of the company’s rate case filings, arguing that Consumers had shown a historical revenue sufficiency in seven of eight of its most recent rate case filings. Citing a number of resulting shortcomings,

³ The Commission notes that at times the ALJ refers to the bridge period in parts, namely the calendar year of 2024, and the 10-month period ending October 31, 2025, sometimes referred to as the 2025 bridge period. The Commission also uses these terms throughout this order. For clarity, both time periods are part of the bridge period.

ABATE recommended that the Commission reject Consumers' use of a projected test year or, in the alternative, be more vigilant in ensuring that the company's expenses and investments are necessary and incurred at the lowest reasonable cost, ensure the company is committed to projected expenditures, and determine if investments and expenses are precisely quantified in terms of the amount and time period. ABATE also asked the Commission to direct a work group to examine the use of projected test years and utilities' returns on equity (ROE). *See*, 4 Tr 2071-2080; ABATE's initial brief, pp. 2-10.

MSC similarly opposed Consumers' use of a projected test year and frequency of rate case filings arguing that the projected test year allows the company to re-use testimony and exhibits from previous cases and results in an incomplete rate increase request because the projected test year from the prior case is not yet complete by the time the company files its subsequent rate case. CUB recommended the use of recent historical data to formulate disallowances. *See*, 4 Tr 2393-2396; MSC's initial brief, pp. 7-14. Consumers disagreed with ABATE's and MSC's opposition and maintained its support for using the projected test year. *See*, 4 Tr 1585-1590; Consumers' initial brief, pp. 3-6. In its reply brief, the Staff agrees with Consumers that MCL 460.6a(1) allows the utility to use a projected test year for its request but states that nothing in the law compels the Commission to accept the projected test year or the rate increase proposed. Staff's reply brief, pp. 13-14.

To begin his recommendation, the ALJ recalled that the Commission has previously acknowledged that MCL 460.6a(1) permits the use of a projected test year but noted that the utility bears the evidentiary burden to prove by a preponderance of evidence the accuracy of each test year projection. Absent sufficient support to substantiate the company's projections, the ALJ stated that the Commission has found that historical data may be used to develop the revenue

requirement. PFD, pp. 22-23 (citing December 1, 2023 order in Case No. U-21297 (December 1 order), p. 8; March 1, 2024 order in Case No. U-21389 (March 1 order), p. 6; November 7 order, pp. 12-13; March 21, 2025 order in Case No. U-21585 (March 21 order), pp. 5-9). Here, the ALJ recommended that the Commission: (1) find that Consumers' use of the projected test year ending October 31, 2026, to calculate its requested rate increase is permissible under MCL 460.6a(1) and (2) reject ABATE's request for a workgroup regarding the use of a projected test year absent a statutory revision to MCL 460.6a(1) by the Legislature. Lastly, the ALJ noted that the Commission has already requested input from interested persons in Case No. U-21637 regarding solving issues related to general rate cases, including the use of projected test years. PFD, p. 23 (citing July 10, 2025 order in Case No. U-21637 (July 10 order), p. 38).

No party filed exceptions to the PFD pertaining to the test year.

Finding the ALJ's recommendations regarding the test year to be reasonable and well-supported by the record in this case, the Commission adopts the PFD on this issue. The Commission finds that MCL 460.6a(1) permits a utility to use projected costs and revenue for a future consecutive 12-month period in developing its request rates and charges. The Commission is not persuaded that Consumers' use of a projected test year in the instant case should be rejected. Additionally, the Commission declines to adopt ABATE's recommendation for a workgroup to address the use of a projected test year, among other issues. Pursuant to Section 6aa(3) of Public Act 231 of 2023 (Act 231), MCL 460.6aa(3), the Commission opened the docket in Case No. U-21637 for the purpose of investigating opportunities to improve the process by which it reviews rate case applications filed under MCL 460.6a. *See*, May 23, 2024 order in Case No. U-21637 (May 23 order). In the May 23 order, the Commission sought input on a number of topics including whether a fully projected test year serves the best interest of utility customers. May 23

order, p. 4. A subsequent order in that docket, the July 10, 2025 order (July 10 order) sought comment on additional topics and enumerated the Commission's position on the use of a projected test year:

With respect to the issue of the projected test year, the Commission has opined on this issue in numerous rate cases, observing that it is clear that the statutory mandate makes the projected test year an option for the filing utility. MCL 460.6a(1). The Commission has considered the comments and finds that, in light of the statutory latitude afforded to the Commission for selecting an appropriate temporal basis for requested cost recovery, it is reasonable for the Commission to continue to consider the evidence on an issue-by-issue basis and determine whether the most competent, material, and substantial evidence supports a result based on historical rather than projected amounts. MCL 460.6; MCL 460.6a; Mich Const 1963, art. 6, section 28. Thus, the Commission rejects Consumers' assertion that the projected amount is the only reasonable proposal. But the Commission is also not convinced that it should, as the Attorney General suggests, request that the Legislature amend the statute, or adopt the generic proceeding recommended by ABATE, or require the Staff to present a fully historical-based estimate for all cost categories at issue in a rate case. As stated, the Commission will continue to consider the strength of the evidence for each contested issue.

July 10 order, p. 38. Thus, the Commission finds that the workgroup suggested by ABATE would be duplicative of the work in Case No. U-21637. Lastly, the Commission finds that the ALJ's recommendation is consistent with the Commission's enumerated approach and precedent with respect to the projected test year.

IV. RATE BASE

Rate base refers to total utility plant (i.e., the capital invested in all plant in service, plant held for future use, and construction work in progress (CWIP)), less the company's depreciation reserve (consisting of its accumulated depreciation, amortization, and depletion), plus the utility's working capital requirements. Consumers initially projected a total rate base of \$11.75 billion for the test year, later adjusted to \$11.57 billion in its initial brief. *See*, Consumers' initial brief, p. 132. The Staff projected a rate base of \$11.52 billion. Staff's initial brief, Appendix B.

A. Net Utility Plant

Net Utility Plant is the primary component of rate base and includes total utility plant, which is comprised of plant in service, plant held for future use, and CWIP.

1. General Proposed Capital Expenditure Disallowances

Consistent with CUB's position opposing Consumers' annual rate case filing using a projected test year, CUB proposed using the average of 2023 and 2024 historical spending adjusted for inflation (using a Productivity Adjusted Total Factor Inflation (PAI) of 3.29%) to determine capital expenditures for: (1) asset relocation, (2) regulatory compliance, (3) capacity/deliverability, (4) distribution plant – material condition, (5) gas operations – other, (6) distribution plant (also referred to as gas distribution), and (7) gas compression and storage (GCS). Using CUB's proposed method results in a disallowance of \$84.19 million, or a reduction of these capital expenditures from \$1.11 billion to \$1.02 billion. 4 Tr 2393-2397; Exhibit CUB-8.⁴ Consumers opposed CUB's adjustment calling it unreasonable and contending that CUB did not review the company's test year projections for reasonableness or the benefits to customers. Thus, Consumers maintained that its capital expenditures based on a projected test year are reasonable. 2 Tr 120-121.

While expressing agreement with CUB's concerns regarding the significant increases that Consumers proposed in capital expenditures, the ALJ found that CUB's disallowances are based on the general proposition that historical years should be used rather than a projected test year. The ALJ stated that CUB's proposal is not well-aligned with the statutory allowance for the

⁴ While MSC opposed the use of the projected test year in its initial brief, it did not include this specific general disallowance. This specific general disallowance of capital expenditures was raised by CUB only in testimony and exhibits, as opposed to together with MEC/SC in briefing. *See*, MSC's initial brief, pp. 7-14; 4 Tr 2393-2397; Exhibit CUB-8.

company to rely on a projected test year. Further, the ALJ recounted that the Commission has consistently rejected broad approaches and prefers to evaluate electric providers' spending in a more detailed manner, on a program-by-program or project-by-project basis. The ALJ reasoned that because CUB failed to provide a detailed cost comparison or evidence to demonstrate that its proposal is more reasonable, the ALJ declined to adopt its position. PFD, p. 26.

No party filed exceptions to the PFD with respect to this issue.

Finding the ALJ's recommendation to be well-reasoned, supported by the record, and consistent with the Commission's preferred approach to consider the evidentiary presentation in each case on a more detailed basis, the Commission adopts the PFD. *See, id.*, p. 26.

2. Transmission, Distribution, and Compliance Capital Expenditures

a. Mains, Services, and Meter Stands

In this category, the company proposed capital expenditures of \$66.76 million for the historical test year, \$55.34 million for the 2024 bridge period, \$49.60 million for the 2025 bridge period, and \$61.68 million for the projected test year. 2 Tr 42; Exhibit A-101. The company projected 6,800 new connections in 2024 and 2025, with the number of new connections increasing to 7,000 in 2026. Consumers explained that these new connections are part of the new business program that connects new customers to the company's gas distribution system. Per Consumers, new customers are asked to pay a share of the costs associated with adding the connection, which is referred to as the contributions in aid of construction (CIAC). 2 Tr 42-44. The Attorney General contended that the new connection numbers of 6,800 in 2025, and 7,000 in

2026, are unrealistic given the uncertainty surrounding interest rates, new housing construction, and the fact that the actual number of connections in 2024 was only 5,950.

Predicting that new connection numbers in 2025 and 2026 would be closer to 5,950, the Attorney General recommended a disallowances of \$3.06 million for 2024 because the company incurred fewer actual new connection expenses in 2024 than it had projected, \$5.71 million in the 2025 bridge period (10-month period ending October 31, 2025), and \$8.01 million in the projected test year (12-month period ending October 31, 2026). 4 Tr 1858-1860.

MSC also argued that Consumers' projections for new customer connections ignores historical trends and current factors that make it appropriate to estimate that the new connections growth to be zero or less than zero. 4 Tr 2301-2304. MSC added that new gas customers also do not stay on the company's system as long as the 20 years that the company estimates, which leaves Consumers' ratepayers covering the cost of new connections. MSC recommended that Consumers reduce the allowance for new line extension costs to just 50% of total costs starting in the test year by bringing down the capital expenditures in this category from \$66.64 million to \$37.02 million in the test year. 4 Tr 2288-2295. MSC further argued that Consumers failed to comply with the settlement agreement in Case No. U-21148 by not making the company's line extension model shareable with other parties. 4 Tr 2291.

In rebuttal, Consumers contended that the 2025 new service connections were tracking closely with 2024 levels and do not now show the growth that supported the company's original projection. Therefore, Consumers agreed to the Attorney General's adjustments totaling \$16.80 million. 2 Tr 125-126. However, Consumers maintained its disagreement with MSC's arguments and recommendation to set the growth rate at zero, which would amount to \$17.86 million disallowance beyond the Attorney General's proposal, which the company

accepted. 2 Tr 116-118. The company also contended that it had complied with the settlement agreement in Case No. U-21148 by developing a more transparent model after engaging with interested persons and offering in-office demonstrations to the parties. 2 Tr 206-207.

Noting Consumers' acceptance of the Attorney General's recommendation to align new service growth with the actuals achieved in 2024, and to disallow \$16.79 million (comprised of \$3.07 million from capital expenditures in 2024, \$5.71 million in the 2025 bridge period, and \$8.01 million in the projected test year), the ALJ recommended that the Commission adopt these concessions by the company. Turning to MSC's arguments, the ALJ recommended rejecting the suggestion to set the new customer connection growth rate at zero or less than zero, citing insufficient data to make such a determination. The ALJ was also not persuaded to reduce the allowance for new line extension costs to just 50% of total costs starting in the test year. The ALJ found this proposal to be a significant alteration that was not sufficiently supported. PFD, p. 36.

However, the ALJ agreed with MSC's points regarding the effects of electrification on natural gas usage, the associated impact on CIAC policy, and the potential for unfair subsidization if a significant number of customers switch to non-gas heating sources in the coming years. The ALJ relied upon the November 7 order (DTE Gas Company's (DTE Gas's) gas rate case), in which the Commission expressed concern regarding this same issue but declined to change DTE Gas's CIAC policy. Instead, the Commission directed the company to provide thorough justification for its CIAC and customer attachment program (CAP) methodology, including whether it is appropriate to revise the company's 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. *Id.*, p. 37 (citing November 7 order, pp. 246-247). In this case, the ALJ recommended that the Commission issue a similar

directive to Consumers, in its next rate case, to justify its CIAC methodology including whether it is appropriate to revise its assumptions to include declining natural gas demand and how to avoid unfair subsidization. PFD, p. 37.

Lastly, the ALJ agreed with MSC's assertion that the company's line extension model is not capable of being shared with interested parties as contemplated in the settlement agreement in Case No. U-21148. Per the ALJ:

the context is critical and that it is telling that the company's new model is no more capable of being shared than the company's old model, and is "shareable" only to the extent that the company can host in-person meetings at a company office to demonstrate the model. This [ALJ] is unpersuaded by the company's argument that it complied with the agreement because the company can share "information from the model that it previously could not." Sharing information from a model, whether inputs, outputs, or other data, is simply not the same as sharing the model itself.

Id., pp. 37-38 (footnote omitted). Thus, the ALJ recommended that Consumers comply with the settlement agreement in Case No. U-21148 by developing a means to share the line extension model without requiring interested parties to attend an in-person demonstration. While acknowledging Consumers' security concerns, the ALJ asserted that it is likely the company can develop a way to securely share the model. As a note to the parties, the ALJ suggested that in the future the parties should draft settlement agreements with a higher degree of specificity to avoid disputes such as this. PFD, p. 38.

Consumers takes exception to the PFD with respect to the ALJ's recommendation for the company to justify its CIAC methodology in its next rate case. Consumers recites the relevant portion of the November 7 order relied upon by the ALJ and insists that the company's line extension policy is consistent with the Commission's previous approval and other Michigan natural gas utilities and was well supported in this case. Consumers states that nothing on the instant record showed that there was a shortfall in recovering costs from participants, that existing

customers are subsidizing increased footage allowances, or that Consumers overstated the time that customers will remain on the natural gas system. Consumers' exceptions, pp. 3-4 (citing 2 Tr 113-118, 198-209). Recalling its testimony, Consumers restates the purpose of the customer attachment tariff and contends that natural gas service is not declining as evidenced by the company's annual reporting the 8,896 requests to relocate or upgrade service due to load increases. Consumers also maintains that its assumption that customers would remain on the system for more than 20 years is reasonable. Thus, the company argues that the PFD's recommendation is unreasonable in light of this evidence. Consumers' exceptions, p. 4 (citing 2 Tr 115, 208; Exhibit A-125).

Turning to the shareability of the line extension model, Consumers excepts to the ALJ's conclusion that the model was not capable of being shared in the manner contemplated by the settlement agreement in Case No. U-21148. Consumers argues that the ALJ failed to recognize the changes to the model consistent with the settlement agreement. Per the company, those changes include: (1) a new model that allowed a more robust, transparent, and user-friendly experience; (2) more transparency in the calculations; (3) updated software that allows the model to stay up to date and improves accessibility and usability; and (4) increased transparency for inputs and outputs that allows Consumers to share and provide information from the model with customers and other parties that it previously could not. Consumers' exceptions, pp. 4-6 (citing 2 Tr 207, 251, 256; Exhibit A-120). Therefore, Consumers asserts that its new model complies with the settlement agreement in Case No. U-21148.

In exceptions, MSC supports the ALJ's recommendation for the Commission to direct Consumers to reevaluate and justify its CIAC program but excepts to the ALJ's finding that there was insufficient evidence to support MSC's \$26.83 million disallowance in new business capital

expenditures. MSC's exceptions p. 2. MSC argues that it is the company's proposed new business capital expenditures that are not supported by substantial evidence and the PFD failed to explain its reasons for finding otherwise. MSC first argues that it demonstrated that Consumers' assumptions for calculating customer contributions for new service are not reasonable. MSC repeats its testimony stating that Consumers' revised capital expenditure request and the company's CIAC methodology governed by Rule C8 in its rate book. *Id.*, pp. 3-4 (citing 2 Tr 42, 51, 111, 223-224). MSC then describes what they perceive as problems with how Consumers structures its CIAC in terms of the free footage allowance, the customer charge, and excess footage charge. MSC's exceptions, pp. 4-5 (citing 2 Tr 242, 246; 4 Tr 2287-2291; Exhibits MEC-5, MEC-6, and MEC-7).

Relying on its testimony and exhibits, MSC contends that Consumers' CIAC program shifts costs and risk from new customers who may not remain on the system as long as Consumers projects, to existing customers. MSC contends that Consumers did not rebut this argument but merely stated that its program assumptions and calculation methods are reasonable. MSC's exceptions, pp. 5-6. MSC repeats that Consumers' assumption that customers will remain on its gas system with the same usage levels for 20 years is not supported by evidence and is less likely due to increasing electrification. *Id.*, p. 6-8 (citing 2 Tr 117, 141-142, 204, 208, 328-330; 4 Tr 1849-1855, 2290-2292; Exhibits MEC-8 and MEC-29). MSC adds that Consumers does not track whether actual usage and revenues are consistent with its model's assumption and Consumers' model is not shareable with other parties as required by the settlement agreement in Case No. U-21148. MSC's exceptions, pp. 8-9 (citing 2 Tr 208; 4 Tr 2292-2293; Exhibits MEC-9 and MEC-24). MSC repeats its criticism that Consumers' model also imprudently incentivizes the connection of new gas customers, which Consumers did not rebut and acknowledged that the

trends in the company's footage allowances (which are up) and its excess footage charges (which recently decreased) require lower upfront customer contributions, although they are higher than before the model was updated in 2023. MSC's exceptions, pp. 9-10 (citing 2 Tr 199-203, 249-250; 4 Tr 2293). MSC notes that in DTE Gas's rate case, Case No. U-21291, the Commission recognized similar problems regarding the utility's gas usage assumptions and required DTE Gas to reevaluate its CIAC program. MSC's exceptions, p. 10 (citing November 7 order, pp. 246-247). MSC restates that other jurisdictions have recognized the impact of declining natural gas demand and have reduced or eliminated utilities' line extensions allowances. MSC's exceptions, p. 10 (citing 4 Tr 2294).

Citing these points raised in their testimony and exhibits, MSC argues its proposed disallowance (which it revised to \$26.83 million in addition to the \$8 million conceded to by Consumers) for the new business Mains, Services, and Meter Stands was reasonable and that, while the ALJ acknowledged MSC's concerns, he improperly rejected the disallowance. MSC's exceptions, pp. 11-12. MSC argues that the ALJ did not explain his reasons for rejecting the disallowance contrary to the requirement for a statement of reasons in a PFD set out in the Administrative Procedures Act of 1969, MCL 24.201 *et seq.* *Id.*, p. 13 (citing MCL 24.281(2)). MSC contends that the ALJ never explained why the "voluminous evidence" MSC presented was not persuasive or what evidence from Consumers as more persuasive. MSC's exceptions, p. 13. Acknowledging that the ALJ's recommendations for reevaluation and for Consumers to share its line extension model are significant, MSC contends that the ALJ's recommendations do not make

up for Consumers' obligation to meet its evidentiary burden. Thus, MSC asks the Commission to disallow \$26.83 million in capital expenditures in this category. *Id.*, p. 14.

In its replies to exceptions, Consumers expresses support for the ALJ's rejection of MSC's adjustments to the Mains, Services, and Meter Stands category and asks the Commission to reject MSC's arguments made in exceptions. Consumers argues that MSC's recommended disallowances are without support and are arbitrary and that MSC did not consider the impacts of these disallowances on homebuilding or that other Michigan utilities have similar CAPs.

Consumers recalls that the Commission declined to direct changes to DTE Gas's CIAC policies in the November 7 order and that the Commission's Form P-522 Annual Report showed a continued growth in natural gas residential customers from 2014 to 2023. As to MSC's reference to an "increasingly risky environment," Consumers argues that MSC does not support this speculative claim and the record in this case shows that the costs of installing equipment for gas service expansions are charged to new customers over a period of 20 years. Consumers' replies to exceptions, p. 3 (citing 2 Tr 208) (quoting MSC's exceptions, p. 6). Consumers repeats that its natural gas services are not declining, its new customers with attached services are stable, and that the Commission authorized the company's CAP program. Consumers' replies to exceptions, p. 3. Consumers then repeats its testimony regarding the process for new connections and argues that MSC's challenges to the assumptions within the company's Gas Engineering Model are flawed.

Per Consumers:

[t]o start, the Company attaches customers in accordance with its tariff, which has been approved by the Commission. The Company did not propose any changes to how the tariff operates. MSC, however, carries the burden of supporting its concerns with the approved tariff. See *Kar v Hogan*, 399 Mich 529, 539; 251 NW2d 77 (1976) ("The party alleging a fact to be true should suffer the consequences of a failure to prove the truth of that allegation."). Irrespective of this fact, the Company also supported and discussed the reasonableness of its

assumptions.

Consumers' replies to exceptions, p. 4 (citing 2 Tr 199-209). Thus, Consumers asks the Commission to reject MSC's position.

MSC responds to Consumers' exception to the ALJ's recommendation for Consumers to justify its CIAC methodology in its next rate case. MSC argues that, while Consumers is correct that its line extension policy was approved by the Commission, such approval does not mean that the policy cannot be revisited. In response to Consumers' arguments regarding its policy being consistent with other Michigan utilities, MSC points out that the Commission directing Consumers to justify its line extension policy would be consistent with the similar directive the Commission gave to DTE Gas. MSC next contends that Consumers' statement that the company is following its tariff is moot because the issue is whether the policy underlying the tariff is reasonable and prudent. Next, MSC argues that Consumers' recitation in exceptions of its testimony as support for its line extension policy does not demonstrate that the ALJ's findings or recommendations were in error. MSC's replies to exceptions, pp. 4-5. MSC notes that in exceptions, Consumers stated that the risk of subsidization exists only if the new service retires prematurely or the forecasted revenue is not collected over the 20-year period. *Id.*, p. 5 (citing Consumers' exceptions, p. 4). To which MSC responds that its initial brief and exceptions showed that gas sales are declining and electrification is growing, and Consumers did not meaningfully engage with this evidence. Thus, MSC maintains that the Commission should adopt its recommended disallowance, but at a minimum, should adopt the ALJ's recommendation for Consumers to re-

evaluate its line extension policy in the company's next rate case. MSC's replies to exceptions, p. 6.

The Commission finds the ALJ's recommendations for the Mains, Services, and Meter Stands category to be well-reasoned and supported by persuasive evidence on the record. *See*, PFD, pp. 36-38. The Commission adopts the PFD and the recommended directives therein. Namely, the Commission directs Consumers, in its next rate case, to provide a thorough justification of its CIAC and CAP methodologies, inclusive of an explanation as to whether it is appropriate to revise the company's assumptions to include declining natural gas demand, customer adoption rates for the customer attachment programs based on historical experience when calculating new attachment surcharges, and how to avoid unfair subsidization by existing customers. MSC's un rebutted claim that new gas customers are being imprudently incentivized to connect to the system is concerning, and establishing an accurate CIAC and CAP methodology is imperative. *See*, 4 Tr 2293. As to the sharing of the new line extension model, the Commission agrees with the ALJ that examining the context and previous dispute that predicated the terms of the settlement agreement in Case No. U-21148 show that Consumers' offering of an in-person demonstration does not conform to the settlement's requirement for the model to be shared. The Commission echoes the ALJ in directing Consumers to ensure the line extension model itself, not merely the inputs or information within the model, is shareable in a secure, electronic medium in addition to being available for in-person demonstrations. Parties to a rate case proceeding must be afforded adequate opportunity to review and evaluate for themselves the evidence relied upon by the utility in its rate increase request. This includes the model at issue here. The Commission cautions that failure to adequately share this model and allow the parties a meaningful opportunity to perform

their own evaluation for cross examination, as required by the settlement agreement in Case No. U-21148, may result in the company's inability to rely on it as evidence in a future case.

b. Large New Business Projects

Consumers explained that the large new business sub-program pertains to new customer connections that exceed \$500,000 in infrastructure costs or that require special tracking or management. 2 Tr 52. The Attorney General requested a disallowance of the \$4.77 million associated with unknown or uncertain projects, \$2.05 million in the 10-month period ending October 31, 2025, and \$124,000 in the projected test year for two projects that have not yet been finalized. The Attorney General also recommended disallowing \$1.95 million in 2024, because the company had projected \$9.7 million in 2024 expenditures, but incurred only \$7.76 million. 4 Tr 1861-1862. In briefing, Consumers conceded to the Attorney General's recommended disallowances with the exception of the amount related to the Delta Energy Park project. The company argued that it now had a signed contract for the project and an expected completion date of November 1, 2025. Thus, the company revised its request to \$7.76 million in 2024, \$2.52 million for the 10-month period ending October 31, 2025, and \$0.14 million for the projected test year. Consumers' reply brief, p. 15.

Noting the company's agreement to most of the Attorney General's recommended adjustments, the ALJ agreed with Consumers' revised capital expenditure request. He recommended that the Commission adopt the proposed disallowances of \$1.95 million in 2024, \$0.69 million in the 2025 bridge period, and \$4.82 million in the projected test year. PFD, p. 40.

The Attorney General takes exception to the ALJ's agreement with Consumers to allow the inclusion of the Delta Energy Park in rate base. The Attorney General recalls that in its rebuttal testimony, Consumers reported that a contract had been signed in mid-April 2025 and that

construction was expected to be completed by November 1, 2025, but did not provide a schedule demonstrating the timing of the work. Explaining that the project involves the installation of 200 feet of 8-inch steel high pressure main, the Attorney General contends the company's completion date may be ambitious. Thus, the Attorney General recommends her proposed disallowance and notes that the company may recover any actual and reasonably incurred expenditures in its next rate case. Attorney General's exceptions, pp. 4-5 (citing 2 Tr 126; Exhibit AG-2).

In replies to exceptions, Consumers repeats its contention that the timeline related to the Delta Energy Project is set and argues that the Attorney General's recommendation is unreasonable. Consumers' replies to exceptions, p. 5.

Finding the ALJ's recommendation to be well-reasoned and supported by persuasive evidence on the record and noting Consumers' concession to a significant portion of the Attorney General's proposed disallowances, the Commission adopts the PFD. *See*, 4 Tr 1861-1862; Consumers' reply brief, p. 15. Further, the Commission is not persuaded by the Attorney General's assertion that the company's stated completion date for the Delta Energy Park may be ambitious. Consumers presented evidence of the progression of the project with a signed contract and testimony that construction would be completed November 1, 2025. *See*, 2 Tr 126; Exhibit AG-2, p. 6. Thus, the Commission agrees with the ALJ that the company's revised capital expenditures of \$7.76 million in 2024, \$2.52 million for the 10-month period ending October 31, 2025, and \$0.14 million for the projected test year are reasonable and prudent.

c. Transmission and Distribution Asset Relocation

Consumers requested the inclusion in rate base of \$86.84 million in 2024, \$75.84 million in the 10 months ending October 31, 2025, and \$162.68 million in the projected test year for projects in the distribution asset relocation program for both civic improvements (relocation caused by

municipal projects) and reimbursable (customer-requested replacements) expenses. *See*, 2 Tr 55-68; Exhibit A-12, Schedule B-5.9, and Exhibit A-102. The Attorney General contended that Consumers had overstated the costs for asset relocation related to civic improvements and recommended a disallowance of \$9.41 million in the 2025 bridge period and \$9.91 million in the projected test year. 4 Tr 1865-1867. For the transmission-related asset relocations, Consumers projected capital expenditures of \$17.39 million in 2024, \$19.14 million for the 10 months ending October 31, 2025, and \$24.73 million for the test year. 4 Tr 1252-1254; Exhibit A-59. The Attorney General recommended a disallowance of \$15.58 million associated with three projects (GL-00990 KZO 1200A Wetland, GL-00991 KZO 1200A Townline Rd., and GL-02086 KZO 1200A Needham Rd.) that are in the preliminary design stage and thus, per the Attorney General, are premature for inclusion in rate base. 4 Tr 1903-1904.

ABATE took issue with the civic improvement asset relocation expenses in the historical test year 2023, arguing that the company's three largest projects (Mound Road, Atlas Iron Belle Trail, and 9 Mile Road) cost \$15.8 million over its estimated costs and that the company did not justify the costs more than doubling. Thus, ABATE proposed a \$15.8 million disallowance for the cost variance associated with these projects. 4 Tr 2140-2141.

Consumers conceded to the Attorney General's proposed disallowances of \$19.32 million reduction for civic improvements and a \$2.11 million reduction for reimbursables in this category. 4 Tr 2140-2141. However, the company disagreed with the Attorney General's argument that certain transmission asset relocation projects are too uncertain to be included in rate base. Consumers argued that the projects are progressing with design, environmental reviews, and material ordering activities underway. Thus, Consumers requested approval of these projects. 4 Tr 1307 (citing Exhibit AG-17). Consumers also disagreed with ABATE's argument that the

company had not justified the cost variances associated with the asset improvement civic relocation expenditures in 2023. Consumers maintained that its explanations were sufficient and detailed and disagreed with ABATE's accusation that the higher than projected costs were due to mismanagement. 2 Tr 122-123.

The ALJ first noted the company's acceptance of the Attorney General's disallowances totaling \$19.32 million (\$9.41 million in the 2025 bridge period and \$9.91 million in projected test year) for civic improvements and \$2.12 million (\$203,000 in the 2025 bridge period and \$1.92 million in the projected test year) for reimbursables. The ALJ recommended that the Commission adopt these disallowances. PFD, p. 45. However, the ALJ declined to adopt the Attorney General's recommended disallowance for the transmission-related asset relocation costs, finding that the company showed that the projects are sufficiently developed to warrant inclusion in rate base. *Id.*, p. 46. Turning to ABATE's proposal, the ALJ agreed that some of the cost variance could be caused by the company's mismanagement but found that the company had adequately explained that the cost overrun for the Mound Road project was caused, in part, by changes in scope initiated by the county responsible for road construction. Finding it would be unreasonable to hold Consumers responsible for a change in scope prompted by a third party, the ALJ rejected the \$5.32 million portion of ABATE's suggested disallowance for the Mound Road project. *Id.*, p. 45. However, for the Atlas Iron Belle Trail and 9 Mile Road projects, the ALJ agreed that the cost variance was not satisfactorily justified and recommended that the Commission adopt ABATE's proposed \$10.53 million disallowance for 2023. *Id.*, p. 46.

Consumers takes exception to the ALJ's disallowance of the historical costs associated with the Atlas Iron Belle Trail and the 9 Mile Road project on the grounds that the ALJ found that the cost overruns for these projects "**could** be caused by the company's own poor management."

Consumers' exceptions, p. 6 (quoting PFD, p. 45) (emphasis added in Consumers' exceptions).

Consumers avers that there is no evidence to support the claim that the cost overruns were caused by the company's poor management. The company adds that the ALJ's recommended disallowance is for work already undertaken and being used to benefit customers. Consumers repeats those benefits and recalls from its testimony that the increased costs resulted from the initial estimate being too low for the scope of work and heavy concrete restoration work, which were explained in the 2023 EIRP Annual Performance Report included in Exhibit AB-5.

Consumers also repeats its testimony regarding the complexity of civic improvement projects, that incomplete information at the time the company develops its estimates can lead to variances, and the actual 2023 civic improvement expenditures of \$83.5 million is only slightly higher than the average from 2019 through 2023. Consumers' exceptions, pp. 6-7 (citing 2 Tr 55, 59, 123; 4 Tr 1254). Thus, Consumers asks the Commission to reject the ALJ's recommended disallowance.

In exceptions, the Attorney General asks the Commission to reject the ALJ's finding that the three disputed transmission projects were undergoing preliminary design and thus progressing sufficiently for inclusion in rate base. The Attorney General contends that the ALJ "read[] too much into the Company's evidence" and that,

[w]hile Exhibit AG-17 provides a projected starting date of April 1, 2026 for each of the projects in question (GL-00990, GL-00991, and GL 02086), it provides no information on when design will be completed and when other steps proceeding the start of construction for each project will be completed. While the Company also claims to be involved in preconstruction activities, it is not clear how far along it is in those activities and that given the uncompleted design how comprehensive such preparation really is.

Attorney General's exceptions, p. 6 (footnotes omitted). Next, the Attorney General argues that the ALJ relied on Consumers' testimony that the projects were progressing in a normal cadence.

However, the Attorney General points out that Consumers explained that normal cadence is for the

company's engineers to focus on projects being constructed in the current year until late spring before working on projects scheduled for the next year. The Attorney General recites that such work includes pre-engineering work, design commencement, environmental reviews, and long-lead time material ordering before meeting with gas control to determine when the projects can be done based on all other project work and system demands. *Id.*, pp. 6-7 (citing Exhibit AG-75). Thus, the Attorney General contends that the projects' timelines are not certain and that the Commission should remove \$129,000 for the 10-months ending October 31, 2025, and \$15.5 million from the Consumers' test year capital expenditures. Attorney General's exceptions, p. 7.

In its exceptions, ABATE asks the Commission to reject the ALJ's recommendation to allow the \$5.32 million associated with the Mound Road project. ABATE recalls that the ALJ reasoned that it would be unreasonable to hold Consumers responsible for cost overruns attributed to a third party altering the scope of the work. ABATE argues that this reasoning does not capture the extent of the 133% variance for the project. ABATE's exceptions, p. 3 (citing 4 Tr 2139). ABATE points out that heavy concrete construction work was also given by Consumers as a reason for the cost overruns for Mound Road which was the same explanation given for the 9 Mile Road project. The ALJ found the 9 Mile Road project costs were not justified or satisfactorily explained and thus, ABATE argues that the ALJ should have reached the same conclusion to disallow based on the same explanation for the Mount Road project. ABATE's exceptions, pp. 3-4.

In response to the Attorney General's exceptions, Consumers repeats that the three transmission asset relocation projects opposed by the Attorney General are following a typical schedule and are in the engineering phase. Consumers' replies to exceptions, pp. 5-6 (citing

Exhibit AG-17). Consumers then repeats its testimony regarding the timeline for engineering work and maintains that the Commission should approve these projects. Consumers' replies to exceptions, p. 6. Consumers also asks the Commission to reject ABATE's recommendation to disallow \$5.32 million in 2023 historical costs. Consumers restates its arguments regarding the complexity of civic improvement projects. The company states that the ALJ properly acknowledged the reasoning for the cost increases and found that it was not reasonable to hold the company responsible for a change in project scope initiated by a third party. Consumers contends that the cost variances of these projects do not make them unreasonable and that the Commission should approve them. Consumers' replies to exceptions, pp. 6-7 (citing 2 Tr 123; Exhibit AB-5).

In its replies to exceptions, ABATE responds to Consumers' arguments in its exceptions that there is no evidence to support the claim that the cost overruns for the Atlas Iron Belle Trail and 9 Mile Road projects are due to poor management. ABATE counters that this claim is inconsistent with the record. ABATE argues that Consumers acknowledged that the cost overruns were due to lower initial estimates and heavy concrete restoration work, indicating that the company did not reasonably manage its cost projections. ABATE recalls arguments from its initial brief that the explanations offered by Consumers do not justify or adequately explain the excessive costs. ABATE's replies to exceptions, pp. 15-16. As to Consumers' argument that these costs should be recovered because the work is being undertaken and benefiting customers, ABATE calls this argument irrelevant to whether the associated costs are reasonable and prudent. *Id.*, p. 16. Per ABATE, "assertions that these projects were necessary or beneficial do not substitute for evidence demonstrating cost recovery for the specific expenses requested in this proceeding is reasonable or

prudent.” *Id.*, pp. 16-17. Thus, ABATE asks the Commission to reject Consumers’ arguments in exceptions and adopt the PFD. *Id.*, p. 17.

Finding the ALJ’s recommendations regarding adopting the concessions to the Attorney General’s proposed disallowances and the allowance of the transmission asset relocation expenditures to be well-reasoned and supported by persuasive evidence on the record, the Commission adopts the PFD with respect to these expenditures. The Commission also adopts the ALJ’s recommendation with respect to the Mound Road and Atlas Iron Belle Trail projects. *See*, PFD, pp. 45-46. However, the Commission respectfully departs from the ALJ’s findings and recommendation regarding the 9 Mile Road project. As explained by Consumers, the cost variance was attributed to heavy concrete restoration work, which was also given as a partial reason for the cost overruns for the Mound Road project. *See*, 4 Tr 2140. The alteration of the scope of a project by a third-party and the need to complete heavy concrete restoration work that may not have been anticipated at the start of a project do not suggest mismanagement to the point that a disallowance of historical costs is warranted in this instance. Rather, it is a reasonable, though undesirable, outcome of civic improvement projects which are complex and at times involve unanticipated additional work.

However, the Commission cautions Consumers that ABATE’s points regarding the excessive costs are well-taken and the Commission does not take lightly that the actual costs for the Mound Road, Atlas Iron Belle Trail, and 9 Mile Road projects had variances of 133%, 97.8%, and 165.6%, respectively. 4 Tr 2140. Therefore, while the Commission finds that the company explained the reasons for the cost overruns in this case, the explanations could have been supported with further detail given the millions of dollars over initial projections that were spent.

In the future, the Commission will continue to closely examine historical costs and expects more detailed explanations from the company to justify such significant cost overruns.

d. Pipeline Integrity Transmission Operated by Distribution

Consumers explained that in the Pipeline Integrity Transmission Operated by Distribution (TOD) program the company performs assessments of TOD pipeline segments that operate on the distribution system above the 20% specified minimum yield strength and are thus, covered by transmission regulations. Consumers stated that the capital expenditures for this program were \$9.27 million in 2023, and are projected to be \$6.12 million in 2024, \$5.59 million for the 10-month period ending October 31, 2025, and \$10 million for the 12 months ending October 31, 2026. 4 Tr 1267, 1269; Exhibit A-60. The Attorney General proposed a \$2 million disallowance associated with casings projects in the test year that she argued are premature for inclusion in rate base. 4 Tr 1899-1900. The Attorney General also requested a disallowance of \$2.95 million for risk mitigation work that the company projected to double from 2024 to 2025, and then triple from 2025 to 2026. The Attorney General argued that these increases are excessive and were not justified. 4 Tr 1900-1901. Consumers disagreed with the Attorney General's suggested disallowances and maintained that the company had properly supported the capital expenditures in each of these work areas. 4 Tr 1301-1303; *see also*, Exhibits A-135 and A-136.

The ALJ recommended that the Commission adopt the Attorney General's \$2 million disallowance related to the two casings projects in the projected test year, noting that Consumers acknowledged that these projects are only in the planning and scheduling phase and that the \$2 million figure was an estimate based on each project costing approximately \$1 million. PFD, p. 48 (citing Exhibit AG-15, p. 3). Thus, the ALJ agreed that the projects were uncertain in terms of cost and timing and thus premature for inclusion in rate base. The ALJ also agreed with the

Attorney General's proposed disallowance for the risk mitigation work, finding that the projected increase in the number of miles of pipeline to be remediated is excessive and that the work is in the planning and scheduling phase. Similarly finding the planned work to be uncertain in terms of cost and timing, the ALJ recommended that the Commission adopt the Attorney General's proposed disallowance of \$2.95 million. PFD, p. 49 (citing Exhibit AG-15, p. 3).

Consumers takes exception to the ALJ's recommendation to disallow \$2 million for the two casings projects in the projected test year and \$2.95 million for the risk mitigation projects. For the casings projects, the company repeats from its testimony aspects of the process for completing these projects. Consumers explains that the projects are spread across two years to levelize the work and costs, the projects were surveyed and tested in 2023, and four casings projects were selected in 2024 for examination in 2025 and 2026. Consumers adds that the 2025 and 2026 work must be completed with seven years of the prior assessment and that these projects are on track and following a normal cadence. Consumers' exceptions, pp. 7-8 (citing 4 Tr 1267, 1302; Exhibit A-60). For the risk mitigation projects, Consumers repeats that it is ramping up mileage and costs for work related to assessing and remediating non-high consequence area pipe to provide a better understanding of the cathodic protection of the pipe and to address deficiencies more holistically. The requested expenditures would allow the company to achieve more mileage in a single year. Consumers' exceptions, p. 7 (citing 4 Tr 1303). Thus, Consumers asks the Commission to reject the ALJ's disallowance.

The Attorney General responds to Consumers' exceptions and contends that the ALJ's recommended disallowance was correct. Attorney General's replies to exceptions, pp. 9-10. The Attorney General points out that Consumers explained that casings assessments are done every seven years and that due to the complex level of planning for examinations and expensive nature

of these projects, the company spread the costs over two years. The Attorney General repeats that the \$2 million estimates in each year appear to be ballpark amounts with no specific quantification of forecasted costs. The Attorney General also notes that the company admitted its own limited experience with the cost of inspecting and remediating casings and that these projects are still in the planning and scheduling phase. *Id.*, p. 10 (citing Exhibit AG-15). For the risk mitigation projects, the Attorney General asserts that there is no regulatory impetus or justification for the increase in work and associated costs projected by the company. The Attorney General adds that these projects are also in the planning and scheduling phase, making them premature for inclusion in rate base. Thus, the Attorney General asks the Commission to adopt the PFD.

The Commission agrees with the ALJ's findings that the casings and risk mitigation projects identified by the Attorney General are in early planning and scheduling phases and thus are premature for inclusion in rate base. *See*, 4 Tr 1899-1900; *see also*, Exhibit AG-15. Thus, the Commission finds that the ALJ's recommendation is well reasoned and supported by persuasive evidence on the record and adopts the disallowances described in the PFD. *See*, PFD, p. 48.

e. Transmission and Distribution Maximum Allowable Operating Pressure

Consumers explained that federal Pipeline and Hazardous Materials Safety Administration (PHMSA) regulations require the company to have a plan to reconfirm maximum allowable operating pressure (MAOP) and remediate gas line segments for which the company's testing records do not meet standards for traceable, verifiable, and complete (TVC) documentation. Of the six permissible remediation methods, Consumers proffered that pipeline replacement was preferable to other methods such as pressure testing or pressure reduction, which are not feasible. *See*, 2 Tr 46-47, 76-92. However, Consumers stated that for one project, Line 1080, the company proposed to operate the line at a lower pressure and to construct a second 6.7-mile parallel pipeline

to ensure adequate supply. 2 Tr 81-82, 134. Consumers provided details on 14 other distribution projects incurring expenditures in 2023 through 2026, as well as MAOP-related transmission projects, and requested permission to capitalize first-time and one-time MAOP retesting costs. 2 Tr 77-79.

The Staff supported the company's capitalization of MAOP retesting costs but added that the company should be subject to reporting requirements because no projects related to that request are included in this proceeding. The Staff asked the Commission to direct the company to provide notification and the opportunity to review retesting that Consumers intends to capitalize prior to testing as well as provide an annual report of completed testing projects. Contending that the need for remediation under the MAOP regulations is a result of the company's failure to keep adequate records, the Attorney General averred that customers should not bear the full costs. Thus, the Attorney General recommended a 50/50 split between customers and the company for the cost of pipeline replacement and for the Line 1080 parallel pipeline. The Attorney General's suggested cost sharing resulted in a 50% disallowance of capital expenditures related to MAOP distribution projects in 2023, the 2024 and 2025 bridge periods, and the projected test year, or an approximate \$93 million disallowance. 4 Tr 1871-1873. The Attorney General recommended three further disallowances: (1) \$3.49 million for project GL-03042 because the company acknowledged it was not required;⁵ (2) \$2.56 million for unspecified MAOP transmission projects that are improper placeholders, and (3) approximately \$3.99 million from 2023 through the projected test year representing 50% of the remaining expenditures. 4 Tr 1902-1903. Consumers disagreed with the

⁵ In its rebuttal testimony, Consumers disagreed with the Attorney General's disallowance but stated that the correct amount would be \$3,491. *See*, 4 Tr 1304. As noted by the ALJ, in her originally filed testimony, the Attorney General had proposed a disallowance of \$3,491,000 for project GL-03042, but her revised testimony, which was admitted into the record, corrected the amount to \$3,491. *See*, 4 Tr 1902.

Attorney General's disallowances and countered that the lack of TVC records was not due to the company's negligence in record keeping but rather updated PHMSA regulations that required reconfirmation of pipelines previously exempted. The company also disagreed with the Attorney General's two other listed disallowances but conceded to the reduction of \$3,491 for the GL-03042 project. *See*, 2 Tr 129-137; *see also*, Exhibit AG-6.

First, the ALJ agreed with the Staff's recommendation to allow Consumers to capitalize first-time and one-time MAOP retesting in alignment with Federal Energy Regulatory Commission (FERC) guidelines and to adopt the notice and reporting requirements suggested by the Staff. Second, while the ALJ was not persuaded that the updated PHMSA regulations imposed entirely new record keeping requirements because the company was already required to perform and document similar MAOP tests, he declined to adopt the Attorney General's 50% disallowance of capital costs, including those for Line 1080. The ALJ explained that:

[he] would otherwise agree with the Attorney General's position and reasoning but for the Commission's decision in Case No. U-20940 in which the Commission addressed a similar issue and stated that it was "disinclined to disallow capital costs associated with [a MAOP project] as they are necessary to reestablish the MAOP of the pipeline and to ensure safe operation." Thus, to remain consistent with past Commission decisions, this [ALJ] declines to adopt the 50% disallowance for MAOP capital expenditures as they are required for safety purposes to reestablish the MAOP of the pipelines.

PFD, p. 57 (quoting December 9, 2021 order in Case No. U-21940, p. 33). The ALJ added that MAOP-related operations and maintenance (O&M) costs are addressed in the adjusted net operating income (NOI) section of the PFD.

Next, the ALJ acknowledged that Consumers agreed to remove the \$3,491 for the GL-03042 and the Attorney General corrected her proposed disallowance. Thus, the ALJ recommended that the Commission adopt this concession by Consumers. PFD, p. 57. Lastly, the ALJ recommended adopting the Attorney General's proposed disallowance of \$2.56 million in capital expenditures

for currently unknown MAOP transmission projects that were unspecified or acting as improper placeholders. *Id.*, p. 58.

Consumers takes exception to the ALJ's recommended disallowance of \$2.56 million in capital expenditures for currently unknown MAOP transmission projects that are unspecified, arguing that the ALJ failed to recognize how projects are identified in the MAOP program. Relying on its testimony, Consumers explains that its projections are based on previously completed, similar work orders. Per the company, the projects planned for 2024 include the retirement of drain piping at the Mt. Clemens City Gate on Line 1060 and capital projects for 2025 include the replacement of valves and piping at Metamora City Gate on Line 1900. Consumers' exceptions, p. 10 (citing 4 Tr 1274). Consumers then explains that the Standard Engineering Analysis will identify future projects, as follows:

...[t]he [Standard Engineering] [A]nalysis will determine where work is required to meet the traceable, verifiable, and complete criteria, and upgrade the documentation archiving from a historical perspective to a newly developed engineering content management database integrated with the Company's geospatial information system database. The record database will link record files to the data mined from those records and entered into the geospatial information database for MAOP calculation from those design and testing values. For each transmission pipeline segment identified as not meeting the record criteria established by the newly published rule, the Company will address these segments through an engineering evaluation that will consider the six regulatory methods of MAOP Reconfirmation identified in 49 CFR 192.624 in conjunction with a solution that provides benefits in regard to pipeline safety, reliability, and deliverability.

Consumers exceptions, p. 10 (quoting 4 Tr 1272-1273). Thus, the company requests approval of this expenditure.

In exceptions, the Attorney General first recites the parties' respective positions before disagreeing with the ALJ's rejection of the Attorney General's proposed disallowance of 50% of capital expenditures for transmission MAOP and Line 1080 based on the Commission's decision

in the November 7 order. The Attorney General asks the Commission to reject the PFD because the ALJ acknowledged that the TVC records are not entirely new and that the company's expenditures are the result of its failure to keep adequate records. The Attorney General argues that, despite the Commission's previous rejection of the Attorney General's 50% disallowance in the November 7 order, ratepayers should not be burdened because of the company's record keeping failure and the Commission should adopt the Attorney General's proposed disallowance. Attorney Generals' exceptions, pp. 9-10.

In its replies to exceptions, Consumers again disagrees with the Attorney General's assertion that the company failed to maintain proper records and repeats support from the record regarding the recordkeeping requirements and changes to the PHMSA regulations, which include the addition of the TVC requirements. Consumers' replies to exceptions, pp. 7-8 (citing 2 Tr 129-131; Exhibit AG-6). Consumers argues that it could not have previously known what new documentation PHMSA would require in 2020 and therefore, the Attorney General's claims of poor recordkeeping are arbitrary and unreasonable. Consumers' replies to exceptions, p. 8. Consumers then repeats the various options available for pipeline reconfirmation and its rationale for choosing replacement. *Id.*, pp. 8-9. Citing the PFD and the December 9 order, Consumers insists that recovery of these expenditures is reasonable when the projects result in PHMSA compliance and benefits to customers. *Id.*, p. 9 (citing 2 Tr 79-90, 131-132; 4 Tr 1305-1306).

In replies to exceptions, the Attorney General argues that none of the arguments Consumers presented in exceptions address the reason for the disallowance, which is that the transmission projects are yet to be identified. The Attorney General rejects Consumers' projections for identified projects based on previously completed projects and contends that the ALJ correctly

recommended a disallowance of \$2.56 million in capital expenditures for the unidentified projects. Attorney General's replies to exceptions, pp. 13-14.

Finding the ALJ's recommendation to be well-reasoned and based on persuasive evidence on the record, the Commission adopts the PFD. *See*, PFD, pp. 56-58. Further, the Commission notes that the ALJ's recommendation is consistent with the Commission's previous decisions in Case Nos. U-21291 and U-20940 in which the Commission stated the importance of these capital expenditures to ensure safe and reliable service. The Commission finds that the reconfirmation of these pipeline segments contributes significantly to the safe operation and reliable service of these pipelines and thus, it is reasonable for the company to recover the associated capital expenditures. While the Attorney General disputed the reconfirmation method chosen by Consumers, the Commission finds that the company adequately supported its reasoning for choosing replacement. *See*, 2 Tr 79-80, 87.

f. Material Condition Non-Modeled

Consumers explained that the material condition non-modeled (MCNM) program is for company-initiated replacements addressing emergent issues that must be resolved to comply with regulations or to ensure safety and reliability. Per the company, increases in this category are primarily due to the wrought iron main replacement program, high pressure waterway crossing initiatives, residual meter replacement, and replacement of Line 1010 that was purchased from another utility and lacks TVC records to documents its MAOP. 3 Tr 398-399, 402-406.

The Staff contested the company's proposed spending for MCNM because the company indicated that its expenses related to Line 1010 were lower than expected and asked the Commission to disallow \$4.05 million in the 2025 bridge period and \$3.5 million in the projected test year in this category. 4 Tr 2737; Exhibit S-22.0. The Attorney General took issue with the

company's expansion of the MCNM program in that some MCNM work should be done within the enhanced infrastructure replacement program (EIRP), 10 projects proposed for high pressure waterway crossings are premature for inclusion in rate base, and the risk mitigation and obsolete meter replacement sub-category was unsupported. Thus, the Attorney General recommended a \$5.5 million disallowance for the high-pressure waterway crossing projects, a \$9.63 million disallowance for the risk mitigation (also referred to as leak mitigation) and obsolete meter replacement sub-category, and a 50% disallowance for Line 1010 as an MAOP project (in line with the Attorney General's recommendation related to MAOP capital expenditures). 4 Tr 1884-1886.

MSC asked the Commission to cap additions to plant in service in the projected test year at no more than the 2024 investment level for this program but later supported the Staff's proposed disallowance. 4 Tr 2336-2337, 2351. Consumers disagreed with both the Attorney General's disallowances and MSC's initial position but in briefing it conceded to the Staff's proposed disallowance based on the updated projections for the Line 1010 project. 4 Tr 439, 448-452; Consumers' initial brief, pp. 46-48.

The ALJ recommended adoption of the Staff's proposed disallowance, noting the company's acceptance based on the updated figures for the Line 1010 project. PFD, p. 62. The ALJ declined to adopt the Attorney General's 50% disallowance for Line 1010 and for the replacement of wrought iron mains, leak mitigation, and obsolete meter replacement, reasoning that Consumers sufficiently explained the need for these expenditures. *Id.*, pp. 62-63 (citing 3 Tr 447-451; Exhibit AG-10). However, the ALJ agreed with the Attorney General's proposed disallowance of \$5.5 million for the high-pressure waterway crossings because the projects were still in the scoping phase, had not begun design or engineering work, and therefore, were uncertain in terms

of timing and costs. Lastly, the ALJ declined to recommend the spending cap for this MCNM program as suggested by MSC, explaining that the program's expenditures are not so high as to cause extreme concern. The ALJ also noted that issues related to probabilistic modeling are addressed in the "Other Issues" section of the PFD. PFD, p. 63.

Consumers takes exception to the ALJ's recommendation to disallow \$5.5 million for the waterway crossings and contends that these projects are important to mitigate risks of pipeline ruptures and are not premature. The company repeats its testimony that the HP waterway crossings projects are progressing through the design process in 2025 and are following a standard cadence before construction planned for 2026. Consumers' exceptions, p. 11 (citing 3 Tr 449). Consumers insists that it intends to complete the projects as they were presented in this case and that, while some of them are in scoping phase as of April 2025, there is no evidence the projects will not be completed. Consumers' exceptions, pp. 11-12 (citing Exhibit AG-10, p. 7). Therefore, Consumers asks the Commission to reject the ALJ's recommended \$5.5 million disallowance.

The Attorney General takes exception to the ALJ's rejection of her proposed disallowances for the wrought iron replacement, the risk mitigation and obsolete meter replacement and the Line 1010 MAOP project. Beginning with the wrought iron replacement, the Attorney General repeats that this work should be included in the EIRP and points out that Consumers acknowledged that some wrought iron work is done under the EIRP. The Attorney General adds that Consumers did not adequately explain why wrought iron replacements could not be part of the EIRP if they meet the threshold risk level. Attorney General's exceptions, pp. 10-11 (citing Exhibits AG-10 and AG-

80). Thus, the Attorney General asks the Commission to disallow \$1.25 million for the 2025 bridge period and \$4.42 million for the projected test year.

As to risk mitigation and obsolete meter replacement, the Attorney General argues that Consumers did not provide adequate supporting evidence for these expenditures. While the ALJ relied on Consumers' testimony that the increased expenditures were driven by higher volumes and the need to proactively address leaks and outdated meters to ensure safety, reliable service, and compliance with meter exchange requirements, the Attorney General contends that there is no justification for the specific requests in Exhibits AG-10 or AG-42. Attorney General's exceptions, p. 12 (citing PFD, p. 60 (relying on 3 Tr 449, 450); Exhibits AG-10, AG-42, and AG-80). Thus, the Attorney General asks the Commission to disallow \$2.97 million for 2024, \$208,000 for the 2025 bridge period, \$3.38 million for the projected test year for risk mitigation, and \$3.08 million for the projected test year. Attorney General's exceptions, p. 13.

Turning to Line 1080 MAOP (which is similar to the other MAOP projects but included under the MCNM program), the Attorney General does not disagree with the Staff's proposed disallowance but maintains that the Commission should adopt a 50% disallowance consistent with the Attorney General's arguments regarding the other MAOP capital expenditures. *Id.*, p. 14.

In its replies to exceptions, Consumers asks the Commission to reject the Attorney General's arguments made in exceptions. First, Consumers rejects the Attorney General's argument that the wrought iron main replacements should be performed under the EIRP and points to its testimony on the record explaining that the projects are based on operational improvements that may not be effectively represented in a risk model. Consumers adds that the EIRP model does not account for whether a main is weldable, thus the wrought iron mains may not be prioritized under the EIRP. Consumers' replies to exceptions, pp. 11-12 (citing 3 Tr 399-401, 447-448). Second, Consumers

states that the ALJ correctly found that the company sufficiently supported its Leak Mitigation and Obsolete Meter projects and the Attorney General's exceptions thereto should be rejected. The company repeats its support for these projects from the record and rejects the Attorney General's criticisms of the ALJ's finding that Exhibit AG-10 supported the leak mitigation expenditures.

Consumers recites the supporting information contained in Exhibit AG-10 as follows:

Exhibit AG-10, page 4, explains that the leak mitigation in the Material Condition Non-Modeled is for projects planned and designed by the engineering team, while Material Condition Renewals involves field-initiated replacement projects that require immediate attention. Exhibit AG-10, page 4, also details the number of leak mitigation projects that were performed in 2024 and forecasted for 2025 and 2026 along with their projected cost. The Commission should approve the projected leak mitigation expenditures to provide the funding needed for the Company to address leads in the Material Condition Non-Modeled Program.

Consumers' replies to exceptions, p. 13. The company repeats the support on the record for the obsolete meter replacements noting that its replacements are pursuant to Commission requirements and are necessary. *Id.*, pp. 13-14 (citing 3 Tr 399, 412, 450-451; Exhibit AG-10). As to Line 1010, Consumers repeats its arguments on the record that this line was constructed in 1951 prior to requirements to maintain pressure test records, repressuring the line is not a feasible option, and replacement will bring the pipeline into compliance with the new PHMSA rule. Consumers' replies to exceptions, pp. 14-15. Therefore, Consumers asks the Commission to reject the Attorney General's recommendation to exclude 50% of this expenditure from rate base.

In replies to exceptions, the Attorney General maintains that the HP waterway crossings projects are premature and that Consumers' "usual response" that the projects are progressing and following a standard cadence does not meet the company's evidentiary burden to support the timing of its cost recovery. Thus, the Attorney General argues that the Commission should

disallow the \$5.5 million associated with the waterway crossing projects. Attorney General's replies to exceptions, pp. 14-15.

Finding the ALJ's recommendation to be well-reasoned and based on persuasive evidence on the record, the Commission adopts the PFD. *See*, PFD, pp. 62-63. The Commission finds that the ALJ's recommendation is consistent with the Commission's other decisions pertaining to MAOP capital expenditures and projects that have not sufficiently advanced to be included in rate base.

g. Material Condition Renewals – Leak Detection and Repair

Citing a notice of proposed rulemaking from PHMSA regarding a proposed leak detection and repair (LDAR) rule expected to be published in January 2025 with compliance required by January 2028, the company explained that the proposed rule would require advanced leak detection equipment and faster detection and repair of pipeline leaks. The company also included a \$1.51 million expenditure to eliminate a backlog of known leaks at an accelerated rate. Lastly, Consumers requested to defer any test year revenue requirement of capital expenditures resulting from the final PHMSA rule that exceed the funding requested in the instant case. 3 Tr 412-413.

The Staff supported the \$1.5 million expenditure for addressing the LDAR backlog but opposed the regulatory deferral mechanism because the proposed LDAR rule is unlikely to come into effect given a federal executive order⁶ pausing the implementation of new federal regulations. 4 Tr 2699-2700. Citing the same executive order and the likely delay in the effective date of the proposed LDAR rule, the Attorney General recommended a disallowance of the additional \$1.51 million expenditure for the LDAR backlog. 4 Tr 1888.

On rebuttal, the company rescinded its request for the deferral mechanism citing the delay in publication of the proposed LDAR rule but maintained its support for the \$1.51 million to address

⁶ *Regulatory Freeze Pending Review*, 90 FR 8249 (January 28, 2025).

the LDAR backlog, arguing that the expenditure is necessary to proactively eliminate a leak backlog and reduce system risks regardless of the pending LDAR rule.

The ALJ agreed with Consumers and the Staff that addressing the known backlog of leaks is reasonable and prudent regardless of the proposed LDAR rule. Thus, the ALJ rejected the Attorney General's disallowance.

In its exceptions, ABATE contends that the ALJ failed to engage with ABATE's testimony or briefing regarding the LDAR issue and asks the Commission to reject the ALJ's recommendation. ABATE then restates its concerns from its briefing and testimony:

First, it is not just the timeline for approval, but also the contents of the LDAR rule that are currently in flux and demonstrate the Company's projections are flawed. While the Company stated that PHMSA is proposing deadlines for operators to repair existing gas leaks identified before the new rule takes effect (expected July 2025), compliance timelines set forth in the most recently amended draft of the LDAR demonstrate the Company's assumed dates are no longer applicable to the Company's test period.

ABATE's exceptions, p. 5 (citing 2 Tr 2144). ABATE adds the historical evidence does not support Consumers' assertion that this backlog of leaks must be promptly addressed when the number of known main and service leaks scheduled for repair in 2023 is 27% below the average number of main and service leaks from 2019 through 2023. ABATE suggests that rather than the number of leaks increasing, it is decreasing. Further, ABATE states that the leak backlog contains only Grade 3 leaks, which are the least hazardous leak classification, and that Grade 1 and 2 leaks (the most hazardous leak classifications) are not included in the backlog. ABATE's exceptions, p. 6 (citing Exhibits AB-25 and AB-26). ABATE also requests that the Commission disallow

Consumers' request for \$1.3 million in O&M expenditures, which is addressed in Part VI of this order. ABATE's exceptions, p. 6.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. *See*, PFD, p. 65. The Commission agrees that regardless of the implementation of the proposed LDAR rule by PHMSA, addressing a backlog of known leads represents a reasonable and prudent capital expenditure by the company to support safe and reliable natural gas service. Therefore, the Commission adopts the PFD.

h. Enhanced Infrastructure Replacement Program

Consumers projected that capital expenditures of \$251.4 million are needed for its EIRP for the projected test year ending October 31, 2026. *See*, 3 Tr 395; *see also*, 3 Tr 397, Table 7; and Exhibit A-82, p. 1. The company stated there were actual program expenditures of \$181.93 million in 2023, projected expenditures of \$195.59 million for the 2024 calendar year bridge period, and \$207.32 million for the remainder of the bridge period. *See*, 3 Tr 395; *see also*, Exhibit A-82, p. 1. Regarding the settlement attached to the July 23 order wherein the company agreed to limit EIRP spending to \$215.3 million in 2025 and to lower the cost per mile of pipe replacement, Consumers testified that, "[c]urrently, we are projecting to be close to the \$215 million but with more miles completed." 3 Tr 480.

Consumers described the EIRP as a program that began in 2012, is expected to be completed in 2035, and is intended to "ensure continued customer safety and reliable system operation as part of the DIMP [distribution integrity management program]." 3 Tr 383; *see also*, 3 Tr 384.

Consumers further testified that the main and main-related materials that are considered to be at highest risk for methane emissions, system leaks, and service interruptions are being replaced through the EIRP. *See*, 3 Tr 382-383. Consumers explained that these high-risk materials include,

among other things, cast iron mains, certain unprotected steel mains, copper mains, metallic service materials, 100 miles of transmission pipeline in high consequence areas, distribution pipelines, 70 miles of low frequency electric resistance weld pipe, and conversion of the standard pressure system to a medium pressure system. The company noted that some of the standard pressure pipe replacements are included in the vintage service replacement (VSR) program. *See*, 3 Tr 383. The company testified that it uses a risk model to prioritize EIRP-related activities to minimize having to perform emergent repairs and replacements. *See*, 3 Tr 384.

The Staff testified that it is generally supportive of the EIRP but cautioned the company to continue to seek ways to minimize the costs of the program so as to minimize costs for ratepayers. *See*, 4 Tr 2734-2736. The Staff opined that the company has taken steps to minimize costs as agreed in the settlement agreement approved in the July 23 order, testifying that:

in [Consumers'] last general rate case, Case No. U-21490, in [Consumers'] Exhibit A-99 (KAP-7), the Company projected the cost per mile of plastic installed to be \$1,535,859 for Southwest, \$1,629,667 for Northeast, and \$1,846,877 for Southeast for each year 2023, 2024, and 2025. The Company's current projected costs per mile of plastic installed of \$1,345,259 for Southwest, \$1,423,653 for Northeast, and \$1,406,508 for Southeast for 2026 represent reductions of \$190,060 for Southwest, \$206,014 for Northeast, and \$423,224 for Southeast.

4 Tr 2736; *see also*, July 23 order, Exhibit A, ¶ 5.

The Attorney General testified that the EIRP should not include programs that are in early design stages (zero to 30% completed design work) and recommended a disallowance of \$84.88 million for removal of seven of these programs⁷ that "are clearly in the initial phase of development with no design work started, or only a minimal amount in the case of one project, and

⁷ The table included in the Attorney General's testimony that is set forth on 4 Tr 1879 provides that the following projects should be excluded: SAG4, Ph 1, 2, 3; BCY2, Ph 3; ALM2, Ph 1, 7, 8; ALM5, Ph 2, line 1070g; ROK10, Ph 1, 2, 3, 4, 5, 6; ROK7, Ph 4,5,6,7,8; and Kal3, Ph 8, 9, 10. *See*, Exhibit A-82, p. 3.

a high degree of uncertainty about the cost and completion of the projects by the end of the projected test year.” 4 Tr 1879; *see also*, 4 Tr 1878. Additionally, the Attorney General asserted that Consumers is not in compliance with the settlement agreement in the July 23 order wherein it was agreed that the company would limit EIRP expenditures to \$215.3 million for the 12 months ending September 2025. *See*, 4 Tr 1880; *see also*, July 23 order, Exhibit A, ¶ 5.

Thus, the Attorney General recommended that, in addition to the \$84.88 million disallowance discussed above, the Commission should implement an annual spending cap in the amount of the actual 2023 costs of the program with an adjustment for inflation for a total of \$197 million which could be adjusted annually for inflation to equal a disallowance in this case of \$84,889,000 for the projected test year. The Attorney General asserted that the resulting delay of two to five years is reasonable because it would limit runaway spending that has occurred since 2023 (from \$181 million in 2023 to a projected test year total in this case of \$251.4 million). *See*, 4 Tr 1880-1883.

As did the Attorney General, ABATE also expressed concern over the large increase in proposed EIRP spending. ABATE testified that Consumers’ five-year historical EIRP average spending is \$143 million, whereas the company’s proposed projected test year spending is over \$250 million. *See*, 4 Tr 2135-2136. In addition, ABATE testified that Consumers did not complete the work it had projected for 2023 and, “[a]s a result, the Company incurred \$68.1 million less capital expenditures than the \$250 million projected.” 4 Tr 2138. ABATE asserted that, in order to avoid burdening ratepayers with higher costs, the company should plan to replace only those mains that are at the highest risk. *See*, 4 Tr 2135-2136. Incorporating these concerns of burgeoning costs and lower than expected performance, ABATE recommended that the “EIRP – Distribution program be reduced to the average historical expenditure level over the

past five years (\$143 million). This adjustment would reduce capital expenditures by \$79.4 million in 2025 and \$92.1 million in 2026 for a total of \$171.1 million in its forecasted test periods.” 4 Tr 2138.

MSC noted Consumers’ “almost 30% increase from \$195.6 million in 2024 to a proposed \$251.4 million in the test year” for the EIRP and expressed concern that the EIRP risk ranking is not transparent, preventing other parties from analyzing Consumers’ decision-making. 4 Tr 2331 (citation omitted); *see also*, 4 Tr 2315, 2330-2333. MSC recommended that the Commission require Consumers to include risk ranking information and narrative descriptions for EIRP projects and to use “probabilistic risk modeling and cost-effectiveness calculations to a much greater extent for all asset classes.” 4 Tr 2315. In addition, MSC recommended that the Commission “[e]nsure its EIRP reports summarize remediations examined, describe the cost-effectiveness of projects relative to alternatives, and indicate why the Company’s remediation was selected.” 4 Tr 2315. Finally, MSC recommended that the Commission limit Consumers’ capital investment in the EIRP to the 2024 level of \$195.59 million and require the company to use probabilistic modeling before authorizing increased investment. *See*, 4 Tr 2351-2352.

In rebuttal, Consumers noted it had corrected a calculation error that resulted in a lower corrected EIRP spending forecast for the Northeast region. *See*, 3 Tr 438-439; *see also*, Exhibit A-138. Consumers testified that:

[t]he corrected capital expenditures are \$247,018,590 in the 2025 program year, with \$204,611,703 in the 10 months ending October 31, 2025, and \$250,809,975 in the test year ending October 31, 2026. This results in reductions of \$3,272,223 for the 2025 program year, which are made up of \$2,710,465 for the 10 months ending October 31, 2025, and \$561,759 for the test year ending October 31, 2026.

3 Tr 438-439.

Consumers rebutted the Attorney General’s concerns, restating that the EIRP is designed to address safety issues related to aging infrastructure and that many high-risk pipes remain in place.

Consumers further stated that while the projected test year spending is 38% higher than 2023's EIRP spending, the company did not project per unit cost increases for 2025 and 2026, and the company has increased the number of projected miles of pipeline to be remedied by 37%.

3 Tr 445-447. Additionally, Consumers rejected the Attorney General's proposed disallowance and spending cap because to do so would disrupt the overall sequence of EIRP work needed and thereby jeopardize reliability and safety. The company also argued that the seven projects that are in early design stages will be fully developed and under construction in the projected test year. *See*, 3 Tr 441-446.

Consumers rebutted ABATE's testimony that the company did not prove that there are safety risks, arguing that ABATE examined only a small portion of the over one half million pipeline segments that are at risk. The company argued that "the replacement of vintage mains is prudent for reliability and safety and the Commission should reject [ABATE's] recommendation to reduce these expenditures and slow the pace of replacements." 3 Tr 465; *see also*, 3 Tr 461-465.

In rebuttal to MSC's testimony, Consumers defended its risk analysis, stating that the DIMP risk-based model used by the company had input from industry experts. 3 Tr 469. Consumers also stated that probabilistic risk modeling and cost-effectiveness is "complex and time-consuming" and may be inaccurate, leading "to oversimplified or flawed analyses." 3 Tr 469. The company opposed delaying the replacement of outdated infrastructure under the EIRP, stating that the proposed EIRP expenditures "are important to replace aged at-risk pipe intended to improve safety and reliability." 3 Tr 471; *see also*, 3 Tr 468-471.

ABATE rebutted the Staff's testimony, stating that it lacked essential details of the company's EIRP risk assessments or safety and reliability metrics. ABATE repeated its recommendation that

capital expenditures should be limited to the previous five-year average of \$171.1 million.⁸

4 Tr 2156-2158.

In briefing, Consumers again argued that the Attorney General is mistaken that the seven projects in early design development will not be under construction within the 2026 projected test year and that their removal will slow the pace of the EIRP replacements and not only interfere with construction of other projects but require cuts in workforce. Consumers' initial brief, p. 53. Consumers also argued "that even the lowest-ranked segment of main in the top 25 [projects] is at significantly higher risk than the average segment. *Id.*, pp. 53-54.

In response to MSC, Consumers indicated that the company's 2026 projects have already been selected using the relative risk assessment model, although the company will begin using the probabilistic risk model in 2027 for 2030 EIRP activities. Consumers denied that leak remediation is an appropriate cost-effective substitute for the EIRP. *See, id.*, pp. 55-56.

In its briefing, the Staff reiterated its support for the EIRP, as presented by Consumers as an appropriate approach to address the safety and reliability of Consumers' distribution system. Staff's initial brief, pp. 37, 40. The Staff asserted that ABATE did not fully support its argument that replacing only the top 10 at-risk segments is in the best interest of public safety. *Id.*, p. 38.

In her initial brief, the Attorney General asserted that the EIRP has become another utility project that seems to require ever increasing amounts of capital expenditures to achieve its goals. The Attorney General repeated her recommendations that a spending cap be implemented and that only projects that are past their early design stages be included in the program. Attorney General's

⁸ In its initial brief, Consumers pointed out that ABATE's financial analysis was based on incomplete data and should not be relied upon and that ABATE erroneously determined that the previous five-year average is \$143 million when it was actually \$171.5 million. *See*, Consumers' initial brief, p. 52.

initial brief, pp. 42-43. The Attorney General is not persuaded that a spending cap would lead to cuts in the workforce because the company would plan its budget and needed employees in advance, thus preventing layoffs. *Id.*, p. 45.

In its initial briefing, ABATE repeated its arguments from its case presentation. ABATE's initial brief, pp. 28-30.

MSC repeated the important points and arguments from their case presentation and reiterated the Attorney General's and ABATE's calls for spending caps. MSC's initial brief, pp. 31-32.

In reply, Consumers again emphasized that the EIRP is a safety and reliability program and continued to explain that the company's risk assessment, capital investment projections, and selection of infrastructure to be addressed are well-supported in the record and the company's methods are not flawed. Consumers' reply brief, pp. 18-21.

ABATE replied that the company's vastly increased projected capital spending for the EIRP is not justified by Consumers' case presentation and reiterated its previous recommendations that projects in the early design phases should be removed and that the company should limit the EIRP's scope to the top 10 at-risk segments. ABATE's reply brief, pp. 8-9.

The ALJ included an analysis of the important points of each party's case presentation and made several recommendations to the Commission. He recommended that Consumers' corrections to its capital expenditures be accepted and that the Attorney General's proposal that the seven projects in which no design work had begun as discussed by the Attorney General should be eliminated from the EIRP for a reduction of \$84.89 million, noting that "the company can recover any costs actually expended in its next rate case." PFD, p. 78; *see also, id.*, pp. 77-78 (citing 3 Tr 438-439; 4 Tr 1879).

The ALJ also stated concern for the company's significantly increased capital spending projections and its effect on affordability for ratepayers. Thus, he recommended a spending cap of \$197 million, noting that if the Commission accepted the recommendation to eliminate the seven undeveloped projects, the company would be well under that cap. PFD, p. 79. Additionally, the ALJ recommended that:

for EIRP reporting, the Commission should direct the company to include risk-ranking information and a narrative description regarding the use of risk-ranking when selecting remediation for a particular project. Such information may help intervenors better understand how and why the company prioritizes certain EIRP projects, which was not always clear in this case as evidence [sic] by [MSC]'s complaints about the company's inability to explain apparent inconsistencies in the risk rankings of EIRP projects.

Id. The ALJ deferred his discussion of probabilistic risk modeling to the "Other Issues" section of the PFD below. *Id.*

Consumers excepts to the ALJ's recommendations, repeating its case presentation that the EIRP is intended to replace all high-risk mains to ensure safety and reliability on the system. Consumers' exceptions, p. 12. Consumers also reiterates that the service replacements will permit the company to "operate at more efficient pressures, lower [. . .] gas losses, reduce [. . .] potential for water infiltration, and reduce [. . .] greenhouse gas emissions." *Id.* (citing 3 Tr 383-384).

Specifically, Consumers argues that the seven so-called prematurely included projects are proceeding at-pace, including "order creation, design commencement, environmental review, ordering long lead-time materials, coordinating with gas control to determine optimal timing for project execution, and finalizing the construction schedule[.]" and will be constructed in 2026. Consumers' exceptions, p. 13 (citing 3 Tr 444-445). The company asserts that there is no record evidence to dispute this schedule or to "suggest [. . .] these projects will not be constructed as planned." Consumers' exceptions, p. 13. Consumers also points out that these seven projects are

individual phases of larger projects and failure to proceed as planned will have a negative impact on those other projects in that each phase is generally designed to build on the previous phase. *Id.*

The company further argues that there is no evidence to establish that the company cannot complete its planned service replacements and asserts that a spending cap “would slow the pace of both the replacement of the at-risk pipe and the associated safety and reliability improvements.” *Id.*, p. 14. Finally, relating to the suggested requirement for additional reporting, Consumers argues that “[t]he Commission should reject the PFD’s recommendation because this additional reporting requirement is unnecessary. Consumers Energy already provides risk ranking information in both the EIRP Planning Report and the EIRP Performance Report by project, which the Company files annually.” *Id.*, p. 17 (citing 3 Tr 468-469).

ABATE excepts, stating that:

[g]iven the extent to which the projections for this cost category continue to increase, the Commission should therefore adopt ABATE’s recommendation that EIRP expenditures be reduced to the average historical level over the past five years of \$143 million. (Fitzhenry 4 Tr 2138.) This represents a reduction of \$79.4 million in 2025 and \$92.1 [million] in 2026 for a total of \$171.1 million in savings from the Company’s projection.

ABATE’s exceptions, pp. 2-3.

The Attorney General excepts, arguing that the replacement of wrought iron “mains should be included in the EIRP and prioritized along with other projects for risk and replacement.” Attorney General’s exceptions, p. 10. Thus, the Attorney General recommends that projected expenditures for wrought iron mains be removed from the non-modeled main replacement and added to the EIRP. *Id.*, pp. 10-11.

The Attorney General replies concerning her advised disallowance of the seven projects, arguing that “[o]ther than making general statements regarding the projects being on track consistent with standard engineering cadence before construction, the Company has not

demonstrated that the projects will be completed in the timeline proposed[.]” and notes that “[a]s of March of 2025, the design work had not commenced.” Attorney General’s replies to exceptions, pp. 17-18 (footnotes omitted). The Attorney General posits that “this is a question of whether something is ready for inclusion in rate base” and that “[a]ny reasonable and prudently incurred expenditure can be recovered in future rate cases.” Attorney General’s replies to exceptions, p. 18.

Concerning her proposed spending cap, the Attorney General explains her concern over the escalating cost of the EIRP and her belief that a spending cap would hold the company accountable and provide an incentive to reduce the cost per mile of installed main. *Id.*, p. 20. In response to the company’s argument that reducing its capital investment would cause delays in the program that may pose a danger to customers, the Attorney General replies that:

[t]he Company has not provided any compelling evidence that the planned increase in spending is tied to any increased safety risks. Therefore, extending completion of the EIRP program a few more years past the current 2035 date, is a reasonable trade-off to balance against customer affordability from uncontrolled capital spending on the program.

Id., p. 19 (footnote omitted). The Attorney General urges the Commission to “reduce the capital expenditures as recommended by the Attorney General and implement a \$197 million spending cap.” Attorney General’s replies to exceptions, p. 19.

In replies to exceptions, MSC points out that the Commission consistently disallows from rate base projects that are in early design or planning stages. MSC’s replies to exceptions, p. 14. Concerning a spending cap for the EIRP, MSC argues that “Consumers provides no alternative estimate for [a] completion date based on its claim that inflation-adjusted costs per mile may be different in the future than they were in 2023[.]” and “that the [ALJ] balanced the utility’s objective of spending on the program at maximum pace with affordability concerns.” MSC’s

replies to exceptions, pp. 16-17. MSC urges the Commission to adopt the recommended cap. *Id.*, p. 17.

Concerning EIRP reporting requirements, MSC argues that:

the [ALJ]’s recommendation to provide this information for the purpose of evaluating planned capital spending in a rate case would fill an information gap and serve a purpose that the documents Consumers cites do *not* serve. And as described in MSC’s briefing and the PFD, the risk ranking information Consumers provided in EIRP reports [. . .] was full of inconsistencies that [Consumers’ witness] could not explain.

MSC’s replies to exceptions, pp. 17-18 (emphasis in original). MSC urges the Commission to adopt the ALJ’s recommendations relating to EIRP reporting. *Id.*, p. 18.

Consumers replies that the Commission should reject all disallowances to the EIRP, repeating its argument that the “projects are on track for completion as planned,” and that delay may entail leaving at-risk mains in place. Consumers’ replies to exceptions, p. 15. Consumers remarks that any spending cap will slow safety and reliability improvements. *Id.*

ABATE replies that it supports the ALJ’s recommendation to disallow projected capital expenditures for the projects that are in the very early stages of development. ABATE’s replies to exceptions, pp. 12-13. Concerning the ALJ’s recommended spending cap for the program, ABATE argues that the company’s claims that mains are in very poor condition are “overstated” and its plan to accelerate replacement is “questionable.” *Id.*, p. 13. ABATE dismisses the company’s concerns that a spending cap would hinder the program’s progress, pointing out that the ALJ considered and addressed this argument. *Id.*, pp. 13-14. ABATE urges the Commission to reject the company’s arguments and adopt the ALJ’s recommendations. *Id.*, p. 15.

The Commission respectfully disagrees in part with the ALJ regarding the EIRP. *See*, PFD, pp. 77-79. Concerning the imposition of a spending cap on the program as recommended by the ALJ, the Attorney General, and ABATE, the Commission is not persuaded that a cap is needed at

this time. The Commission finds that following the July 23 order that approved the settlement in Case No. U-21490, Consumers appropriately lowered its 2025 capital investment in the program while also reducing its cost per mile for installation as agreed to in the settlement. *See*, 3 Tr 480; 4 Tr 2736. The Commission also notes that the EIRP does not have a tracker or an infrastructure recovery mechanism (IRM) wherein a future surcharge may be added to customer billing. Additionally, with some exceptions, discussed below, the Commission finds the company's projections to be reasonable and prudent. Thus, the Commission declines to impose a spending cap on the EIRP at this time.

Concerning the seven projects (SAG4, BCY2, ALM2, ALM5, ROK10, ROK7, and KAL3) that the ALJ and Attorney General recommended to be removed from the projected capital expenditures for the EIRP, it appears that four of the seven projects have at least begun initial design work for phase one, while the remaining three projects (SAG4, ALM2, and ROK10) appear to have not begun phase one design work. *See*, 3 Tr 445, chart; 4 Tr 1878-1879; *see also*, Exhibit AG-8. The Commission finds this to be an appropriate basis upon which to make disallowances to the company's test year projections. Accordingly, the Commission finds that Consumers' projected capital expenditures totaling \$42.28 million should be removed from this rate case for SAG4, ALM2, and ROK10. The Commission approves the remaining \$208.93 million in projected capital expenditures for the test year. *See*, 3 Tr 395; 3 Tr 397, Table 7; 3 Tr 445, chart; and Exhibit A-82.

Concerning the reporting that was recommended by the ALJ and MSC, the Commission finds that Consumers reporting is sufficient at this time and declines to impose additional reporting requirements. *See*, PFD, p. 79; *see also*, 4 Tr 2315

Concerning the Attorney General’s proposal to include wrought iron main replacement in the EIRP, wrought iron replacement remains in the Material Condition Non-Modeled section, above, at this time.

The Commission notes that probabilistic risk modeling is addressed in Part IX of this order.

i. Vintage Service Replacement

Consumers testified that the vintage service replacement (VSR) program is a multi-year program that was developed to replace non-high-risk vintage pipe materials that were not included in the high-risk EIRP or other renewal or replacement programs. The VSR program was modeled on the company’s DIMP and is regularly monitored for effectiveness. The projected capital costs in this case are: \$11.35 million actual costs in 2023, projected expenditures of \$18.66 million for the 2024 calendar year bridge period, \$25.88 million for the 10 months ending October 31, 2025, and \$42.51 million for the projected test year. 3 Tr 418-419.

The Attorney General testified that Consumers’ VSR capital expenditures projection for the test year in this case showed a 131% increase over 2023 expenditures while the actual number of service replacements has declined from 5,000 in 2022 to projections of 2,176 and 1,228 service replacements for 2022 and 2023, respectively. 4 Tr 1888-1889. The Attorney General posited that, in light of these figures, the company’s projections of 4,194 service replacements in 2025 and 5,913 service replacements in 2026 are “excessive.” 4 Tr 1889. The Attorney General stated that these increased figures are not adequately supported in the record, are counter to the declines for previous years, and should be reduced to a more reasonable 2,564 service replacements for 2025 and 2026 with a corresponding reduction in capital projections “of \$17,104,000 for 2025 and \$14,254,000 for the 10 months ending October 2025[,]” and “\$18,945,000 for 2026, and \$18,638,000 for the projected test year.” 4 Tr 1890 (citation omitted); *see also*, 4 Tr 1889.

Accordingly, the Attorney General recommended that the Commission remove \$11.631 million from the company's capital expenditures projection for the 10 months ending October 2025 and \$23.875 million from the projection for the 12 months ending October 2026. 4 Tr 1890; *see also*, 4 Tr 1889.

MSC noted that VSRs "are currently prioritized based on a manual analysis process that considers factors such as leak rate, material age, and soil conditions; although the Company states that in 2025 it plans to transition to using the Distribution Risk Analysis Model (DRAM) which is currently used to analyze distribution pipes." 4 Tr 2332 (citation omitted). MSC testified to the increased number in VSRs in 2024 through 2026, and on through 2035, as well as the company's increased capital expenditures. 4 Tr 2333-2334. MSC's recommendations to the Commission included, among other things, that "far greater transparency [is needed] regarding the tradeoffs between safety and affordability[.]" and that probabilistic risk modeling should be required prior to increasing approval of capital expenditures beyond the 2024 level of \$18.67 million. 4 Tr 2350; *see also*, 4 Tr 2351; 4 Tr 2352, Table 8.

Consumers rebutted the Attorney General, explaining that "[t]he increase in the number of vintage services replaced in the VSR program is related to the reduction in vintage services replaced within the EIRP due to the decrease in large grid projects and the increase in smaller segment projects." 3 Tr 454. Consumers asserted that comparison with the 2022 VSRs would be more appropriate than comparison with those completed during 2022 through 2024 (as the Attorney General did). 3 Tr 454. Consumers continued that "[r]eplacing the remaining vintage services is prudent for reliability and safety and the Commission should reject [the Attorney General]'s recommendation." 3 Tr 454.

Consumers also rebutted MSC's proposed reductions to the VSR program, asserting that the company's current risk assessment methods are effective. *See*, 3 Tr 471-472.

In its initial briefing, Consumers reiterated its case presentation, supported its risk assessment methods, and rejected any proposed spending cap. *See*, Consumers' initial brief, pp. 57-58.

MSC reiterated its recommendation that the Commission require Consumers to employ probabilistic risk assessments to support the company's capital expenditures projections and to accept either MSC's or the Attorney General's proposed reductions in the VSR program. *See*, MSC's initial brief, p. 45.

The ALJ agreed with the Attorney General that Consumers' projected number of VSRs may be a bit ambitious and, therefore, recommended that the Attorney General's proposed reductions be adopted, i.e., reduce Consumers' projections by \$11.63 million for the 10 months ending October 2025 and by \$23.88 million for the projected test year. *See*, PFD, p. 82. The ALJ declined to recommend a spending cap as requested by MSC because the company's VSR spending does not appear to rise to the level that a cap should be set. The ALJ noted that probabilistic risk assessment is addressed in the "Other Issues" section of the PFD, below. *Id.*

Consumers excepts to the ALJ's recommendation to adopt the Attorney General's proposed reduction in service replacements and the accompanying disallowances for the VSR program. Consumers argues that its "projected increase in the number of vintage services to be replaced in the VSR Program corresponds to the reduction in vintage services that will be replaced in the EIRP because of fewer large grid projects, which means fewer vintage services designed and constructed with EIRP projects." Consumers' exceptions, p. 18 (citing 3 Tr 454). The company further argues that when considering the VSR program alone, it appears that an ambitious number of service replacements are planned. However, when considered with other programs such as the

EIRP where vintage services are also replaced, the overall percentage of increase for the VSR program is only 7% for 2025 and 24% for 2026 over the company's 2024 numbers. Consumers' exceptions, pp. 18-19 (citing Exhibit AG-11, p. 2). Consumers asserts that reducing the VSR service replacements would reduce the company's vintage replacements to fewer than the number of replacements in 2024. Consumers' exceptions, p. 19 (citing 3 Tr 454). Consumers argues that the company must continue to replace its highest risk services for a safe, non-polluting distribution system. Consumers' exceptions (citing 3 Tr 418, 472).

The Attorney General replies that the company has forecasted nearly twice as many services to be replaced in the 2025 bridge period and the test year than in earlier years but has provided no clear reason why the increased number of service replacements is necessary. Attorney General's replies to exceptions, pp. 22-23. The Attorney General asserts that "[t]he higher number of service replacements is not adequately supported and like the EIRP, need to be scaled back." *Id.*, p. 23.

The Commission respectfully disagrees with the ALJ regarding disallowances to the VSR program and therefore declines to make the disallowance recommended by the ALJ and the Attorney General. The Commission finds persuasive Consumers' rebuttal to the Attorney General's reasoning for her proposed disallowance and further agrees with the company that "[r]eplacing the remaining vintage services is prudent for reliability and safety." 3 Tr 454. The Commission finds that the project as presented by the company is reasonable and prudent. Accordingly, the Commission approves Consumers' projected test year capital expenditures of \$42.51 million. *See*, 3 Tr 418-419.

Turning to the issue of a spending cap, the Commission agrees with the ALJ's reasoning that a spending cap is unnecessary at this time because the company's VSR spending does not appear to rise to the level that a cap should be set. *See*, PFD, p. 82.

As stated above, the use of probabilistic risk modeling is addressed in Part IX of this order.

j. Deliverability Base Field Measurement Program⁹

Consumers testified that its deliverability field measurement program is intended to “ensure accurate gas quality and measurement.” 4 Tr 1286. The company testified that in 2023, actual capital expenditures for the program were \$5,319,000 and projected capital expenditures are as follows: “\$6,774,000 in 2024, \$10,255,000 for the 10 months ending October 31, 2025, and \$19,890,000 for the 12 months ending October 31, 2026.” 4 Tr 1286. The company testified that projects within this program relate to “remote gas measurement equipment monitoring, gas volume calculations, gas transmission metering, Transport Metering Stations, Interstate Interconnection sites, gas quality improvement and processing, gas sampling systems, and other ancillary equipment[]” and that there are approximately 16 projects included in this rate case that fall under the deliverability field measurement program. 4 Tr 1286; *see also*, 4 Tr 1287-1288 and Exhibit A-61. The company further testified that the activities planned for the deliverability base field measurement program are needed in order to meet the Technical Standards for Gas Service set forth in Mich Admin Code, R 460.2301-460.2383. 4 Tr 1286.

The Attorney General recommended that projected capital expenditures of \$8.36 million for six of the proposed projects¹⁰ be removed because they are in very early design stages. 4 Tr 1905, 1908. The Attorney General also recommended that: (1) projected capital expenditures of \$3.119 million for the 10 months ending October 2025 and \$378,000 projected test year should be removed for GM-10147 (Laingsburg meter replacement) because the company did not adequately

⁹ The ALJ entitled this section of the PFD “Deliverability Field Measurement Projects.”

¹⁰ The projects that the Attorney General asserted are in their early design stages are B-GM-00042, B-GM-00043, and B-GM-00045 through B-GM-00048. *See*, 4 Tr 1908.

support the need for the work to be done; (2) \$302,000 for the 10 months ending October 2025 and \$818,000 for the projected test year should be removed for B-GM-00041 (Rose Center meter replacement) because the company failed to establish that there are any problems with the current meter to warrant its replacement; and (3) \$226,000 included in projected capital expenditures for the 10 months ending October 2025 and \$7.994 million in the projected test year should be removed for GM-01089 (Williamston transmission meter proving station) because no BCA was completed to determine that bringing testing activities in-house would be more economic than continuing to use third-party testing, among other reasons. 4 Tr 1905-1907; *see also*, Exhibit AG-18.

Specifically, regarding the Williamston transmission meter proving station, the Attorney General disputed that a cost savings of \$100,000 would be realized by using company resources to build the facility when there would be no expense at all if Consumers continued to use third-party services. The Attorney General also questioned the company's assertion that buying its own tools and equipment in order to construct multiple gas analysis buildings would result in savings of \$750,000. Again, the Attorney General argued that the savings would be deducted from the unnecessary expenditure of building the new facility, thus not a savings at all. 4 Tr 1906-1907.

Consumers rebutted the Attorney General's recommendation that \$8.36 million be removed from projected capital expenditures for six projects that are in the early design stages. The company asserted that the six projects are actively proceeding "commensurate with projects that will be constructed in 2026." 4 Tr 1312. Consumers also rebutted the Attorney General's claim that the Laingsburg meter replacement project's measurement accuracy and loss detection would not be improved with installation of a new meter, stating that "[t]his investment will allow the Company to continue to conform to the [Commission's] technical standards." 4 Tr 1308.

Regarding the Rose Center investment, Consumers contended that the Rose Center infrastructure is nearing the end of its useful life. 4 Tr 1312.

Concerning the Williamston transmission meter proving station, Consumers rebutted the Attorney General's claims regarding the project. The company stated that the centralized location of the Williamston site will save on "labor resources, travel, and fleet expenses" plus the cost of third-party gas analysis that currently takes place in Traverse City. 4 Tr 1309; *see also*, 4 Tr 1308-1310. Finally, the company rebutted that:

[t]he \$750,000 is not for the purchase of tools and equipment [as argued by the Attorney General]. The initial investment in tools and equipment is a one-time cost for the Company. As explained above, the third-party contractor incorporates the recurring costs of tools and equipment on each gas analysis building that they construct. The \$750,000 savings would be realized by offsetting the Company's growing costs for constructing the gas analysis buildings out-of-state and leveraging the Williamston Transmission Meter Proving Station as a centralized location, where the Company or a third-party contractor can construct the gas analysis buildings.

4 Tr 1310.

In briefing, Consumers reiterated its case presentation but agreed with the Attorney General to remove the projected expenditures associated with the Williamston transmission meter proving station "for the 10 months ending October 2025 in the amount of \$226,000 and the \$7,994,000 in the projected test year." Consumers' initial brief, pp. 60-61. The company continued to pursue the remaining projected expenditures. *See, id.*, pp. 60-62.

In her briefing, the Attorney General acknowledged the removal of projected expenditures for the Williamston transmission meter proving station but pursued her other recommended cuts in the company's projections as stated in her case presentation. *See*, Attorney General's initial brief, pp. 51-55.

In its reply brief, the Staff recommended that the Commission accept the removal of the projections related to the Williamston transmission meter proving station. Staff's reply brief, p. 5.

The ALJ recommended accepting the company's voluntary removal of the Williamston transmission meter proving station for a disallowance of \$226,000 in the 2025 bridge period and \$7.99 million in the projected test year. PFD, p. 86. The ALJ also stated that the company adequately justified the need and projected expenditures for the Laingsburg junction meter installation, finding that the design work is not premature. *See, id.*, pp. 85-86. However, the ALJ found that it was premature to include the Rose Center meter replacement project in this rate case because design work is not scheduled to start until late 2025. Additionally, he also found that it was premature to include the six projects (B-GM-00042, B-GM-00043, and B-GM-00045 through B-GM-00048) in this rate case because "engineering and design work is not slated to start until the end of 2025 or sometime in 2026." *Id.*, p. 86. The ALJ recommended that the projected capital expenditures for these seven projects should be removed from this rate case, i.e., for the Rose Center project, removal of \$302,000 for the 10 months ending October 2025 and \$818,000 for the projected test year and removal of \$8.37 million for the six prematurely included projects named above. *See, id.*, p. 86; *see also*, 4 Tr 1905-1906.

Consumers excepts to the ALJ's recommendations to remove the Rose Center project and the other six projects for which engineering and design had not yet begun, asserting that it would be unreasonable to remove these projects because engineering and capital investment is now taking place consistent with projects to be constructed in 2026. Consumers points to rebuttal testimony at 4 Tr 1313, which states that "[t]he company continues its normal cadence with these projects." Consumers' exceptions, p. 21.

The Attorney General excepts to the ALJ's failure to disallow the capital projections for the Laingsburg meter installation. The Attorney General argues that:

[f]irst, a project in the preliminary design phase is not ripe for inclusion in rates because depending on the final design, timelines and cost can change. Second, other than general statements regarding improved metering accuracy and being at a "major interstage" whatever that means, no specific benefits or problems requiring the work were identified and no cost/benefit analysis performed for this over \$4 million project.

Attorney General's exceptions, p. 15. The Attorney General urges the Commission to disallow this project. *Id.*

The Attorney General replies to Consumers' exceptions, reiterating that the Rose Center project does not have adequate justification and that design work has not been completed for the six projects. Attorney General's replies to exceptions, pp. 24-25. The Attorney General further argues that the company did not demonstrate that the project costs will be incurred in the test year and that "[g]iven the early stage of development, it is premature to include capital expenditures for these projects in rate base in this case." *Id.*, p. 25.

Consumers replies that:

the Attorney General incorrectly noted that the [Laingsburg meter installation] project was still in the preliminary phase. As pointed out in discovery, this project was in the process of being engineered at the time of the discovery response. This project is actively moving forward, and the Commission should allow for recovery of the costs of the Lainsburg [sic] Meter Installation project and reject the Attorney General's recommendation to disallow costs of the active project.

Consumers' replies to exceptions, pp. 16-17.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. Thus, for the reasons stated by the ALJ, the Commission finds that the capital expenditures for the following projects should be removed from Consumers' projections: (1) a disallowance of \$226,000 in the 2025 bridge period, and \$7.99 million in the projected test year

for the Williamston transmission meter proving station; (2) a disallowance of \$302,000 for the 10 months ending October 2025 and \$818,000 in the projected test year for the Rose Center project; and (3) a disallowance of \$8.37 million in the projected test year for projects B-GM-00042, B-GM-00043, and B-GM-00045 through B-GM-00048. *See*, PFD, pp. 85-86; *see also*, 4 Tr 1905-1906.

k. Deliverability Base Pipeline

Consumers testified that the deliverability base pipeline program is intended to support maintenance in compliance with the Michigan Gas Safety Standards (MGSS), Mich Admin Code, R 460.20101 through 460.20606 (Rules 101 through 606). The company noted that activities falling under the deliverability base pipeline program involve replacement of valves, valve operators, and piping, as well as the construction or reconfiguring of tap piping and tap valves, among other operations. *See*, 4 Tr 1288-1289; *see also*, Exhibit A-61. The company stated that “capital expenditures for this program were \$18,757,000 in 2023, and are projected to be \$18,173,000 in 2024, \$19,403,000 for the 10 months ending October 31, 2025, and \$25,023,000 for the 12 months ending October 31, 2026.” 4 Tr 1289. The company testified that projected expenditures in this program were increasing due to more accurate aerial surveys that would reveal needed segment replacements per PHMSA, 49 CFR 192.611, as well as valve spacing studies that revealed certain valves that are required to in compliance with PHMSA, 49 CFR 192.179. 4 Tr 1289.

The Attorney General testified to 11 deliverability base pipeline program-related projects¹¹ that should be removed because they are premature and uncertain. She also identified one project

¹¹ The 11 projects were identified as B-GL-00259 through B-GL-00267, B-GL-00280, and GL-03047. *See*, 4 Tr 1909.

(B-GL-00251) that had been canceled and replaced with a different project for which the company presented insufficient information to evaluate whether it was reasonable and prudent. *See*, 4 Tr 1909-1910; *see also*, Exhibit AG-10. The Attorney General recommended removal of \$18.47 million from projected test year capital expenditure projections for the 11 projects, removal of \$1.56 million for the 10 months ending October 2025 for the replacement project, and removal of a total of \$18.70 million for the deliverability base pipeline program, which includes \$230,000 for the replacement project. *See*, 4 Tr 1909-1920.

Consumers rebutted that the information it had provided about the replacement project (GL-03313) was consistent with that provided for other projects. *See*, 4 Tr 1314. Consumers asserted that Exhibit A-12, Schedule B-5.5 and Exhibit A-61 were revised to reflect a reduction to rate base for this change. *See*, 4 Tr 1314. The company also stated that the 11 projects singled out by the Attorney General as being premature are progressing “commensurate with projects that will be constructed in 2026[,]” and thus should not be removed from the company’s capital expenditure projections. 4 Tr 1314.

Consumers’ initial and reply briefs reiterated the company’s case presentation on this issue. *See*, Consumers’ initial brief, pp. 62-63; *see also*, Consumers’ reply brief, p. 22.

The Attorney General’s briefing reiterated her testimony and recommendations to the Commission. *See*, Attorney General’s initial brief, p. 57.

The ALJ recommended that the Commission adopt the Attorney General’s recommendation to reduce projections for the 11 projects identified as being premature (a total reduction of \$18.47 million for the projected test year). PFD, p. 88. However, he also opined that the company had provided sufficient information on the replacement project and thus did not recommend the Attorney General’s requested disallowance. *Id.*

The Attorney General excepts to the ALJ's failure to disallow "the remaining expenditures for 2025 and the projected test year (\$230,000) although the project for which the amount had been projected was cancelled and replaced by another project." Attorney General's exceptions, p. 16 (citation omitted). The Attorney General asserts that it is questionable that the initial project and the replacement project should have the same projected expenditures and, for this reason, the projected expenditures for the replacement project should be removed from the company's capital projections. Attorney General's exceptions, pp. 15-16

Consumers excepts to the ALJ's recommended disallowances and argues that:

[e]ngineering costs are being accumulated for these 22 projects. The Company engineers primarily manage projects being constructed in the current year up until late spring when these projects start to be released for construction. Then work begins on the project for the next year, which includes pre-engineering work, design commencement, environmental reviews, alignment with gas control, and long lead-time material ordering. 4 TR 1314. This is the normal project cadence. Thus, the Commission should approve the Company's reasonable costs for the Deliverability Base Pipeline Program.

Consumers' exceptions, pp. 21-22.

The Attorney General replies that the projects are in the early stages of development and are premature to include in this case's rate base. Further, the Attorney General disputes Consumers' argument that failing to construct these projects will undermine the company's compliance with the MGSS, arguing that the company has other projects that "support the Company's operations in accordance with the [MGSS]." Attorney General's replies to exceptions, p. 28; *see also, id.*, p. 27.

Consumers addresses the replacement project in its replies. The company argues that it provided the same information on the replacement project (GL-03313) as it did for all the other projects, referencing Exhibit AG-19. Consumers' replies to exceptions, p. 17. Consumers points out that "[t]he information provided for project GL-03313 was not new and was provided to all

parties when the case was filed; accordingly, recovery of the costs for project GL-03313 in the case is reasonable.” *Id.*

The Commission agrees with the ALJ’s recommendation to disallow the 11 projects named above from the deliverability base pipeline program, finding his reasoning is supported in the record and persuasive. *See*, PFD, p. 88; *see also*, Exhibit AG-19, pp. 4-7. The Commission understands that the company has a normal project cadence, but a project being in cadence does not provide the necessary evidentiary support for its related capital projections to be included in this rate case. *See*, 4 Tr 1314; *see also*, Consumers’ exceptions, pp. 21-22. Accordingly, the Commission disallows \$18.47 million for projects B-GL-00259 through B-GL-00267, B-GL-00280, and GL-03047.

Concerning the ALJ’s opinion that the company provided sufficient information on the replacement project and thus did not recommend the Attorney General’s requested disallowance, the Commission respectfully disagrees. *See*, PFD, p. 88. Further, the Commission finds persuasive the Attorney General’s argument that “[a]dding a new project during the course of case is patently unreasonable even if the total amount requested does not change.” Attorney General’s exceptions, p. 16. Additionally, the Commission finds that the record evidence is not sufficient to support the inclusion of the replacement project in the company’s capital projections. The company bears the responsibility to show that the projects for which it seeks to recover costs in a projected test year have been fully vetted and justified, and that they are likely to be undertaken during the test year. Given the constraints of a 10-month rate case, the Commission has repeatedly stated that this evidence must be produced by the company at the outset of the case. Even for worthy projects, substituting projects during the pendency of the case does not provide the opportunity for meaningful review by other parties. Accordingly, the Commission rejects

inclusion of the replacement project and disallows the company's cancelled projected capital of \$1.56 million for the 10 months ending October 2025 and an additional \$230,000 for the projected test year. *See*, 4 Tr 1288-1289; 4 Tr 1909-1910; *see also*, Exhibit A-61, and Exhibit AG-10.

1. Transmission and Storage Gas City Gates

Consumers testified that “[c]ity gate stations are the delineation point between the transmission and distribution systems.” 4 Tr 1292. The company further testified that these gates are able to operate to raise or lower gas pressure through installation of “relief valves, monitor regulators, or emergency shutdown valves.” 4 Tr 1292. The company stated that “capital expenditures for this program were \$31,320,000 in 2023, and are projected to be \$52,913,000 in 2024, \$47,469,000 for the 10 months ending October 31, 2025, and \$58,991,000 for the 12 months ending October 31, 2026.” 4 Tr 1293; *see also*, Exhibit A-61. The company asserted that the projected capital investment is needed for rebuilding and for other improvements to ensure the safety and reliability of the city gates, of which many are aged and may not be performing up to expectations. *See*, 4 Tr 1293.

The Attorney General testified that the company's projections in this rate case are 19% to 21% above inflation-adjusted averaged costs for years 2022-2024 and opined that “[t]hese large increases in project costs are excessive and need to be moderated.” 4 Tr 1911. Additionally, the Attorney General asserted that “most of the 2025 and 2026 planned projects are still in the engineering/design phase or in pre-engineering and design. Therefore, it is very likely that the cost for these projects will change from the amounts proposed by the Company and the timing of construction could slip into a future year.” 4 Tr 1911. The Attorney General recalculated the city gate projections using 2025 costs adjusted for inflation and recommended the Commission approve the following adjustments: a \$4.2 million reduction for the 10 months ending October

2025, and a \$3.61 million increase for the projected test year ending October 2026. *See*, 4 Tr 1911-1912.

Consumers rebutted that using historical averages to determine the city gate capital investment needs is not appropriate because of the widely varying costs for different modernization projects. *See*, 4 Tr 1315-1318.

In its initial briefing, Consumers objected to the Attorney General's proposed adjustments to the projected capital expenditures for city gates, providing the same reasons as the company did in rebuttal. Consumers' initial brief, pp. 64-65.

The Attorney General did not address this issue in her initial and reply briefs. Consumers did not address the issue in its reply brief.

The ALJ opined that several of the projects included in Consumers' projected capital expenditures for the city gates have entered the design and engineering phase and therefore, the projected expenditures for these projects should not be excluded. PFD, p. 90. The ALJ also opined that a disallowance is not warranted merely "because costs have risen by more than the general rate of inflation because variations in project scope, complexity, and other factors can sometimes make comparisons with historical costs inapt at times, such as in the case of city gate projects." *Id.*

The Attorney General excepts to the ALJ's apparent disagreement with the adjustments initially recommended by the Attorney General "because it purports to render a decision on an issue that was not in controversy. Appendix A to the Attorney General's Initial Brief documents her withdrawal of the proposed disallowances." Attorney General's exceptions, p. 17.

No party filed replies to exceptions on this issue.

The Commission finds the ALJ's recommendations regarding the transmission and storage (T&S) gas city gates program are supported in the record and reasonable and prudent. *See*, PFD, p. 90. Further, in light of the Attorney General's withdrawal of her initial proposed disallowance, the Commission finds that there are no issues in controversy and adopts the ALJ's recommendation that no disallowance be taken from the T&S gas city gates program. *See*, Attorney General's exceptions, p. 17. Accordingly, the Commission approves the company's capital expenditures as presented for the projected test year in the amount of \$59 million. 4 Tr 1293; *see also*, Exhibit A-61.

m. Transmission Enhancement for Deliverability and Integrity–Remote Control Valves

Consumers testified that, consistent with federal and state guidance, the company is installing remote control valves (RCVs) under the transmission enhancement for deliverability and integrity (TED-I) program. *See*, 4 Tr 1281-1282.

The Attorney General testified that projected capital expenditures for seven of the RCV projects totaling \$14.15 million should be excluded from the company's projections because these projects are not yet in the engineering and design stage. *See*, 4 Tr 1912-1913; *see also*, 4 Tr 1913, Table.

In rebuttal, Consumers stated that the seven RCV projects in question are "in the normal phase for projects that will be constructed in the following year." Consumers' initial brief, p. 66. Consumers recommended that the Commission should reject the Attorney General's proposed RCV program reductions. Consumers' reply brief, p. 23. The company stated that "[t]he capital expenditures for these RCVs were \$2,253,000 in 2023, and are projected to be (\$103,000) in 2024,

\$8,717,000 for the 10 months ending October 31, 2025, and \$18,074,000 for the 12 months ending October 31, 2026.” 4 Tr 1283;¹² *see also*, Exhibit A-62.

In her initial brief, the Attorney General argued that “customers should not be charged for costs that may or may not occur during the projected test year.” Attorney General’s initial brief, pp. 91-92 (citation omitted).

The ALJ recommended that the Commission should adopt the Attorney General’s removal of \$14.15 million in the test year for the seven RCV projects because these projects are still in the planning and scoping phase such that no engineering or design work has begun. PFD, p. 92. He opined “that such projects without engineering or design work started are premature to include in rate base because their costs and timeframe for completion are currently too uncertain.” *Id.*

Consumers excepts to the ALJ’s recommended \$14.15 million disallowance for the RCV program and argues that the projects are in the normal cadence for construction in 2026 and “are thus not premature to be included in rate base.” Consumers’ exceptions, pp. 22-23.

The Attorney General replies that the record evidence supports her recommended disallowances because the projects are too underdeveloped to be included in this case’s rate base. Attorney General’s replies to exceptions, pp. 29-30.

¹² Consumers stated its 2024 projection as being (\$103,000). The company explained that:

RCVs are also installed in other programs and projects. In 2023, nine RCVs were commissioned (programming and remote testing) but installed in 2022. There were also 18 RCVs installed as part of the Mid-Michigan Pipeline project. In 2024, all of the RCVs installed were either on the Mid-Michigan Pipeline or in the Deliverability Base Pipeline program. In 2025, many of the RCVs are being installed alongside other projects so some of the costs are shared with those projects. In 2026, the majority of RCVs will be stand-alone projects with most of cost being charged to the TED-I program.

The Commission finds the ALJ's recommendation on the TED-I RCV program to be well-reasoned and supported in the record. When no design or engineering work has begun on a project (as in this case), it is unlikely that the company could have sufficient facts upon which to base projections for the associated capital expenditures and to provide assurance that the project will be constructed in the test year. The Commission is not persuaded that projects being in "the normal cadence" as argued by Consumers provides sufficient evidentiary weight to the projections to warrant their inclusion in rate base. Consumers' exceptions, p. 23. Rather, including projected capital expenditures for projects that are at such an early stage of development is neither reasonable nor prudent. Accordingly, the Commission adopts the ALJ's recommended \$14.15 million projected test year disallowance for the seven projects (GL-02825, GL-02943, GL-03049, B-GL-00120, B-GL-00129, B-GL-00140, and B-GL-00214) and approves \$3.92 million for the projected test year.

n. Enterprise Corrective Action Program

Consumers testified that the Enterprise Correction Action Plan (ECAP) is a corrective action plan "initiated in 2020 as a company-wide issue management and compliance program to support safe operations." 3 Tr 428. The company stated that the ECAP is intended to promote transparency "in reporting issues, identifying trends, and closing compliance and safety gaps through corrective actions and controls, based upon associated risk thresholds." 3 Tr 428. The company testified that phase four of the program (corporate safety and health for gas, electric, and generation) is intended to be implemented in 2025. *See*, 3 Tr 429. Consumers' gas-related capital expenditures for ECAP were stated as follows: (1) actual expenditures for 2023 are \$49,000, (2) \$204,000 projected for 2024 for ECAP platform modifications, and (3) \$200,000 for 2025, which is expected to close out the ECAP. *See*, 3 Tr 429, Table 12.

The Attorney General testified that Consumers did not clearly explain the ECAP projected expenditures or its program goals beyond boilerplate statements, jargon, and general concepts. 4 Tr 1894-1895. The Attorney General advised that the Commission should remove all capital expenditures for 2023 through 2025 for a total reduction of \$49,000 for 2023, \$204,000 for 2024, \$167,000 for the 10 months ending October 2025, and \$33,000 for the projected test year. *See*, 4 Tr 1895.

Consumers rebutted that ECAP assists gas safety management risk program through “[r]esolving non-conforming conditions, reducing customer concerns, promoting continuous improvement, and standardizing problem-solving methods are all customer benefits.” 3 Tr 456. Consumers also asserted that “Phase 4 expands the ECAP program to Corporate Safety & Health and Environmental, and improved performance here will directly contribute to cost savings for the customers through a reduction in lost time and expense.” 3 Tr 457.

In its initial brief, Consumers recapped its case presentation. Consumers’ initial brief, p. 69.

In her initial brief, the Attorney General reiterated that Consumers failed to fully explain the proposed capital expenditures related to ECAP or support the specific problems that it is intended to resolve. *See*, Attorney General’s initial brief, pp. 64-65.

The ALJ recommended that the Commission fully adopt the Attorney General’s proposed disallowances for ECAP, i.e., “\$49,000 for 2023, \$204,000 in 2024, \$167,000 in the 10 months ending October 2025, and \$33,000 in the projected test year.” PFD, p. 94. The ALJ opined that:

[t]he company provided fleeting testimony of a general nature about the ostensible positive effects of this program, but it remains unclear what specifically this program does, how exactly it operates, or what specific problems it addresses. Even in rebuttal and briefing, the company largely repeated the same vague, generic descriptions that were presented in its direct testimony (i.e. that the program aids in managing processes, analyzing data, and informing operational decisions, etc.). The program could indeed be beneficial, but on this record, the program has not

been adequately explained or justified such that the Attorney General's proposed disallowance is appropriate.

Id. (citation omitted).

Consumers excepts to the ALJ's recommended ECAP disallowances because the program "provides customer benefits such as resolving non-confirming conditions, reducing customer concerns, promoting continuous improvement, and standardizing problem-solving methods." Consumers' exceptions, p. 23 (citing 3 Tr 456). Consumers argues that "[t]he Commission should support the Company's efforts to improve its identification of compliance or safety issues and implementation of corrective actions and controls, and approve funding of this structured ECAP platform that supports issue management and compliance within the Company." Consumers' exceptions, pp. 24-25.

The Attorney General replies to Consumers' exceptions, reiterating that "[t]he Company's explanations remain vague, full of generalities, and unsubstantiated achievements." Attorney General's replies to exceptions, p. 32.

The Commission finds the ALJ's recommendation to be well-reasoned and supported in the record and agrees that "the [ECAP] program has not been adequately explained or justified." PFD, p. 94. The Commission finds the company's evidentiary support for the program is poorly articulated, vague, and generic. For these reasons, the Commission adopts the ALJ's recommendation to disallow the capital projections in the amounts of "\$49,000 for 2023, \$204,000 in 2024, \$167,000 in the 10 months ending October 2025, and \$33,000 in the projected test year."

Id.

o. Advanced Methane Detection Program

Consumers testified that its advanced methane detection (AMD) program is intended to improve the company's ability to detect small gas leaks to lower risk and enhance public safety, as

well as to limit environmental exposure to methane emissions to the greatest extent possible. The company explained that AMD offers the following key benefits: (1) improved ability to accurately detect and pinpoint leaks, (2) ability to assess emissions rate data to ensure that the most significant leaks are prioritized, (3) increased sensitivity to emissions, and (4) support of environmental goals. *See*, 3 Tr 421-423. The company stated that it projected capital expenditures for the program of \$4.65 million for 2024, \$265,000 for 2025, and \$3.18 million for 2026. *See*, 3 Tr 427, Table 11.

Consumers explained that, after careful consideration of cost, experience, and expertise, the company selected a third-party vendor to develop its AMD technology and have planned a two-phase implementation, “with methane emission, risk modeling, and super emitter work activities planned as part of Phase 1” and, in Phase 2, utilizing “AMD for compliance-based leak survey, and as a result of the higher quality data, analytics and algorithms can modernize and enable risk-based leak surveys.” 3 Tr 424; *see also*, 3 Tr 424-427. The company testified that it expects there to be an increase in leaks detected post-implementation of AMD. *See*, 3 Tr 427. The company also noted that the AMD technology is responsive to the PHMSA’s proposed Rule 192.763 that requires “leak surveys be performed using advanced technology and practices consistent with the proposed ALDP [advanced leak detection program] performance standard[,]” is consistent with the company’s natural gas delivery plan (NGDP), the gas safety management risk program (GSMS), and the ECAP, which is Consumers’ enterprise-wide structured platform and methodology supporting safe and excellent operations. 3 Tr 427-428; *see also*, 3 Tr 427-429.

The Staff testified that \$265,000 should be removed from Consumers’ 2025 projected capital expenditures for AMD because the company no longer intends to invest in the AMD program in 2025. *See*, 4 Tr 2738-2739; *see also*, Exhibit S-22.3.

The Attorney General questioned the grade of the increased number of gas leaks to be detected by AMD technology and opined that they would likely be grade three leaks, which are leaks of the least concern. The Attorney General asserted the added detection of grade three leaks does not justify the projected program expenditures and noted that the company would be retaining its current gas leak equipment. *See*, 4 Tr 1892-1893. The Attorney General also pointed out that the proposed PHMSA advisory bulletin LDAR rule has been placed on hold. *See*, 4 Tr 1893. Thus, the Attorney General recommended that:

[g]iven the high cost of the project, the lack of supporting evidence that a problem exists that must be solved, and only marginal benefits, [the Attorney General] recommend[s] that the Commission reject the Company's proposed capital expenditures for the AMD system of \$4,650,000 for 2024, \$221,000 for the 10 months ending October 2025, and \$3,181,000 for the 12 months ending October 2026.

4 Tr 1893-1894.

In rebuttal, Consumers agreed with the Staff that \$265,000 in projected capital expenditures should be removed from the company's 2025 projection. 3 Tr 440. However, the company opposed the Attorney General's other suggested reductions, reiterating the valuable safety and environmental benefits of AMD technology. *See*, 3 Tr 454-456.

In its initial brief, Consumers reiterated its case presentation and discounted the Attorney General's claim that AMD will provide only marginal benefits. Consumers' initial brief, pp. 69-71.

In her initial brief, the Attorney General repeated her contention that AMD technology would provide minimal benefits and that the company's current leak detection equipment will remain in use after AMD implementation. Attorney General's initial brief, pp. 62-64.

In reply, the company repeated its initial arguments. *See*, Consumers' reply brief, p. 23.

The Attorney General did not address this issue in her reply brief.

The ALJ recommended that the Commission adopt the Attorney General’s proposed reductions in projected capital expenditures for the AMD program “in the amounts of \$4.65 million in 2024, \$221,000 for the 10 months ending October 2025, and \$3.181 million in the projected test year.” PFD, p. 97. The ALJ reasoned that PHMSA’s proposed new rule was on hold and it is uncertain whether it will be enacted. Thus, “[a]bsent a legal requirement to purchase and utilize this additional advanced equipment, which only supplements and does not replace existing leak detection equipment, this [ALJ] agrees with the Attorney General’s reasoning that AMD equipment does not truly offer additional significant value” to warrant the proposed capital expenditures for the project. *Id.*

Consumers excepts to the ALJ’s recommended disallowances. The company points out the many advantages and benefits offered by AMD, including effective monitoring of methane emissions, improved ability to detect and pinpoint leaks, and improved ability to prioritize improvements and remediations in the system. Consumers’ exceptions, p. 25. According to Consumers, “AMD has been seven times more effective at finding below ground leaks and 5% more effective at detecting above ground leaks compared to traditional methods.” *Id.*, p. 26 (citing 3 Tr 427). The company states that it intends to transition to the use of AMD as its primary source of leak detection rather than using the technology as a supplemental leak detection source as stated by the ALJ. Consumers’ exceptions, p. 26. Consumers contends that all these benefits support the significant value that AMD has to offer. *Id.*, p. 27.

The Attorney General replies that Consumers did not rebut her reasons for opposing AMD and provided no quantifiable evidence to support the value of AMD. Attorney General’s replies to exceptions, p. 34.

The Commission respectfully disagrees with the ALJ's recommendation to adopt the Attorney General's proposed disallowances in the AMD program and finds that the leak detection that the AMD program is intended to address remains a highly important issue independently of whether or not PHMSA's rule is enacted. *See*, PFD, p. 97; *see also*, 4 Tr 1893-1894. Further, the Commission finds compelling the company's testimony that the AMD will improve the company's ability to detect small gas leaks so as to lower the risk of undetected leaks and enhance public safety, as well as limit environmental exposure to methane emissions to the greatest extent possible. *See*, 3 Tr 421-423. Finally, the Commission finds that Consumers adequately supported its projected capital expenditures for this project and that the project as presented in the record is reasonable and prudent. Thus, the Commission is not persuaded that disallowances should be imposed with the exception of the removal of \$265,000 for 2025 that was agreed to by Consumers and approves \$3.18 million for the projected test year. *See*, 3 Tr 440.

p. Geospatial Inventory—Utility Network Project

Consumers testified that:

[t]he Utility Network project will transform the Company's current GIS [geographic information system] platform to the Esri Utility Network Model, and establish a unified gas transmission, distribution, and stations data model in support of optimizing the core engineering and operational processes, technologies, and data. This project is an important part of the Company's GSMS and will support continuous improvement for data gathering processes governed by the Risk Management element of the GSMS.

3 Tr 432. The company also testified that the program requires both capital investment and O&M funding. 3 Tr 432. Consumers testified to projected capital expenditures of \$2.89 million for 2024, \$11 million for 2025, and \$4.87 million for 2026. *See*, 4 Tr 432-433; *see also*, 4 Tr 433, Table 14.

The Attorney General testified that the company stated in discovery that the program is somewhat delayed and that:

given the purported increase [sic] work efficiencies, the Company did not prepare a cost/benefit analysis to identify economic benefits from the new system. Instead, the Company basis [sic] its decision to undertake this costly project primarily on the obsolescence of and lack of vendor support for the existing system in future years.

4 Tr 1897. The Attorney General opined that the “marginal improvement in functionality and lack of a cost/benefit analysis do not support undertaking the Utility Network project at a cost of approximately \$22 million, including O&M expenses.” 4 Tr 1897. For these reasons, the Attorney General recommended that projected capital expenditures for the program be removed in the amounts of \$2.89 million for 2024, \$10.26 million for the 10 months ending October 2025, and \$7.51 million for the projected test year. 4 Tr 1897-1898.

In rebuttal, the company disagreed with the Attorney General and asserted that the program is essential and that the company’s technical systems may not perform required regulatory processes without this new system. The company argued that “the Utility Network project is a necessary investment to address technology obsolescence and ensure continued operational excellence.” 3 Tr 459; *see also*, 3 Tr 457-459.

In briefing, Consumers reiterates the essential nature of the technology. *See*, Consumers’ initial brief, p. 71; Consumers’ reply brief, p. 23.

In her initial briefing, the Attorney General reiterated the important points of her case presentation. *See*, Attorney General’s initial brief, pp. 65-67.

The ALJ did not adopt the Attorney General’s proposed disallowance but instead found that the GIS upgrade was reasonable “to avoid obsolescence and to ensure continuous vendor support

of its system such that company processes relying on GIS technology are not disrupted.” PFD, p. 99.

No exceptions were filed on this issue.

The Commission finds the ALJ’s recommendation to be well-reasoned and supported in the record. Having no exceptions, the Commission adopts the ALJ’s recommendation and approves the company’s projections as stated in its case presentation in the amounts of \$2.89 million for 2024, \$11 million for 2025, and \$4.87 million for 2026 for the utility network project. *See*, 4 Tr 432-433; *see also*, 4 Tr 433, Table 14.

3. Gas Compression and Storage Capital Expenditures

a. Storage and Pipeline Replacement–Hessen Storage Pipeline

Consumers’ witness, Mr. Timothy K. Joyce, testified regarding the company’s gas compression and storage assets and sponsored Exhibit A-12, Schedule B-5.7, which relates to the Hessen storage pipeline. *See*, 4 Tr 1480-1481. The sponsored exhibit states that projected capital expenditures for the storage pipeline replacement program are \$14.84 million in 2024, \$24.40 million for the 10 months ending October 31, 2025, and \$20.93 million for the 12 months ending October 31, 2026. *See*, Exhibit A-12, Schedule B-5.7.

The Staff testified that the Hessen project¹³ was not approved by the Commission for construction as of the day the Staff’s testimony was filed. 4 Tr 2688. The Staff testified that without a Commission order approving the project, “the Company’s ratepayers would be unjustly

¹³ On December 18, 2024, Consumers applied for approval of “the construction and operation of new and re-routed pipelines in the Hessen Storage Field.” July 10, 2025 order in Case No. U-21842 (July 10 order). Subsequently, after the date of the Staff’s testimony in Case No. U-21806, the parties to Case No. U-21842 entered into a settlement agreement wherein the parties agreed that the Hessen project should be approved. The settlement agreement was approved by the Commission in the July 10 order.

funding a project of which they will not realize benefits.” 4 Tr 2689. The Staff recommended that the Commission should “disallow the following: \$279,000 for the 12 Months Ending December 31, 2024; \$13,750,000 for the 10 Months Ending October 31, 2025; and \$2,003,000 for the 12 Months Ending October 31, 2026.” 4 Tr 2689. The Staff testified that these figures correspond with the post-application expenses asserted by the company in Case No. U-21842. 4 Tr 2689-2690.

The Attorney General also asserted that the Hessen-related projections were prematurely included in this rate case because no final approval was yet received from the Commission in Case No. U-21842. The Attorney General recommended that the Commission remove the post-application expenses for 2024 through 2026. 4 Tr 1920-1921.

Consumers rebutted that, even lacking approval, the company will incur expenses such as engineering and procurement before construction of the project begins. 4 Tr 1537. Consumers explained that:

[the Hessen project is] well-positioned to receive a final Act 9 [Public Act 9 of 1929] order before the final order in this rate case, and no party has challenged any of the Act 9 applications to date. Furthermore, the Company accounted for the time required to navigate the Act 9 process when planning for the expected start date for construction, so there is no reason to expect misalignment between the start of construction and the rate recovery included in the Company’s filing.

4 Tr 1537.

In her initial briefing, the Attorney General asserted that since it is not known when the Act 9 approval will be, the company cannot know when it will begin construction on the Hessen project or what its costs will be. Attorney General’s initial brief, p. 74. The Attorney General recommended that the Commission should “\$13,450,000 for the 10 months ending October 2025 and \$2,003,000 for the projected test year from the Company’s forecasted capital expenditures in this rate case.” *Id.* (citing 4 Tr 1920-1921).

Consumers' initial brief reiterated its case presentation and asserted that the Commission should reject the company's projections in this case only if it intends to deny Act 9 approval for Case No. U-21842. Consumers' initial brief, p. 80.

In its initial brief, the Staff reiterated its concerns regarding the Act 9 approval and continued to recommend the removal of post-application costs of \$7.79 million. Staff's initial brief, pp. 15-16.

The Attorney General, the Staff, and Consumers did not address this issue in their reply briefs and no other parties filed initial or reply briefs on the issue.

The ALJ pointed out that the Act 9 approval was secured for the Hessen project by the July 10 order approving the settlement agreement in Case No. U-21842. The ALJ reasoned that with this approval, there was no basis for any disallowance. PFD, p. 102.

The Attorney General excepts to the ALJ's failure to recommend a disallowance for the Hessen project. The Attorney General argues that even though the Act 9 approval has been obtained, it remains unclear when the company would be able to begin construction and "whether the expenditures would occur as projected even after approval is granted. The timing of the approval does not allow for further consideration of the second issue." Attorney General's exceptions, p. 18; *see also, id.*, pp. 17-18.

Consumers replies that "[t]he Attorney General's concern about the schedule for the project is entirely speculative and contrary to the record evidence. The Commission should approve the Hessen Storage Field pipeline project capital expenditures in calculating rates as recommended by the PFD." Consumers' replies to exceptions, p. 18.

The Commission finds that the ALJ's recommendation is reasonable and supported in the record. Further, the Commission is not persuaded by the Attorney General's argument that the

Hessen project is speculative due to the Commission's approval of the project on July 10, 2025, and finds that the projected capital expenditures for the project are adequately explained in the record and are reasonable and prudent. *See*, Attorney General's exceptions, pp. 17-18. Therefore, the Commission declines to adopt any disallowances for the Hessen project and approves the company's projections as presented.

b. Lyon 29/34 Northville Storage Dehydration

Consumers testified that the 22-year-old Lyon 29/34 gas storage and metering site's gas purity was inconsistent in 2018, 2019, and 2020, that seven pounds (lbs.) per million standard cubic feet (MMCF) is the maximum moisture threshold for utilization, and that:

the Northville Storage fields are a critical part of the Company's natural gas system providing the ability to meet peak demand. The unique ability and configuration of the Northville Storage fields is such that it requires upgrades to meet the regulatory requirements for gas quality, specifically the threshold for moisture content.

4 Tr 1536; *see also*, 4 Tr 1918.

The company stated that it has already invested in a liquid handling system for the Lyon 29/34 storage fields and that "[i]n 2024 through 2026, the projected costs include investment to complete the liquid handling system at the Lyon 29/34 storage fields." 4 Tr 1511; *see also*, Exhibit A-12, Schedule B-5.7. Consumers continued that:

[i]n 2022, the expenditures were for project engineering and design. The 2023 expenditures were for concluding engineering, design and securing long lead time materials. The 2024 and 2025 expenditures are for securing remaining materials and performing construction, start up and project close out for the project. This project will help address the Company's objective of a reliable system, which will reduce unplanned outages during normal site operations.

4 Tr 1512. The company further testified that it had considered blending gas as a solution to the impurities problem but rejected this solution as it is not "a competent means of ensuring gas quality." 4 Tr 1512.

The Attorney General testified that, although Consumers has started work on this project, the Commission has not had the opportunity to evaluate its reasonableness and prudence due to the settlement of the company's two previous gas rate cases and that it appears that there is an "infrequent occurrence of moisture issues with the gas stream from the Northville storage fields." 4 Tr 1915. The Attorney General noted that Consumers did not directly testify to the projected capital investment for the project but she was able to determine through discovery that the company's capital expenditures are as follows: actual investment of \$1.15 million in 2022, \$1.20 million in 2023, and \$6.12 million in 2024; with projected investment of \$8.03 million for 2024, \$25.25 million projected for the 10 months ending October 2025, and \$3.65 million for the projected test year, with a total of \$37.4 million for the project.¹⁴ 4 Tr 1914-1915; *see also*, Exhibit A-22 (which includes DR AG-CE-0506, with attachments). The Attorney General also stated that there is an Act 9 application to connect the Lyon 29/34 facility to the transmission line, but Consumers did not testify to this pipeline connection. 4 Tr 1915; *see also*, Exhibit DR AG-CE-0506, Attachment 2.

The Attorney General also testified that:

[n]o moisture readings have been taken since March 2021. Beginning in 2021, the Company changed the utilization of the Northville storage fields to be a peaking storage facility to be used only during days in the winter when customer gas demand reaches near peak demand. Therefore, like in 2021, in future years no gas

¹⁴ These are revised figures because:

[t]he forecasted 2024 capital expenditures were included in the Company's filed rate instead of the actual 2024 capital expenditures.

The \$37.4 million represents the project costs estimated by the Company through the end of 2026 with actual capital expenditures for 2024. The forecasted amount included in rate base by the Company through the 2026 projected test year is \$39,266,000 which includes forecasted capital expenditures for 2024.

withdrawals from the fields may happen on a regular basis and may only occur on very few select days. In fact, the Company withdrew gas from the field only once in 2021 in March and perhaps once in 2022, and none in 2023 and 2024. It does not seem cost effective to build a high-cost facility that will sit idle and not be utilized other than on rare occasions.

4 Tr 1915 (citation omitted). The Attorney General continued that “Attachment 4 to DR AG-CE-0506 shows that the volume of gas withdrawn on those unusual occasions in 2021 and 2022 represented less than 0.01% to 0.04% of the Company’s total system sendout on those days.”

4 Tr 1917. The Attorney General further asserted that the moisture level at Lyon 29/34 would not cause measurable incremental corrosion to Consumers’ pipeline system and claimed by the company. 4 Tr 1917-1918. Thus, the Attorney General recommended that the Commission should remove from this rate case the company’s capital expenditures for 2022 through the projected test year.

Consumers rebutted that the Attorney General’s statements are incorrect and invalid, noting that the moisture content in Northville storage fields limited the company’s ability to access natural gas during the Ray compressor fire emergency that occurred in January 2019 and again in March of 2022 when the need arose. *See*, 4 Tr 1534-1535. Consumers again stated that gas blending is not an appropriate solution to excess moisture in the storage field. 4 Tr 1535.

In its initial brief, Consumers argued that the Attorney General’s witness, Mr. Sebastian Coppola, is not an expert on the issue and as such, asserted that his opinions should not be relied upon. Consumers’ initial brief, p. 87. Consumers also denied that the proposed project is too expensive for its limited use and again stated that the facility would be more heavily utilized once the moisture problem was resolved. *Id.*, pp. 84-85. The company argued that it has already heavily invested in the project which was developed for the benefit of its customers, referencing its witness, Mr. Timothy K. Joyce’s “testimony that the dehydration project is the ‘best evaluated

option,’ which suggests that it best optimizes affordability, reliability, safety, and all other considerations to address the moisture problem at the plant.” Consumers’ initial brief, p. 86.

The company noted errors in the Attorney General’s recommended disallowance that occurred when she included both actual 2024 capital expenditures and projected 2024 capital expenditures in her calculations. *Id.* (citation omitted). In any case, Consumers asserted, there should be no disallowances for this project as the company has already invested \$8.5 million and the completed project will provide the benefits described above and in the case presentation. *Id.*

In her initial brief, the Attorney General stated that the Northville project was projected to cost \$37.4 million. The Attorney General repeated the important points of her case presentation, including the recommendation to disallow the capital investment proposed by Consumers and that no further work should be done because of the project’s high cost and the “occurrence of moisture issues in the gas stream from the Northville storage fields infrequent.” Attorney General’s initial brief, p. 69; *see also, id.*, pp. 68-70. The Attorney General also argued that “[i]t does not seem cost effective to build a high-cost facility that will sit idle and not be utilized other than on rare occasions.” *Id.*, p. 70 (citation omitted). The Attorney General further argued that blending high moisture gas with other gas is effective “in limited volumes[]” such as the occasional use of gas from the Northville storage fields. Attorney General’s initial brief, p. 71.

Regarding moisture content in gas and corrosion, the Attorney General opined that:

Mr. Coppola notes that all gas has a certain amount of moisture and the small about [sic] of gas with the higher level of moisture of less than 15 lb. per Mcf withdrawn from the Northville field instead of the typical 5 lb. or less per Mcf in the remaining gas flow from other sources will not cause any measurable incremental corrosion in the Company’s pipeline system.

Id.

The Attorney General recommended “that the Commission remove the capital expenditure of \$1,149,000 for 2022, \$1,191,000 for 2023, \$8,028,000 for 2024, \$25,249,000 for the 10 months ending October 2025, and \$3,649,000 for the projected test year from this rate case.” *Id.*, p. 72.

Consumers replied that:

[t]he Attorney General fails to appreciate the operational situation at the Lyon 29/34 storage fields. It is undisputed that the Northville storage fields are peaking fields. By definition, that means the fields are not used unless they are needed under conditions of peak demand, i.e. typically those few very coldest days of the year. But, when the peaking fields are needed, it means that the Company’s base storage fields do not have sufficient capacity to meet customer demand. It is vital that the Company can use its peaking fields to their full design specifications when that occurs. If the Company cannot, it enhances the risk that the Company would drop load precisely when customers need it most on the coldest days of the year. It is dangerously flippant to trivialize the need to properly invest in these storage fields merely because the Attorney General perceives that they aren’t often used. Following that reasoning, it would not make sense to have the peaking fields at all. However, prudent utilities plan for and keep assets to address anticipated risks and known and expected extreme operating conditions. And prudent utilities make the investments necessary to utilize that equipment properly and effectively when it is needed.

Consumers’ reply brief, pp. 24-25. Consumers continued that, “[a]s the evidence discussed above clearly shows, the very infrequent use of the Lyon 29/34 storage fields in recent years is because of the moisture problem [. . .] If the problem was fixed, the fields would be used more.” *Id.* (referencing 4 Tr 1535).

The Attorney General replied that Consumers inappropriately attacked Mr. Coppola’s expertise, defending his extensive “analytical, accounting, managerial, and executive credentials.” Attorney General’s reply brief, p. 13; *see also, id.*, pp. 12-13. The Attorney General asserted that her recommended disallowances as testified to by Mr. Coppola should be adopted. *Id.*, p. 13.

The ALJ agreed with the Attorney General that the company’s planned investment in dehydration equipment for the Northville storage fields is excessive considering the infrequent use of the site, and he found lacking the company’s limited explanation that it would use the fields

more often if there were no moisture content issue. *See*, PFD, p 109; *see also*, 4 Tr 1915-1918.

The ALJ also found lacking the company's explanation of what other alternatives other than gas blending were available to resolve the problem. PFD, p. 110. For these reasons, the ALJ recommended disallowance of all capital expenditures from 2022 through the proposed test year in the amount of \$37.35 million. *Id.*

The ALJ urged "that should Consumers elect to continue with the dehydration project, the company should provide more robust support for cost recovery in a future rate case, which could include a more detailed explanation of alternative approaches considered and their suitability or lack thereof." *Id.*

Consumers excepts to the ALJ's recommendation, repeating the important points of its case presentation and arguing that: (1) the company cannot readily use the gas from the Northville storage fields due to excess moisture; (2) currently, the company must "operate the Northville storage fields on a 'last on, first off' basis, where the fields are limited in use and manually controlled to avoid excess moisture entering the Company's transmission and distribution systems[;]" and (3) without the project "the Company will continue to require more expensive 'equivalent pipeline deliverability' – i.e. market purchases of gas – to compensate for the inability to utilize the storage field to its full design capability." Consumers' exceptions, pp. 27-28; *see also, id.*, pp. 27-33.

Consumers argues that the ALJ erred when he stated that the fact that the company managed to meet peak capacity demand in past years is evidence that the Northville storage fields are not needed. Consumers' exceptions, p. 30. The company also argues that the limited use of the Northville facility is not a valid reason for eliminating capital investments because the Northville storage fields would be used to a greater extent but for the water issue, which the dehydration

equipment will resolve. *Id.* Consumers avers that it has “routinely test[ed] and monitor[ed] for moisture content that exceeds the Commission’s standards of 7 lbs/MMcf[,] has paid special attention to the moisture content at Northville since the problems were discovered[,]” and that there continues to be an excess water problem. *Id.*; *see also, id.*, p. 31. Additionally, the company points to its extensive testimony that alternatives to the dehydration equipment and their operation established that these alternatives were not an appropriate substitute for the dehydrating equipment, thereby establishing the reasonableness and prudence of the project. *Id.*, p. 31. Lastly, Consumers questions the ALJ’s inconsistency in recommending a disallowance of capital investment from historical years that predate the bridge period and projected test year in this case, noting that “[w]hen the Commission adopts that type of finding, it is generally not coupled with a disallowance of any sunk costs that would lead to a write off because the Commission is only concluding that there is not justification to add incremental rates yet.” *Id.*, p. 32 (emphasis omitted).

The Attorney General replies that “[t]he Lyon 29/34 Northville Gas Dehydration is rarely used and the Company has not adequately considered alternative [sic] to the proposed work, therefore the proposed expenditure is not a cost-effective or a reasonable or prudent use of ratepayer funds.” Attorney General’s replies to exceptions, p. 35.

The Commission respectfully disagrees with the ALJ regarding the Lyon 29/34 Northville storage fields project. *See*, PFD, pp. 109-110. The Commission finds Consumers’ arguments compelling that: (1) during peak demand periods it is essential that the company be able to draw sufficient, reasonably-priced gas for customer usage, (2) it is not generally cost-effective to blend high-moisture gas with other gas to produce an acceptable moisture level, and (3) Consumers would be able to make greater use of the Northville storage fields if the moisture problems were

resolved, thus rendering capital investment in dehydrating equipment for the Lyon 29/34 Northville storage fields reasonable and prudent at this time. *See*, 4 Tr 1511-1512, 1534-1535. In particular, the Commission finds that it is important that Consumers be able to provide gas for residential customers in light of increased peaking related to coordinated gas/electric use, which the Northville fields may be able to provide once the dehydration system is constructed. The Commission finds the arguments presented by the Attorney General do not outweigh the evidence presented by the company supporting the benefits of the project. *See*, 4 Tr 1915-1918. Further, the Commission finds that the company must be prepared for increasing peak demand and cannot fall back onto what was manageable in the past. The Northville storage fields may be able to supply that need once the dehydrator equipment is installed. Accordingly, the Commission declines to adopt the Attorney General's proposed disallowance and instead adopts the company's case as presented in the amount of \$3.65 million for the projected test year.

c. Storage–New Wells

Consumers plans to drill four new wells per year in 2025 and 2026, and presented the following evidence regarding capital expenditures for its new well program: expenditures for 2023 were \$11.4 million, and projected expenditures are \$17.2 million for 2024, \$28 million for the remainder of the bridge period, and \$32.3 million for the test year. Exhibit A-12, Schedule B-5.7; 4 Tr 1513-1514.

The Staff recommended disallowances based on the fact that, at the time the Staff's testimony was filed, the new well program was the subject of two applications pending before the Commission in Case Nos. U-21835 and U-21854. The Attorney General recommended disallowances of \$4.65 million for the 10 months ending October 31, 2025, and \$3.92 million for the test year based on the fact that projected 2025 and test year expenditures are 30% and 11%

higher, respectively, than the average cost of drilling wells in 2024/2025 after adjusting for inflation. 4 Tr 1918-1920. Consumers responded that final orders in the pending cases are not necessary in order to project costs that will actually be incurred before those orders are issued. Consumers added that rate cases are forward looking, and that the Attorney General's averages are unhelpful because every well is different in terms of geology, depth, length, and site preparation. 4 Tr 1531-1532, 1536-1538.

The ALJ noted that both Case Nos. U-21854 and U-21835 received final orders on July 10, 2025, in which the new wells were approved. Finding that the Staff's concerns had been satisfied by the issuance of these orders, the ALJ recommended rejection of the Staff's proposed disallowances. He also recommended rejection of the Attorney General's proposed disallowances "for the reasons stated by the company." PFD, p. 114.

In exceptions, the Attorney General states the ALJ erred because Consumers did not provide the information on well depths, pipeline lengths, and site preparation costs for each well that it plans to drill in 2025-2026 and how that compares to prior years. Attorney General's exceptions, p. 19 (citing Exhibit AG-77). She argues that averages can be useful for making projections because they capture the range of costs.

In reply, Consumers argues that it provided evidence showing that its projections rely on the specific attributes of the actual planned new wells, including geologic formations, drill depths, pipeline lengths, and site preparation activities. Consumers' replies to exceptions, pp. 19-20 (citing 4 Tr 1531-1532). Consumers contends that the specifics of each project explain why there is so much variation in the projected costs, and there is no typical cost per well. Consumers notes that this testimony was unrefuted, and that the Attorney General never asked for the engineering

details. *See*, Exhibit AG-77. Consumers agrees that average costs can be a useful measure, but in this case the company has provided a more accurate method.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. *See*, 4 Tr 1531-1532. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 114.

d. Gas Compression Projects

Consumers presented evidence of projected capital expenditures of \$62.3 million for 2024, \$44.6 million for the remainder of the bridge period, and \$66.2 million for the test year for gas compression and storage projects. Exhibit A-12, Schedule B-5.7; 4 Tr 1504. The Attorney General recommended disallowances based on identifying 13 projects with completion dates of September 2026 or later which, she argued, are unlikely to be completed by the end of the test year and are premature. Exhibit AG-25; 4 Tr 1921-1922. The company responded that it will still incur costs for these 13 projects and that the correct ratemaking treatment is for the projects to treat them as CWIP with an offset in the allowance for funds used during construction (AFUDC), rather than a total disallowance for the 13 projects. 4 Tr 1540.

The ALJ noted that the Attorney General did not address Consumers' AFUDC offset argument in briefing, and that the Commission faced a similar issue in the March 21 order, p. 162, where the Commission found that the projects that would not be used and useful during the test year should be included in CWIP with an AFUDC offset. PFD, p. 116. The ALJ recommended that the Commission reject the Attorney General's proposed disallowances.

No party filed exceptions on this issue.

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

See, PFD, p. 116.

e. 2024 Gas Compression and Storage Underspend

Based on filed evidence, the Attorney General proposed a \$7.56 million disallowance for this cost category and the company agreed. 4 Tr 1541, 1923. The ALJ recommended that the Commission adopt the disallowance agreed to by the parties. PFD, p. 117. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue.

f. Riverside Storage Field Sale

In its application, Consumers assumed that the Riverside Storage Field would be sold and included adjustments to historical net book value and working capital, and proposed an amortization, to reflect the planned sale; however, during the pendency of this case the buyer withdrew. Thus, in its direct case, the Staff proposed adjustments to net book value, working capital, amortization, depreciation, and property tax to properly include this asset in the case. 4 Tr 2494. The Staff also agreed with the company that, if the asset is sold during the test year, any amount collected could offset the established regulatory asset already in place until rates are reset in the next rate case. 4 Tr 2494; Exhibit S-10, p. 4. The Attorney General also proposed adjustments to working capital and amortization. Consumers agreed to the Staff's adjustments, but indicated that the Attorney General's adjustments were incomplete. 4 Tr 1599.

The ALJ recommended adoption of the Staff's proposed adjustments and approval of the proposed regulatory asset offset if the asset is sold during the test year. PFD, p. 119; *see*, Staff's initial brief, p. 11.

No party filed exceptions on this issue.

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

See, PFD, p. 119.

4. Operations Support

a. Lansing, Hastings, and Kalamazoo Service Centers

Consumers requested approval of \$22.14 million in capital expenditures (\$14.94 million in the bridge period and \$7.2 million in the test year) for relocation of the Lansing Service Center; \$114,000 of bridge period capital expenditures for construction of a new Hastings Service Center at the same location; and \$14.03 million in capital expenditures (\$10.95 million in the bridge period and \$3.08 million in the test year) for renovation of the Kalamazoo Service Center. Exhibit A-12, Schedule B-5.7; Exhibit A-69; 4 Tr 1391-1408. Noting the Commission's findings on this issue in the March 21 order adopting disallowances, MSC recommended full disallowances for the Lansing and Hastings projects, and a 40% disallowance for the Kalamazoo project, arguing that it is being overbuilt by 40%. 4 Tr 2477-2480. In response, Consumers agreed to the removal of its projected expenditures for the Lansing and Hastings projects for 2025 and for the test year but argued for approval of its actual 2024 expenditures of \$1.82 million for Lansing and \$95,000 for Hastings; and opposed the 40% reduction proposal for Kalamazoo. 4 Tr 1468-1470; Exhibit A-149. MSC responded that all expenditures, including 2024 expenditures, should be reviewed as part of a review of the full projects in a future proceeding.

The ALJ recommended that all bridge period and test year expenditures for all three service centers be disallowed in the instant case, finding this to be consistent with the Commission's findings in the March 21 order expressing concern over the lack of progress and trend of underspending on these projects. PFD, pp. 122-123 (citing March 21 order, pp. 170-179, and the December 22, 2021 order in Case No. U-20963, pp. 160-162). The ALJ found that:

[n]otably, the company has agreed to withdraw from consideration unspent costs for the Lansing and Hastings projects based on the Commission's previous

disallowances. Consumers' request for actual 2024 costs relating to the Lansing and Hastings projects should be rejected because the company fails to adequately support those actual 2024 costs and instead relies on a discovery response that does not appear to have been admitted into evidence. Likewise, this PFD finds it would be premature to approve Consumers' *projected* 2024 costs for the Kalamazoo project. The company should be required to establish reasonableness and prudence of the 2024 costs during review of the full projects and expenditures in a future rate case.

PFD, p. 123 (citing 4 Tr 1468-1469 (referencing discovery response U21806-AG-CE-0652))

(emphasis in original). The ALJ further found that Consumers was not prejudiced by the fact that MSC first introduced the idea of a total disallowance for Kalamazoo in its initial brief (rather than in evidence), because MSC's argument "relies upon the Commission's order in Case No. U-21585 and is based on an identical rationale used for the two other service center projects." PFD, p. 123.

In exceptions, Consumers argues that the ALJ failed to consider all of the evidence, noting that on rebuttal Consumers made clear that:

there was no need for that [discovery] response to have been admitted into evidence because [Consumers' rebuttal witness] Mr. Guinn himself testified that the Company actually spent \$1.817 million for the Lansing Service Center and \$95,000 for the Hastings Service Center in 2024. See 4 TR 1468-1469. Thus, the Company is not relying on a discovery response that is not in the record, but is relying on uncontroverted testimony stating the actual amount spent in 2024 for these service center projects.

Consumers' exceptions, p. 34. Consumers points to the Commission's findings in the March 21 order, p. 176, disallowing Lansing and Hastings costs based on lack of progress and the uncertainty that the money would be spent. Consumers argues that, while the record closed in Case No. U-21585 before 2024 was concluded, the record in the instant case contains evidence showing the 2024 actual spending, thus there is no longer any uncertainty about whether the money will be spent. Consumers contends that the Commission should approve the actual amounts of \$1.82 million for 2024 spent on Lansing and \$95,000 for 2024 spent on Hastings.

Consumers' exceptions, p. 35.

Turning to Kalamazoo, Consumers argues that the recommendation of a full disallowance was not made until MSC's initial brief and must be rejected because it is not supported by any record evidence, citing MCL 24.285 (which requires that "all findings of fact shall be based exclusively on the evidence and on matters officially noticed"). Consumers contends that, despite the ALJ's reasoning, the company's evidence may well have been different if it had had the opportunity to respond to this argument. Consumers adds that if the Commission approves a reduction to Kalamazoo costs, then it should approve the 2024 projected expenditures of \$3.36 million for the same reasons discussed above. Consumers' exceptions, p. 36 (citing Exhibit A-69). Consumers notes that it did not offer rebuttal testimony stating the actual 2024 expenditures for Kalamazoo and argues that it "cannot now be penalized for failing to offer evidence to address an argument that MNSC made for the first time in briefing." Consumers' exceptions, p. 36.

In reply, MSC argues that the ALJ was correct and that the PFD is consistent with the March 21 order. Regarding Lansing and Kalamazoo, MSC contends that:

Consumers has cited no record evidence – and there is none – demonstrating how these \$1.817 million and \$95,000 expenditures prove “substantial progress towards completion” of the service centers and “justifying the cost and timeline” of the service centers. In other words, the Commission denied approval of 2024 expenditures in [Case No.] U-21585 because there was insufficient evidence of project progress, and while Consumers identified 2024 spending amounts in rebuttal, Consumers failed to provide evidence of project progress. What were the funds spent on? How much further along are these new service centers as a result of 2024 expenditures?

MSC's replies to exceptions, p. 19 (quoting the March 21 order, pp. 170-176). MSC notes that Consumers provided evidence of actual 2024 expenditures but argues that the company failed to add anything to those numbers. Regarding Kalamazoo, MSC contends that the record in the instant case is identical to the record in Case No. U-21585 and no cost or timeline has been provided. MSC states that this project has been moving slowly, and argues that the Commission

“based its [Case No.] U-21585 order on lack of certainty about the *future*, not about *historic* spending.” MSC’s replies to exceptions, pp. 21-22 (emphasis in original). MSC further notes that Consumers “presents no precedent for their theory that due process requires a party to present every *argument* in testimony” and states that Consumers had several opportunities to present counter-arguments. *Id.*, p. 22 (emphasis in original).

The Commission respectfully disagrees with the ALJ and finds that Consumers should receive rate base treatment for the 2024 actuals for Lansing and Hastings. The Commission notes that the application in this rate case was filed about 15 days before year-end 2024. Though Consumers did not present these actual amounts in Exhibit A-69 or in any other exhibit (because the relevant discovery response was never admitted as an exhibit), the company did put the total actual 2024 amounts of \$1.82 million for Lansing and \$95,000 for Hastings on the record in testimony at 4 Tr 1468-1469. While the Commission has indicated that it expects to see timelines for these projects and what the amounts were spent on (or are projected to be spent on), the Commission finds that this evidentiary showing is sufficient for purposes of this case in that there is no remaining uncertainty about whether the amounts will be spent. The Commission acknowledges that Consumers provided testimony at 4 Tr 1390-1402 and 1404-1408 regarding the reasons for the three projects, what the company hopes to accomplish, and how it is going about it. However, taking into account the Commission’s comments and findings in the March 21 order, Consumers is cautioned that even actual amounts, in future, should be tied to some modicum of information about when the amounts were spent and how they advanced the steps in the overall effort.

The Commission views Kalamazoo differently. The Commission is not persuaded by Consumers’ due process arguments, because its findings on this issue are not dependent upon MSC’s suggestion of a full disallowance, but rather on the Commission’s plenary power to

regulate rates. MCL 460.6, MCL 460.6a, MCL 460.557. Consumers relies on Exhibit A-69 to request that the Commission award projected 2024 expenditures for this project as well, but Exhibit A-69 was filed with Consumers' direct case on December 16, 2024, prior to the year's end. The 2024 amounts in the exhibit (for Kalamazoo) are explicitly referred to as projections in both the exhibit and in the testimony of Consumers' witness in support of the projection at 4 Tr 1406. Moreover, the Commission notes that the actual 2024 amounts for Lansing and Hastings are both less than the projections for 2024 for those two projects provided in Exhibit A-69 (about \$400,000 less for Lansing, and \$19,000 less for Hastings), indicating that Exhibit A-69 may not be a totally reliable indicator of what the actuals were for Kalamazoo.

In addition, in the March 21 order, the Commission stated as follows:

The Commission finds that the ALJ's recommendation is well-reasoned and supported in the record. Consumers' claim in its exceptions that the project has moved into the construction phase and that the pace of the project will continue to increase is simply not enough to overcome the fact that funds were approved in the December 22 order [December 22, 2021 order in Case No. U-20963] and the March 1 order [March 1, 2024 order in Case No. U-21389] [two prior rate case orders for Consumers] for a project that has changed substantially since its initial approval, is only now beginning construction, is nowhere near completion, and for which the costs remain uncertain. Accordingly, the Commission adopts the ALJ's recommendation to disallow Consumers' additional projected capital spending of \$4.815 million in the bridge period and \$9.424 million in the test year for the KSC [Kalamazoo Service Center] renovation project, particularly when previously approved funds for this and the other service center projects remain unspent. The company may seek recovery in a future rate case accompanied by evidence of the cost and timeline of the project.

March 21, order, p. 179. In the direct testimony supporting the Kalamazoo Service Center project, Consumers' witness describes why the company decided to renovate; why it decided against doing nothing or, alternatively, demolishing the building; the amounts that were invested in 2023 and the projections for the bridge and test year; how the projections were derived; the status and size of the renovation; and which departments (and how many employees) will work at the renovated service

center. 4 Tr 1404-1408. No timeline is provided. The testimony reveals that the company's plans for this project were changed yet again – something that the Commission commented on in the March 21 order. The testimony also reveals that the projections for the bridge and test periods were derived as follows: "A construction management firm has been engaged to develop and prepare a detailed design program and construction schedule for the Kalamazoo Service Center project. This firm has evaluated the design program and construction schedule to develop project cost estimates." 4 Tr 1407. That is the entirety of the explanation for how the projections were derived. As noted above, in the March 21 order, the Commission stated that Consumers may seek these costs in a future rate case accompanied by evidence of the cost and the timeline of the project. It is unclear why, after reviewing the Commission's conclusions regarding the KSC in the March 21 order (which was issued three months after the company's direct case was filed), Consumers did not withdraw its projections for Kalamazoo and, if so desired, put the 2024 actuals into the record on rebuttal as it did for Lansing and Hastings. The Commission's findings with regard to Kalamazoo in the March 21 order are identical to its findings on Lansing and Hastings (affirming the PFD). *See*, March 21 order, pp. 173-174, 176, 179. The Commission finds that, on this record, Consumers neither presented actual 2024 costs, nor adequately supported the projected bridge and test period costs, and denies inclusion of the Kalamazoo bridge and test period projections in rate base in this case. Again, Consumers can seek these in a future rate case accompanied by evidence of the cost and timeline of the project.

5. Fleet Capital Expenditures

Consumers' fleet includes approximately 7,207 owned, leased, and rented vehicles of various types, of which 50% are used in the company's gas business and another 10% are shared with the electric business. 4 Tr 1418-1420. For its Fleet Vehicle Capital Replacement Plan (FVCRP),

Consumers used a tool called the Blended Factor (a data-based algorithm incorporating various factors specific to the vehicle) to identify vehicles that are at or near the end of their expected life, and the company has identified 2,794 such units. 4 Tr 1420-1433. Consumers argued that the FVCRP provides benefits to ratepayers by identifying units with high maintenance costs and exhausted lifespans. 4 Tr 1436-1437. Consumers also presented evidence on its electrification efforts which include increasing the proportion of electric vehicles (EVs) in its fleet from 5% to 30% by 2030, which, the company argues, will lower fuel and maintenance costs and reduce emissions. Consumers projected test year expenditures of \$12.92 million for the FVCRP, \$360,000 for electrification, and \$249,000 for fleet-tools-garage. 4 Tr 1445; Exhibits A-12, Schedule B5.2, and A-28. Consumers projected total gas Fleet Services capital expenditures of \$9.41 million for 2024; \$7.05 million for the 10 months ending October 31, 2025; and \$13.53 million for the projected test year. Exhibit A-12, Schedule B-5.2.

Based on calculating an average purchased cost per vehicle for 2022, 2023, and 2024, the Attorney General argued that the forecasted amounts are unsupported and excessive. Using a 2024 average cost adjusted for inflation, she recommended a disallowance of \$1.2 million for the 10 months ending October 31, 2025, and a disallowance of \$4.81 million for the test year. 4 Tr 1936-1937. MSC argued that the Blended Factor tool may not be effective and recommended a disallowance of 20% of the FVCRP expenditures for the bridge period and test year of \$3.39 million and \$2.58 million, respectively. 4 Tr 2467. Consumers countered that it does not purchase the same combination of vehicles each year. Consumers added that the Blended Factor is not the only factor considered and has been in use since 2021 (and was presented in previous rate cases). 4 Tr 1465.

The ALJ recommended rejection of the Attorney General’s average unit cost approach, finding that “basing projected spending on the combination of vehicles planned to be purchased and their current manufacturer price is more accurate.” PFD, p. 129. The ALJ noted that Consumers’ total projected expenditures for 2025 are only 2.4% higher than 2024 expenditures. The ALJ also recommended rejection of MSC’s proposed 20% disallowance, finding that Consumers supported the use of the Blended Factor and noting that it is only one among other tools used by the company. The ALJ noted that MSC failed to describe the basis for the 20% figure, other than saying that the Blended Factor had not been fully evaluated. The ALJ found the use of the Blended Factor to be reasonable. *Id.*, pp. 129-130.

In exceptions, MSC argues that Consumers’ fleet replacement spending increased by \$3.92 million between 2023 and the test year, even though the company is replacing 30% fewer vehicles. MSC’s exceptions, p. 14 (citing Exhibits A-12, Schedule B5.2, and A-28). MSC points to the Attorney General’s evidence showing that per unit costs increased by 90% between 2023 and the test year and argues that the Commission should adopt either the Attorney General’s reduction (based on unit cost) or MSC’s reduction based on the lack of support for the Blended Factor which, MSC argues, is a tool that has failed to predict vehicle failures as conceded by Consumers. 4 Tr 2466; MSC’s exceptions, p. 16. MSC also contends that Consumers is manipulating the tool’s output as is demonstrated by the fact that the company is only replacing 3.4% of the vehicles that the tool identified as needing replacement. MSC contends that the accuracy of the tool should be tested and evaluated.

In reply, Consumers reiterates that the use of the Blended Factor is only the first step in the FVCRP process of identifying units that need replacement. Consumers’ replies to exceptions, p. 22. Consumers states that the factor considers age, usage, and mileage, but that this is only the

starting point for the analysis that also relies on the Fleet Cost Tool, the Crewing Model Tool, and the Fleet Utilization Tool, which provide additional qualitative and quantitative input. 4 Tr 1423-1437. The company contends that, with over 7,200 units to consider, it does not believe that the model is invalidated by the fact that there have been a few instances where the Blended Factor did not predict a vehicle failure. Turning to MSC's disallowance suggestion, Consumers notes that MSC never explained how 20% relates to the issue or what makes that amount reasonable. Consumers' replies to exceptions, p. 24. Though the Attorney General did not file exceptions on this issue, Consumers also argues that the Attorney General's unit cost approach ignores the information regarding the actual mix of vehicles that are planned to be purchased in 2024-2025, and that mix is not the same from year to year.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. The Commission agrees with the ALJ that Consumers supported the projected costs based on changes to the per unit costs and the identification of the actual units, and MSC failed to explain why 20% was an appropriate reduction. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, pp. 129-130.

6. Information Technology and Security Capital Expenditures

a. SAP S/4HANA Implementation Project

Consumers provided evidence that its enterprise resource planning (ERP) software will reach the end of regular maintenance on December 31, 2027, and thus the company is beginning migration to a new system, known as the SAP S/4HANA Implementation Project, which will take three years to complete. 4 Tr 727-734. Consumers stated that it will purchase extended support for the current ERP through 2028. Consumers requested authority to amortize the cost of cloud software service implementation associated with the migration project over its 15-year asset life in

order to minimize the impact on rates, and to defer investment O&M expense associated with the migration project over the 15-year asset life (the O&M expense is discussed later in this order).

4 Tr 734-735; Confidential Exhibits A-26 and A-79. The SAP/HANA implementation project is described at 4 Tr 727-736. The cost estimate was developed by a third party. 4 Tr 732. The amounts that the company seeks for capital expenditures and O&M expense are available in Confidential Corrected 4 Tr 2885, 3006-3007, and Confidential Exhibits A-26 and A-79. The Commission also notes that the capital expenditure amounts are recorded in CWIP with an AFUDC offset. 4 Tr 1580.

The Staff supported the request for deferred accounting treatment and recommended that the Commission direct Consumers to meet with the Staff quarterly to provide a progress update on the migration project. 4 Tr 2495, 2610. The Staff stated that Consumers should record any over- or underrecovery compared to the 80% base, to be included in future rate cases until the migration and implementation is complete. 4 Tr 2718. The Staff offered a recalculated revenue deficiency at Confidential Exhibit S-13, which is based on confidential information provided by Consumers in Confidential Exhibits A-26 and A-79.

The Attorney General argued that the vendor is forcing obsolescence on the company and that the current SAP system could be operated into 2030 (and beyond) since it is currently functioning well. 4 Tr 1926-1928. She recommended a disallowance of the capital expenditures.

The company agreed to the Staff's recommendations to meet and to track project expenditures, but disagreed with the Attorney General's proposals, arguing that SAP support will end in 2030 which will lead to cybersecurity risks because patches will no longer be available. 4 Tr 770-773, 1598-1599. Consumers also countered that deferred accounting will reduce the burden on ratepayers.

The ALJ recommended approval of the capital expenditures and Staff's proposals including the revenue deficiency calculation in Confidential Exhibit S-13, and noted the company's agreement. PFD, p. 134; *see also*, pp. 365-366, n. 1731, and p. 423, n. 2009. The ALJ stated that the O&M amounts are further discussed in the net operating income section of his PFD (and are discussed below in this order). *Id.*, n. 600. The ALJ recommended rejection of the Attorney General's arguments, finding that:

[w]hile purchasing extended support for critical software could potentially be a viable solution, this [ALJ] does not believe it would be a reasonable and prudent solution given the scope of this project, the multi-year timeframe to complete it, and the importance of maintaining supported and patched software. Further, purchasing extended support for several additional years would only temporarily delay the inevitable need to transition to a supported system once extended support is no longer offered.

PFD, p. 134.

In exceptions, the Attorney General argues that Consumers admits that the current system functions well and is being replaced because system support will end in 2027. The Attorney General contends that "the Company has not asked SAP to extend the service and support agreement through and potentially past 2030." Attorney General's exceptions, pp. 20-21 (citing Exhibit AG-29). She argues that Consumers should continue to operate the current system through 2030 and possibly beyond because it functions well and the option to use it until 2030 exists, and because it is not yet known what replacement vendor will be selected. She adds that extending the use of the current system will provide additional time, the current system is operating safely, and it is premature to include these expenditures and defer O&M costs "without firm plans for project execution." Attorney General's exceptions, p. 22 (footnote omitted).

In reply, Consumers argues that this project is not premature or incomplete. Consumers' replies to exceptions, p. 31. Consumers contends that it provided extensive testimony describing

the planning that has occurred and the alternatives that were considered, and how its labor and contractor cost projections were developed. The company notes that “extended support is only available until 2030, the project will take three years to complete, and there is an increased risk of cyberattacks if the project is not executed because standard patches will no longer be available. 4 Tr 771.” Consumers’ replies to exceptions, p. 33.

The Commission finds the ALJ’s recommendation to be well-reasoned and supported by the record. The company explained that the current SAP ERP system will no longer receive standard vendor maintenance after December 31, 2027, and also explained the importance of the SAP ERP system to overall system integrity. Consumers provided detailed testimony on all of the alternatives that were considered for dealing with this problem, including postponement, elimination, and migration; and then described the alternatives within the deployment that were considered including greenfield, brownfield, and bluefield migration alternatives. 4 Tr 727-736. The Commission finds Consumers’ evidence to be satisfactory and adopts the ALJ’s findings and conclusion on this issue. *See*, PFD, p. 134.

However, the Commission notes that Consumers’ requested capital expenditure and O&M expense amounts for this cost category are based on confidential exhibits and testimony. The Commission is unwilling to issue a rate case order that does not contain the verified revenue deficiency based on all of the decisions made in the order. Thus, the Commission advises Consumers to abandon this form of evidentiary presentation for amounts that will directly affect the revenue deficiency. As non-disclosure agreements (NDAs) between companies and third-party vendors become more ubiquitous, utilities will need to find a way to provide non-confidential information for any capital expenditures and O&M expenses that will directly affect the calculation of the revenue deficiency. In the instant case, Consumers provided no explanation on

the record for why the amounts associated with the SAP implementation project needed to remain confidential; thus, the Commission is not aware of whether the issue was caused by an NDA or arose for some other reason. The revenue deficiency in this order reflects all of the Commission's determinations. Since the same must be true for all future rate case orders, Consumers is cautioned to refrain from submitting information confidentially that will directly affect the calculation of the revenue deficiency. If the company believes that it is necessary to do so, it shall provide a detailed explanation of the reason for confidential treatment on the record. While the Commission is highly unlikely to grant such a request (not due to the merits of the requested project, but rather due to the importance of transparency), the Commission will still consider the record evidence.

b. Application Currency Corporate Capital Project

The Staff identified an error in the projections for this project that resulted in reductions of \$15,010 in the bridge period and \$18,013 in the test year, and \$1,991 in associated O&M. 4 Tr 2707. The company agreed to these adjustments. 4 Tr 751. The ALJ recommended their adoption. PFD, p. 135.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See, id.*, p. 135.

c. Application Currency–Electric and Gas Shared Capital

This cost category also required adjustments by the Staff (\$19,146 in the bridge period, \$22,975 in the test year, and \$7,962 for O&M), to which the company agreed, and for which the ALJ recommended approval. 4 Tr 2710, 753; PFD, p. 136. The Commission finds the ALJ's

recommendation to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 136.

d. Next Generation Electronic Shift Operations Management System Replacement Project

The Staff recommended disallowances of \$125,746 in capital expenditures for the test year and \$8,243 in O&M expenses for the test year for this software update project, based on audit findings which showed that the company's needs have changed, since the existing system no longer requires migration. 4 Tr 2711. Consumers agreed to the disallowances. 4 Tr 754. The ALJ recommended approval of the disallowances. PFD, p. 138. The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See, id.*

e. Gas Facilities Tracking and Traceability Project

Consumers stated that it must carry out this project in order to comply with PHMSA's new plastic pipe rule, which will require Consumers to track and maintain detailed data on plastic pipes. Consumers added that it is required to develop a new program in order to comply. The company seeks \$2.22 million in bridge period capital expenditures, and \$5.26 million in capital expenditures and \$508,607 in O&M expense for the test year. 2 Tr 106. The Attorney General argued that the expenditures are premature and should be disallowed because there is no clear financial benefit to ratepayers. 4 Tr 1924-1925. Consumers countered that it must incur these amounts in order to meet regulatory requirements and that the project is not intended to deliver cost savings. 4 Tr 768-769.

The ALJ recommended that the Commission reject the Attorney General's proposed disallowances, noting that the project "must be developed and implemented to comply with legal

or regulatory guidelines.” PFD, p. 140. The ALJ recommended approval of both the capital expenditure and O&M expense amounts.¹⁵

No party filed exceptions on this issue.

The Commission finds the ALJ’s recommendation to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ’s findings and conclusion on this issue.

See, id.

f. Supervisory Control and Data Acquisition Software Solutions Project

Consumers provided evidence that the gas supervisory control and data acquisition (SCADA) software solution project is intended to replace the company’s early 2000s-era outdated system to better meet regulatory requirements and support the overall system. Consumers projected costs of \$18.02 million and acknowledged that this is a \$6.53 million increase over the amount that was presented in Case No. U-21490 (Consumers’ most recent gas rate case) of \$11.49 million for this cost category. 4 Tr 673-678. The company stated that the increase is largely due to underestimated vendor service expenses, the need for third-party testing, the software licensing period, and a shift to virtual servers.

MSC recommended disallowance of the \$6.53 million because it exceeds the amount approved in the July 23 order. MSC argued that the amount of approved capital expenditure should be capped at the amount approved in the July 23 order because Consumers failed to adequately explain the need for the increase. 4 Tr 2456-2459. MSC criticized the company for

¹⁵ This order follows the structure of the PFD. Thus, where the ALJ discussed O&M issues in his rate base determinations, or where he discussed capital expenditure issues in his net operating income determinations, this order does the same. All Commission decisions are incorporated into the Commission’s final revenue deficiency.

not seeking competitive bids for \$770,000 of the contracted work, and maintained that the current SCADA system is adequate and is not facing a pending termination of support.

Consumers countered that cost estimates change over time, and that the company's estimates are within an industry standard rough order of magnitude (ROM), which allows for a variance of -25% to +75% from the initial projection. 4 Tr 781. Consumers described the capability gaps within the current SCADA system, and argued that, since the company already accepted the Attorney General's \$5.56 million disallowance for its 2024 information technology (IT) underspend, it should not be subject to this additional disallowance.

The ALJ recommended that the Commission adopt MSC's cap proposal and set the allowable recovery to the \$11.49 million approved in the July 23 order (as part of the approved settlement agreement). PFD, p. 143. The ALJ found that Consumers "has not adequately refuted the concerns about inadequate planning and unjustified or reasonably foreseeable cost increases (for example, the need for longer licensing requirements and the company's decision to switch to virtual servers) raised by MSC such that this disallowance is reasonable." *Id.* The ALJ recommended rejection of Consumers' proposal to offset any disallowance with the 2024 IT underspend disallowance "given questions surrounding whether the ostensible SCADA 2024 underspend was appropriately documented by the company." *Id.*

In exceptions, Consumers argues that its gas system has outgrown the capabilities of its current SCADA system that was implemented 25 years ago, and thus the system requires increased effort and spending to "address obsolete application and database software architecture, and enhancements to the system are limited." Consumers' exceptions, p. 39; 4 Tr 673. Consumers explained that the initial gas SCADA projections were refined over time and that it is typical for IT investment forecasts to evolve. Consumers contends that the 57% increase to this

cost category is within the ROM expectation for this project and the reasons for the additional \$6.53 million have been fully explained on this record. Consumers states that it “experienced a \$4.4 million increase in contractor costs, a \$1.75 million increase in software costs, and a \$0.46 million increase in materials. 4 TR 678.” Consumers’ exceptions, p. 40. The company contends that the current SCADA system is operating well beyond its design specifications and, if it becomes unstable, it could affect Consumers’ ability to operate and monitor system conditions, maintain safe operations, and comply with regulations. *See*, 4 Tr 676-678. The company asserts that the new cost estimate is reasonable, but argues that, if the Commission supports the ALJ’s disallowance, that disallowance is duplicative of an existing agreement to a \$5.56 million reduction to IT capital expenditures based on 2024 actuals, because that amount includes \$4.62 million in gas SCADA project expenditures. Consumers’ exceptions, p. 42 (citing 4 Tr 783). Thus, the company argues that the \$6.53 million disallowance should be reduced by \$4.62 million. Consumers argues that the ALJ erred in finding that the reduction was not adequately documented, stating that it appears in rebuttal testimony and exhibits at 4 Tr 780-783 and Exhibits A-148 and A-149.

In reply, MSC states that no party argued that SCADA is not important, but rather:

[t]he issue is that the project will take longer, longer implementation means additional years of licensing and increased costs, the Company modified components midstream (virtual versus physical servers), the Company’s realization that it requires third party support for testing was inexplicably delayed, and more. As CUB witness Denzler testified, the explanations for the increased costs reflect delayed decisions, deferred implementation, and deficient planning.

MSC’s replies to exceptions, pp. 24-25 (citing 4 Tr 2456-2458). MSC also disagrees with the notion that any disallowance should be offset by the \$4.6 million 2024 SCADA underspend, arguing that if “actual 2024 spending was \$4.623 [million] less than projected, the Company’s evidence should have reflected that.” MSC’s replies to exceptions, p. 25.

The Commission agrees with the ALJ that Consumers' expenditures on this record should be capped at the approved settlement amount. The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 143.

g. Forward Web Proxy Services

Consumers described this new system as acting as an intermediary between customers and the internet (a third-party web proxy platform), and projected test year capital expenditures of \$939,030 and test year O&M expense of \$149,967. 4 Tr 738. The Attorney General recommended a total disallowance based on the lack of evidence showing that the current third-party web proxy vendor is having operational issues or that services have declined. The Attorney General noted the negative cost/benefit ratio and also argued that the current vendor has improved services. 4 Tr 1931-1932; Exhibit AG-31, p. 4. Consumers countered that this project is necessary for mitigating cyber threats, that additional controls are required to address risk, and that the project need not demonstrate cost savings. 4 Tr 776-777.

The ALJ recommended adoption of the Attorney General's proposed disallowance of the full amount of capital expenditures and O&M expense. PFD, p. 145. The ALJ was not persuaded that "the company's rationale for this project is fully supported by the underlying facts as the company acknowledges that its current vendor has resolved many issues with the current proxy service and the number of incidents relating to the proxy system has declined dramatically from 2022 through 2024." *Id.* (citing Exhibit AG-31, p. 4).

In exceptions, Consumers states that its current web proxy service platform has ongoing operational issues which mean that, at times, employees and contractors cannot access the internet or cloud-based resources. *See*, 4 Tr 738-739. Consumers argues that the system has become

unreliable causing employees and contractors to be unable to access email, Teams, and SharePoint.

Consumers contends that:

[a]lthough there has been a reduction in incidents from 2022 to 2024, there were still seven incidents in 2024 affecting individual users or groups who could not perform work, resulting in 111 impacted days. Exhibit AG-31, pages 3-4. Importantly, the Company explained that the “year over year reduction in impacted days is a result of Security no longer using built in functionality of the current product due to the impact on business stability,” which “creates risk and additional controls to mitigate risk.” Exhibit AG-31, page 3. And the Company continues to have common problems with the service, particularly with standard maintenance tasks such as software upgrades that often lead to undiscovered defects. Exhibit AG-31, page 4.

Consumers’ exceptions, p. 43. Consumers argues that the ALJ erred in finding that this project is no longer needed.

In reply, the Attorney General argues that the company does not need to develop its own software at this time because the number of incidents on the existing system declined significantly between 2022 and 2024. The Attorney General argues that Consumers continues to overstate the impact of the issues with the current service, citing decreases in non-critical function incidents and decreases to non-critical function impact days, as well as decreases to Company Ops incidents and impacted days. Attorney General’s replies to exceptions, pp. 42-43 (citing Exhibit AG-31).

The Commission finds the ALJ’s recommendation to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ’s findings and conclusion on this issue. *See*, PFD, p. 145.

h. Information Technology Enhancements

Consumers explained that IT enhancements are short-term IT investments aimed at quickly implementing improved functionality in response to changing business needs. 4 Tr 715; Exhibits A-24 and A-25. Consumers projected \$7.42 million in capital expenditures on enhancements. 4 Tr 715-718. MSC argued that this amount represents an increase of 53% and

recommended that this cost category be limited to a three-year average adjusted for inflation which results in a disallowance of \$2.65 million for the first 10 months of 2025 and \$2.06 million for 2026. 4 Tr 2465. Consumers countered that it also used a three-year historical average, but it considered total cumulative demand for new enhancements as well. Consumers also noted that MSC did not provide the correct amounts, and that the correct disallowances for the proper time periods would be \$2.21 million for the 10 months ending October 31, 2025, and \$2.16 million for the test year. 4 Tr 794.

The ALJ recommended adopting MSC's proposed disallowance as corrected by the company, stating that:

for spending categories like IT Enhancements, which encompass various relatively small projects, using a three-year average adjusted for inflation can be appropriate to moderate expenses that otherwise appear to be increasing at an unacceptably high rate. This PFD therefore adopts MSC's disallowance, but as adjusted by the company to ensure that the gas allocation is correct (i.e. \$2,209,214 for the 10 months ending October 31, 2025, and \$2,160,254 for the projected test year).

PFD, p. 148.

In exceptions, Consumers argues that it maintains a worklist of enhancements, and that "[t]o be approved for funding . . . enhancements must provide a cost estimate and expected benefits." Consumers' exceptions, p. 46 (citing Exhibit A-25 and 4 Tr 716-717). Consumers recognizes that the demand for enhancements has grown by an average of 49% over the past three years and states that the company made its projections by considering both the three-year historical average and the known incremental work that is on its worklist of 639 requests. *See*, 4 Tr 717-718, 793. Consumers contends that the projected test year amount is less than the sum of these two totals, and that its number is more accurate than the simple three-year average adjusted for inflation used by MSC. Finally, Consumers adds that if the Commission adopts a reduction based on the three-

year average, it must offset that reduction by any disallowances that are approved (as recommended by the ALJ) for individual enhancement projects as follows:

Web Chat AI enhancements in the amount of \$180,565 in the test year, Mobile Application enhancements in the amount of \$498,727 in the bridge period and \$649,770 in the test year, and Low to Moderate Income (“LMI”) Customer Support enhancements in the amount of \$200,628 in the bridge period and \$40,126 in the test year. PFD, pages 180, 184, 193.

Consumers’ exceptions, p. 48.

The Commission finds the ALJ’s recommendation to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ’s findings and conclusion on this issue. *See*, PFD, p. 148. However, the Commission finds that Consumers is correct in noting that this general disallowance overlaps with the individual project disallowances discussed below in this order. Thus, the Commission finds that the ALJ’s recommended disallowances of \$2.21 million for the 10 months ending October 31, 2025, and \$2.16 million for the projected test year should be reduced by the disallowances approved, *infra*, for Web Chat AI of \$180,565 in the test year, for Mobile Application Enhancements of \$498,727 in the bridge period and \$649,770 in the test year, and for LMI Enhancements of \$200,628 in the bridge period and \$40,126 in the test year. *See*, Consumers’ exceptions, p. 48.

i. Asset Refresh Program Expenditures, Generally

MSC recommended a general 20% disallowance for the asset refresh program (ARP) which amounts to \$1.41 million in 2025 and \$1.58 million in 2026, based on concerns that certain specific items had been overestimated (specific disallowances are discussed below). 4 Tr 2463. Consumers countered that it relies on industry-standard cycles for refreshing hardware and that its projected expenditures are supported by detailed documentation. 4 Tr 790. Consumers also noted that MSC once again did not provide correct amounts, and that the correct disallowances for the

appropriate time periods would be \$1.18 million for the 10 months ending October 31, 2025, and \$1.55 million for the test year. 4 Tr 791.

The ALJ recommended that the Commission reject MSC's proposed 20% disallowance, stating that:

[t]his [ALJ] is unwilling to assume that the company's cost estimates are universally too high based upon ostensible overestimations in only one or two specific categories of expense. Such a broad and sweeping extrapolation would generally be inappropriate, and this [ALJ] declines to adopt that methodology as the basis for a disallowance in this instance.

PFD, p. 150.

No party filed exceptions on this issue.

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

See, id.

j. Collaboration

The ARP collaboration project is an effort to replace outdated audio, visual, and telephony tools and includes \$521,622 in capital expenditures. 4 Tr 681. The Staff proposed small disallowances for the bridge period and test year to correct for an overestimation discovered during an audit, and Consumers agreed to these adjustments. 4 Tr 755, 2712. MSC recommended disallowances of \$57,599 for 2025 and \$88,718 for 2026 on grounds that the company failed to provide sufficient explanation for its projections, and MSC recommended applying a productivity adjusted inflation (PAI) factor. 4 Tr 2462; Exhibit MSC-22. Consumers countered that the costs differ based on the various locations of the equipment and provided examples of different locations. 4 Tr 785. Consumers also provided corrected proposed disallowance amounts to match the appropriate time periods. 4 Tr 786-787.

The ALJ recommended that the Commission reject MSC's proposed disallowances, finding that:

MSC's cost analysis appears to contain errors in the calculation of historical unit averages caused by neglecting to include all historical costs for certain types of purchases. Therefore, this [ALJ] declines to adopt MSC's disallowance, but does adopt Staff's proposed disallowance to which the company assented (i.e. \$6,015 for the bridge period and \$7,219 for the projected test year).

PFD, p. 153 (citing 4 Tr 786 and Exhibits A-22, p. 1, and MSC-22).

No party filed exceptions on this issue.

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

See, PFD, p. 153.

k. Local Area Network

Consumers stated that the ARP local area network (LAN) project is an upgrade to the LAN and its infrastructure, and the company projected \$231,181 in capital expenditures for the test year. 4 Tr 683; Exhibit A-22. MSC recommended using historical unit costs adjusted for PAI and proposed disallowances of \$55,911 for 2025 and \$86,881 for 2026. 4 Tr 2462-2463; Exhibit MSC-23. Consumers countered that unit costs varied greatly depending on the specific LAN switch being replaced and provided examples and argued that an average of historical costs is not appropriate due to variations in switch models and their pricing. 4 Tr 788. The company also provided corrected disallowance amounts.

The ALJ recommended that the Commission adopt MSC's proposed disallowances, albeit with the corrected amounts of \$46,593 for the 10-month period ending October 31, 2025, and \$81,719 for the projected test year. PFD, p. 155. The ALJ found that:

the company's naming convention for LAN switches seemingly makes it impossible to adequately compare its proposed LAN switch purchases with its

historical costs. The company's naming convention labels LAN switches with letters (A, B, C etc.), and the average cost for LAN switches with the same letter designation appear to vary wildly from 2023-2024 to 2025-2026. The company explained that the naming convention is solely to differentiate models within a given calendar year, and the actual switch models associated with these designations may change from year to year resulting in variations in unit pricing. Accordingly, the company's naming convention and practice of switching designations across different years obscures unit-level cost increases and makes it impossible to compare LAN switch costs on an apples-to-apples basis. Under these circumstances, it is impossible to tell if the company is replacing the same model of LAN switches as in previous years, or if it is purchasing entirely different types of switches. Accordingly, this [ALJ] is not fully satisfied with the company's evidentiary support for greatly increased costs given that it highlighted no specific documentation to support the higher costs in the projected test year.

Id. (citing Exhibit A-22, p. 6, lines 1 and 14; 4 Tr 788; and Exhibit A-112, p. 1).

In exceptions, Consumers argues that the ALJ failed to consider the actual type of equipment that the company plans to replace. Consumers explains that "the type of switch that requires replacement determines the unit cost, and the Company's cost projections were based on the specific requirements. 4 TR 788." Consumers' exceptions, p. 49. Consumers contends that it fully explained how the names change from year to year as well as the changes to the unit pricing, and that it is unclear what documentation would have satisfied the ALJ. *Id.*, p. 50. Consumers contends that its ARP cost projections are supported by Exhibit A-22 and that it is unreasonable to expect the company to provide bids and vendor quotes for the thousands of planned ARP equipment purchases, which the Commission has never required before. Consumers asserts that it "presented the ARP-LAN average unit costs, explained the reason for the change in unit costs, and showed that the Company's cost projections were based on the type of LAN switch that required replacement. 4 TR 788." Consumers' exceptions, p. 50.

In reply, MSC argues that the ALJ was correct in finding that the company's evidence made it impossible to compare the cost of the switches from year to year. MSC states that Consumers could have simply itemized the equipment, which would have made the costs clearer, but instead

the confusion caused by the evidence essentially speaks for itself. MSC's replies to exceptions, pp. 26-28 (reproducing excerpts from Exhibits A-22 and A-112).

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 155.

1. Asset Refresh Program—Field Device Asset Management

Consumers included \$2.192 million in capital expenditures for its Asset Refresh Program—Field Device Asset Management (ARP—FDAM) project for the bridge period and projected test year (along with O&M expenses during the projected test year) to replace field devices on a four-year refresh cycle to align with industry standards and to address issues such as hardware failures, security patches, and software compatibility. Per Consumers, the project includes both replacements and new devices necessary to support customer interactions and business operations. 4 Tr 687. The Staff recommended a full disallowance of new device purchase costs for the project, including \$261,198 for the 10-month bridge period and \$314,156 for the projected test year (as corrected on rebuttal and in briefing to reflect gas only capital expenditures), because of the company's lack of clear, consistent, and supported justification, including conflicting explanations regarding whether hiring estimates or historical data informed the company's projections and why the same number of new device purchases were applied across both 2025 and 2026. 4 Tr 2712-2714; Staff's initial brief, pp. 29-33. Consumers rebutted the Staff's contentions and clarified that the company's projected expenditures for 2025 and 2026 are based on historical spend in this area, highlighting that new purchase projections on a total company basis (of \$997,255 and \$1 million for 2025 and 2026, respectively) are less than the historical average.

4 Tr 757-759; Exhibit S-19.1, pp. 11-12; Consumers' initial brief, pp. 108-109; Consumers' reply brief, p. 39.

The ALJ found that the company's clarification on rebuttal appeared to obviate the basis for the Staff's proposed disallowance and thus declined to adopt a disallowance. PFD, p. 158.

The Staff objects and maintains that its proposed disallowance should be adopted. The Staff asserts that both Consumers and the ALJ failed to address Exhibit A-22 (page 4) in arguing that these expenditures were demonstrated as being reasonable and prudent. The Staff states that the information in this exhibit and the company's assertion regarding the correct projection method for new device purchases "are mutually different forms of projecting costs; both cannot be true."

Staff's exceptions, p. 7. More specifically, per the Staff:

If new purchases are projected based on historical actuals, then the information included in Exhibit A-22, which provides a projected number of new devices, is not supporting evidence, but rather, arbitrary information calculated based off a total cost estimate. Staff finds it problematic that the ALJ and the Company did not address 1. the information provided in Exhibit A-22 (SHB-7), 2. why it was presented as supporting evidence, and 3. what that evidence actually means, given the pivot from stating that new purchases are based on People and Culture Hiring estimates to later stating it is a back-calculation based on historic expenditures. Further, Staff noted this discrepancy in its brief which was noted by the ALJ in the PFD. (Staff's Initial Brief pp 31-32, 35- 36.) The ALJ did not address the contradictory information included in Exhibit A-22 and the new argument supplied by the Company. The ALJ apparently only relied on information provided by the Company in its Reply Brief, taking the Company's argument against Staff's position at face value. (PFD pp 158,161.)

Staff's exceptions, p. 7. The Staff states that it additionally:

finds it problematic that the Company stated it is using historical actual costs from the ARP-WAM [asset refresh program-workstation asset management] project for both the ARP-WAM and ARP-FDAM projects individually. The Company stated in rebuttal that the historical actuals for the ARP-WAM project historically included new device purchases for the ARP-FDAM project too. (4 TR 757,759.) Neither the Company nor the ALJ addressed the inherent issues here. Currently, the Company cannot accurately project new device purchases for either ARP project based on historical ARP-WAM costs, that include both projects, without sorting out the costs specifically associated with each project individually.

This method undermines the reasonableness of the projected costs because this approach is inherently flawed and does not solely use historical information for each project individually. It is unclear how new device purchases are projected based off historical costs, when historical costs for the two projects were previously combined and now each have their own projections.

Staff's exceptions, p. 8. Given the above, the Staff maintains its position and recommends that its proposed disallowances for both the company's ARP-FDAM project (addressed here) and the ARP-WAM project (addressed below) be adopted by the Commission.

Consumers responds and argues that its evidence is not contradictory and that the Commission should therefore not adopt the Staff's recommended disallowance. Consumers states that it:

explained in rebuttal and in response to audit that the Company projected Total Company new purchases of about \$1 million in 2025 and \$1 million in 2026 for both ARP-FDAM and ARP-WAM based on historical spending. 4 TR 757. The four-year average spend for both ARP-FDAM and ARP-WAM for the total Company was \$2,594,368. *Id.* The Company's projected expenditures are less than the four-year average amount and represent a reasonable projection of new technology purchases that are in line with historical purchases. Exhibit A-22 (SHB-7) provides detail on how the Company expects to spend this projected amount. See Exhibit A-22 (SHB-7), page 4, lines 4-7, and page 12, lines 8-18. The Company's projection is an annual amount validated by total Company spend over the last four years. See 4 TR 757.

Staff also criticized the Company's methodology for projecting these costs based on historical actuals because the ARP-FDAM and ARP-WAM projects were previously combined into ARP-WAM. Staff's Exceptions, page 8. But the Company's methodology reasonably considers that these expenditures were historically combined into a single program, and results in projected Company expenditures for new purchases that are below the four-year average. See Exhibit S-19.1, pages 11-12.

Consumers' replies to exceptions, pp. 28-29 (emphasis in original). Consumers then reiterates why the Commission should approve the company's proposed funding for new field devices and workstations, citing the need for field devices and workstations to support employee ability to perform work effectively, efficiently, and safely. *Id.*, p. 29 (citing 4 Tr 757-761). Consumers thus argues that "[t]he evidence does not support a conclusion that [it] will not spend anything for new

devices under the ARP-FDAM and ARP-WAM programs,” but “[r]ather [. . .] supports that the Company’s projected expenditures are reasonable based on historical spending and should be approved.” Consumers’ replies to exceptions, p. 30.

The Commission finds the ALJ’s recommendation to be well-reasoned and supported by the record. The Commission agrees with Consumers that its evidence supports its projected costs based on historical spending and projected need. While the Commission would have liked to see more specificity in cost projections for this program, the Commission finds that Consumers has shown the need for field devices to support employee ability to perform work effectively, efficiently, and safely, to the benefit of not only employees but customers as well. *See*, 4 Tr 757-761. Accordingly, in finding the company’s projected costs to be reasonable and prudent, the Commission adopts the ALJ’s findings and conclusion on this issue. *See*, PFD, p. 158.

m. Asset Refresh Program–Workstation Asset Management

Consumers included \$2,060,439 in capital expenditures for its ARP–WAM project for the bridge period and projected test year (along with O&M expenses during the projected test year) to replace and install new desktops, laptops, and tablets on a four-year refresh cycle based on industry standards, hardware failures, security patches, and software compatibility and to replace monitors every eight years based on historical failure rates. Per Consumers, the project includes both replacements and new devices. 4 Tr 693, 695. The Staff recommended a full disallowance of new device purchase costs for the project, including (as corrected on rebuttal and in briefing to reflect gas only capital expenditures) \$261,197 for the 10-month bridge period and \$314,300 for the projected test year, based on the company’s conflicting and unsupported evidence regarding how projections were developed—specifically, inconsistent explanations about the use of hiring estimates and a failure to explain why the same number of new purchases were applied across both

2025 and 2026. 4 Tr 2715-2717; Staff's initial brief, pp. 33-36. Consumers rebutted the Staff's contentions and clarified that the company's projected expenditures for 2025 and 2026 are based on historical spend in this area, highlighting that new purchase projections on a total company basis (of \$1 million for 2025 and 2026) are less than the historical average. 4 Tr 759-761; Consumers' initial brief, pp. 109-110; Consumers' reply brief, p. 39.

The ALJ found the company's clarification on rebuttal appears to negate the basis for the Staff's proposed disallowance and thus declined to adopt a disallowance. PFD, p. 161.

The Staff objects and asserts that the Commission should adopt a full disallowance of all new device purchases for this project, given the company's and the ALJ's failure to address contradictory information in Exhibit A-22 (page 12) in connection with the company's presentation of two mutually exclusive ways of projecting total costs for new device purchases for both the ARP-WAM project (addressed here) and the ARP-FDAM project (addressed above) in this case.¹⁶ Staff's exceptions, pp. 6-9.

Consumers responds and argues that its evidence is not contradictory and that the Commission should not therefore adopt the Staff's recommended disallowance.¹⁷ Consumers' replies to exceptions, pp. 27-30.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. The Commission agrees with Consumers that its evidence supports its projected costs

¹⁶ Further details regarding the Staff's objection to expenditures for this project are already combined above with regard to costs for the ARP-FDAM project. To limit redundancy, the Commission does not explicitly repeat the same here for purposes of this order.

¹⁷ Further details regarding Consumers' replies to exceptions on this issue are also detailed above. Since the company combined its response to this issue with its response regarding its ARP-FDAM project, the Commission does not explicitly repeat the same here for purposes of this order, again to limit redundancy.

based on historical spending and projected need. While the Commission would have liked to see more specificity in cost projections for this program, the Commission finds that Consumers has shown the need for workstations to support employee ability to perform work effectively, efficiently, and safely, to the benefit of not only employees but customers as well. *See*, 4 Tr 757-761. Accordingly, in finding the company's projected costs to be reasonable and prudent, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 161.

n. Asset Refresh Program—Operational Technology—Support Gas

Consumers included \$2,468,066 in capital expenditures for its ARP—Operational Technology (OT)—Support Gas project for the bridge period and projected test year (along with O&M expenses during the projected test year) to replace dated and obsolete servers on a rotating five-year refresh cycle. 4 Tr 684. The Attorney General raised concerns about overestimated projected expenditures when compared to a three-year historical average plus inflation and thus recommended disallowances of \$393,000 for the 10-month bridge period and \$1.95 million for the projected test year as a result. 4 Tr 1929-1930; Attorney General's initial brief, pp. 83-85. Consumers rebutted the Attorney General's contentions, explaining that the Attorney General's proposal does not consider that the projected expenditures are for specific hardware replacements based on timing and risk and that the increase in projected test year expenditures is due to the need to refresh assets implemented as part of the company's Pipeline SCADA project. 4 Tr 775; Exhibit A-110; Consumers' initial brief, p. 107.

The ALJ found the company's rebuttal to be persuasive and thus declined to adopt the Attorney General's proposed disallowance. PFD, p. 163.

No exceptions were filed on this issue.

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

See, id.

o. Asset Refresh Program–Physical Security

Consumers included \$747,487 in capital expenditures for its ARP–Physical Security project for the bridge period and projected test year (along with O&M expenses during the projected test year) to upgrade or replace physical security assets (such as cameras, motion detectors, and access systems) to provide improved awareness and resolution of security concerns. 4 Tr 685. The Staff recommended a partial disallowance of \$72,640 for the bridge period and \$108,960 for the projected test year for errors in projections discovered during audit. 4 Tr 2717; Staff's initial brief, pp. 9-10. The Attorney General, on the other hand, recommended a full disallowance of \$747,000 in capital expenditures for the projected test year for a lack of justification by the company to support its urgent, large-scale investment in all new equipment, considering routine maintenance and other infrastructure upgrade needs. 4 Tr 1930-1931; Attorney General's initial brief, pp. 85-86. Consumers agreed with the Staff's proposed adjustment but rebutted the Attorney General's proposed disallowance, mentioning failure and security concerns. 4 Tr 775-776; Consumers' initial brief, pp. 95-96, 107-108.

The ALJ recommended that the Staff's adjustment, as agreed to by Consumers, be adopted but declined to recommend adoption of the Attorney General's proposed disallowance, stating that he was "not convinced that delaying the refresh of security assets is reasonable and prudent." PFD, p. 165.

The Attorney General objects and asserts that the ALJ erred in his conclusion. The Attorney General states that:

the issues identified by the Company as a reason for its proposal appear to be routine maintenance issues and the Attorney General did not rule out making as needed repairs and replacements. But the need to do [the] level of replacements proposed by the Company does not appear to be reasonable and prudent, especially given the many competing programs and expenditures in this case.

Attorney General's exceptions, p. 23.

Consumers responds and asserts that the Commission should reject the Attorney General's proposed disallowance, reiterating that the Attorney General's proposal would run critical security hardware to failure and the need for the critical hardware to avoid physical security vulnerabilities and to comply with state and federal requirements. Consumers' replies to exceptions, p. 27 (citing 4 Tr 775-776 and Exhibit A-111).

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

See, PFD, p. 165.

p. Operational Technology Datacenter Migration and Physical Access and Alarm Response Project

For its OT Datacenter Migration project, Consumers included \$1.44 million in capital expenditures for the bridge period and projected test year (along with O&M expenses during the projected test year) to relocate critical control systems for electric and gas operations to a more secure and modern facility, explaining that the building for the company's current datacenter (the Parnall building) is unsuitable due to its proximity to a railway line, aging climate control equipment, and past incidents of water infiltration. 4 Tr 723-724. For its Physical Access Management and Alarm Response project, Consumers requested \$677,559 in capital expenditures for the bridge period and projected test year (along with O&M expenses during the projected test year) to implement a centralized, modernized security system that manages user access and enhances protection of sensitive facilities, stating that the current security system is outdated and

causes operational issues. 4 Tr 740. The Attorney General recommended a full disallowance of all costs associated with the two projects, arguing that the proposed costs for the projects are unjustified due to uncertainties and the lack of a BCA and that the proposed costs are also premature for inclusion in this case since the projects are currently in the investment planning stage. 4 Tr 1933-1935; Exhibit AG-31; Attorney General's initial brief, pp. 87-90. Consumers rebutted the Attorney General's contentions, mentioning risk of system failure concerns and explaining that projects remain in an investment planning phase and are not released for further planning and implementation activities until funding is approved through a rate case and subsequent budget disposition. 4 Tr 779-780; Consumers' initial brief, pp. 105, 114-115.

The ALJ recommended that the Attorney General's proposed disallowances for the two projects be adopted. Unpersuaded by the company's justification for its Physical Access Management and Alarm Response project, the ALJ stated that, while he "understands the frustration that can be caused by the technical issues identified by the company, it is not clear that a wholesale replacement of the company's system is the best or only solution." PFD, p. 168 (citing Exhibit A-21, p. 98). Likewise, with the OT Datacenter Migration project, the ALJ agreed with the Attorney General and stated that:

it is not clear whether certain issues with the current Parnall building, like past instances of water infiltration and aging climate control equipment, cannot be remediated at a lower cost than the wholesale relocation of the data center itself. While the company indicated that it considered alternatives like remaining in the current building, it is not clear if the costs of remediating or preventing water leakage and repairing or replacing climate control equipment was compared with the very substantial cost of migrating the entire data center to a new facility. Further, the company did not adequately explain why the presence of a railway line in the vicinity of the Parnall building makes it an inappropriate site to house the company's servers.

PFD, pp. 168-169 (footnotes omitted) (citing Exhibit A-21, p. 96). Ultimately, the ALJ found insufficient justification on this record to find that the projects are reasonable and prudent but

noted that, “[s]hould Consumers elect to continue with these projects, the company should provide more robust support for cost recovery in a future rate case, which should include a more detailed explanation of alternative approaches and their suitability or lack thereof.” PFD, p. 169.

Consumers objects, first asserting that the Commission should reject the ALJ’s recommended disallowance for the company’s Physical Access Management and Alarm Response project “because the current physical access control system is outdated, increasingly expensive to support, does not include modern capabilities, and does not reduce waste and cost.” Consumers’ exceptions, p. 44 (citing Exhibit A-21, p. 98). In further detail, per Consumers:

Company witness Baker testified that failing to move to the proposed new technology carries a growing risk of system failure, which could result in unauthorized physical access and negatively impact the Company’s ability to operate efficiently. 4 TR 779. While the PFD minimized the 14 operational issues that the Company identified over the previous two years (see PFD, page 168), these operational issues impact productivity and create risk by causing delays when the system freezes and is unavailable, requiring resubmission of requests and reduced visibility to physical access at Company sites. Exhibit AG-31, page 8.

Not only does the current system have operational issues, but it does not support the adoption of new physical access control methods that will avoid costs and improve control and responsiveness. Exhibit AG-31, page 8. For example, the use of mobile device credentials for entrance to Company facilities offers a higher level of security, but the current solution does not provide the ability to implement this enhanced security option. Exhibit AG-31, page 9. The Company will realize cost savings by reducing future purchases of badge printers and associated consumables, and will achieve waste reduction by improving system stability, increasing automation, and eliminating manual processing of alarms. Exhibit AG-31, page 8. Alarms are currently processed manually by security teams, but the new system will streamline automation of over 2,500 alarms per year. *Id.*

Consumers’ exceptions, p. 45.

Secondly, Consumers argues that the Commission should reject the ALJ’s recommended disallowance for its OT Datacenter Migration project, asserting that “relocating the data center is the most reasonable option to address the several risks associated with the current location.” *Id.*, p. 51. In further support, the company states that it:

performed an analysis of alternatives to expand capabilities and address constraints and risks, including remaining at the current Parnall location. 4 TR 724. The option to remain at the Parnall location was not selected because the co-location vendor is able to provide the building, cooling, power, and physical security that is not present at the current Parnall location. *Id.* The current data center would require extensive work to modernize, which still would not address all the present risks such as its proximity to water pipes. Exhibit AG-31, page 1. If the main water piping burst at the Parnall facility, the data center equipment would become wet, causing damage and failure, and could disrupt the monitoring of the critical OT systems, such as SCADA. *Id.*

Consumers' exceptions, p. 52.

The Attorney General responds, first arguing that the Commission should approve the ALJ's recommendation regarding the company's Physical Access Management and Alarm Response project. The Attorney General states:

According to Exhibit AG-31 [referenced by Consumers in exceptions], the implementation of the use of mobile devices will depend on the selected vendor and solution and will be distributed to mobile devices supported by smart phones. In other words, the functionality of a hypothetical new system is unknown, so there is no basis for the Company's claims that mobile device badges will avoid costs and improve control and responsiveness. Further, the Company has not done a cost comparison between continuing to use the current system and adopting a new system. So purported savings have not been documented. The claim that the use of mobile device badges will reduce future purchases of badge printers and associated consumables is not true, if as the Company states "[t]he Company will realize cost savings by reducing the purchases of badge printers and associated consumables, while still requiring identification badges." The claim is contradictory. The Company has not provided the type of information needed to demonstrate that the new system will provide better functionality or savings because it is still at in the early stages of development with no specific system or vendors evaluated.

Attorney General's replies to exceptions, pp. 44-45 (footnotes omitted).

The Attorney General next asserts that the Commission should also adopt the ALJ's recommendation regarding the company's OT Datacenter Migration project. Per the Attorney General:

Other than a providing a short summary of alleged risk that it claims cannot be addressed with modernization of the Parnell [sic: Parnall] location, the Company did not provide an analysis or other supporting information documenting the

reasonableness and prudence of its preferred alternative of moving the data center. Whether this project can be shown to be reasonable is unknown at this time, however, the Attorney General agrees with the PFD that it is not demonstrated on this record.

Id., pp. 47-48 (footnote omitted).

The Commission finds the ALJ's recommendations to be well-reasoned and supported by the record. The Commission finds that there was insufficient justification to show that wholesale replacement of the company's system is the best solution and why relocating the datacenter to an entirely new facility is a cost-effective and reasonable option in comparison to fixing the problems in the existing building. However, while not justified on this record, the Commission agrees that these projects could be shown to be reasonable and prudent with additional supporting evidence in a future case. Accordingly, the Commission adopts the ALJ's findings and conclusions on these issues. *See*, PFD, pp. 168-169.

q. 2024 Information Technology Underspend and Rough Order of Magnitude Adjustments

Per Consumers, the company's IT forecasts begin with a rough order of magnitude (ROM) estimate and the company included a 20% reduction in projected expenditures for projects included in this case with ROM estimates pursuant to Commission precedent. 4 Tr 668-670. The Attorney General recommended a \$5.67 million disallowance for underspent amounts revealed during discovery of actual 2024 IT capital spend amounts in this case. 4 Tr 1935; Attorney General's initial brief, p. 90. Relatedly, MSC recommended a 40% disallowance to ROM estimates for 2025 and 2026 (resulting in recommended disallowances of \$8.21 million and \$11.59 million, respectively) due to concerns with the company possibly inflating these estimates by 20% based on past Commission cases and considering that the company has historically underspent ROM estimates by more than 20%, with actual costs often well below projections. 4 Tr 2460-2461; MSC's initial brief, p. 48. Consumers did not oppose the Attorney General's

proposed adjustment based on actual capital expenditures but rebutted MSC's recommendation, mentioning shortfall concerns and also providing clarification if the recommendation were adopted (disallowances of thus \$2,261,501 for the bridge period and \$7,209,940 for the projected test year). 4 Tr 780, 784-785; Consumers' initial brief, pp. 96-97; Consumers' reply brief, p. 36.

The ALJ recommended that the Attorney General's adjustment be adopted, as assented to by the company. The ALJ, however, recommended that MSC's incremental 20% ROM proposal be rejected, stating that he "does not believe that it is appropriate to impose a general, blanket disallowance of this type based upon the premise that the company generally underspends its ROM adjustments." PFD, pp. 172-173.

MSC objects and maintains that the Commission should further reduce Consumers' ROM estimates by an additional 20%, repeating that the company's actual project spending has been more than 40% below its own estimates for 2022 to 2024. MSC's exceptions, pp. 24-25 (citing 4 Tr 2461). MSC, in this regard, asserts that the ALJ does not explain why its proposed adjustment, based on actual historical underspend relative to ROM estimates for three years in both capital and O&M spending, is not appropriate. MSC recalls the Commission's basis for the 20% reduction in Case No. U-20697, and subsequent treatment of the same as improper contingency in Case No. U-20963, and argues:

Over the last three years, the record shows that a mere 20% downward adjustment to ROM is insufficient to ensure approved projected IT project spending reflects actual IT project spending. Rather, Consumers' ROM projections are, on average, more than 40% above actual spending, as shown in the table above. If the Company's consistent, self-reported historic actual spending relative to ROM estimates is not proper evidence to support a further downward adjustment to ROM estimates, what is? As the Commission stated in [Case No.] U-20697 (and reiterated in [Case No.] U-20963), the safeguard is the Company's ability to request recovery in a future case if costs exceed approved spending.

MSC's exceptions, p. 26 (footnote omitted) (citing December 17, 2020 order in Case No. U-20697, p. 138, and December 22, 2021 order in Case No. U-20963, pp. 128, 192).

MSC further argues that the Commission should dispel the ALJ's apprehension to approve an additional 20% reduction as a general, blanket disallowance, arguing that:

[i]f "general, blanket disallowances of this type" are not proper, that would preclude the Commission's prior and repeated disallowance of 20% of ROM-based IT cost projections, which no party posits. The alternative to the 20% reduction – and a further 20% reduction – may be a complete (100%) disallowance of ROM-based cost projections on the basis they are "too imprecise for making [sic: ratemaking] purposes." The Commission has exercised its discretion to set rates that include less-than-all of the Company's ROM-based IT project cost projections. It is within the Commission's discretion to further revise and refine the ROM adjustment based on additional evidence, including the undisputed evidence in this case that the Company's ROM projections are on average more than 40% above actual spending.

MSC's exceptions, p. 27. MSC further clarifies that its witness only recommended disallowances to ROM estimates for capital spending alone and thus retracts its prior argument supporting O&M disallowances associated with ROM-based cost projections in this case. *Id.* (citing 4 Tr 2461, MSC's initial brief, pp. 48-49).

Consumers responds and argues that MSC's recommendation should be rejected. Per Consumers, MSC's argument about the additional 20% reduction in ROM estimates not being different than the Commission's original 20% reduction in Case No. U-20697 is wrong.

Specifically:

[t]he 20% reduction ordered in Case No. U-20697 was based on the [Commission] Staff's ("Staff") analysis of the nature of a ROM estimate, where actual project costs range from -25% to +75% of the estimate, compared with definitive estimates that have a range of -5% to +10%. [Commission] Case No. U-20697, December 17, 2020 Order, pages 135-138. MSC's proposed additional 20% reduction for all ROM estimates is even lower than the lower bounds of a ROM estimate. See 4 TR 781. And even based on Mr. Denzler's own analysis, when looking at the most recent actual spend compared with the ROM projections approved in Case No. U-21490, the actual spend is shown as 27% less than the

ROM estimate, slightly more than the 20% reduction that was already applied. See 4 TR 2461, Table 2.

Consumers' replies to exceptions, p. 26. Reiterating the purpose of ROM estimates and shortfall concerns relative to further reducing the same, Consumers asserts that the Commission should reject any further reduction to capital expenditures based on ROM estimates. *Id.* (citing 4 Tr 670, 668, 783-874).

The Commission finds the ALJ's recommendation to be well-supported on the record and agrees with the ALJ's ultimate recommendations on this issue to adopt the Attorney General and the company's acquiesced adjustment and to reject MSC's incremental 20% ROM proposal based on the evidence provided in this case. The Commission finds that Consumers provided persuasive evidence that was again highlighted by the company in its replies to exceptions. *See*, 4 Tr 670, 668, 783-874.

7. Customer Experience Information Technology Capital Expenditures

a. Click-to-Chat Project

Consumers included capital expenditures in this case for its Click-to-Chat platform, which allows customers to engage with a customer service representative through a chat feature on the company's website. 4 Tr 2619; Exhibit A-20, line 20. The Staff recommended a disallowance of capital expenditures in the 2023 historical year and also in the bridge period, citing the company's acknowledgement that the project did not result in cost savings or in a reduction of calls to the call center, the Staff's opinion that the platform is redundant given similar functions available through the company's website, the minimal number of times the platform has been used by customers since implemented, and the company's failure to track resolved issues via the platform. 4 Tr 2618-2621; Exhibit A-20, lines 20 and 140; Exhibits S-11.1, S-11.2 and S-11.3; Staff's initial brief, pp. 18-20. Consumers rebutted the Staff's contentions, citing customer choices and preferences

and the inherent value this platform provides outside of cost savings. The company also noted the approved recovery of historical costs for this project in its most recent electric rate case and the unopposed costs for the project in other past rate cases. 4 Tr 1121-1123 (citing March 21 order, p. 185); Consumers' initial brief, pp. 97-98.

The ALJ recommended that future expenditures for the program be disallowed, in alignment with the Staff's argument that costs of the project are not justified by the project's limited benefits. In this vein, the ALJ disagreed with Consumers' argument that past approval of costs supports both historical and bridge-period expenditures here, and he further noted the Commission's distinction between historical costs and bridge-period expenditures in the March 21 order, along with the Commission's finding in that order that the company needed to present a much more compelling business case with demonstrated value to customers to justify the need for any additional investment in the program moving forward. The ALJ also noted that the same essential evidence provided in this case was provided in Case No. U-21585, with the exception of updated usage data, and found that the company's evidence in the instant case, even considering the updated data, "does not demonstrate adequate value to customers, especially given the lack of data showing how often issues can be fully resolved using the platform." PFD, p. 176. Consistent with the Commission's findings in the March 21 order, the ALJ thus recommended approval of historical spending but with a bridge-period disallowance of \$2,958. PFD, p. 176.

No exceptions were filed on this issue.

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

See, id.

b. Product Family Enhancements, Web Chat Artificial Intelligence Project

Consumers included \$180,565 in projected capital expenditures (along with O&M expenses) for the test year in this case for its Web Chat Artificial Intelligence (AI) project to allow customers to use an AI-based chatbot to communicate with a computer to find answers to more routine questions. 4 Tr 1123-1124, 2622. The Staff recommended a full disallowance, criticizing the project for offering technology that is redundant and not worth the cost, and also noting funding for website redesign in the settlement in Case No. U-21224 that could be helpful in this regard but was put on hold by the company with no current timeline. 4 Tr 2622; Exhibit S-11.10; Staff's initial brief, pp. 20-22, 74. Consumers defended its proposed enhancements as a valuable alternative customer channel of choice and rebutted that website redesign would negate the need for customer-related IT enhancement investments. 4 Tr 766-767, 1121-1127; Consumers' initial brief, p. 98.

The ALJ agreed with the Staff's arguments and thus recommended a full disallowance of capital expenditures for the projected test year (as well as an O&M expense disallowance). The ALJ found that the tool is:

redundant as it is designed to provide basic information that is or should be readily available through the company's website. Consumers' proposed investment in this project is not reasonable or prudent given the company's delay in implementing its previously approved website redesign—a project that could potentially render the expenditures associated with Web Chat AI unnecessary. And, as Staff argues, the company could make relevant information more accessible through its existing website at a lower cost. Furthermore, given the limited functionality of this tool and the lack of evidence showing customer interest, Consumers has not shown that customers will receive adequate value to justify the expense.

PFD, pp. 179-180.

Consumers objects and asserts that the Commission should disregard the PFD and approve the Web Chat AI tool's related costs. In terms of website redesign, the company argues that “[a]n AI

chat tool is not the same thing as a frequently asked questions [FAQ] page, but an experience that more closely simulates speaking with a Company employee,” as “[a]n AI chat tool can quickly retrieve relevant information tied to specific customer inquiries” and “goes far beyond merely making information available and would allow customers to resolve specific inquiries without searching through common inquiries that may or may not be directly relevant to their situation.” Consumers’ exceptions, p. 37 (citing 4 Tr 1124). Consumers further disagrees with the ALJ that there is a lack of evidence of customer interest, arguing that the company provided evidence in support of its three tools (Click to Chat, Web Chat AI, and Self-Service Mobile App) to show industry research demonstrating customer desire for chat-based applications. Consumers’ exceptions, pp. 37-38 (citing PFD, p. 179; 4 Tr 1121).

The Staff responds and urges the Commission to agree with the ALJ and disallow the company’s requested costs for this project. Per the Staff:

While the Company asserts that an AI chat tool differs from a[n] FAQ page, instead resembling actual speaking contact with a Company employee, the Company already has a customer contact center in place for customers to speak with a customer service representative, and a comprehensive FAQ page would be able to cover other basic questions that do not need to be escalated to a phone call or email. The Web Chat offers nothing new or innovative for the Company’s customers and both the Company and its customers would derive more benefit from the Company updating its website instead of spending money on this project.

Additionally, the Company disagrees with the ALJ’s finding that little customer interest in the Web Chat tool exists, stating that based on industry research, customers have demonstrated interest in chat-based applications, with 42% of customers preferring live chat versus 23% for email. (Consumers Exceptions, p 38.) However, this research is industry-wide and generic, not specific to Consumers or its ratepayers who ultimately will pay for this tool. (4 TR 1121.) In effect, the Company failed to demonstrate that it is reasonable and prudent to burden its ratepayers with Web Chat AI tool costs[.]

Staff’s replies to exceptions, pp. 2-3.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record and further finds it paradoxical for the company to request additional costs for similar online resources for customers to use when the company's website itself is not yet redesigned despite approved funding for such use almost three years ago now. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue and expects to see real progress by the company on its website redesign project before being asked to revisit this issue in a subsequent rate case. *See*, PFD, p. 176.

c. Product Family Enhancements, Customer Self-Service Mobile Application

Consumers included costs in this case for various enhancements to its mobile application (app) to meet customer needs. 4 Tr 1087-1088. The Staff recommended a full disallowance of all costs during the historical year, bridge period, and projected test year, maintaining that the app is duplicative of the company's website with less functionality, lacks customer need or interest, and is therefore unnecessary, reiterating that the company should instead focus its resources on redesigning its website. Alternatively, the Staff recommended disallowing unspecified/emergent and incomplete costs due to such costs being akin to contingency expenses and the Staff's inability to fully evaluate them for reasonableness and prudence. 4 Tr 2624-2626; Staff's initial brief, pp. 22-25, 74; Exhibit A-20 in Case No. U-21490, line 22; Exhibits S-8, S-11.9, S-11.19.

Consumers rebutted the Staff's contentions, providing support for updating and maintaining digital tools, recalling the Commission's approval of the project in Case No. U-21389, providing statistics regarding usage of the app, distinguishing features of the app from the company's website, and asserting that completion of the company's website redesign project does not negate the need to invest in alternative communication channels, such as the company's mobile app. 4 Tr 766-767, 1120-1121, 1125-1127 (citing March 1 order, p. 83); Consumers' initial brief, p. 99.

The ALJ found that Consumers had demonstrated overall continuing value of the app but nevertheless agreed with the Staff, recommending that the Staff's alternative disallowance for emergent needs costs be adopted. The ALJ reasoned that:

[emergent needs] costs are equivalent to contingency expenses and prevent a full analysis of their reasonableness and prudence. In addition, two enhancements have cost estimates that are not complete. The company provides no substantive response to Staff's proposal and instead argues that the disallowance is excessive "based on the Company referring to some costs but not all arising from emergent needs." But Staff's disallowance is based on the company's audit responses, which provide inadequate information to distinguish between costs based on emergent needs and all other costs.

PFD, pp. 183-184 (footnotes omitted) (citing Consumers' initial brief, p. 99; Exhibits S-11.9 and S-11.19, lines 17 and 24). The ALJ thus recommended that the Commission disallow \$498,727 in capital expenditures in the bridge period and \$649,770 in capital expenditures in the test year (along with O&M expenses), with the ALJ noting that Consumers may seek approval of actual costs in a future rate case.

Consumers objects and argues that the ALJs recommendation "is tied to emergent work and mistakenly follows Staff's argument tying the majority of spending to emergent work which is not supported in the record." Consumers' exceptions, p. 38. Per Consumers:

A thorough review of Staff's own Exhibit S-11.19 and Staff Exhibit S-11.9 show that the amount requested related to emergent needs is tied to enhancements that the Company quantified in Staff Exhibit S-11.9, yet the [ALJ] proposes a full disallowance related to the proposed enhancements ignoring the costs that were supported in the audit response. Staff's disallowance is not based on the entirety of the Company's audit responses as the [ALJ] posits but based on a fraction of what the money is requested for. The [ALJ] states "Staff's disallowance is based on the company's audit responses, which provide inadequate information to distinguish between costs based on emergent needs and all other costs." PFD, pages 183-184. This is simply not true, [sic] Staff Exhibit S-11.9 explains the costs of the enhancements apart from emergent work listed in Staff Exhibit S-11.19 and shows at a minimum that enhancements planned in 2025 will cost around \$213,410, and \$305,185 in 2026. The [ALJ] noted that two enhancements had unspecified costs but proceeded to ignore the five others that had specified costs. PFD, page 183.

Consumers' exceptions, pp. 38-39. The company states, as set forth in briefing, the Staff's recommended disallowance ties some spending to emergent needs but ignores that the costs were clearly supported, and while the company believes that full cost recovery is appropriate it nevertheless asserts that the Commission should at least grant cost recovery for the costs that were clearly supported on the record.

The Staff responds and asserts that the Commission should disallow the company's requested expenditures for this project. The Staff states that it disagrees with Consumers that the company's requested costs are supported. Per the Staff:

The audit responses that the Company points to were unclear and, furthermore, Staff maintains that the mere existence of a cost estimate for a project does not mean that those costs are reasonable or prudent. As Staff has stated many times, the Mobile App is unnecessary, redundant, and duplicative of the Company's website, all while offering less functionality. (4 TR 2624-2625.)

Further, the Company's statement that "[a]doption statistics for the Mobile App show customers prefer to perform more complex interactions in the Mobile App and functionality should be expanded in response" is unsupported in the record of the instant case. (Consumers' exceptions, p 38.) Just 28% of the Company's customers use the App and the Company has never demonstrated that customers prefer to handle complex interactions in the App and current customer feedback regarding the App has never been provided. (Staff's initial brief, p 24.) The fact that 72% of customers are using the Company's website instead of the Mobile App clearly shows that customer preference still lies with the website and the Company should concentrate its resources on making it the most updated, user-friendly website it can. *Id.* For all the reasons stated above and previously in the record of this case, the Commission should disallow the requested expenditures for the Mobile App.

Staff's replies to exceptions, p. 4.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. Given the uncertainty surrounding the company's requested costs for 2025 and 2026 in this case, the Commission finds the ALJ's recommended disallowance for the same to be appropriate. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue,

noting that Consumers can request these costs again in its next gas rate case with better support. *See*, PFD, pp. 183-184.

d. Low- and Moderate-Income Customer Support Enhancement

Consumers included capital expenditures in this case for its Low- and Moderate-Income (LMI) Customer Support Enhancement project, designed to support LMI customers in reducing their utility bills through a “streamlined, self-attestation workflow,” thereby allowing customers to find and enroll in available income-qualified assistance programs and facilitating the company’s ability to proactively identify and reach out to customers who show early signs of crisis to educate them about assistance options. Per Consumers, this is in alignment with priorities of the Commission’s Energy Affordability and Accessibility Collaborative (EAAC) and Low-Income Energy Policy Board and the need for simplified and effective processes highlighted in Public Act 229 of 2023 (Act 229), MCL 460.1071 *et seq.* Consumers also elaborated on further benefits of the project to all customers in terms of enhancing energy equity, reducing administrative costs and lost revenue, building trust with customers, reducing energy burdens, and promoting environmental sustainability by engaging LMI households in clean energy solutions. 4 Tr 764-765, 1082, 1095-1098. CUB expressed support for the project. 4 Tr 2369. The Staff, however, recommended a full disallowance of all requested capital expenditures for the project (\$2,140,754 over the bridge period and projected test year, with capital expenditures divided between the IT-related Product Family Enhancements–Customer–Capital project (\$200,628 in the bridge period and \$40,126 in the test year) and the Customer Experience & Operations organization (\$1.9 million in the test year)), with the Staff questioning costs and benefits of the project and contending that the information that this project proposes to distribute already exists on the company’s website, which the company should make easier to access by redesigning its website

with money already allocated for that purpose. 4 Tr 2626-2633; Staff's initial brief, pp. 25-28.

Consumers rebutted the Staff's contentions, providing data affirming benefits and use of the tool, along with the importance of the project as a virtual concierge to connect all customers to a large catalogue of programs with ease. 4 Tr 766-767, 1111-1120; Consumers' initial brief, p. 120; Consumers' reply brief, pp. 41-42.

The ALJ found that the project will serve an important role in removing barriers for customers to identify and enroll in assistance programs. The ALJ found that Consumers provided convincing data showing that the project has already demonstrated value to LMI customers since its launch in December 2024. The ALJ also found the tool valuable to all customers in terms of reducing uncollectible expenses. The ALJ thus recommended that the Staff's full disallowance be rejected but did recommend disallowance of the IT capital expenditures for the project (\$200,628 in the bridge period and \$40,126 in the projected test year), finding that some LMI project costs could be avoided if the LMI project was coordinated with the website redesign project previously approved by the Commission but since delayed. PFD, pp. 192-193 (citing 4 Tr 1109-1111, 2627).

In exceptions, the Staff relays its continued concerns with this project, asserting that:

[t]he Company's claimed benefits are nebulous and fail to justify the program's high costs. Staff maintains that a project that is anticipated to cost ratepayers over \$2 million should have more definitive benefits than a "better understanding of LMI customer needs, improved customer identification and targeting, increased program participation, and economies of scale with centralized enrollment." (4 TR 2633.) In essence, the Company did not provide Staff a fundamental, or comprehensive understanding of how the LMI project is meant to work, nor [did it] satisfactorily explain why an entirely separate project is needed to accomplish what apparently amounts to updates to the Company's website. (4 TR 2627.) Even when the Company was asked to provide a "roadmap" to demonstrate how the LMI project works, the results were still unclear.

Additionally, Staff recommends the Commission disallow cost recovery for this project because it will not "do anything to fix or prevent the root causes of customers either in or on the brink of crisis." (4 TR 2632.) Even if customers are able to enroll in a payment plan, select their payment due date, enroll in programs,

etc., the LMI will not help reduce customers' energy burden or make energy usage more affordable. *Id.* Despite the Company stating that costs for this project are "concentrated at the front end" and "the return on investment is realized over time" through lower bills for those in need and by reducing uncollectible expense, there are no projected cost savings with this project. (4 TR 1119, 2633.)

Staff's exceptions, p. 2. The Staff then discusses the four core functions of the project and argues that the purported accomplishments of these functions are either already available via the company's website or are too premature for a new project or could almost entirely be achieved by way of updates to the company's website. The Staff further reiterates concerns about future improvements or updates for the project, arguing that these "costs could easily spiral out of control." *Id.*, p. 3 (citing 4 Tr 2631). In response to the ALJ's reasoning in support of the project, the Staff further notes that, although 55,000 customers have interacted with the LMI tool since its launch in December 2024, only 12,000 of those 55,000 customers have completed the flow and enrolled in a program offering. In other words, according to the Staff, "[t]hat means that 78% of customers who interacted with the LMI tool did not, in fact, enroll in any programs." Staff's exceptions, pp. 3-4. Moreover, per the Staff, the company did not demonstrate that the customers who did interact with the tool would not have looked for and enrolled in applicable programs without using the tool, as no customer program browsing information was tracked, and there is no absolute guarantee that the program will reduce uncollectible expenses. In this vein, the Staff asserts that "[m]uch like every other element of the LMI program, the benefits are speculative rather than assured and the magnitude of the program's costs are too great to burden ratepayers with such an investment in a program with so many unknowns." *Id.*, p. 4. The Staff further states that, while it:

appreciates the ALJ's acknowledgement that some of the costs requested for the LMI project are redundant to those already requested and approved for the Company's website redesign project, Staff asserts that the ALJ's recommendation fails to capture the unreasonableness and imprudence of burdening ratepayers with

these costs at this time. The Company failed to justify why the requested costs are necessary to achieve their stated goals for this project. When repeatedly asked by Staff to clarify the nebulous and vague aspects of the LMI project and explain the supposed necessity of the requested costs, Staff received basic responses that in no way made things clearer. It is the Company's burden to demonstrate that its requested expenditures are reasonable and prudent. The Company did not do so with respect to the LMI project costs.

Staff maintains its concerns regarding this program. Staff is concerned that the Company argues that it needs more than \$2.1 million to inform customers about offerings that are already available on the Company's website. Staff is also concerned that the Company has not yet dedicated the money approved for its website redesign to make their website more accessible and user-friendly so that customers can research the LMI offerings easily. These are questions that the Company has been unable to satisfactorily answer. Absent clear and precise justification, the requested program costs represent an unreasonable and imprudent burden on ratepayers.

Id., p. 5. The Staff thus disagrees with the ALJ's recommendation and asserts that the Commission should reject all proposed capital expenditures for this project.

Consumers responds and argues that the Staff's arguments in exceptions are not supported on the record and should be rejected. The company asserts that the tool will quickly connect customers in need with payment assistance programs and save all types of customers time in determining eligibility. Consumers, in this regard, asserts that the Staff's argument about the majority of customers using the tool but not enrolling in any programs "ignores that all customers regardless of eligibility can use the tool to determine their eligibility so it is not surprising that there would be a significant number of customers that use it and do not enroll in a program" and that the company's data "shows the tool is working as intended by helping customers quickly determine their eligibility for programs and increasing the visibility of the available programs." Consumers' replies to exceptions, p. 35. Consumers further states that, contrary to the Staff's arguments, this data "show[s] that a significant number of customers in fact used the tool and enrolled in programs through the tool." *Id.* As far as a reduction of uncollectible expense not

being guaranteed, Consumers responds that the “Staff is focusing on secondary and tertiary effects to argue that the benefits of the project are speculative but ignoring the Company’s evidence showing that the tool is more than capable of achieving its primary goal [of] . . . ‘reducing enrollment barriers, increasing program visibility, and helping LMI customers more easily access the support they need.’” *Id.* (quoting 4 Tr 1111). The company further argues that the Staff’s argument about website redesign “fails to understand what the project does despite clear evidence provided by the Company throughout the record.” Consumers’ replies to exceptions, pp. 35-36.

Per Consumers:

The Company has made it clear that the project does not just provide information but provides an application that customers can use to determine their eligibility and enroll in programs. The tool can greatly benefit customers by removing the need for them to do their own research and instead quickly find programs that are the right fit for each individual customer. This is even useful for customers that end up not enrolling in a program through the tool because using the tool they are able to quickly determine their lack of eligibility without digging through links and deciphering eligibility. The [ALJ] correctly noted the Company “has rebutted Staff’s claim this project consists of little more than mere updates to the company’s website.” PFD, page 193.

Consumers’ replies to exceptions, p. 36.

The Commission finds the ALJ’s recommendation to be well-reasoned and supported by the record. While acknowledging the Staff’s concerns about the need to show definitive benefits to customers, overall, the Commission finds value in this project, as supported by the company. The need to simplify and streamline the process for LMI customers to access support is a priority of the Commission and will continue to be assessed and refined in future proceedings. Accordingly, finding the LMI Customer Support Enhancement project to be reasonable and prudent overall (with the caveat that the Commission expects to see real progress by the company on its website redesign project), the Commission adopts the ALJ’s findings and conclusion on this issue. *See*, PFD, pp. 183-184.

8. Accumulated Provision for Depreciation

Consumers projected an accumulated provision for depreciation of \$4,643,859,000 for the test year. Consumers' initial brief, p. 112; Consumers' initial brief, Appendix B1, line 2, column (e). The Staff, however, recommended a depreciation reserve of \$4.642 billion, considering differences in projected capital expenditures. Staff's initial brief, p. 5.

The ALJ recommended that the depreciation reserve amount be recalculated based on the Commission's decisions in this case, finding that the differences here arise from differing capital expenditures amounts. PFD, p. 194.

No exceptions were filed on this issue.

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

See, id.

9. Construction Work in Progress

Consumers included \$322.88 million of CWIP for the projected test year in this case. Exhibit A-12, Schedule B-2, page 1, line 24. No party disputed this amount.

The ALJ recommended that the Commission adopt the company's proposed CWIP amount for the projected test year in this case. PFD, p. 194.

No exceptions were filed on this issue.

The Commission agrees with the ALJ and adopts the company's proposed CWIP amount in this case. *See, id.*

B. Working Capital

Consumers projected \$1,508,381,000 in working capital expenditures for the test year. Exhibit A-12, Schedule B-4, line 18. The Staff recommended four adjustments (and thus a

working capital balance of \$1,367,682,000): (1) a \$233,000 reduction to deferred debits for an inadvertently included non-utility account in the projected test year; (2) a \$5,263,000 reduction to cash due to incorrect data used in the company's initial filing; (3) a \$7,398,000 reduction to deferred debits related to the Riverside Regulatory Asset; and (4) a \$127,805,000 increase to accrued taxes to correct a significant understatement identified during discovery. 4 Tr 2501-2503; Exhibit S-2, Schedule B-1, line 7, column (e); Staff's initial brief, pp. 44-46. The Attorney General recommended five adjustments (and thus a working capital balance of \$1.314 billion): (1) a \$16.1 million reduction to the forecasted cash balance, using a three-year average of actual cash balances versus a 1% cash-to-revenue ratio; (2) correcting errors in deferred cloud computing costs for the SAP S/4HANA project; (3) correcting a separate cloud computing expense, lowering working capital by approximately \$1 million; (4) removing \$7.4 million related to deferred costs from the anticipated sale of the Riverside Storage field assets; and (5) correcting an error in the calculation of accrued taxes, resulting in a \$127.8 million adjustment to working capital. 4 Tr 1940-1947; Exhibit AG-35; Attorney General's initial brief, pp. 91-102. Consumers accepted most of the adjustments set forth by the Staff and the Attorney General but rebutted the Attorney General's proposed forecasted cash balance adjustment. 4 Tr 744, 860, 876, 879-880, 1599-1600, 1777-1779; Consumers' initial brief, pp. 123, 125-130; Consumers' reply brief, pp. 42-44. The Staff and Attorney General responded. Staff's reply brief, p. 6; Attorney General's reply brief, pp. 14-19.

The ALJ noted that Consumers accepted nearly all the adjustments proposed by the Staff and the Attorney General, leaving the company's cash balance as the only outstanding issue, and on this issue recommended that the Commission adopt Consumers' cash balance methodology in this

case but also recommended that the Commission direct the company to better justify its 1% benchmark in its next gas rate case. More specifically, the ALJ stated that he:

agrees with the Attorney General that the goal in setting a cash balance should be to determine an amount reasonably necessary to cover the company's cash needs, and as such the Commission should direct that the company substantively justify why the 1% benchmark is reasonable for achieving that goal beyond the mere fact that it is "reflective of normal levels of cash balance[.]" which appears to be based upon the company's interpretation of its average actual cash balance from 2016-2024 if certain outlier years (2020, 2022, and 2023) are excluded. While the company's methodology is not necessarily wrong, this [ALJ] could easily conclude that the Attorney General's proposed cash balance based upon a three-year average could also be appropriate, particularly when the company has not pointed to any serious negative consequences that it suffered from having a lower than average cash balance in 2022 and 2023. Accordingly, the company should provide further substantive justification of its 1% benchmark in its next rate case.

PFD, p. 202 (footnotes omitted; alteration in PFD).

In exceptions, the Staff underscores that it is not taking a position on Consumers' methodology in developing the company's test-year working capital cash balance, making clear that it merely corrected the math for the calculation in its reply brief without taking a position on the issue. Staff's exceptions, p. 10.

The Attorney General argues that the ALJ erred in not adopting her recommendation. The Attorney General first asserts that strict adherence to prior Commission orders is not required, that the Commission evaluates the facts of each case, and that the company must prove its request in each case by a preponderance of the evidence, the latter which the PFD makes clear the company did not meet (by stating that "[w]hile the Company's methodology is not necessarily wrong, this PFD could easily conclude that the Attorney General's proposed cash balance based upon a three-year average could also be appropriate"). Attorney General's exceptions, p. 25 (quoting PFD, p. 202). Per the Attorney General, "[t]he Company does not carry its burden by equipoise." Attorney General's exceptions, p. 25. The Attorney General further argues that the Commission

does not owe Consumers any deference and notes that complete analysis and response to the company's testimony and arguments on this issue is addressed by her in briefing.

Consumers responds and asserts that the Commission should reject the Attorney General's arguments. Consumers reiterates the rationale as to why it projects working capital based on 1% of anticipated operating revenues and references testimony on the issue, including testimony rebutting all of the Attorney General's arguments. Consumers' replies to exceptions, p. 37 (citing 4 Tr 823-825, 835, 879-880). Consumers continues:

[i]f the Company were to use the Attorney General's recommended method to use historic revenues, the projection would be incorrect in this case. 4 TR 876. Typically, the Company's actual cash balances have been approximately 1% of operating revenues. 4 TR 883. The recent exceptions are 2020, 2022, and 2023. 4 TR 883. Attorney General witness Coppola proposed using "the 13-month average cash balances at the end of each year 2022, 2023, and 2024." 4 TR 1943, emphasis added. Mr. Coppola's use of these abnormal years is unreasonable and should be rejected.

Consumers' replies to exceptions, p. 38 (emphasis in original). The company then displays a chart from testimony showing its actual cash balances over a longer period and asserts that the ALJ's recommendation "is more reflective of the Company's normal levels of cash balance." *Id.* (citing 4 Tr 883).

As far as substantive justification as to why the 1% benchmark is reasonable for setting a cash balance that is reasonably necessary to cover its cash needs, Consumers argues that it has demonstrated that this method is reasonable, stating that it:

strives to finance the Company's short-term liquidity needs with cash and short-term borrowing facilities. 4 TR 823. Mr. Bleckman testified that the timing and amount of short-term borrowing is directly related to the level of cash on hand. *Id.* Utility cash inflows and outflows are seasonal. 4 TR 823. The Company generally holds more cash in the spring and summer months and relies on short-term borrowing in the fall and winter months. 4 TR 823-824, 877. Throughout the year, the Company maintains a minimum level of cash on hand. 4 TR 824, 877. The Company projects an average cash balance for the entire test year. 4 TR 877. In

sum, a goal for Consumers Energy's projected cash balance estimate is to support the Company's liquidity and financing strategy. 4 TR 879; see, also, 4 TR 823-825.

Consumers' exceptions, pp. 38-39. In this vein, the company also discusses risk mitigation, in terms of liquidity and the need for the company to maintain its normal level of cash balance to also manage financial risk in addition to working capital requirements, along with the need for flexibility as it relates to the company's operating, investing, and financing activities. In sum, per Consumers:

the Attorney General's arguments are without merit. The Company demonstrated the reasonableness of its projected cash balance estimate. The Company's method is less risky than the Attorney General's suggested method in this case, especially given her witness's use of the atypical years, 2022 and 2023, in his calculation. The Company's method is forward looking to match the test year; accounts for risk; provides operating, investing, and financing opportunities; supports the Company's credit metrics; and is part of a prudent overall liquidity and financing strategy. The Attorney General did not sufficiently explain why her method is more reasonable than the Company's. The Attorney General did not acknowledge the benefits that cash provides to flexibility and liquidity, including securing favorable interest rates on long-term debt issuances, access to capital, and credit quality. 4 TR 881. The Commission should adopt the [ALJ]'s recommendation for a projected cash balance of \$23,130,000 in this case and acknowledge that the Company has used a well-reasoned method to project this amount.

Consumers' replies to exceptions, p. 40.

The Commission finds the ALJ's recommendation overall to be well-reasoned and supported by the record, noting that this exact same issue was addressed earlier this year in Case No. U-21585. *See*, PFD, p. 202; *see also*, March 21 order, pp. 213, 435. However, in finding that the company sufficiently justified the use of its 1% benchmark as reasonable for setting its cash balance in this case, based on the further illumination of evidence detailed by the company in its replies to exceptions, the Commission finds it appropriate for the company to solely be directed to do the same in subsequent cases to demonstrate why its approach in determining its working capital cash balance remains appropriate and should continue to be approved. The Commission

finds this requirement reasonable considering the contentiousness of this issue in recent cases and the already understood and undeniable burden of proof on the company to support its requested relief in rate cases, working capital cash balance included.

C. Unamortized Manufactured Gas Plant Balance

Consumers included a deferred net unamortized manufactured gas plant (MGP) balance of approximately \$19.96 million in this case. 4 Tr 1204; Exhibit A-47. The Staff recommended that the Commission approve \$1,539,724 in reasonably and prudently incurred costs for the company's environmental response activities at former MGP sites from January to December 2024 (\$543,199 more than the company's original request of \$996,525). 4 Tr 2600; Staff's initial brief, pp. 46-47. Consumers accepted the adjustment. 4 Tr 1221, 2504; Consumers' initial brief, p. 131.

The ALJ recommended that the agreed-upon adjustment be adopted, setting the company's net unamortized MGP balance at \$20.44 million. PFD, p. 203.

No exceptions were filed on this issue.

The Commission agrees with the ALJ and adopts the agree-upon net unamortized MGP balance of \$20.44 million in this case. *See, id.*

D. Rate Base Summary

The decisions in the instant order result in a projected rate base of \$11,491,853,000.

V. COST OF CAPITAL

The criteria for establishing a fair rate of return for public utilities is rooted in the language of the landmark United States Supreme Court cases *Bluefield* and *Hope*. The Court in *Bluefield* held that:

[a] public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are

realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.

Bluefield, 262 US at 692-693. In *Hope*, the Court held that:

the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should 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 at 603.

The Commission also notes that the Michigan Supreme Court has held that the determination of what is a fair or reasonable rate of return “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).

These rulings demonstrate that, in establishing a fair return, consideration should be given to both a utility’s investors and its customers. As the Commission stated in the December 23, 2008 order in Case No. U-15244 (December 23 order), “the rate of return should not be so high as to place an unnecessary burden on ratepayers, yet should be high enough to ensure investor confidence in the financial soundness of the enterprise.” December 23 order, p. 12

A. Capital Structure

Consumers proposed a capital structure with an equity layer of 50.75%. 4 Tr 801; Exhibit A-14, Schedule D-1. The Staff, Attorney General, and ABATE each recommended maintaining the company’s current balanced capital structure with 50% equity to 50% debt. 4 Tr 1948, 2186, 2536.

The ALJ thoroughly reviewed the positions of the parties, including testimony and briefing, regarding capital structure at pages 203 through 222 of the PFD, which will not be extensively repeated here. The ALJ explained that the Commission has directed the company to achieve a balanced capital structure in numerous prior cases and that, “[n]ow that this goal has been reached, the company seeks to increase its equity ratio [. . . .]” PFD, p. 223. The ALJ examined Consumers’ position that too much emphasis has been placed on prior Commission orders and reiterated that the Commission has “repeatedly acknowledged” the flexibility in setting the appropriate capital structure reviewing the evidence in each case. *Id.*, p. 224. Therefore, the ALJ concluded that the reliance upon prior orders was not a fixed mandate and can change through evaluation of the evidence on each record. In addition, the ALJ found unpersuasive arguments that there have been significant changes in economic circumstances since Consumers’ prior gas rate case to justify the company’s requested increase. Noting that “market volatility, the possibility of a recession, and geopolitical tensions are not truly new circumstances and have largely been continuously present considerations both in the economy generally and in past rate cases” the ALJ found that the evidence on this record did not demonstrate changes in circumstances sufficient to support deviation from a balanced capital structure. *Id.*, p. 224.

The ALJ extensively reviewed Consumers’ arguments pertaining to Michigan’s regulatory environment, credit quality and metrics, and potential credit downgrades. In his review, the ALJ found that the company’s concerns were overstated. In evaluating the totality of the evidence, the ALJ found that the Regulatory Research Associates’ (RRA) August 2024 downgrade to “average” was accompanied by an assessment of the regulatory environment which “seems to be indicative of a regulatory environment that strikes a balance between consideration of the needs of a utility’s investors and its customers, which is in accordance with the Commission’s statutory mandate to

set just and reasonable rates.” PFD, p. 225. Similarly, in his review of the 2024 ratings reports from S&P Global Ratings (S&P) and Moody’s Investors Service (Moody’s), each of which maintained their ratings, the ALJ found that the reports did not demonstrate that the funds from operations to total debt (FFO-to-debt) ratio signaled an imminent credit downgrade but rather generally “view the company’s financial outlook as stable and view Michigan as a credit-supportive environment.” *Id.*, p. 227.

The ALJ reviewed company Exhibits A-34 and A-32 regarding the comparison of Consumers to its peers. With respect to Exhibit A-34, the ALJ evaluated the median approved equity ratios contained therein and found that only in three years from 2005 through 2023 did the median equity ratios approved meet or exceed the 51% equity level and that “[w]hile this might demonstrate a recent upward trend in approved ratios for utilities in 2022 and 2023, it does not demonstrate that a balanced equity ratio is unreasonable, let alone an outlier.” PFD, p. 229. The ALJ again evaluated the information contained in Exhibit A-32, coupled with the Attorney General’s criticisms, to conclude that one must view this exhibit “with great caution when considering a proper capital structure for the company.” PFD, p. 231. More specifically, the ALJ noted that 10% of the peer group had balanced or nearly balanced ratios, that 16 of the 30 companies were also not included in Consumers’ return on equity (ROE) peer group, and that several companies’ equity ratios were calculated with only long-term debt. Considering these factors, he noted concerns about potential selection bias and the “difficulty of presenting apples-to-apples comparisons depending upon the practices of the utility in question and whether it employed short-term debt as a form of permanent financing.” *Id.*

Given his review of the record, the ALJ concluded:

that the company failed to establish that its request for a capital structure with an equity layer of 50.75%—an increase of 75 basis points from its most recent

authorized equity ratio—is required or reasonable, nor is it consistent with previous orders issued by the Commission that reiterated the importance of a balanced capital structure. Instead, this [ALJ] agrees with the intervening parties that the most reasonable course of action supported by the evidence presented in this case is to maintain a 50/50 capital structure that equally balances equity with debt. Such a result appropriately balances the interests of the utility’s investors and its customers. Indeed, as Staff pointed out, the cost of equity is significantly more than the cost of long-term debt such that a balanced capital structure lessens the cost burden on ratepayers while still allowing the company to have a significant equity layer.

PFD, pp. 231-232.

Consumers takes exception to the ALJ’s recommendation, arguing that “if taken with its recommendation to lower the Company’s ROE, will contribute to further deterioration of the Company’s credit metrics, rather than maintaining the Company’s credit, which is one of the proper constitutional goals that should be driving the Commission’s decision.” Consumers’ exceptions, p. 56. Specifically, Consumers claims that the ALJ’s recommendation does not adequately consider peer utility equity ratios. Citing Exhibit A-34, Consumers avers that recently the utility industry trend is upward with respect to authorized equity ratios. Noting that the ALJ acknowledged the possibility of an upward trend, the company expresses its disagreement with the conclusion that this evidence provides only slight support and reiterates that it “believes a more reasonable equity ratio is 50.75%” which it claims “is certainly not an outlier and on the low end when compared to other authorized equity ratios, for example, a 2023 median that exceeds 51.00%.” Consumers’ exceptions, p. 58.

Reiterating its position on the record, Consumers claims that the ALJ’s determination does not properly weigh the proxy groups presented by the company in Exhibit A-32. *See*, Consumers’ exceptions, pp. 58-60. The company claims that the ALJ and parties “misunderstood that the makeup of a proper equity ratio peer group does not need to be and likely is not going to be the same as for a proper ROE proxy group because the respective groups are comparing different

things and therefore have different selection criteria.” *Id.*, p. 58 (citing Consumers’ reply brief, pp. 61-64). The company, while acknowledging that it was not submitted as an equity ratio comparison, again cites to the Staff’s ROE proxy group to support its position that an increase to the equity ratio is warranted. Similarly, Consumers reiterates ABATE’s record position, which utilized the company’s evidence, to contend “that all of the quantitative (peer group) analyses presented in this case support an increase in the Company’s current and strictly balanced equity ratio.” Consumers’ exceptions, p. 61.

Consumers further avers that the ALJ erred in placing too much reliance upon prior Commission orders noting that they do not constitute a binding precedent. In that regard, the company argues that the overall market, especially the utility industry, is facing difficulties and that the market trends and credit ratings necessitate an increase in equity. *Id.*, pp. 62-65.

Consumers reiterates its position that the decline in its weighted rate of return is not appropriate and “[u]nyielding adherence to the trajectory set by three different Commissioners, eight years ago, without regard to the change in circumstances is not sound policy.” *Id.*, p. 64.

The company further contends that “it is important and financially prudent for businesses to maintain their credit metrics with at least some cushion above credit downgrade levels” and that the ALJ did not assign appropriate weight to the changing circumstances to support the company’s requested increased equity ratio. *Id.*, p. 65 (citing 4 Tr 818). In that regard, Consumers again emphasizes the upward trend with regard to equity ratios and ROEs nationwide, noting this constitutes a significant change in circumstances contrary to the ALJ’s determination. Consumers’ exceptions, p. 66. The company further contends that the ALJ reviewed record evidence with respect to credit metrics, including the RRA report and 2024 ratings reports from S&P and Moody’s, in an overly optimistic light. *Id.*, pp. 67-68. Consumers claims that the ALJ also erred

in downplaying the severity of consequences that a credit downgrade would impose. *See id.*, pp. 68-69. Overall, the company emphasizes that “[i]t is prudent for Consumers Energy to maintain a reasonable financial cushion above the threshold, placing the Company at risk of credit downgrade. The [ALJ] does not appear to find, as a matter of policy reflected in the ALJ’s recommendations, that such a cushion should not be maintained.” *Id.*, p. 70. For these reasons, Consumers again requests that the Commission adopt its recommended equity balance and equity ratio of 50.75%.

The Attorney General also takes exception, stating that the ALJ recommended that an equity ratio of 50% was appropriate but “did not address the Attorney General’s recommendation adjusting the Company’s long-term debt ratio.” Attorney General’s exceptions, p. 26. More specifically, the Attorney General indicates that she proposed adjusting the company’s equity ratio “by increasing long-term debt by \$194 million and decreasing equity by the same amount.” *Id.* (citing PFD, p. 208; Exhibit AG-41).

Consumers replies that it relies upon its exceptions to demonstrate the error in the ALJ’s determination. However, in reply to the Attorney General’s exceptions, Consumers states that it “confirms that if the Commission finds that a 50% equity ratio is appropriate, the Attorney General’s adjustment is correct.” Consumers’ replies to exceptions, p. 41.

In reply, the Staff disagrees with any contention that the ALJ did not give proper consideration to the company’s peer group analysis in Exhibit A-32. Rather, the Staff states that “the ALJ was in fact very thorough in his discussion of Consumers’ peer group equity ratio and its many limitations as a reasonable comparator to Consumers’ capital structure requirements.” Staff’s replies to exceptions, pp. 5-6 (citing PFD, pp. 217-220, 228-230). The Staff states that the ALJ

properly discussed that the companies in Exhibit A-32 “appeared to be cherry-picked” and “should be viewed with great caution.” Staff’s replies to exceptions, p. 6 (citing PFD, p. 230).

The Staff also responds that the Commission has consistently allowed for flexibility with regard to capital structure “but all maintained that a capital structure equally balanced between debt and equity was most preferable.” Staff’s replies to exceptions, p. 6. The Staff further notes that the ALJ cited numerous references in recent credit agency report ratings indicating that Consumers is in good standing, that no credit downgrade was likely or imminent, and that the record evidence reliably supported a balanced capital structure. Overall, the Staff contends that the company’s criticism of the ALJ’s recommendation regarding credit metrics was overblown and unpersuasive. Regarding Consumers’ position that capital structures have been trending up, the Staff replies that neither the parties nor the ALJ recommended reducing the share of equity in the company’s capital structure. Rather, the “Staff and other intervenors have proposed an equally balanced capital structure for which the Company is currently authorized” and the ALJ’s “recommendation is that the Company maintain the capital structure at its proper level at equilibrium.” *Id.*, pp. 7-8.

The Attorney General replies that the PFD contains “extensive analysis” regarding the capital structure, and that “[t]here is no basis for the Company’s claim that the PFD did not appropriately consider its equity ratio presentation.” Attorney General’s replies to exceptions, p. 57. She continues, arguing that there have not been changes in circumstances to justify the company’s requested increase in equity ratio and that “[i]ncreasing the equity ratio just to match a trend without considering the specific circumstances for the Company is not justified or reasonable.” *Id.*, p. 58. With regard to Exhibit A-32, the Attorney General notes that Consumers’ claims that the equity ratio peer group does not need to be the same for an appropriate ROE proxy group:

is inconsistent with the Company's claim that the overall rate of return is the key measure for a sufficient return. It is not possible to take into consideration commensurate overall rate of return when there is a mismatch of components from different groups of companies. It provides a disjointed picture when the peer group for the equity ratio is different from the proxy group for ROE. Further, using different groups, it allows the Company to pick and choose companies for each that is most advantageous to creating higher equity ratios and ROEs and consequently fictional overall rates of return.

Attorney General's replies to exceptions, pp. 60-61. In addition, the Attorney General agrees with the company that the Commission is not bound to authorize a 50% equity ratio given prior Commission orders and stated preference but contends that no deviation from the Commission's preference is warranted in this case. Finally, regarding Consumers' argument about providing a financial cushion above credit downgrade levels, the Attorney General states that "[t]he Company has not demonstrated that it does not have sufficient financial cushion without increasing its equity ratio, when the Company's credit ratings remain strong with a 50.0% equity ratio." *Id.*, p. 62. In sum, the Attorney General notes additional reliance upon her briefing in response to the company's exceptions and concludes that the Commission should continue to authorize a balanced capital structure.

In replies, ABATE quotes the PFD to aver that the ALJ thoroughly considered the company's position which it again raises in exceptions. Specifically, ABATE quotes the ALJ's analysis regarding the company's claim that equity layers have been trending upwards. ABATE reiterates that the trends cited by the company resulted in ratios very near 50% and that Consumers' "proxy group had an average common equity ratio of 46.3% (including short-term debt) and 50.4% (excluding short-term debt) as calculated by S&P Global Market Intelligence and *Value Line*, respectively." ABATE's replies to exceptions, p. 2 (citing 4 Tr 2186). With regard to Consumers' claims of needing to maintain strong credit ratings, ABATE responds that the ALJ properly considered and rejected the company's claims. ABATE's replies to exceptions, p. 3 (citing PFD,

pp. 224-229). Again quoting the PFD, ABATE contends that the ALJ “thoroughly engaged with the record evidence regarding Consumers’ FFO-to-debt ratio, market conditions, the nationwide utility industry, and the regulatory environment.” ABATE’s replies to exceptions, p. 4.

Continuing, ABATE argues that the RRA report relied upon by the company actually supports the ALJ’s determination because the “purported upward trends in financial metrics those trends are, at most, ‘modest[,]’ and Consumers’ authorized return on equity is already ‘above the prevailing industry averages.’” *Id.*, pp. 4-5. ABATE contends that the company’s speculation regarding potential market conditions is not enough to support an increase in the equity ratio and would be inconsistent with the goal of balancing investor and customer interests. Therefore, ABATE states that “[b]ased on the evidentiary record in this case the [ALJ]’s recommendation accomplishes this goal” of balancing interests and that Consumers’ “exceptions to the same should therefore be rejected.” *Id.*, p. 6.

The Commission finds that the ALJ’s determination is well reasoned and supported on the record. While Consumers made many claims that the ALJ did not consider or properly weigh the company’s presentation of evidence, the Commission finds that the PFD contains a thorough and substantial review of the evidence that appropriately weighed the evidence considering both the utility’s investors and its customers. In the March 21 order, the Commission addressed this balancing of interests, and notes the findings are additionally applicable to the instant case:

The Commission finds that, contrary to the company’s claims, the ALJ properly looked to prior Commission decisions in making her well-reasoned recommendation. As indicated above, and acknowledged by the company in exceptions, the Commission must give consideration to both the utility’s investors and its customers. In that regard, to determine an appropriate capital structure, the Commission must look to the evidence in each case and appropriately balance the interests of the utility’s investors and the customers. The Commission has often found that this appropriate balance is a capital structure balanced between debt and equity. The Commission, like the ALJ, acknowledges that there is some degree of flexibility and “that the aspirational goals expressed in previous Commission orders

are not permanently binding and that any target for the Company's capital structure should change if evolving circumstances indicate that the target is no longer a sound policy." The Commission again notes that, while the company acknowledges that *Hope* and *Bluefield* require a balancing of investor and customer interests, Consumers' exceptions primarily focus on the interests of its investors while disregarding customer interests.

March 21 order, pp. 231-232 (internal citations omitted).

The ALJ also addressed the balancing of interests in review of Consumers' reliance upon the RRA report. Specifically, the ALJ stated that:

the report stated that Michigan "remains more constructive than average from an investor viewpoint[,]" and the report largely voiced displeasure with recent rate case outcomes and increased scrutiny following storm-related outages. The report stated that "While approved ROEs for [utilities rate regulated by the Commission] remain above the prevailing industry averages, they compare less favorably to these averages, which have risen, albeit modestly, in recent periods." This assessment of Michigan's regulatory environment is not alarming as the company suggests. In fact, a rating of "average" should not be seen as a negative in the context of the state's regulatory environment regarding utilities. Such a rating seems to be indicative of a regulatory environment that strikes a balance between consideration of the needs of a utility's investors and its customers, which is in accordance with the Commission's statutory mandate to set just and reasonable rates. If anything, ratings that are significantly above or below average could be cause for concern because they could potentially indicate that regulators are too hostile or too accommodating to a particular competing interest. In sum, this PFD does not find the ostensible "downgrade" of Michigan's regulatory environment to "average" by RRA (or other analysts) to be a cause for concern or a justification for a capital structure with a higher equity ratio.

PFD, pp. 226 (footnotes omitted). The Commission agrees with the ALJ's analysis and emphasizes that the Commission is required to *balance* investor and customer interests. As indicated by the ALJ, the RRA report language quoted suggests that the currently authorized balanced capital structure strikes that appropriate balance as required by *Hope* and *Bluefield*.

Regarding Consumers' Exhibit A-32, the Commission finds that the ALJ thoroughly considered and reviewed the company's presentation. *See*, PFD, pp. 229-231. Specifically, the ALJ noted the Attorney General's critique of the proxy group selected and the company's rebuttal

which the ALJ found ineffective “because it essentially stated that the company’s selection was appropriate because it adhered to the established selection criteria that the company itself selected.” PFD, p. 230 (citing 4 Tr 872-873). The Commission finds unpersuasive the company’s claims that the Attorney General, the ALJ, and the Staff “misunderstood” that the selection of companies for the equity ratio peer group is not the same as a “proper ROE proxy group.” *See*, Consumers’ exceptions, p. 58. Rather, the Commission agrees with the ALJ’s conclusion that “the Attorney General’s arguments do not merit entirely disregarding Exhibit A-32, but they do warrant viewing this exhibit with great caution when considering a proper capital structure for the company.” PFD, p. 231. In that regard, the Commission finds that the ALJ appropriately considered the parties’ positions and gave appropriate weight to Exhibit A-32.

The Commission also finds that Consumers’ exception that the ALJ inappropriately relies upon prior Commission orders to be without merit. The Commission finds that the ALJ did not merely cite a general preference for a balanced capital structure “without regard [to] the change in circumstances” as alleged by the company. Consumers’ exceptions, p. 64. Rather, the ALJ reviewed and weighed the evidence and stated that he was “not persuaded that the ostensibly new circumstances cited by the company are truly new, nor do they provide a persuasive reason to justify departing from the current balanced capital structure.” PFD, p. 225.

Similarly, the Commission finds that the ALJ did not inappropriately dismiss trends in the FFO-to-debt ratio and market conditions as alleged by Consumers. *See*, Consumers’ exceptions, p. 65-71. The ALJ extensively reviewed the company’s concerns and found them to be overstated. The ALJ reviewed the RRA report (as discussed above), the 2024 S&P report, and the 2024 Moody’s credit opinion and found them to be generally optimistic. PFD, pp. 226. The ALJ

continued his review of the S&P and Moody's reports including the declining FFO-to-debt ratio.

With regard to the S&P, the ALJ acknowledged:

the company's argument that S&P showed the company's FFO-to-debt ratio declining from 21.7% in 2021 to 17.6% in 2023. But the same report also projected that ratio would increase to around 18.3% in future years, and S&P indicated that a downgrade was likely if the FFO-to-debt metric "weakens to consistently below 15%." Thus, the S&P report does not suggest that a credit downgrade is forthcoming.

Id., p. 227 (footnote omitted). Regarding Moody's, the ALJ stated that:

[t]he report from Moody's states that it could consider a credit downgrade if the company's cash flow from operations before changes in working capital (CFO pre-WC) to debt ratio "declines below 18% on a sustained basis." However, that report also stated that it expected the company to maintain a stable financial profile with that metric projected to be "averaging around 20-21%, including an adjustment to exclude securitization debt, over the next 2-3 years." The company argues that the Moody's report shows a decline to just 18.7% in the 12 month period that ended March of 2024, which is far below the expected 20-21% and just 70 basis points away from the 18% downgrade threshold. However, the Moody's report stated that the 20-21% expectation included an adjustment to exclude securitization debt, and the caption underneath the graph referenced by the company states that the metric would be 20.0% in the 12 months ending in March of 2024 if adjusted to exclude securitization debt. Thus, the relevant value appears to be aligned with Moody's expectations and is meaningfully above the level that could serve as a potential downgrade threshold.

Id., pp. 227-228 (footnotes omitted). After this thorough review of the company's sources, the ALJ stated that "[i]n sum, there was no indication from S&P or Moody's suggesting that a credit downgrade was likely to occur; instead, both ratings agencies suggested that the company's outlook was stable." *Id.*, p. 228.

Given the above, the Commission finds that Consumers' exceptions are not persuasive and do not support the company's requested equity layer. The Commission agrees with the ALJ's substantive and thorough evaluation of the evidence and concludes that the record evidence warrants a continuation of a 50/50 balance between debt and equity. Therefore, the Commission adopts the ALJ's findings and recommendations with respect to the proposed capital structure.

B. Cost Rate

1. Long-Term Debt Cost Rate

Consumers proposed a long-term debt rate of 4.35%. Exhibit A-14, Schedule D-2; 4 Tr 828. The Staff, however, recommended a rate of 4.33%, with the explanation that the “difference stems primarily from the cost rates estimated to Consumers forecasted new debt issuances in 2025 and 2026.” 4 Tr 2540; Exhibit S-4, Schedule D-2. Neither the Attorney General nor ABATE disputed the company’s proposed long-term debt rate. 4 Tr 1966; 4 Tr 2187. In rebuttal and briefing, Consumers disputed the Staff’s recommendation noting that the credit spread utilized was low and that the Staff included “credit spreads on the Company’s recent long-term debt issuances which are not 30-year maturities as a basis for projecting the credit spreads on forecasted debt issuances that are assumed to be 30-year maturities.” 4 Tr 859.

After reviewing the evidence supporting the company and the Staff’s long-term debt rate proposals, the ALJ recommended that the Commission adopt Consumers’ proposed long-term debt cost rate of 4.35%. *See*, PFD, pp. 232-234.

The Commission finds that the ALJ properly considered the evidence on the record and found Consumers’ position to be persuasive and notes that no exceptions were filed on this issue. Therefore, the Commission adopts the ALJ’s recommendation and the long-term debt cost rate of 4.35%. *See*, Exhibit S-4, Schedule D-2.

2. Short-Term Debt Cost Rate

Consumers proposed a short-term debt cost rate of 4.52%. 4 Tr 831; Exhibit A-14, Schedule D-3. The Staff did not dispute the company’s proposed short-term debt rate. *See*, 4 Tr 2540. Similarly, the Attorney General utilized the company’s proposed short-term debt rate. 4 Tr 1967. Notwithstanding this, the Staff set forth its position that Consumers has excessive short-term debt

facilities and the Staff noted the 1% of gas revenue cash on hand increases the revenue requirement. 4 Tr 2541. Thus, the Staff recommended that “the Company reduce its substantial revolvers or reduce [its] cash on hand request from 1% of gas revenues to something less extensive to provide a more efficient use of both facilities and to lessen the cost burden on ratepayers.” 4 Tr 2542.

The ALJ described the positions of the parties at pages 234 through 235 of the PFD. He recommended that the Commission adopt the undisputed short-term debt rate of 4.52%, and further noted that he:

offer[ed] no further recommendation related to Staff’s suggestion that the company reduce the size of its short-term credit facilities; instead, this [ALJ] merely notes that, in its last electric rate case, the company was directed to justify the size and expense of its revolver accounts in its next electric rate case.

PFD, p. 235 (citing March 21 order, p. 236).

No exceptions were filed on this issue.

The Commission finds that the ALJ’s recommendation of adopting the undisputed short-term debt rate of 4.52% is well supported on the record. In addition, the Commission finds that, in Consumers’ next gas rate case, it shall address the Staff’s noted concerns relating to its short-term debt facilities and cash on hand by providing additional information including an explanation and justification of the size and expense associated with its short-term borrowing facilities. Given this, the Commission adopts the ALJ’s recommendation and adopts the short-term debt rate of 4.52%.

C. Return on Common Equity

Consumers, the Staff, the Attorney General, ABATE, and MSC offered analyses and recommendations for the appropriate ROE in this proceeding. Consumers requested an ROE of 10.25%, the Staff recommended an ROE of 9.75%, the Attorney General set forth an ROE

recommendation of 9.75%, ABATE suggests an ROE of 9.45%, and MSC recommended an ROE of 9.24%.

As noted above, Consumers requested an authorized ROE of 10.25% relying upon: (1) a constant growth form of the discounted cash flow (DCF) model (2) the capital asset pricing model (CAPM), (3) an empirical CAPM (ECAPM), and (4) a bond yield risk premium (BYRP) analysis. 4 Tr 910. From these quantitative models, the company determined its recommended range of 10.25% to 11.25% from this analysis. Consumers' initial brief, p. 201 (citing 4 Tr 909-924).

The Staff noted that it applied the: (1) DCF model, (2) historical and projected CAPM models, (3) the BYRP model, and (4) a comparison of recent ROE determinations from other jurisdictions. 4 Tr 2560. The Staff concluded that a reasonable ROE range was from 9.25% to 10.25%. 4 Tr 2516; *see also*, Exhibit S-4 Schedule D-5. As a result, the Staff recommended an ROE of 9.75%.

The Attorney General relied upon the: (1) DCF model, (2) CAPM, and (3) BYRP analysis. 4 Tr 1968. Further, the Attorney General explained that the weighted average of these analyses reflects an average ROE of 9.52% but that she recommended an ROE of 9.75%, adding a premium adjustment of 23 basis points "to the calculated cost of capital due to the uncertainty of the timing in the decline in interest rates in the coming year." 4 Tr 1991.

ABATE utilized: (1) a constant growth DCF model "using consensus analysts' growth rate projections," (2) a constant growth DCF model "using sustainable growth rate estimates," (3) a multi-stage growth DCF model, (4) a BYRP model, and (5) a CAPM. 4 Tr 2188-2189. In that regard, ABATE estimated a reasonable ROE range of 9.00% to 9.90%, recommending an ROE of 9.45%. 4 Tr 2221.

MSC based its ROE recommendation on the CAPM and the DCF methods. MSC set forth an average ROE, based on those two methods, of 8.58% but recommended an ROE of 9.24% which “represents the midpoint between the average result of my models and the 9.9% ROE awarded to Consumers Energy in its last gas rate case.” 4 Tr 2423.

The ALJ thoroughly reviewed the evidence and positions of the parties and made several recommendations with respect to ROE at pages 239 to 303 of the PFD, which will not be exhaustively repeated here. The ALJ first discussed the proxy groups utilized by the parties. *See*, PFD, pp. 239-244. The ALJ noted that he “will generally not disturb the parties’ choice of proxy groups or their constituent companies because there can be value in a diversity of proxy group components” and that “there is meaningful overlap in the core components of each party’s proxy group[. . . .]” *Id.*, pp. 243-244. However, the ALJ noted that ABATE “also added six water utilities” and stated that “water and gas utilities simply do not face the same risks and structural challenges and may not be suitable comparators for each other.” *Id.*, p. 244. Therefore, the ALJ indicated that he would either adjust ABATE’s figures or grant them reduced weight in his determination. *Id.*

The ALJ then reviewed the CAPM analyses on the record. *Id.*, pp. 244-259. The ALJ found that there is “value in having a multitude of different inputs and methods being presented and examined such that there should be minimal interference with the parties’ inputs so long as they are justified and reasonable.” *Id.*, p. 256. He noted that the CAPM analyses should be considered whether they utilize “a forward-looking implied MRP [market risk premium] or a MRP derived from historical data” because FERC recognizes both. The ALJ indicated that he adopted the adjusted range of 9.15% to 10.25% in Exhibit AG-48 “as a representative (albeit not complete) sample of reported ROEs recently approved by regulatory bodies nationwide” to be utilized as “as

a general comparative benchmark range to determine whether the results of the parties' financial models are roughly in alignment with the ROEs awarded to other gas utilities." PFD, pp. 257-258. In that regard, he noted affording full weight to the company's 10.12% adjusted average and the Staff's 9.93% implied MRP, which each fell within the benchmark range. The ALJ noted he also considered, albeit with reduced weight, "[t]he remainder of Consumer's [sic] CAPM results (11.25%, 11.23%, and 11.22%), the remainder of Staff's results (10.63% and 8.25%), the Attorney General's result (10.66%), and CUB's result (7.95%)," as well as ABATE's average 9.80% due to the inclusion of the water utilities, as noted above. *Id.*, p. 258 (footnotes omitted).

With respect to the ECAPM, the ALJ discussed the parties' positions at pages 259 through 262 of the PFD. The ALJ indicated, however, that he declined to consider the ECAPM methodology because Consumers:

failed to identify any order in which the Commission has ever explicitly recognized this approach, and for the reasons identified by Staff and the other intervenors, this PFD is concerned that the ECAPM approach can have the effect of simply inflating the company's CAPM estimates (which is what it appears to do in this instance).

Id., p. 263 (citing 4 Tr 971).

Next, the ALJ reviewed the DCF model analyses of each party at pages 263 to 275 of the PFD. The ALJ indicated that there were several disputes pertaining to the most reliable DCF method but concluded that "all parties provided adequate justification or reasoning for their model choices and inputs such that all DCF calculations will be considered." PFD, p. 273. The ALJ further stated that the DCF values he had given full weight include the company's 10.08%, the Staff's 9.40%, and MSC's 9.22%. He indicated that he also considered but provided reduced weight to "[t]he mean of the company's average growth rate DCF results (10.96%), the Attorney General's 9.11% result, ABATE's constant growth result of 10.59%, ABATE's sustainable growth result of 8.81%, and ABATE's multi-stage result of 8.68% all of which have been adjusted to

exclude[] water utilities from ABATE's proxy group." *Id.*, p. 274 (footnotes omitted). The company's maximum growth rate DCF results were given no weight because the ALJ found that it was such an outlier that it was simply not reliable.

With respect to the BYRP the ALJ reviewed the positions of the parties at pages 275 to 284 of the PFD. The ALJ expressed concerns with Consumers' BYRP methodology and agreed "with Staff that it is appropriate to use other authorized ROEs as a basis for comparison, but it is problematic to use them as a direct input into a financial model." PFD, p. 282. After reviewing the various concerns, the ALJ indicated that he would review the BYRP results that utilized authorized ROEs with caution. He continued, indicating that he gave full weight to the Staff's 9.56% and 9.46% results, the Attorney General's 9.20%, and ABATE's 9.75%, 9.96%, and 10.23%, and reduced weight to the company's 10.55%, 10.41%, and 10.33%. *Id.*, p. 284.

The ALJ also addressed other factors and concerns at pages 285 through 296. With respect to flotation cost, the ALJ found "that [flotation] costs should not be included or considered when setting the ROE because CMS Energy, not the company, incurred flotation costs." *Id.*, p. 286. The ALJ further indicated that "it is not clear if [Consumers'] consideration of flotation costs had any measurable effect, or whether [the company's] recommended range itself would have been different had flotation costs not been considered." *Id.*, p. 287. The ALJ also concluded that Consumers' capital expenditure plans do not justify an adjustment when considering a reasonable ROE, but noted that there was no adjustment made for the same. Therefore, the ALJ viewed "this dispute as being one of limited significance." *Id.*, p. 289.

With respect to Consumers' regulatory environment and credit outlook arguments, the ALJ indicated that he significantly addressed the company's claims in the capital structure portion of the PFD. As such, he stated that he:

will not repeat those findings here and merely reiterates that the company's credit outlook is stable and that ratings agencies view Michigan's regulatory environment in a generally positive light. As in the section regarding capital structure, *supra*, this [ALJ] does not believe that arguments regarding the state's regulatory environment justify any significant adjustment when considering a proper ROE.

Id., p. 293. Finally, the ALJ discussed the authorized ROE data as submitted by the parties. *Id.*, pp. 293-296. In that regard, the ALJ found:

that the information provided by the Attorney General in Exhibit AG-48, which lists approved ROEs for gas utilities nationwide in 2023 and 2024, to be valuable when undertaking a comparison of authorized ROEs. Accordingly, this [ALJ] adopts the dataset in Exhibit AG-48 as an illustrative, but not necessarily complete, sample of reported ROEs authorized by regulators nationwide from 2023-2024 as collected by Regulatory Research Associates. Per that exhibit, the average approved ROE in 2023 was 9.57% and the average approved ROE in 2024 was 9.71%. This [ALJ] further notes that the range of ROEs reported in Exhibit AG-48 extended from a low of 8.86% to a high of 11.88%. However, the range is deceptively wide because it is necessarily determined by the highest and lowest values which, upon evaluation of the dataset, are clearly outliers relative to the rest of the set. If those outliers were excluded, then the adjusted dataset would range from 9.15% to 10.25%.

This [ALJ] adopts that adjusted range of 9.15%-10.25% as a general comparative range that can be referenced to determine whether the results of the various financial models proposed by the parties are generally aligned with *Hope's* directive that utility returns should be "commensurate with returns on investments in other enterprises having corresponding risks."

PFD, pp. 295-296. Reviewing the parties' ROE recommendations, the ALJ noted that the company's requested ROE of 10.25% is at the upper limit of this range "and is not particularly well aligned with returns received by other utilities having corresponding risks." *Id.*, p. 296. He further indicated that the remainder of the parties' recommendations fall within the range.

In sum, the ALJ acknowledged the extensive testimony and briefing submitted by the parties on the issue of ROE. Reiterating precedent, the ALJ commented that given the determination of a fair and reasonable return is not subject to specific mathematical computation, "there is value in a diversity of different modeling assumptions and inputs, and this [ALJ] concludes that the

multitude of individual differences regarding the most suitable modeling assumptions and input values need not be definitively resolved in this case.” *Id.*, p. 297.

In sum, the ALJ noted that full weight was given to the following ROE estimates:

10.12%	Consumers CAPM (adjusted average)
10.08%	Consumers DCF (adjusted average)
9.93%	Staff CAPM (using implied MRP)
9.40 %	Staff DCF
9.46%	Staff BYRP (treasury bonds)
9.56%	Staff BYRP (utility bonds)
9.20%	Attorney General BYRP
9.75%	ABATE BYRP (average A-rated bonds)
9.96%	ABATE BYRP (average Baa-rated bonds)
10.23%	ABATE BYRP (treasury bonds)
9.22%	MSC DCF

See, PFD, p. 297-298. He calculated that the average of these ROE estimates is 9.72%, with a range of 9.20% to 10.23%. Continuing, the ALJ pointed out that the average of these accepted models resulted in an average only one basis point above the average authorized ROEs in 2024.

The ALJ further reviewed precedent in explaining that he:

derives three principles for evaluating the authorized rate of return from the Supreme Court’s precedent discussed above. These principles are that a regulated utility’s authorized return: (1) should be commensurate with the returns earned by similar businesses with corresponding risks, such as other utilities; (2) should be more than the return earned by safe investments like government bonds, but less than returns earned by riskier investments, like the general stock market; and (3) should be sufficient to maintain the utility’s access to credit and allow it to attract capital.

Id., p. 300 (citing *Bluefield*, 362 US at 692-693; *Hope*, 320 US at 603; and *Willcox v Consolidated Gas Co*, 212 US 19, 49; 29 S Ct 192; 53 L Ed 382(1909)). In applying these principles, the ALJ also noted:

that the Commission has explicitly stated its preference for gradualism and its belief that, in the absence of radical changes in circumstance, gradual changes in financial measures like ROE are appropriate and consistent with *Hope* and its direction to assure confidence in a utility’s ability to maintain credit and attract capital.

PFD, p. 301. As a result, the ALJ recommended adopting an ROE of 9.75% as set forth by the Staff and the Attorney General. He further opined that:

[t]his recommendation would move the company's ROE downward, but it is an adjustment of only 15 basis points from the company's current ROE such that it is meaningful, but not a radical adjustment. Further, the 9.75% recommendation is well-supported by the average of the accepted results of the parties' models as determined in this PFD (9.72%) and is close to, but just a few basis points above the national average awarded ROE in 2024 (9.71%). Thus, this proposal takes a gradual step toward the objective, described above, of attempting to balance the divergence between the goals of setting a ROE that is commensurate with those of other utilities while also moving in the direction of a return that is below the expected return of the riskier general stock market.

Id., p. 302. In sum, the ALJ found that the Staff's and Attorney General's recommendations were well supported by the record in this case and also aligned with the principles of *Hope* and *Bluefield*.

Consumers filed exceptions regarding the ALJ's ROE recommendation. The company claims that each of the arguments relied upon by the ALJ in his recommendation were refuted by the company. Consumers' exceptions, p. 72. First, the company argues that the ALJ afforded undue weight to recently authorized ROEs which it contends are not appropriate proxies for Consumers. Consumers quotes the September 8, 2016 order in Case No. U-17895 (September 8 order), in which the Commission noted it would not give significant weight to ROE determinations from other utilities. Citing the *Bluefield* decision, the company avers that previously authorized ROEs do not fall within the parameter of returns generally being made at the same time, as required by the holding. *See*, Consumers' exceptions, pp. 73-76. Continuing, the company claims that the record does not demonstrate that the utilities contained in Exhibit AG-48 are reasonable proxies as described by many parties on this record. Consumers states:

[t]hat is why instead of simply stating an estimate of the nationwide average or range of ROEs in this proceeding, the parties' expert witnesses provide multiple ROE models based on carefully selected peer groups, which are meant to better

represent the Company's "corresponding risks and uncertainties" than a simple nationwide sample. Furthermore, a list of nationwide authorized ROEs is not market based [. . .] The PFD's analysis, and its resulting range for its recommendation, is not market based or forward looking.

Consumers' exceptions, pp. 76-77.

Again citing the September 8 order, Consumers indicates that the Commission should look more toward the *trend* of nationally authorized ROEs. *Id.*, pp. 78-80. Reviewing its record position, the company contends that recent trends in ROE have been upward. The company further claims that the ALJ misstates the Supreme Court holdings and:

[b]ecause it relies on the nationwide average and the parties' models as adjusted to fit into the predetermined range of the list of nationwide ROEs, the [ALJ] ultimately and incorrectly bases its ROE recommendation on the RRA list of nationwide authorized ROEs as shown in Exhibit AG-48 instead of the quantitative models presented on the record in this proceeding.

Consumers' exceptions, p. 83. The company further reviews its methodologies and again argues that it was an error for the ALJ to limit consideration of its results based upon Exhibit AG-48. *See*, Consumers' exceptions, pp. 85-91. Consumers claims that the ALJ erroneously rejected consideration of its ECAPM and it should be utilized as an additional source of evidence.

Consumers also argues that the ALJ erred in failing to provide appropriate consideration to flotation costs, capital expenditures, and the overall regulatory environment in setting forth his ROE recommendation. *Id.*, pp. 91-94. With respect to floatation costs, the company claims that the ALJ erred and that the "dismissal of flotation costs demonstrates the inconsistency in the ALJ's analysis. One of the fundamental flaws with the data in the RRA database from Exhibit AG-48 is that it does not consider other factors, for another example, flotation costs." Consumers' exceptions, p. 92. The company further claims that the ALJ erred in disposing of market condition factors. *Id.*, p. 93. Consumers avers that the ALJ's analysis:

improperly eliminates or at least reduces the comparison of “corresponding risks and uncertainties” between utilities (in this case vetted proxies). That comparison is necessary in setting a constitutionally sufficient authorized ROE. Likewise, other factors – Flotation Costs, Capital Expenditures, and the Regulatory Environment - are additional factors that affect the corresponding risks and uncertainties between utilities[. . .] The Commission should not lower the Company’s ROE (and should raise it) because the analyses (utilizing proxies) to cover the like risk prong, and market conditions covering the credit maintenance prong do not support such action.

Id., pp. 93-94. The company concludes that:

[i]n sum, market conditions, including flotation costs, capital expenditures, and the regulatory environment, support the Company’s requested 6.22% return, consisting of a 10.25% ROE and 50.75% equity ratio. The Commission should reasonably approve the Company’s request in this case.

Id.

The Staff replies to Consumers’ exceptions, stating that the Commission should adopt the ALJ’s recommendation of an ROE at 9.75%. More specifically, the Staff contends that this recommendation is reasonable and exceeds the ALJ’s comparative ROE range midpoint of 9.70%, the average ROE for gas utilities of 9.71% for 2024, and the “average of the eleven accepted model results that the ALJ gave full weight to was 9.72%.” Staff’s replies to exceptions, p. 8 (citing to PFD, pp. 257, 295, 293). The Staff further contends that the ALJ thoughtfully considered the company’s request and noted that it is at the upper limit and not well aligned with returns of other utilities with similar risks. With respect to business and credit risk, the Staff states that the “average of the eleven accepted model results that the ALJ gave full weight to was 9.72%.” Staff’s replies to exceptions, p. 9 (citing PFD, p. 228). Acknowledging the argument regarding the rising trend in authorized ROEs by other commissions, the Staff avers that the argument lacks merit given the company’s

ROE has remained steady for approximately 5 years or more. The Company’s currently authorized ROE is, at a minimum, still 20 basis points higher than the rising yearly averages. Thus, the Company’s argument for a higher ROE due to

rising ROE averages over the years is particularly unrealistic given the Company's already high-end authorized ROE to begin with.

Staff's replies to exceptions, p. 10. With respect to Exhibit AG-48, the Staff states that "the ALJ noted that the data in Exhibit AG-48 was illustrative and not necessarily a complete list of ROEs compiled by the [RRA]" and that the ALJ's

rationale for using the data was clearly laid out and weighed not only the Company's model results, but Staff's and the other intervenor's model results accordingly. Thus, the ALJ thoroughly evaluated all the intervenors models and ROE results and was correct to scrutinize the Company's models and find deficiency with the inputs used in the models that resulted in very high, outlier results that weren't reasonable.

Id., p. 11. Therefore, the Staff recommends that the Commission adopt the ALJ's recommended ROE of 9.75%.

In replies, the Attorney General states that the ALJ properly rejected Consumers' request for an excessive 10.25% ROE. She continues, arguing that there is no merit to the company's claims that the ALJ made numerous errors in his analysis as he "painstakingly [went] through the parties' various positions and evidence and applied the appropriate standards in reaching appropriate ROE recommendations." Attorney General's replies to exceptions, p. 63. The Attorney General generally relies upon her briefing on this issue. In response to Consumers' criticism of Exhibit AG-48, the Attorney General contends that the company incorrectly states that the ALJ limited the weight provided to qualitative models and the range of recommendations because the PFD contains a discussion of all of the quantitative model results on the record. Attorney General's replies to exceptions, pp. 64-65. She contends that Exhibit AG-48 was not submitted "as some kind of litmus test on what is a legally sufficient ROE" and that it does not appear that the ALJ utilized it in that manner. *Id.*, p. 65.

ABATE replies that the authorized ROE should be set no higher than the ALJ's recommendation of 9.75%. ABATE further asserts that Consumers' claim that authorized ROEs of other utilities should not be used to determine a reasonable ROE in this case is not persuasive and "also directly contradicted by Consumers' additional assertion that the 'trend of nationwide authorized ROEs is certainly a relevant consideration because it is evidence for the trend in the utility industry that faces the same market conditions as Consumers Energy.'" ABATE's replies to exceptions, p. 7 (citing Consumers' exceptions, pp. 78-84). Thus, ABATE contends that utilizing authorized ROEs for 2023 and 2024 for illustrative purposes is reasonable and supported on the record. As to the ALJ's use of a general comparative range, ABATE argues that

use of this range was simply a method of determining the weight afforded to the results of the parties' various analyses in accordance with the "precedent in *Hope* which expressly provides that the equity returns for a utility 'should be commensurate with returns on investments in other enterprises having corresponding risks'" because "[o]ther regulated utilities are the business enterprises that generally have corresponding risks that most closely correlate to those of the company." (PFD at 295-96.)

Id., p. 7. Further, ABATE states that this general range falls exactly within the ROE proxy group ranges on the record in this case. ABATE also contends that following the "upward trend" is not consistent with the holding in *Hope* which:

contemplates a return commensurate with returns on investments in other enterprises having corresponding risks, not commensurate with trend lines irrespective of the actual returns at issue. The Company's financial metrics exceed those of its peer companies. As such a reasonable ROE is one that is commensurate with their returns, trends notwithstanding.

Id., p. 8.

ABATE also avers that the ALJ properly evaluated the quantitative methods and reiterating its record evidence regarding the purported errors in the company's evidence. Relying on its briefing, ABATE states that "[t]he Company's analyses are therefore fatally flawed and operate to inflate

their results” and that the Commission should reject exceptions on this issue. *Id.*, p. 9. ABATE highlights additional objections pertaining to the ALJ’s determination noting that the ALJ properly considered but rejected the company’s position. Overall, ABATE claims that the ALJ’s “recommendation reflects and thoroughly considered the market condition factors raised by Consumers. The Commission should therefore reject the Company’s objections and not approve a ROE above 9.75%.” *Id.*, p. 11.

MSC also replies and relies upon its record evidence and briefing, but respond to three arguments set forth in Consumers’ exceptions namely that the ALJ’s recommendation is: “1) contrary to Supreme Court precedent set forth in *Hope* and *Bluefield*; 2) contrary to prior Commission directives; and 3) misaligned with a current upward trend in ROEs.” MSC’s replies to exceptions, p. 34. With regard to the historical nature of recently authorized ROEs, MSC argues that “[i]t is reasonable to presume that most if not all of [the recently authorized ROEs] remain in effect and reasonably represent the current overall ROE landscape” and that “[i]t is impossible to know today precisely what returns similar businesses will be earning in 2026 and beyond, so it is entirely appropriate to rely on recently authorized ROEs for comparison purposes.” *Id.*, pp. 34-35. MSC also notes that, contrary to its arguments that Commission orders are not precedential and binding, the company nevertheless relies upon a 2016 Commission order finding that significant weight should not be afforded to previously authorized ROEs. MSC argues that the circumstances in that case are not analogous to the ALJ’s consideration of the record evidence in this proceeding. Finally, MSC responds that the upward trend in ROEs cited by the company was considered but that evidence demonstrating that “ROEs that have long been on average much lower than Consumers’ ROE have recently started trending up, does not mean that Consumers should enjoy additional increases to its already high ROE.” *Id.*, pp. 35-36.

The Commission has reviewed the extensive testimony and evidence, briefing, the ALJ's recommendation and the exceptions and replies relating to the appropriate ROE in this proceeding. The Commission finds that, contrary to the company's exceptions, the ALJ reasonably reviewed the totality of the evidence submitted by the parties in making a reasoned and well-balanced recommendation. Regarding Consumers' claims that the ALJ placed too much weight on Exhibit AG-48 and recently authorized ROEs, the Commission disagrees. Specifically, the ALJ noted in each instance that the range of recently authorized ROEs was utilized "as a general comparative range that can be referenced" and not as the primary factor in his recommendation. Similarly, any claim that the ALJ did not appropriately rely upon the quantitative methodologies on record is wholly without merit.

The ALJ reviewed extensively each parties' evidence and thoroughly explained the weight assigned to the various models and conclusions. *See*, PFD, pp. 239-303. It was not improper for the ALJ to use additional data, such as Exhibit AG-48, as a comparative range to determine if some resulting recommendations should be afforded less weight in his overall recommendation. The Commission further finds that Consumers' claim that the ALJ's recommendation is arbitrary lacks merit given the exhaustive review and weighing of the various methods and party recommendations contained in the PFD. In addition, the ALJ's detailed and exhaustive review of Consumers' evidentiary presentation explains the rationale for the weight he afforded to each methodology and result, and the Commission is not persuaded by Consumers' exceptions that there was any clear error.

With respect to flotation costs, the Commission is not persuaded by Consumers' exceptions that the ALJ's determination was in error or that it demonstrates any inconsistency in his analysis. As noted above, the ALJ listed the following which were given full weight:

10.12%	Consumers CAPM (adjusted average)
10.08%	Consumers DCF (adjusted average)
9.93%	Staff CAPM (using implied MRP)
9.40 %	Staff DCF
9.46%	Staff BYRP (treasury bonds)
9.56%	Staff BYRP (utility bonds)
9.20%	Attorney General BYRP
9.75%	ABATE BYRP (average A-rated bonds)
9.96%	ABATE BYRP (average Baa-rated bonds)
10.23%	ABATE BYRP (treasury bonds)
9.22%	MSC DCF

See, PFD, pp. 297-298. This clearly demonstrates that the ALJ gave primary weight to quantitative methods, including the use of varying proxy groups, contrary to the company’s exceptions.

As noted in multiple replies, Consumers’ emphasis on the general upward trend of ROEs to request an increase over its currently authorized ROE is overstated. As reflected in Exhibit AG-48, Consumers’ currently authorized ROE is above average. As stated by the Staff, the company’s “ROE has remained steady for approximately 5 years or more” and the request for “a higher ROE due to rising ROE averages over the years is particularly unrealistic given the Company’s already high-end authorized ROE to begin with.” Staff’s replies to exceptions, p. 10.

Notwithstanding the above, the Commission finds that the appropriate ROE in this case is 9.80%. While the ALJ’s analysis reviewed the numerous arguments set forth, considered the varying models including strengths and weaknesses, and overall weighed the evidence, the Commission nevertheless finds that a modest difference in conclusion is supported by the record. More specifically, the Commission finds that a 9.80% ROE determination more appropriately balances the methodologies, provides appropriate weight to the macroeconomic uncertainties, and also gives additional consideration to the recent trend in rising ROEs. As reflected in Exhibit AG-48, average gas utility ROEs increased between 2023 and 2024, from 9.57% to 9.71%. As such,

the Commission finds that a modestly higher authorized ROE than what was recommended by the ALJ is appropriate. Moreover, a 9.80% ROE still falls within the reasonable range of evidence submitted by the parties, including the ALJ's list of values to be given full weight. Overall, the Commission finds that the record supports the modest decrease to the company's currently authorized ROE. Therefore, the Commission adopts an authorized ROE of 9.80%.

D. Overall Rate of Return

The ALJ recommended that:

the Commission adopt a balanced capital structure of 50% debt and 50% equity, along with a long-term debt cost of 4.35%, a short-term debt cost of 4.52%, and a return on equity of 9.75% resulting in an estimated overall weighted after-tax cost of capital of 5.97% as shown in Appendix D to this PFD.

PFD, p. 303.

Consumers takes exception stating that the ALJ's recommendation of a 5.97% authorized rate of return "is not sufficiently supportive to attract the investment that is necessary for the Company and its customers." Consumers' exceptions, p. 53. Consumers continues, arguing that the ALJ did not properly balance the interests of customers and investors and "unreasonably dismisses the validity of solid analysis expressed from the investors' perspective in the Company's testimony and briefs." *Id.*, p. 54. The company claims that one of the most significant errors was:

the failure to recognize that the equity ratio and ROE used in the ratemaking process are essentially just inputs into a complex calculation that is designed to produce the value that actually matters for ratemaking purposes: the overall rate of return used to determine the final revenue requirement. The equity ratio and ROE used by the Commission in setting rates have independent value for the message they communicate to investors. Also, they are correlated such that a decrease in one offsets an increase to the other in the rate of return and vice versa. Further, a decrease in one is compounded with a decrease to the other. True, when courts evaluate whether the ratemaking process has resulted in constitutionally sufficient rates, the courts seldom evaluate inputs like the equity ratio or ROE in isolation or independently.

Id., pp. 54-55. Consumers contends that *Hope* discusses the overall rate of return and not the individual components. Further, the company states that “[w]hile not denying the relationship between ROE and equity ratio, the PFD failed to correctly apply these foundational legal requirements consistently throughout the ALJ’s analysis. That concern alone should cause the Commission to approach the PFD’s equity ratio and ROE and recommendations with skepticism.” *Id.*, p. 56.

In reply, the Attorney General indicates that the company is invoking precedent to pursue “its case for higher than reasonable or required rate of return” in this case. Attorney General’s replies to exceptions, p. 49. Specifically, she contends that the Commission is not required to ensure the financial soundness of a utility and that the company has a role in ensuring its own stability through appropriate management of its business. Continuing, the Attorney General states that “[i]nflating the rate of return to shield the Company from the risk of its own operation is not constitutionally required nor reasonable to ratepayers.” Attorney General’s replies to exceptions, p. 50. The Attorney General further notes that, while acknowledging that ratemaking includes a balancing of interests, Consumers’ exceptions make “clear how closely aligned Consumers is with the interest of its shareholders . . . and not ratepayers when it comes to the cost of capital and its capital structure.” *Id.*, p. 52. In sum, the Attorney General claims that the company’s claims are not supported and that the ALJ “determined and recommended a reasonable equity ratio of 50% and a reasonable and legally sufficient ROE of 9.75% and the Commission should adopt its recommendations.” *Id.*, p. 56.

The Commission has addressed the company’s concerns above regarding the individual components which comprise the overall rate of return. As discussed previously, a just and reasonable rate involves a balancing of interests of the utility’s investors and customers. The

company's focus in exceptions again lies primarily "on the interests of its investors while disregarding customer interests." *See*, March 21 order, p. 232. The Commission does not deny that the individual components are inputs to determine the company's overall rate of return and are correlated values in that determination. Notwithstanding this, Consumers has not demonstrated any error in the overall manner of the ALJ's evaluation of the record in this case. The Commission also again notes the Michigan Supreme Court ruling that the determination of what is a fair or reasonable rate of return "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). As such, the Commission finds that the ALJ thoroughly reviewed the record and conducted a comprehensive examination of all factors in this case. As more specifically discussed above, the Commission reiterates that the company has not demonstrated that the investors' interests are not adequately considered in the ALJ's analyses. Rather, the Commission finds that the ALJ properly focused on the balancing of the interests of both the utility's investors and ratepayers.

In sum, based upon the foregoing analysis and Commission findings, the Commission adopts a 50.00% equity layer, a long-term debt cost rate of 4.35%, a short-term debt cost rate of 4.52%, an ROE of 9.80%, and an overall weighted cost of capital of 5.99%, as shown on the table below:

Description	Amount (\$000,000)	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	\$12,839	41.82%	4.35%	1.82%
Preferred Stock	\$37	0.12%	4.50%	0.01%
Common Equity	\$12,877	41.95%	9.80%	4.11%
Short-Term Debt	\$201	0.66%	4.52%	0.03%
Deferred FIT	\$4,629	15.08%	0.00%	0.00%
JDITC Debt	\$57	0.19%	4.35%	0.01%
JDITC Preferred Stock	\$0	0%	4.50%	0.00%
JDITC Equity	\$57	0.19%	9.80%	0.02%
Total	\$30,698	100.00%		5.99%

VI. ADJUSTED NET OPERATING INCOME

Consumers initially projected an adjusted net operating income (ANOI) of \$545.49 million, which the company later adjusted in briefing to \$556.87 million. The Staff projected an ANOI of \$560.09 million, representing a difference of \$3.22 million from Consumers' revised position. *See*, Consumers' initial brief, Appendix C1, line 22, column (d); Staff's reply brief, Appendix C, line 19, column (t).

Several issues that were previously contested by parties and/or addressed by the ALJ were not raised in exceptions. After reviewing the record and arguments by the parties, the Commission finds the ALJ's recommendations on these issues not raised in exceptions to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on the following issues: (1) cost of gas sold (PFD, p. 321), (2) general proposed O&M disallowances (PFD, pp. 323-325), (3) asset accounting tax upgrade project (PFD, pp. 366-368), (4) cloud computing expense (PFD, pp. 368-370), (5) human resources support pack & software upgrade for 2025-2026 (PFD, pp. 370-371), (6) standard work plan project (PFD, pp. 371-372), (7) analytics and outreach expense (PFD, p. 402), (8) digital customer operations experience (PFD, p. 405), (9) manufactured gas plant (MGP) direct project management costs (PFD, p. 409),

(10) gas uncollectible expense (PFD, p. 410), (11) injuries and damages expense (PFD, p. 410), (12) depreciation and amortization – non-MGP (PFD, p. 419), (13) property tax (PFD, p. 420), (14) payroll and other general taxes (PFD, p. 421), (15) state and local income tax (PFD, p. 422), (16) federal income tax (FIT) (PFD, p. 422), (17) excess deferred FIT (PFD, p. 422), and (18) AFUDC (PFD, p. 423). The remaining contested issues are addressed *ad seriatim*.

A. Operating Revenue

1. Throughput and Sales, Transport, and Miscellaneous Revenue

Consumers projected gas deliveries and customer counts for the test year and stated that total deliveries are expected to reach 307,736 MMcf, with customer counts rising by 1.5% compared to the 2023 historical year. 2 Tr 273; *see also*, Exhibit A-15, Schedule E-10. The company anticipated total revenue of approximately \$2.3 billion for the test year, consisting of \$2.18 billion in sales revenue, \$102.4 million in transportation revenue, and \$28.67 million in other revenue. *See*, Exhibit A-13, Schedule C-3.

The Staff recommended that, in all future gas rate case filings, the Commission require Consumers to provide all raw data and inputs used to develop the deliveries and customer count forecast models. 4 Tr 2746. The Staff emphasized that access to this data is essential for the Staff to fully evaluate the company's modeling, and that inclusion of the data would eliminate the need for the Staff to obtain the information through audit requests. 4 Tr 2746-2747; *see also*, Exhibit S-23.

Additionally, the Staff challenged the company's forecast of residential income assistance (RIA) credit projections, noting that Consumers assumed 75,000 monthly RIA recipients without identifying the data period or providing supporting evidence. 4 Tr 2651-2563. The Staff noted that similar issues arose in the company's last rate case and, therefore, proposed that the

Commission require Consumers to work with the Staff to improve its exhibits and testimony on this issue in its next rate case. 4 Tr 2653-2654. Citing reliability concerns regarding the company's audit responses, the Staff also proposed using a three-year historical average of 68,782 monthly RIA recipients, which the Staff asserted was consistent with prior Commission orders, and allowing for a regulatory asset or liability to reconcile differences. 4 Tr 2655, 2664-2665. The Staff concluded that this adjustment would add \$1.12 million to current revenue. 4 Tr 2666; *see also*, Exhibit S-15.1.

The Attorney General asserted that Consumers significantly underestimated commercial transport volumes and related revenue because the company's forecast included a sudden 5.9% decline from 2024 to the projected test year, which the Attorney General contended was far steeper than the historical average annual decline of 0.5%. 4 Tr 1993-1995; *see also*, Exhibit AG-53. Concluding that the company's model was inaccurate, the Attorney General recalculated volumes based on historical usage trends from 2021 to 2024, which produced forecasted deliveries 1,325 MMcf above the company's projections, resulting in an additional \$1.822 million in revenue for the projected test year. 4 Tr 1995-1996; *see also*, Exhibit AG-54.

MSC stated that Consumers' sales and delivery regression models did not use out-of-sample data, which MSC contended prevents the proper testing of predictive accuracy on independent data sets. MSC explained that by not reserving historical data for validation, the company weakens its accuracy claims, since the model is being evaluated from the same data it was trained with. 4 Tr 2298. MSC further noted that Consumers failed to incorporate the potential effects of Senate Bill 273, which later became Act 229, into its modeling, raising additional concerns about forecast reliability. 4 Tr 2299. Finally, MSC questioned the apparent inconsistency between the

company's forecast for new connections and the forecast for total customer count.

4 Tr 2299-2300.

In rebuttal, Consumers agreed with the Staff's proposal to include all raw data and inputs used to construct its forecast models, committed to working with the Staff to improve exhibits and testimony related to RIA credits, and agreed to the Staff's use of a three-year historical average and associated adjustment that adds \$1.119 million to current revenue. 2 Tr 277; *see also*, Consumers' initial brief, pp. 254-255.

With respect to the Attorney General's proposed adjustment for commercial transportation volumes, Consumers disagreed and argued that the Attorney General used a simplistic and unsound approach that used one data point to forecast future deliveries. 2 Tr 281-282. According to the company, the Attorney General's methodology wrongly assumed that customers' future behavior would be identical to previous years, and further that the methodology rejected the validity of regression modeling used by most utilities and deviated from the historically approved methodology. 2 Tr 282-283. In contrast to the Attorney General's position, Consumers contended that its gas forecast has been accurate over the last eight years, with a standard deviation that has decreased to 2.6 billion cubic feet (Bcf) and a Mean Absolute Percentage Error that decreased to 0.6%. In turn, the company urged the Commission to reject the Attorney General's proposed adjustments. 2 Tr 286.

Regarding MSC's proposals, Consumers argued that comparing the new service connection forecast with the customer load forecast was inappropriate since connections reflect installation work while the load forecast is based on billed customers using a regression model that can differ due to timing and usage patterns. 2 Tr 278. The company further stated that Act 229 did not mandate electrification programs and that, at the time of this rate case filing, there was no evidence

that Act 229 affected customer behavior or the test year forecast. 2 Tr 279-280. Consumers also dismissed MSC's concerns about not testing the forecast with out-of-sample data, explaining that the regression model relied on the most recent 11 years of data and that adding data from more than a decade earlier would not enhance the model's predictive accuracy. The company further rejected MSC's claim that the model performed poorly against historical data, noting that it was built on such data and had been proven effective. 2 Tr 280-281.

In its rebuttal testimony, the Staff disagreed with the Attorney General's calculation of adjusted gas sales, specifying that while the Staff did not take a position on her sales delivery adjustment, the Attorney General's calculation of the associated revenue adjustment should not be directly adopted by the Commission. 4 Tr 2590-2591.

In briefing, MSC contended that Consumers' load forecast conflicts with historical trends of declining gas use, likely driven by electrification and energy waste reduction (EWR) measures. MSC's initial brief, pp. 93-97. It argued that a chart presented by the company in support of the regression model's accuracy is misleading, describing it as merely a regression line based on limited data. *Id.*, pp. 97-100; *see also*, 2 Tr 272. Pointing to forecasts from prior rate cases, MSC maintained that Consumers' chart is unrelated to past forecasts, provides no insight into the forecast's historical performance, and does not demonstrate its future accuracy. MSC's initial brief, pp. 97-100. Accordingly, MSC recommended that the Commission reject Consumers' load forecast and require the company to contract with an independent third party to create an accurate load forecast. Alternatively, MSC recommended that the Commission direct the company to recreate its load forecast with input from interested persons and the incorporation of electrification impacts similar to DTE Gas's latest rate case where the Commission required DTE Gas to "explicitly include the forecasted yearly sales for each major customer class for the 10-year gas

delivery planning horizon, in coordination with its GDP [gas delivery plan]” and to “include for each year of the GDP a list of the amount of throughput expected on a peak demand day.” *Id.*, p. 100 (quoting November 7 order, p. 121) (internal quotations omitted).

In its brief, the Staff noted that Consumers only revealed through cross-examination that the weather-adjusted actuals used to assess forecast accuracy were outside of the regression model data. The Staff, therefore, recommended that the company conduct a similar analysis for all class-level forecasts in future rate cases. The Staff further argued that out-of-sample testing would help evaluate the reasonableness of forecasts from both the company and intervenors, and it urged the Commission to require Consumers to incorporate more out-of-sample data in testing its models. Staff’s initial brief, pp. 109-111.

In reply, Consumers argued that MSC’s proposal to reject the company’s load forecast and to require an independent third party to produce a new forecast is unlawful and unreasonable, noting that the Staff accepted the company’s forecast as modified during rebuttal. Consumers’ reply brief, pp. 78-79. Consumers disputed MSC’s claim of declining gas loads, asserting that a full review of January and February usage data from 2001 to 2024 shows fluctuations rather than a steady decline and that MSC’s data was neither weather normalized nor adjusted for economic factors. *Id.*, pp. 79-83. The company pointed to its own weather-normalized data since 2010 to show stable or rising residential sales and argued that there is no evidence that electrification or Act 229 will materially affect demand during the test year. *Id.*, pp. 84, 87-89. Consumers also defended its regression model, stating that the company used accepted accuracy measures and that out-of-sample testing is not the only validation method. *Id.*, pp. 90-91. The company maintained that MSC relied on inappropriate or incorrect data to criticize its accuracy chart, which Consumers contended fairly reflected the model’s reliability. *Id.*, pp. 91-97.

Noting Consumers' assent, the ALJ recommended that the Commission adopt the Staff's proposals, including the Staff's addition of \$1.12 million to revenue. PFD, p. 318. Accordingly, the ALJ recommended a sales revenue figure of \$2.18 billion. *Id.*

Regarding the Attorney General's proposal, the ALJ stated that he was not persuaded that commercial transport volumes should be adjusted upward. The ALJ, instead, noted that he was persuaded by Consumers' argument that the use of a regression model, as opposed to a one-off adjustment based on historical growth rates, was appropriate. As a result, the ALJ recommended that the Commission reject the Attorney General's proposed adjustment but noted that if the Commission disagreed, then the associated revenue calculation should not be directly adopted in accordance with the Staff's proposal. *Id.*

Concerning MSC's arguments and proposals, the ALJ declined to adopt MSC's proposal to reject Consumers' load forecast. The ALJ found that, considering the larger array of historical data presented by the company (including weather normalized data), "it is open to debate whether there is currently a clear, long-term trend of declining gas usage" that would render the model faulty. PFD, p. 319. The ALJ accepted Consumers' arguments concerning the company's accuracy chart and found that the company included one-year-at-a-time, out-of-sample testing that largely supported the accuracy of the model. *Id.*, pp. 319-320. The ALJ, however, agreed with MSC and the Staff and found that out-of-sample data is valuable for confirming the predictive power of a regression model; accordingly, the ALJ recommended that the Commission direct Consumers to utilize out-of-sample data to test the company's regression model in the future. *Id.*, p. 320.

The ALJ was also not persuaded by MSC's argument that Consumers' current modeling or forecast was faulty for failing to account for the effects of Act 229, finding that MSC did not

demonstrate that the legislation would have a material effect on forecasted sales in the test year. However, the ALJ found that it would not be premature to consider the effects of increasing electrification; accordingly, he recommended that the Commission “direct that, in future cases requiring long-term forecasts, the company should find a way to incorporate the impact on gas demand attributable to increasing electrification measures.” *Id.*, p. 320. The ALJ also agreed with the Staff that the energy electrification inputs into such a load forecast should stem from a consistent set of data and that the Commission should, as it did with DTE Gas, “direct Consumers to explicitly include the forecasted yearly sales for each major customer class for the 10-year gas delivery planning horizon and include for each year a list of the amount of throughput expected on a peak demand day.” *Id.*, pp. 320-321. Finally, the ALJ recommended that the Commission adopt Consumers’ projected transportation and miscellaneous revenue amounts, totaling \$102.4 million and \$28.67 million, respectively. *Id.*, p. 321.

In exceptions, MSC argues that the Commission should find that there is a clear decline in residential gas sales. MSC contends that Consumers attempted to obfuscate data to conceal the overall trend that residential gas sales are down and are declining on average 4% per year, and that even the company’s own presentation of January and February deliveries shows a clear downward trend. MSC’s exceptions, pp. 33-35. In turn, MSC asserts that the trends for historical sales are clear and urges the Commission to require Consumers to “include at least one scenario that incorporates historical declines in residential gas usage into its forecasting” and “to demonstrate incorporation of historical declines in residential gas usage in that one forecast scenario by sharing relevant methodology and model inputs in its filings.” *Id.*, p. 35. Additionally, MSC agrees with the ALJ’s recommendations regarding the use of out-of-sample data and the incorporation of electrification into load forecasts but argues that the ALJ was not specific enough in his

recommendations. For this reason, MSC proposes that the Commission be more specific in its order and direct Consumers to follow MSC's recommendations to withhold data for years in the middle of the time period used for the regression model and to include low-, medium-, and high-electrification scenarios into its load forecasts. *Id.*, pp. 37-38.

In its replies, Consumers argues that there is no merit to MSC's arguments and that, although the data presented shows a general decline in sales, there is no support for MSC's claim of a steady 4% decline over the years. Consumers' replies to exceptions, pp. 41-43. Moreover, the company again argues that historical data, by itself, is not a good indicator of future load expectations because it is not weather-normalized and includes no control for economic conditions; when residential sales data is weather-normalized, the company contends that the data is less volatile and shows a slight upward trend in sales since 2010. *Id.*, p. 43. Accordingly, Consumers argues that its "load forecast was well justified based on its regression analysis, which takes account of the econometric factors that actually influence changes in gas consumption." *Id.*, p. 44.

Consumers further argues that it plans to include out-of-sample testing in its next gas rate case and that the Commission should reject MSC's proposal to use out-of-sample data withheld in the middle of the time period used for the regression model because use of that data is unjustified. *Id.*, pp. 44-45. Finally, Consumers advocates for the Commission to avoid adopting MSC's overly prescriptive recommendation to include low-, medium-, and high-electrification scenarios into its load forecasts, explaining that the company is actively assessing electrification activity and already plans to incorporate impacts of electrification into forecasts when reliable data is available. *Id.*, p. 45.

In her exceptions, the Attorney General reiterates that recent usage patterns from the most recent three-year period shows that overall transportation volumes should be increasing, not decreasing. She argues that the most recent usage better reflects future usage for the projected test year and that the output of the regression model is only as good as the data input into the model. Attorney General's exceptions, pp. 28-29. In turn, the Attorney General urges the Commission to adopt her proposed adjustments. *Id.*, p. 29.

Consumers replies and argues that the Attorney General's use of a three-year combined average growth rate is highly variable from year to year and that the use of any forecasting methodology that relies on this value will result in instability. Consumers' replies to exceptions, pp. 46-47. Consumers further asserts that the Attorney General's belief that commercial gas usage is likely to change is already captured through regression modeling and that her argument that the company used stale data is misplaced. *Id.*, pp. 48-50.

In its exceptions, Consumers states that it does not necessarily oppose the ALJ's recommendations concerning the presentation of gas load forecasts in future rate cases but avers that further clarification is needed. Consumers' exceptions, pp. 95-96. The company first states that it already utilizes out-of-sample data and uses the model to predict the next future period; relatedly, Consumers states that it plans on using the model in the future to predict recent past periods that predate the data used to train the model. *Id.*, pp. 96-97. However, Consumers argues that it would be inappropriate to withhold data from the data set used to train the model to see if the model predicts the portion of the withheld data because use of such out-of-sample data would make the model more susceptible to error. *Id.* Next, Consumers argues that the ALJ's recommendation to incorporate the impacts of electrification are unnecessary because the company is actively assessing electrification and plans to incorporate impacts in its forecast when

reliable data is available. *Id.*, pp. 97-98. Finally, the company explains that it already includes a five-year forecast of gas deliveries as part of its gas rate case submissions and questions the value of requiring the company to perform further work to include an additional five years in its submissions, noting that the farther out the forecast looks, the less reliable it becomes. *Id.*, pp. 98-99.

In replies to exceptions, MSC urges the Commission to provide more stringent and specific directives to Consumers and to disregard the company's purported efforts to avoid testing its regression model with out-of-sample testing. MSC's replies to exceptions, pp. 30-31.

The Staff states that the purpose of any forecast is to predict the future with as much accuracy as possible. Accordingly, the Staff recommends "that the Commission order the Company to test its models using multiple out-of-sample sets, including those that predate the training set entirely, those that immediately follow the training set, and test sets that mimic the length of time between the present and the projected test year." Staff's replies to exceptions, p. 17.

The Commission has reviewed the record and the parties' arguments and finds the ALJ's recommendations to be well-reasoned and supported by the evidence on the record. The Commission agrees with the ALJ and finds that Consumers assented to the Staff's proposals, including the Staff's addition of \$1.12 million to revenue. 2 Tr 277; *see also*, Consumers' initial brief, pp. 254-255. The Commission, therefore, adopts the ALJ's findings and conclusion regarding the Staff's proposed addition of \$1.12 million to revenue and further directs Consumers, in future gas rate cases, to provide all raw data and inputs used to develop the company's deliveries and customer count forecast models and to work with the Staff to improve the company's exhibits and testimony regarding its RIA projections. *See*, 4 Tr 2653-2654, 2746; *see also*, PFD, p. 318.

Additionally, the Commission is unpersuaded by the Attorney General's argument that commercial transport volumes should be adjusted upward and that revenue should be increased by \$1.822 million for the projected test year. The Commission finds persuasive Consumers' argument that it is better to adhere to the company's regression model, as opposed to the three-year historical average used by the Attorney General, to forecast commercial transport volumes and associated revenue. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. PFD, p. 318.

The Commission declines to adopt MSC's proposal to reject the company's load forecast on the basis that it fails to accurately reflect trending declining gas usage. The Commission agrees with the ALJ and finds that, when considering all historical data, including weather-normalized data, the record does not conclusively demonstrate a long-term declining trend of 4% in gas usage, as argued by MSC. Moreover, the Commission accepts the evidence presented by the company regarding the accuracy of the regression model and finds that the regression model used to forecast load was reasonable. 2 Tr 268-274. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue. *See*, PFD, p. 319.

The Commission also declines to reject Consumers' load forecast on the basis that the company's current modeling or forecast is faulty because it did not account for the effects of Act 229. The Commission is unpersuaded by MSC's argument that Act 229 would have a material effect on forecasted sales for the test year that is not already captured in Consumers' model. The Commission, therefore, adopts the ALJ's findings and conclusions on this issue. PFD, p. 320. Further, the Commission agrees with the ALJ and finds that it is not premature for Consumers to begin to consider the effects that increasing electrification may have on demand for gas. As a result, the Commission directs Consumers in future gas rate cases to incorporate the

impact on gas demand attributable to increasing customer electrification measures and trends, as well as any effect of Act 229 not already accounted for. As noted by the ALJ, “energy efficiency or electrification inputs into the company’s load forecast should stem from a consistent set of data whether from other cases before the Commission (i.e. EWR cases) or a reliable third-party source of data.” *Id.*, pp. 320-321. The Commission further directs the company to include forecasted yearly sales for each major customer class for the 10-year GDP horizon and include for each year a list of the amount of throughput expected on a peak demand day. *See, id.*, p. 321.

Concerning MSC’s proposal regarding the use of out-of-sample data, the Commission finds that using out-of-sample data is valuable for confirming the accuracy of the company’s regression model. The Commission further finds that Consumers has expressed a willingness to use out-of-sample data for its model and is already planning to utilize out-of-sample data in its next gas rate case. *See*, Consumers’ exceptions, pp. 95-96. On this basis, the Commission directs the company to use out-of-sample data to test its regression model in the next gas rate case. Specifically, the Commission directs the company to use its regression model to predict the next future period and to predict recent past periods that predate the data used to train the model, as agreed to by Consumers. *See, id.*, p. 96.

Finally, finding the ALJ’s recommendation to be well-reasoned and supported by the evidence on the record, the Commission adopts Consumers’ projected transportation revenue amount of \$102.4 million and projected miscellaneous revenue amount of \$28.67 million. *See*, PFD, p. 321.

B. Lost, Unaccounted For, and Company Use Gas

As explained by Consumers, lost and unaccounted for (LAUF) gas is the gas volumes lost due to “[f]actors such as gas leaks, customer billing issues, customer theft, meter and measurement accuracy, and gas vented for operational, maintenance, and safety purposes.” 4 Tr 1500. For the

test year, Consumers projected LAUF gas expense of \$12.709 million. 4 Tr 1501; *see also*, Exhibit A-73, line 1, column (c); Exhibit A-75. Additionally, the company projected that expense for use gas (gas used for the company's own purposes) would total \$5.50 million for the test year. 4 Tr 1503; *see also*, Exhibit A-73, line 2, column (c), Exhibit A-75.

The Attorney General asserted that Consumers' commitment to reducing methane emissions by 80% by 2030 will equate to a cumulative reduction of LAUF gas volumes of 220,748 Mcf. 4 Tr 2016-2017 (referencing Exhibit A-42). The Attorney General, therefore, proposed a corresponding reduction in LAUF gas expenses of \$0.728 million. 4 Tr 2017.

In rebuttal, Consumers disagreed with the Attorney General's proposed reduction and argued that a reduction in methane emissions does not guarantee a reduction in LAUF gas volumes. Consumers further contended that there are LAUF gas volumes that are not associated with methane emissions, such as theft and metering inaccuracies. Moreover, Consumers argued that, to the extent methane emissions are part of LAUF, the company's use of a five-year average to calculate LAUF gas volumes accounts for future reductions in methane emissions. 4 Tr 1529. Accordingly, Consumers advocated for the Commission to reject the Attorney General's proposed reduction. *Id.*; *see also*, Consumers' initial brief, pp. 266-267.

The ALJ agreed with Consumers that "LAUF gas can encompass gas lost through means other than leaks or emissions." PFD, p. 323. As a result, the ALJ found that it would be inappropriate to adopt the Attorney General's proposed reduction. *Id.*

In exceptions, the Attorney General reiterates her call for the Commission to adopt a reduction of LAUF gas expense that corresponds to Consumers' projected methane emission reductions. She argues that the company's use of a five-year average is insufficient because it fails to address the company's future actions that will impact the amount of LAUF gas that is likely to occur in the

projected test year. Attorney General's exceptions, p. 31. Further, the Attorney General argues that the components of LAUF gas are nearly the same as the sources of methane gas that Consumers seeks to reduce and that it is therefore reasonable to expect the company to meet its overall methane emission reduction goals by the test year. The Attorney General asserts that Consumers should be held accountable for its planned methane emissions and that the Commission should reduce LAUF gas expenses. *Id.*, pp. 31-32.

In replies to exceptions, Consumers argues that it would be illogical to conclude that methane emissions will result in a one-for-one reduction in LAUF because "some methane emissions have nothing to do with LAUF and some LAUF has nothing to do with methane emissions." Consumers' replies to exceptions, p. 52. As a result, Consumers asserts that there is no valid support for the Attorney General's proposed reduction because it is based on the invalid assumption that reductions in methane emissions are synonymous with reductions in LAUF. *Id.*, p. 53.

The Commission has reviewed the record and, finding the ALJ's reasoning to be well-reasoned, adopts the ALJ's findings and conclusions on this issue. *See*, PFD, p. 323. While the Commission agrees with the Attorney General that the company's goal for net zero methane emissions may reduce LAUF gas volumes, the Commission is not persuaded that the Attorney General's associated calculation to reduce test year expense is appropriate. As Consumers notes, the company's use of a five-year average to calculate LAUF gas volumes is a methodology that has previously been approved by the Commission. Further, the Commission agrees with the company and finds that a reduction in methane emissions does not necessarily guarantee a one-to-one normalized reduction in LAUF gas volumes expense for the test year, as suggested by the Attorney General. The Commission also acknowledges that there are likely multiple paths to

meeting Consumers' methane emissions reduction goals that do not involve LAUF gas. Moreover, the Commission agrees that there will be LAUF gas values that are unrelated to methane emissions, such as theft and metering inaccuracies. Accordingly, the Commission rejects the Attorney General's proposed disallowance for this expense. The Commission, however, agrees with the Attorney General's overall approach of accounting for methane emission reductions and their potential impact on LAUF gas volumes and associated expenses. The Commission notes that the company should make efforts to assess and quantify the impacts of the company's anticipated reductions, including what portion of those anticipated reductions compromise LAUF gas volumes.

C. Other Operations and Maintenance Expenses

1. Engineering, Supply, Operations, and Compliance Operations and Maintenance Expense

a. Quality Lean Office

Consumers projected a test year expense of \$3.15 million for gas project management, including projected O&M expense of \$2.02 million for the company's Quality Lean Office, which is responsible for establishing and maintaining standards, processes, procedures, and policies to ensure company and regulatory standards are consistently met. 3 Tr 360, 361; *see also*, Exhibit A-81, p. 1. According to Consumers, the increase in expense for the Quality Lean Office from the 2023 historical year is due to reorganizations that occurred in May of 2024. 3 Tr 361-362.

The Attorney General contended that, in response to discovery requests, Consumers identified 24 employees assigned to the gas side of the Quality Lean Office and projected test year expense for the gas portion totaling \$1.26 million. 4 Tr 2002-2003; *see also*, Exhibit AG-57, p. 3. However, the Attorney General argued that the company failed to provide any pertinent

information about the accomplishments, cost savings, or financial benefits of the office to justify these costs and instead provided a generic response regarding the support the office provides.

4 Tr 2003; *see also*, Exhibit AG-57, p. 3. Accordingly, the Attorney General proposed a disallowance of \$1.259 million of test year expense. 4 Tr 2003.

In rebuttal, Consumers disputed the Attorney General’s proposed disallowance and explained that the Quality Lean Office “accelerates values delivery by building lean capabilities in the organization” by leveraging the company’s existing operating system to improve performance. 3 Tr 461. In support of the office, the company cited \$3.6 million in benefits achieved from the Employee Incentive Compensation Plan operational performance measures and a \$216,000 reduction in EIRP plastic pipeline costs per mile, when compared to 2023 costs. 3 Tr 461. As such, Consumers urged the Commission to approve projected expenses so that the Quality Lean Office could “continue to support overall business efficiency and continuous performance improvement.” 3 Tr 462.

The ALJ agreed with the Attorney General and found that Consumers had not adequately justified the projected expense for the Quality Lean Office. PFD, p. 327. Although the ALJ found Consumers’ rebuttal encouraging, he found it insufficient to meet the company’s burden of demonstrating that the expense was reasonable and prudent. Accordingly, the ALJ recommended the removal of \$1.26 million of O&M expense but stated that expenses for the project could be approved in a future gas rate case if the company provides a more systematic and quantifiable demonstration to justify costs. *Id.*

In exceptions, Consumers advocates for the Commission to reject the ALJ’s proposed disallowance. The company argues that the personnel in the Quality Lean Office “have expertise in helping other departments develop improved capabilities to work more efficiently and

effectively and to identify and solve problems, all while pursuing continuous improvement. The benefit provided is helping departments throughout the Company mature in the CE Way and in their tools for process improvement.” Consumers’ exceptions, pp. 100-101. Consumers restates the specific examples raised in its testimony regarding the benefits provided by the office and asserts that these benefits alone justify costs. Accordingly, Consumers urges the Commission to approve the salaries and expenses of the Quality Lean Office so that it can maintain sufficient funding to continue supporting overall business efficiency and improvement. *Id.*, p. 101.

In replies to exceptions, the Attorney General urges the Commission to adopt the ALJ’s proposed disallowance and reiterates her argument that Consumers failed to provide supporting documentation, calculations, or other information to support the increased expense of the Quality Lean Office. Attorney General’s replies to exceptions, pp. 65-68.

The Commission has reviewed the record and agrees with the Attorney General that the company has not adequately justified the increased expense for the Quality Lean Office. The Commission notes that the number of employees that comprise the office has gone from six employees in 2023 to 30 employees/contractors for the projected test year. Similarly, expense for the office has risen significantly, with test year expense projected to more than double the amount from 2023 (from \$0.57 million to \$1.26 million). *See*, Exhibit AG-57, p. 1. While the significant rise in the number of employees and projected expense of the Quality Lean Office may constitute justification, the Commission finds that the company failed to meet its burden in this case to demonstrate that such costs are reasonable and prudent. Further, the Commission is unpersuaded by the company’s limited, specific examples of the benefits obtained by the office to support the substantial projected rise in costs. Accordingly, the Commission adopts the ALJ’s recommendation and disallows \$1.26 million in expense for the projected test year.

b. System Integrity Expense

Consumers testified that the system integrity department manages programs to ensure asset safety and reliability and that test year expense for the department is projected to be \$3.79 million. 3 Tr 366; *see also*, Exhibit A-81, p. 2, line 5. The company stated that projected O&M expense includes portions of salaries and expenses for engineers, designers, analysts, and other support staff needed for system integrity programs and that the increase in expense from 2023 is “attributed to a departmental reassessment of work activities.” 3 Tr 366-367.

The Attorney General recommended disallowing \$1.51 million in test year expense and argued that the increased expense for the test year was merely a reclassification of existing salaries and expenses without evidence of offsetting reductions from the originating departments. As such, she argued that the company’s proposed increase was unsupported and should be disallowed. 4 Tr 2000-2001.

In rebuttal, Consumers clarified that the shift in O&M expense was unrelated to any departmental reorganization and instead represented a shift from capital expenditures to O&M expense that did not involve an offset or removal of O&M expense from other areas. 3 Tr 460 (referencing Exhibit AG-57, p. 4). As a result, Consumers recommended that the Commission reject the Attorney General’s proposed disallowance. 3 Tr 460.

The ALJ stated he was satisfied by Consumers’ explanation that the reclassification “was not related to departmental reorganization but was a shift of salaries from capital expenditures to O&M.” PFD, p. 329. Accordingly, he recommended that the Commission reject the Attorney General’s recommended disallowance. *Id.*

In exceptions, the Attorney General acknowledges Consumers’ statements regarding the reclassification of salaries and expenses for the program. However, she insists that the company

was not transparent and failed to support the increased expense regardless of whether it resulted from a reclassification or reorganization. Specifically, the Attorney General contends that it was Consumers' obligation to provide sufficient and comparable historical information to explain the increased expense, like the Commission has required in previous rate cases, but that the company failed to do so. Attorney General's exceptions, pp. 33-34.

In replies to exceptions, Consumers reiterates that the projected increase in O&M expense is based on a reclassification that does not offset or remove O&M expense in other areas but rather shifts costs from capital to O&M based on the inspection and remediation work that will be performed. As such, Consumers advocates for the Commission to reject the Attorney General's proposed reduction. Consumers' replies to exceptions, pp. 54-55.

The Commission finds persuasive the Attorney General's argument that Consumers failed to adequately support its request for increased O&M expenses. *See*, Attorney General's exceptions, pp. 33-34. The Commission finds that Consumers did not provide sufficient and comparable historical information in the record and that the company could have more transparently justified its request for increased expenses for the program. Indeed, the evidence on the record in support of this reclassification is Consumers' narrative statements relating to the expense category. *See*, 3 Tr 460; *see also*, Exhibit AG-57, p. 4. In its replies to exceptions, Consumers adds that the increased O&M for this system integrity expense is not a shift from O&M expenses in other areas but instead that this additional O&M expense was previously classified as a capital expense item. Consumers' replies to exceptions, pp. 54-55. While the Commission sees potential benefit in such a reclassification to more accurately reflect the nature of the work involved, it is incumbent on the company to provide greater detail on the shift, including the associated decrease in capital costs. Consumers provided no such evidence on the record for this reclassification. Accordingly, the

Commission respectfully rejects the ALJ's recommendation and instead adopts the Attorney General's proposed disallowances of \$1.51 million in test year system integrity expense.

c. Advanced Methane Detection Operations and Maintenance Expense

For the same reasons as her proposed disallowance of capital expenditures, the Attorney General proposed disallowing O&M expense totaling \$1.97 million for the AMD project.

4 Tr 2003-2004; *see also*, Exhibit AG-57, p. 5.

Consumers again argued that the safety and environmental benefits of the AMD project supported its costs and, therefore, advocated for the Commission to reject the Attorney General's proposed reduction of expenses. Consumers' initial brief, pp. 69-71, 269. However, Consumers asserted that even if the Commission disallows expenditures and expenses for the program, it should not disallow the full amount requested by the Attorney General. Rather, Consumers notes that the O&M expense that would be included in the test year would only amount to \$0.57 million. *Id.*, p. 269.

The ALJ recommended that the Commission adopt the Attorney General's proposed reduction of AMD expense consistent with his recommended disallowance of the program's capital expenditures. PFD, p. 330.

In exceptions, Consumers argues that the Commission should reject the disallowance of O&M expense for AMD. For the same reasons the company advocates rejecting the ALJ's proposed disallowance of the capital expenditures for the program, Consumers urges the Commission to permit recovery of the full O&M expense associated with AMD. Consumers' exceptions, p. 101 (referencing Consumers' exceptions, pp. 25-27).

In replies to exceptions, the Attorney General reiterates her call to disallow O&M expenses for the same reasons she recommended the removal of capital expenditures associated with the program. *See*, Attorney General's replies to exceptions, pp. 32-34, 68.

As previously noted in the Commission's discussion of capital expenditures for the AMD program above, the Commission finds that the leak detection objectives of the AMD program remain of significant importance, regardless of whether the PHMSA rule is ultimately enacted. The Commission further finds persuasive the company's testimony and arguments that the AMD program will strengthen the company's ability to identify even the smallest gas leaks, thereby reducing the risk of undetected leaks, enhancing public safety, and minimizing environmental exposure to methane emissions. *See*, 3 Tr 421-423. Accordingly, the Commission respectfully rejects the ALJ's recommendations to adopt the Attorney General's proposed disallowance of O&M expense associated with the AMD program. *See*, PFD, p. 330.

d. Utility Network Expense

The Attorney General proposed disallowing test year O&M expense of \$0.52 million for Consumers' Utility Network project. 4 Tr 2019. Like her arguments for disallowing the company's projected capital expenditures, the Attorney General argued that the project's marginal improvement in functionality, coupled with the company's lack of a BCA for the project, undercuts support for the costs of the project. 4 Tr 1896-1897.

In rebuttal, Consumers defended its projected O&M for the project for the same reasons that it claimed that the Commission should allow capital expenditures. 3 Tr 459-460. Specifically, Consumers contended that its current GIS platform would soon become unsupported and that the project is needed to mitigate risks associated with the end of product support and to provide greater insight, efficiency, and improved safety and delivery for customers. 3 Tr 457-458.

Consistent with his approval of capital expenditures for the program, the ALJ recommend rejecting Attorney General's proposed O&M expense disallowance. PFD, pp. 99, 331.

No exceptions were filed on this issue.

The Commission finds the ALJ's recommendation to be well-reasoned and supported in the record. Having no exceptions filed on this issue, the Commission adopts the ALJ's recommendation and approves the company's projected test year O&M expense of \$0.52 million for the Utility Network project.

e. Leak Repair/Leak Detection and Repair Rule Expense

Consumers testified that it plans to reduce known leaks on its system in compliance with the proposed federal LDAR rule, regardless of timing. As a result, the company projected O&M expense of \$1.3 million to address the company's anticipated backlog on the system for the test year. 4 Tr 1612, 1641-1642.

The Staff testified that it found Consumers' repair of known leaks to be reasonable in cost and prudent for safety, regardless of whether the federal LDAR rule is passed. 4 Tr 2699.

Both the Attorney General and ABATE explained that the federal LDAR rule has been placed on hold; consequently, they both argued that the projected expense would not be incurred and therefore would be unreasonable. 4 Tr 2004, 2144-2145. ABATE further asserted that the projected expense should be disallowed because the number of system leaks repaired in 2023 was well below the historical average and because historical data demonstrates that the number of leaks has been declining. 4 Tr 2145-2146.

In rebuttal, Consumers asserted that the company's decision to reduce its leak backlog was independent of the publication of the federal LDAR rule. Consumers explained that it was "accelerating the reduction of leaks on the leak backlog for customer safety, risk reduction,

and emissions reduction to serve all of the Company's customers and increase public trust."

4 Tr 1701. Accordingly, Consumers advocated for the Commission to reject the Attorney General's and ABATE's proposed disallowances. 4 Tr 1701.

The ALJ recommended rejecting the Attorney General's and ABATE's proposed disallowances, finding it to be reasonable and prudent to address leaks regardless of whether the federal LDAR rule goes into effect. PFD, p. 334.

In exceptions, the Attorney General claims that Consumers proposed increasing expense by \$2.8 million from actual 2023 expense, and that although some of the increase is meant to address the company's backlog of leaks, Consumers is also seeking an additional \$1.3 million in expense for the anticipated implementation of the federal LDAR rule. She reiterates her assertion that the expense is unreasonable because the federal LDAR rule is on hold, and she argues that the company's increased expense is not adequately supported. Attorney General's exceptions, p. 35.

ABATE excepts to the ALJ's recommendation and argues that the ALJ failed to address its argument that, beyond federal LDAR rule uncertainties, historical evidence does not support Consumers' contention that it has a significant backlog of leaks that needs to be promptly addressed. To the contrary, ABATE again states that the number of leaks repaired in 2023 was well below the historical average. ABATE's exceptions, pp. 5-6.

In replies to exceptions, Consumers clarifies that it is not seeking an additional \$1.3 million in expense for its backlog of leaks, but rather that this amount is included in the \$2.8 million increase proposed by the company. Consumers' replies to exceptions, pp. 56-57. In response to ABATE's exceptions, Consumers argues that it continues to find a significant number of new leaks each year that surpasses the company's efforts to repair them. *Id.*, p. 59; *see also*, Exhibit AG-69, p. 3. As a

result, the company argues that ABATE's conclusion that the number of leaks is declining is misguided and inaccurate. Consumers' replies to exceptions, p. 59.

Finding the ALJ's recommendation to be well-reasoned and supported by the evidence on the record, the Commission adopts the PFD on this issue. *See*, PFD, p. 334. As stated in the section addressing capital expenditures above, the Commission finds that regardless of the implementation of the proposed LDAR rule, addressing a backlog of known leaks represents a reasonable and prudent expense by the company to support safe and reliable natural gas service. Additionally, the Commission finds that Consumers has demonstrated that the company has a backlog of leaks that should be addressed, regardless of whether the final LDAR rule is in effect. *See*, Exhibit AG-69, p. 3.

f. Staking and Locating Expense

Consumers explained that its staking and locating program involves the staking and locating of the company's gas distribution facilities in compliance with MISS DIG requirements. According to Consumers, the work for this program is typically performed on a shared contractor model by third-party contractors that provide work for other utilities in addition to the company. 4 Tr 1645. For the test year, Consumers projected O&M expense totaling approximately \$24.46 million, as compared to a 2023 actual expense of approximately \$12.41 million. 4 Tr 1646, Table 29.

The company outlined the components of the test year expense increase, explaining that the total expense amount includes, among other things, \$1.71 million in expense attributable to an expected rise of 66,379 contractor requests and \$9.47 million related to the expansion of the company's dedicated model and contractor rates. Consumers further broke down the dedicated model and contractor rate increases into \$2.18 million for expanding dedicated staking in Oakland

and Kent counties, and \$7.29 million to extend the dedicated model across the rest of the company's service area. 4 Tr 1646. According to Consumers, this expansion amount was based on request for proposal (RFP) results, which showed that the dedicated contractor model would be more cost-effective than continuing with the company's shared contractor model. 4 Tr 1646-1647.

Consumers added that spending on the program is primarily driven by staking request volume (units) and the cost of staking contractors. 4 Tr 1646. The company stated that it anticipated a 7% volume increase for units for the test year, relative to 2024, which Consumers asserted was in alignment with the trend of historical data and staking forecasts for the state. 4 Tr 1647-1648, 1649, Table 32. Consumers contended that external influences, namely increased fiber optic installation and other infrastructure work, would increase staking requests so that the actual staking demand the company experiences in the future may exceed forecasted requests. Accordingly, Consumers proposed that the Commission permit the company to defer refund or recovery for any staking and locating O&M expense. 4 Tr 1649.

Additionally, Consumers testified that the company and Michigan as a whole rank in the fourth quartile for third-party gas distribution damages per 1,000 tickets. 4 Tr 1650-1651. To address this, the company stated that it piloted a dedicated staking strategy in which contractors focused solely on Consumers' gas and electric assets, improving accuracy, timeliness, and excavator communication with public safety as the goal. 4 Tr 1651. Consumers reported that in 2023, Oakland County achieved an 87.3% reduction in at-fault damages, and 98.7% timeliness under the dedicated model (compared to 97.3% for shared contractors). In 2024, the company stated that accuracy related to at-fault damage reduction improved by 78.6% from 2022 in Oakland and Kent counties and that the counties saw a 78.6% damage reduction from 2022 and 99.5% average timeliness (compared to 95.2% under the shared model). 4 Tr 1653.

Finally, Consumers noted that the shared contractor program contract expired in early 2025. 4 Tr 1652. Following bid solicitations for both shared and dedicated services, Consumers determined that the dedicated contractor bids produced lower unit costs. After ensuring comparability, Consumers contended that the dedicated model proved to be an average of \$10.90 less per unit than the shared model. Further, Consumers asserted that continuing the shared model would have increased estimated test year costs by \$3.67 million. 4 Tr 1654. Consumers also testified that test year costs for the dedicated contractor locating program apply exclusively to the company's gas facilities and that because the dedicated model costs less and provides greater benefits, the company plans on expanding the model to its entire service area. 4 Tr 1651-1652.

The Staff testified that it had no concerns with Consumers' projected test year expense for the staking and locating program and offered no opinion on the company's proposed base ticket volume for the test year. 4 Tr 2701. The Staff stated that it supported the company's request for a deferred accounting mechanism, noting Consumers' explanation that the Realizing Opportunities with Broadband Infrastructure Networks (ROBIN) and Broadband Equity, Access, and Deployment (BEAD) programs could cause significant fluctuations in staking volumes. 4 Tr 2701-2702. The Staff, however, emphasized that its support for the mechanism applied only to fluctuations tied to ticket volume variability and, therefore, only recommended a regulatory deferral mechanism that would recover up to the base unit ticket volume with a refund to customers if the projected ticket volume was not met for the test year and recovery capped at approximately \$2.298 million. 4 Tr 2702; *see also*, Exhibit S-17.3.

The Attorney General recommended disallowing \$11.18 million in incremental O&M expense for the projected test year. 4 Tr 2008. She acknowledged that since 2023, Consumers has operated its own dedicated staking and locating program in Oakland and Kent counties, while

outside these counties the costs of locating underground facilities requested by MISS DIG have been shared among gas, electric, water, and cable companies. 4 Tr 2005. The Attorney General stated that the company proposed increasing staking costs from \$12.4 million in 2023 to \$24.4 million in the test year, with \$15.1 million in expense related to expanding the company's dedicated program beyond Oakland and Kent counties. 4 Tr 2005.

The Attorney General argued that the company's proposed \$12 million increase to expand the dedicated program to the remaining counties in its service area is unjustified without evidence that a serious problem exists with the company's current staking and locating program that could not be resolved in other ways. 4 Tr 2006. She further criticized the company's lack of a thorough evaluation of the dedicated program, questioned whether reported performance improvements justified the proposed higher costs, and found Consumers' claim of lower costs per unit for the dedicated model to be counter to historical evidence. 4 Tr 2006-2007. Moreover, the Attorney General asserted that contractor incentives and Consumers' preference for the dedicated model made the company's contractor bidding results unreliable. 4 Tr 2007. Finally, the Attorney General advocated for the Commission to reject Consumers' request for deferred accounting treatment for the staking and locating expense, arguing that there is no compelling evidence that staking and locating requests have been highly volatile. 4 Tr 2033.

In rebuttal, Consumers contended that the ROBIN and BEAD programs could substantially increase staking volumes, citing Michigan's planned \$250.6 million investment to expand broadband by 2026. 4 Tr 1712-1713. The company, therefore, rejected the Attorney General's position and confirmed that it accepted the Staff's conditions related to the deferral mechanism. 4 Tr 1713. Additionally, Consumers argued that it reviewed performance issues with its shared contractor throughout the prior three-year contract, but that problems persisted, and the contract

expired in 2025. 4 Tr 1706-1707. Following a competitive RFP, Consumers explained that only one bid was received for shared staking, and that this bid was significantly higher than dedicated bids. Consumers reiterated that the dedicated model saves an average of \$10.90 per unit, performs better, and justifies statewide expansion. 4 Tr 1707-1710.

The ALJ, based on information conveyed in Confidential Exhibits A-143 and A-144 and Consumers' rebuttal testimony, found that there was "no obvious irregularities in the company's selection of a dedicated staking contractor for its service area that would warrant the Attorney General's recommended disallowance." PFD, p. 349. As a result, the ALJ recommended rejecting the Attorney General's proposal to disallow \$11.18 million in incremental O&M expenses for the projected test year. Concerning the company's requested deferred accounting mechanism, the ALJ found that the company's acceptance of the Staff's proposed changes to the deferral mechanism, which tied the company's recovery to actual costs and required a refund to customers for underspending, addressed the Attorney General's concern regarding the appropriateness of the mechanism. *Id.*, p. 350. Accordingly, the ALJ recommended that the Commission approve the company's requested deferred accounting mechanism, subject to the conditions outlined by the Staff. *Id.*

In her exceptions, the Attorney General expressly notes that she is not filing an exception related to the ALJ's recommendation to reject her proposed disallowance for O&M expense for the projected test year. Attorney General's exceptions, p. 36. However, the Attorney General excepts to the ALJ's recommendation to approve a deferred accounting mechanism for costs. Specifically, the Attorney General argues that the ALJ misperceived her concerns and that the deferred accounting mechanism "is a solution looking for a problem." *Id.*, p. 37. She reiterates her contention that Consumers provided no compelling evidence that staking requests have been

highly volatile or that expense has varied significantly. She further asserts that, given the annual cadence of rate cases, there is virtually no regulatory lag that would warrant the use of the mechanism. In turn, the Attorney General maintains her position that the proposed mechanism is unnecessary and advocates for the Commission to reject the ALJ's recommendation on this issue. *Id.*

In replies to exceptions, Consumers contends that it provided sound evidence supporting the likelihood that actual costs could vary from the expense proposed for setting rates. The company points to data presented in testimony that shows that "staking request volumes have been increasing over recent years and explained that the volume of staking requests is expected to increase even further into the test year due to fiber optic and other infrastructure work." Consumers' replies to exceptions, p. 62 (citing 4 Tr 1648-1649). Consumers again notes that high-speed internet infrastructure grant programs are the main drivers for the need for the deferred accounting mechanism and that the programs have the potential to significantly increase staking volumes above forecasted levels. Consumers' replies to exceptions, p. 63.

With respect to the Attorney General's proposed disallowance of O&M expense for the staking and locating program, the Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. Recognizing that the Attorney General expressly waived any objection as to the ALJ's recommended rejection of her proposed disallowance on this issue, the Commission adopts the ALJ's recommendation and approves the company's projected test year O&M expense. *See*, PFD, p. 349. The Commission also approves Consumers' request for a deferred accounting mechanism. While the Commission notes that the anticipated 7% change in staking volume does not demonstrate the level of uncertainty or volatility outside the company's control that would normally warrant the use of a deferred accounting mechanism, the Commission

finds persuasive the company's and the Staff's explanations that Michigan's broadband expansion efforts, including the ROBIN and BEAD programs, may cause unanticipated fluctuation in staking volumes. Accordingly, the Commission adopts the ALJ's recommendation to allow the company to use a deferred accounting mechanism. *See, id.*, p. 350. The Commission, however, agrees with the Staff and notes that the permitted mechanism is not open-ended. Rather, the Commission finds that the mechanism is only needed for fluctuations tied to ticket volume variability and is therefore subject to the conditions outlined by the Staff. *See*, 4 Tr 2702; *see also*, Exhibit S-17.3.

g. Enhanced Infrastructure Replacement Program Training Expense

Consumers projected a test year expense of \$5.05 million for the EIRP subprogram. 4 Tr 1688, Table 62. According to Consumers, approximately 75-80% of the expense for the program results from technical training needed to ensure that employees are qualified to complete work under the program. 4 Tr 1688. Specifically, Consumers projected an increase in the test year expense of approximately \$1.66 million from 2023 related to training. 4 Tr 1688, Table 62.

The Attorney General disputed the projected expense and noted that the actual spend incurred for training in 2023 declined by approximately \$0.9 million from 2022 and by a further \$0.3 million in 2024. Accordingly, the Attorney General asserted that the EIRP program does not track with Consumers' anticipated expansion and that the company's projected expenses are unsupported. Additionally, she argued that the EIRP subprogram is a mature program that should already have knowledgeable employees and that Consumers failed to present satisfactory evidence of high employee turnover that would justify the expense needed for training. In turn, the Attorney General proposed a disallowance of the increase of \$1.66 million from the company's forecasted O&M expense. 4 Tr 2009.

In rebuttal, Consumers disagreed with the Attorney General's proposed disallowance and reiterated that increased training expense was necessary because "the EIRP workforce continues to experience employees transferring to other operating departments within the Company and that this movement results in the need for hiring and training [. . .]" 4 Tr 1714. The company asserted that the EIRP workforce has been declining and that a total of 332 employees left from the end of 2020 to the end of 2024, reflecting a turnover rate of 76%. 4 Tr 1714-1715; *see also*, Exhibit A-145. As such, Consumers urged the Commission to reject the Attorney General's proposal. 4 Tr 1715.

In the PFD, the ALJ accepted Consumers' explanation that employee turnover could necessitate increased costs associated with the EIRP subprogram. Consequently, the ALJ declined to adopt the Attorney General's proposed disallowance. PFD, p. 352.

In exceptions, the Attorney General argues that there is no support for Consumers' claim that the EIRP subprogram experiences significant turnover. Attorney General's exceptions, p. 38. She claims that the number of forecasted employees to be trained is not supported by the company's recent actual hiring activity (23 new employees in 2023 and 38 new employees in 2024) or the increase in additional miles of EIRP work that Consumers has forecasted. *Id.* (citing Exhibit AG-69, pp. 11-12). As such, the Attorney General contends that Consumers has not credibly justified the increased expense. Attorney General's exceptions, pp. 38-39.

In replies to exceptions, Consumers explains that the projected increased expense for the program is a result of the program's planned growth, which includes the hiring of a total of 145 employees for 2025 and 2026 to support the increase in the EIRP work planned miles in those years. The company also recaps its testimony regarding the turnover for the program as justification for projected expense. Consumers' replies to exceptions, pp. 63-65.

Finding the ALJ's recommendation to be well-reasoned and supported by the record, the Commission adopts the PFD on this issue. *See*, PFD, p. 352. The Commission finds that the company presented evidence to demonstrate that from 2020 to 2024, the program lost 116 employees and hired 216 new employees. 4 Tr 1715. Thus, the Commission finds that the program has experienced significant turnover and new hiring to render the forecasted increase in expense reasonable and prudent. *See*, 4 Tr 1715. As a result, the Commission declines to adopt the Attorney General's proposed disallowance.

h. Maximum Allowable Operating Pressure Transmission Operations and Maintenance Expense

The Attorney General testified that discovery confirmed that Consumers projected test year O&M expense of \$1.12 million for the review of records needed to establish the MAOP of the company's pipelines. 4 Tr 2010; *see also*, Exhibit AG-59. She noted that prior Commission decisions have limited recovery to only 50% of such costs due to insufficient justification, consistent with the Attorney General's testimony on MAOP capital expenditures. Relying on this precedent, the Attorney General recommended disallowing \$0.56 million (50%) of test year expense for the program. 4 Tr 2010.

In rebuttal, Consumers opposed the Attorney General's proposed disallowance and asserted that the expense is required to comply with enhanced PHMSA safety standards adopted in 2019. The company emphasized the new TVC recordkeeping standard exceeds prior requirements and necessitates additional work to ensure compliance and improve pipeline safety, thereby making the expense both appropriate and necessary. 4 Tr 1319-1320.

The ALJ recommended adopting the Attorney General's proposed disallowance of 50% of O&M expenses, which he found to be an appropriate cost-sharing measure. The ALJ stated that such a disallowance would be consistent with the Commission's prior precedent for DTE Gas in

Case No. U-21291, and he noted that as far back as Case No. U-20940, the Commission has stated that revisions to federal pipeline safety regulations are not new recordkeeping requirements. PFD, p. 354.

In exceptions, Consumers argues that the precedent cited by the ALJ was a DTE Gas proceeding, whereby the Commission made findings about DTE Gas's historically poor record keeping practices. The company asserts this is not the case for Consumers. Consumers' exceptions, pp. 102-103. Rather, Consumers avers that the projected O&M expense is directly related to PHMSA's new regulations that "require pipeline operators to reconfirm MAOP and to remediate line segments for which the operator's records do not meet PHMSA's new requirements for [TVC] records. *Id.*, p. 103 (citing 2 Tr 46-47). Consumers argues that the regulations establish compliance milestones that the company must comply with and that, as a result, the expense is reasonable and appropriate. Consumers' exceptions, p. 103.

In replies to exceptions, the Attorney General notes that while Case No. U-21291 involved DTE Gas, the language from that order noted that utilities, generally, were subject to Michigan Gas Safety Standards and therefore she argues that the PHMSA rules were not new requirements for the company. Attorney General's replies to exceptions, p. 70. In turn, the Attorney General reiterates her call for partial disallowance of O&M expense. *Id.*, pp. 70-71.

As noted in the section on capital expenditures for MAOP, the Commission finds that the reconfirmation of pipeline segments contributes significantly to the safe operation and reliable service of Consumers' pipelines. The Commission finds persuasive the company's argument that the prior precedent in Case No. U-21291, upon which the ALJ premised his decision, involved specific findings regarding DTE Gas's historic recordkeeping deficiencies that are not present in this matter. For this reason, the Commission finds that the facts and circumstances of the present

matter are distinguishable from those found in Case No. U-21291. Therefore, the Commission finds that the Attorney General's proposed 50% disallowance is not appropriate. The Commission further finds that Consumers' projected O&M expense is necessary for the company to comply with the PHMSA rules' more stringent TVC requirements, which the Commission again notes will contribute to the safe and reliable operation of the company's pipelines. Accordingly, the Commission respectfully rejects the ALJ's recommended disallowance and instead approves test year O&M expense of \$1.12 million for MAOP.

i. Corrosion Control Expense—Transmission

Consumers projected an O&M expense of \$1.51 million in 2024, \$1.96 million in 2025, and \$2.21 million for the test year for the corrosion control—transmission program. Exhibit A-58, p. 1, line 2.

The Attorney General testified that the company's forecasted expense reflects a \$1.26 million increase over 2023 historical expense, and that based on discovery responses, Consumers attributed this increase to PHMSA regulatory changes requiring pipeline and facility repainting. However, she argued that Consumers failed to provide supporting data, such as work units or activity quantities, to justify the increased expense. The Attorney General further argued that such painting activities are not new and that similar regulatory requirements were in effect in prior years when expenses were lower. As a result, the Attorney General applied inflation adjustments to 2023 historical expense, resulting in a recommended disallowance of \$1.19 million from the company's projected test year expense. 4 Tr 2010-2011.

In rebuttal, Consumers disagreed with the Attorney General and stated that the company's discovery responses directly responded to the questions asked, which did not request specific work units or activity data. 4 Tr 1320-1321. Consumers explained that while the number of projects

and average cost for each category in the program were provided in a discovery response, the nature of corrosion control work—such as atmospheric corrosion mitigation and recoat projects—can vary significantly in scope and cost based on numerous factors. 4 Tr 1321 (citing Exhibit A-137). Consequently, Consumers argued that projecting costs strictly on work units is difficult and that the company's projected expense is necessary to complete required corrosion control activities, including compliance with recent regulatory changes. 4 Tr 1321.

The ALJ declined to adopt the Attorney General's proposed disallowance and stated that he was not persuaded that a disallowance based on historical expense was warranted given Consumers' testimony that corrosion control projects vary widely in scope and scale. PFD, p. 357 (citing Exhibit A-137).

In exceptions, the Attorney General argues that Exhibit A-137, upon which the ALJ relied for his decision, merely demonstrates summary information and that average program costs do not necessarily equate to unit costs. As such, she asserts that the ALJ failed to address the accuracy of the company's claims, and she maintains her position that Consumers failed to adequately support its request for increased expense. Attorney General's exceptions, pp. 40-41.

In replies to exceptions, Consumers argues that the Attorney General failed to request information regarding increased work units or activities. Consumers again states that it responded to the discovery request and provided the number of projects and the average cost for each category in the program. Further, Consumers explains that it provided testimony regarding the difficulty with projecting work based on units in the program and asserts that the projected expense level will ensure that the company is able to comply with PHMSA regulations. Consumers' replies to exceptions, pp. 65-66.

Finding the ALJ's recommendation to be well-reasoned and supported by the record, the Commission adopts the PFD on this issue. *See*, PFD, p. 357. The Commission finds that Consumers provided testimony demonstrating that there is wide variability in the work in the program, that costs can vary widely, and that the work is needed to comply with federal regulations. 4 Tr 1321. Accordingly, the Commission finds the company's projected expense for this program to be reasonable and prudent.

2. Fleet Operations and Maintenance Expense

Consumers explained that it does not have specific fleet O&M expenses, but rather, that the company incurs costs related to its fleet (in addition to direct capital investments) that it treats as "fleet responsibility" dollars. 4 Tr 1419. According to Consumers, "[e]ach fleet unit has defined work assignments that determine which functional areas are allocated the associated responsibility dollars for the unit. Fleet responsibility costs are allocated to both capital and O&M expenses based on the work assignment performed." 4 Tr 1419; *see also*, Exhibit A-27.

MSC noted that Consumers projected \$75 million in total responsibility costs for 2025, and a similar total for 2026. However, MSC stated that the company was unable to provide a breakdown of the allocation of these costs between O&M and capital, or a breakdown of the projected responsibility costs for the test year. 4 Tr 2470. As a result, MSC argued that Consumers had failed to demonstrate the reasonableness or prudence of these costs given the inability to trace costs to understand the value added and how costs relate from projected years to historical periods. 4 Tr 2470-2471. Noting the impact that a full disallowance would have on fleet operations, MSC instead proposed a 20% disallowance to responsibility costs, which equates to a disallowance of approximately \$15 million for both 2025 and 2026. MSC further proposed that the Commission order Consumers to provide "historical and projected fleet responsibility costs by capital and

O&M, with more detailed information on the types of work these dollars support and the value received for these expenditures, by cost category and business unit.” 4 Tr 2471.

MSC also argued that the company has unaccounted-for EV savings on fuel and maintenance and that Consumers will over-recover unless these costs are offset. Using data from the PowerMIFleet initiative, MSC proposed a disallowance of \$72,720 to offset the unaccounted-for EV savings. 4 Tr 2468-2469. Further, MSC proposed that the Commission order Consumers “to conduct a more specific study as to the expected savings of electrifying its fleet assets, by asset type (light duty car, pickup, van, heavy-duty, etc.) to be provided in the next rate case and the results incorporated into future requested cost recovery.” 4 Tr 2469.

Additionally, MSC explained that vehicle idling reduction is a simple way of reducing fleet costs, but that Consumers only uses idling mitigation technology and does not employ behaviorally targeted actions to encourage employees to idle less. Using company fleet data, fuel waste from the Argonne National Labs IdleBox initiative, and fuel prices from the American Automobile Association, MSC approximated that unnecessary idling by the company results in approximately \$2.07 million in increased costs. 4 Tr 2473-2474. Accordingly, MSC proposed that the Commission require Consumers to prepare a more detailed analysis of its vehicle idling. 4 Tr 2474.

In rebuttal, Consumers disagreed with MSC’s proposal to remove approximately \$15 million in responsibility costs for 2025 and 2026. Consumers argued that the Commission had already determined that fleet responsibility costs were reasonable and prudent for the historical eight-year period before this case and that given actual fleet costs of \$86.7 million in 2022 and \$80 million in 2023, it would not be reasonable to reduce the expected costs of \$75 million in 2025 and 2026 by

20%. The company, however, agreed to MSC's proposal for the company to provide additional details regarding fleet responsibility costs in future gas rate cases. 4 Tr 1466-1467.

Regarding EV savings, Consumers testified that MSC's proposal to reduce O&M expense was premature, stating that empirical data would be available only after the test year. The company further stated that it would be incorrect to assume all savings would fall within O&M given that fleet responsibility costs fall within both O&M and capital. Regarding MSC's proposed recommendation for a more detailed study of expected fleet savings, Consumers testified that it agreed and will provide more specific information in future cases. 4 Tr 1666. Similarly, the company agreed to work on the preparation of a more detailed analysis of its vehicle idling. 4 Tr 1467.

The ALJ agreed with MSC that EV-related savings should be recognized and reflected in rates; however, he found that Case No. U-21461, cited by MSC, did not establish precedent for reducing fleet O&M costs based on projected EV savings. Rather, the ALJ found that the case supported requiring Consumers to track and quantify such savings and incorporate them into future rate cases. Accordingly, the ALJ recommended that the Commission reject MSC's proposed disallowance. He further recommended that the Commission direct the company to immediately track and quantify EV-related savings and incorporate the savings into the company's projected spending in future gas rate cases. PFD, p. 363.

With respect to MSC's recommendation to reduce fleet responsibility costs by 20%, the ALJ found that MSC had not demonstrated the reasonableness of its proposal, whereas Consumers had adequately supported its proposed O&M expense. The ALJ stated that MSC's proposed disallowance was not tied to any specific project or line item and therefore appeared arbitrary. *Id.*, p. 362. The ALJ, however, agreed with MSC and recommended that the Commission require

Consumers to “provide historical and projected fleet responsibility costs by capital and O&M and by cost category and business unit in all rate cases going forward.” *Id.*, p. 363.

Finally, as to vehicle idling, the ALJ found that Consumers generally agreed to MSC’s initial proposal, and recommended that the Commission order Consumers to:

prepare a detailed analysis of vehicle idling, including: (1) an assessment, based on research and best practice, of waste versus necessary idling by vehicle type; (2) an estimate of the fuel costs for waste and necessary idling by vehicle type based on the company’s annual average cost of fuel; (3) an estimate of the wear-and-tear from waste and necessary idling, in terms of equivalent miles driven, based on research and best practice, by vehicle type; and (4) an estimate of the tons of carbon dioxide released during waste and necessary idling, by vehicle type, based on research and best practice.

Id., p. 364. The ALJ further recommended that the Commission reject MSC’s proposal to require the company to use the findings of the analysis in its efforts to mitigate idling and to present results in subsequent rate cases. *Id.*

In exceptions, MSC disagrees with the ALJ’s rejection of its proposed EV-related disallowance and his finding that Case No. U-21461 provided no relevant precedent for its proposed disallowance for EV-related savings. According to MSC, in Case No. U-21461, the Commission declined to approve spending precisely because the utility failed to quantify promised savings, allowing only historical expenditures. MSC argues that in this case, Consumers has incorporated EVs into its fleet but has not reflected any offsetting savings in the projected test year. Thus, while not identical to Case No. U-21461, MSC asserts that the Commission’s rationale—disallowing costs where savings are unquantified—directly applies. MSC’s exceptions, pp. 18-20. Even aside from precedent, MSC argues that it is neither reasonable nor prudent to approve EV-related spending based on promised fuel and maintenance savings while assuming zero savings in the test year. *Id.*, p. 20.

MSC also excepts to the ALJ's rejection of its proposed 20% disallowance for fleet responsibility costs and reiterates its contention that Consumers failed to support projected expense. MSC states that the ALJ pointed to no record evidence supporting the company's 2025 or 2026 projections and further states that these projections are arbitrary. MSC contends that adjusting expenses to determine reasonable operating expenses is within the Commission's discretion and that the Commission should adopt the proposed 20% disallowance. *Id.*, pp. 21-22.

Finally, MSC excepts to the ALJ's refusal to adopt the specific recommendations raised in its initial brief regarding vehicle idling. MSC contends that, without a Commission-mandated schedule, the company's analysis of vehicle idling could be delayed indefinitely and that the issue could be litigated repeatedly in future cases. MSC further argues that identifying the specific details of its request in initial briefing is not a sufficient basis to reject the proposal. In turn, MSC advocates for the Commission to impose a reasonable process, including a timeline, for Consumers to complete, present, and incorporate an idling study to reduced fuel costs for customers. *Id.*, p. 24.

In replies to exceptions, Consumers notes that in Case No. U-21461, the utility had a completed BCA but failed to track the financial benefits predicted by the BCA. However, Consumers explains that in the present case, it presented testimony explaining that "it would be premature to include the estimated savings in the Company's cost projections because the deployment of Company EVs in the test year of this case is expected to provide the Company the data needed to establish an accurate assumption related to fuel, maintenance, and other savings to be achieved by replacing internal combustion engine vehicles with EVs." Consumers' replies to exceptions, pp. 66-67 (citing 4 Tr 1466). Accordingly, Consumers argues that Case No. U-21461

is distinguishable and that the Commission should not approve MSC's recommended cost reduction while the company is gathering the necessary data to confirm the cost savings.

The Commission has reviewed the record and the parties' arguments and, finding the ALJ's reasoning to be well-reasoned, adopts the ALJ's findings and conclusions regarding the company's fleet O&M expense. *See*, PFD, pp. 363-364. Regarding MSC's proposed disallowance of 20% of fleet responsibility costs, the Commission agrees with the ALJ and finds that MSC has not adequately demonstrated that its proposed disallowance is reasonable or based on a specific project or line item. *Id.*, p. 363. The Commission notes that fleet responsibility costs totaled \$75.58 million in 2021, \$86.71 million in 2022, and \$80.06 million in 2023. 4 Tr 1466-1467; *see also*, Exhibit A-27. The Commission agrees with Consumers and finds that there is no evidence in the record to suggest that MSC's proposed disallowance, which would reduce the company's fleet responsibility costs to approximately \$60 million for 2025 and 2026, would be appropriate given the company's historical spend. Accordingly, the Commission adopts the ALJ's recommendation rejecting MSC's proposed disallowance of 20% for fleet responsibility costs. PFD, p. 363. The Commission, however, finds that Consumers agreed to MSC's proposal to require additional details regarding fleet responsibility costs in future cases. *See*, 4 Tr 1467. As a result, the Commission directs the company, in future gas rate cases, to provide historical and projected fleet responsibility costs by capital and O&M, with more detailed information on the types of work these dollars support and the value received for these expenditures, by cost category and business unit. *See*, 4 Tr 2741.

The Commission also recognizes the benefits to customers that EVs can provide when replacing internal combustion engine fleet vehicles. However, while the Commission shares MSC's concerns that the benefits of electrifying Consumers' fleet are not being fully realized by

customers, the Commission finds persuasive Consumers' argument that it would be premature to include the estimated savings in the company's projections because the deployment of EVs in the test year of this case is expected to provide Consumers with the data needed to establish an accurate assumption related to fuel, maintenance, and other savings to be achieved. The Commission also agrees with the ALJ and finds that Case No. U-21461 does not provide definitive precedent to reduce the company's fleet responsibility costs for expected EV savings. The Commission therefore declines to adopt MSC's proposed disallowance related to these expected savings. The Commission, however, finds that Consumers agreed to MSC's proposal to provide more specific information regarding expected savings from electrifying its fleet assets in future gas rate cases. 4 Tr 1466. The Commission, therefore, directs the company to conduct a more specific study as to the expected savings of electrifying its fleet assets, by asset type (light duty car, pickup, van, heavy-duty, etc.) to be provided in the company's next gas rate case and the results incorporated into future cost recovery requests. *See*, 4 Tr 2469.

Finally, the Commission finds that Consumers consented to MSC's proposal for the company to prepare a more detailed analysis of its vehicle idling. 4 Tr 1467. Accordingly, the Commission adopts the ALJ's recommendation on this issue and directs the company to prepare a detailed analysis of vehicle idling. *See*, PFD, p. 364. The company's analysis shall include, at a minimum, the following: (1) an assessment, based on research and best practice, of waste versus necessary idling by vehicle type; (2) an estimate of the fuel costs for waste and necessary idling by vehicle type based on the company's annual average cost of fuel; (3) an estimate of the wear-and-tear from waste and necessary idling, in terms of equivalent miles driven, based on research and best practice, by vehicle type; and (4) an estimate of the tons of carbon dioxide released during waste and necessary idling, by vehicle type, based on research and best practice. Once the analysis is

complete, the company should use its findings to support efforts to reduce idling, with the results incorporated into future gas rate cases. The Commission is not persuaded by MSC's argument that more specific direction regarding the analysis is necessary at this time.

3. Information Technology Operations and Maintenance Expense

a. SAP S/4HANA Project Expense

Consumers provided testimony explaining that the company was seeking to defer investment O&M expense associated with the SAP S/4HANA implementation project over the 15-year life of the asset. 4 Tr 735-736, 1580-1581. Consumers further explained that it was seeking to amortize the cost of cloud software service implementation related to the project for the same 15-year period to lessen the impact on customer rates. 4 Tr 735, 1581.

The Staff recommended granting the company's request to amortize the cloud implementation costs associated with the project over 15 years. The Staff further testified that it supported the company's request for deferred accounting treatment and recalculated the resulting reduction in revenue deficiency. 4 Tr 2495, 2610; *see also*, Confidential Exhibit S-13.

In contrast, the Attorney General recommended denying Consumers' request to establish a deferred regulatory asset account for both the SAP S/4HANA project O&M expense as well as associated cloud computing costs. Consistent with her position on capital expenditures, she argued that the project's related O&M expense should be disallowed as premature and inadequately justified. 4 Tr 2018.

In rebuttal, Consumers disputed the claim that the project was premature, reiterating the same rationale the company provided for the project's capital expenditures. The company further emphasized that granting its requests to defer O&M expenses and amortize cloud computing costs

would lessen the burden on customers and help prevent spikes in IT O&M expenses.

4 Tr 771-772, 1598-1599.

Consistent with his treatment of capital expenditures for the project, the ALJ agreed with Consumers and the Staff and recommended that the Commission approve the SAP S/4HANA project's O&M expense and related request for deferral, as well as amortization of associated cloud computing costs. The ALJ stated that he believed Consumers' requests were appropriate for the reasons stated by the company, which included lessening impacts on customer rates. Finally, the ALJ noted that the effect of the O&M deferral is decremental to the revenue deficiency projected in the PFD. PFD, p. 363.

In exceptions, the Attorney General reiterates the arguments she made concerning the disallowance of costs associated with the SAP S/4HANA implementation project. Specifically, she again argues that the company's current ERP system functions well and that the company can continue operating this system for the foreseeable future. She asserts that Consumers is still working on its vendor selection process and that it would be premature to permit recovery of costs for the project without firm plans for project execution. Attorney General's exceptions, pp. 21-22.

In replies to exceptions, Consumers again urges the Commission to reject any O&M expense reductions to the SAP S/4HANA project and again advocates for the Commission to approve the company's associated accounting requests to avoid spikes in O&M expense and to ease the burden on customers. Consumers' replies to exceptions, p. 70.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. For the same reasons explained in the Commission's approval of capital expenditures for the SAP S/4HANA project, the Commission finds that the current system will no longer receive standard vendor maintenance after 2027, and that the system is important to overall system

integrity. Additionally, the Commission agrees with Consumers and finds that the company's request to defer investment O&M expense over the 15-year life of the project and to amortize cloud computing costs associated with the project over the same 15-year period will lessen impacts to customer rates. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue. *See*, PFD, pp. 134, 363.

The Commission, however, again notes that Consumers requested capital expenditure and O&M expense amounts for this cost category based on confidential exhibits and testimony. The Commission reiterates that it is unwilling to issue a rate case order that does not contain the verified revenue deficiency based on all of the decisions made in the order. Thus, the Commission advises Consumers to abandon this form of evidentiary presentation for amounts that will directly affect the revenue deficiency. The revenue deficiency in this order reflects all the Commission's determinations. Since the same must be true for all future rate case orders, Consumers is cautioned to refrain from submitting information confidentially that will directly affect the calculation of the revenue deficiency. If the company believes that it is necessary to do so, it shall provide a detailed explanation of the reason for confidential treatment on the record. While the Commission is highly unlikely to grant such a request (not due to the merits of the requested project, but rather due to the importance of transparency), the Commission will still consider the record evidence.

4. Pension and Benefits Expense

a. Healthcare, Life Insurance, Long-Term Disability, and the Leave It Better Award

Consumers provided evidence showing that expenses for active employee healthcare, life insurance, and long-term (LT) disability are projected to be \$19.76 million in the test year. 4 Tr 1348. Other employee benefit expenses, which are projected at \$3.2 million for the test year,

include the Leave it Better Award (LIBA) program which awards employees for furthering operational goals. 4 Tr 1363; Exhibit A-64.

The Staff recommended that the Commission reject the LIBA program for inclusion in these O&M expenses on grounds that it does not provide a benefit to ratepayers commensurate with its cost. The Staff argued that employee incentives are already addressed through promotion, salary, and the existing employee incentive compensation program (EICP). The Staff recommended that the LIBA program be funded by shareholders and proposed a disallowance of \$550,000 in O&M expenses for the test year; and \$2.38 million in capital expenditures (\$824,000 in 2024, \$702,500 in the remainder of the bridge period, and \$861,000 in the test year) associated with the LIBA program. 4 Tr 2725-2726.

The Attorney General noted that the company's projection for healthcare, life insurance, and LT disability reflects a 10.6% increase over 2023. She recommended a disallowance of \$2.75 million, to reflect expected cost savings, which she later adjusted to \$1.99 million. 4 Tr 2022-2023; Attorney General's initial brief, p. 181.

Consumers countered that the LIBA program is an additional tool for encouraging excellence and differs from the EICP in that the LIBA award is instant and discretionary. 4 Tr 1368-1370. Consumers also corrected the Staff's disallowance amount stating that the actual booked cost for 2024 was \$590,000. Consumers also disagreed with the Attorney General's proposals, stating that the gas O&M allocation should only be \$483,000, and adding that these savings are already included in the company's projections but that they were still offset by the increases to healthcare costs. 4 Tr 1370.

The ALJ recommended that the Commission reject the Attorney General's healthcare disallowance, finding persuasive Consumers' argument that "properly allocated savings were

already incorporated into the company's projections but were more than offset by rising healthcare costs." PFD, p. 376. The ALJ recommended adoption of the Staff's proposal to remove expenses for the LIBA program, because short term incentives are already available through the EICP as well as through promotions and salaries. Noting that all of these incentives are awarded after-the-fact, the ALJ agreed with the Staff "that this type of supplementary award program should be paid for by the company's shareholders instead of ratepayers. Accordingly, this PFD adopts Staff's disallowance as modified by the company's correction for 2024 amounts: (\$590,000 in 2024, \$702,500 in the 2025 bridge period, \$861,000 in the projected test year, and \$550,000 in O&M)." PFD, p. 376.

In exceptions, Consumers argues that LIBA will help the company retain talent and boost morale because it provides an almost-instant acknowledgment of exceptional work from an individual employee that is outside of the pre-determined EICP metrics. Consumers contends that industry studies confirm that award systems like LIBA, which involve public recognition, encourage excellence beyond what promotions and raises can achieve. Consumers' exceptions, p. 105, nn. 20 and 21 (citing 4 Tr 1368). Consumers asserts that the Commission recognized the value of LIBA in the March 21 order, p. 342, where, although the LIBA expense was rejected, the Commission did not preclude the possibility of approval in another case; and the company asserts that it has addressed the Commission's concerns at 4 Tr 1369.

In exceptions, the Attorney General argues that Consumers has not shown where or how the cumulative savings were incorporated into the company's projections and that, if the savings were offset by increased healthcare costs, that should be documented in Exhibit A-64. Attorney General's exceptions, p. 43.

In reply, Consumers argues that the Attorney General fails to recognize that the company considered the \$483,000 in savings attributable to the gas business but that they “were more than offset by increasing health care costs.” Consumers’ replies to exceptions, p. 71 (citing 4 Tr 1370 and Exhibit AG-73).

The Commission agrees with the ALJ that the Staff provided persuasive arguments against rate base treatment for the LIBA program based on the lack of any benefit to ratepayers, and the company provided evidence of the offsetting effect of increases to healthcare costs. 4 Tr 2724-2726, 1370-1371. Consumers’ testimony shows that “[t]he actual gas O&M portion of the Active Health Care, Life Insurance, and LTD Expense for 2024 was \$19.860 million, while the projected expense for 2024 was \$18.921 million.” 4 Tr 1370. 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. 376.

b. Pension, Defined Contribution, 401(k)/Employee Savings Plan

These expense categories were not the subject of dispute, and the ALJ recommended approval of the company’s projections for O&M. PFD, p. 377. The Commission adopts the ALJ’s recommendation.

c. Volatility Mechanisms for Pension and Other Post-Employment Benefits Expense

These expense categories were not the subject of dispute, and the ALJ recommended approval of the company’s projections for O&M. PFD, p. 378. The Commission adopts the ALJ’s recommendation.

5. Voluntary Separation Program Savings

In April of 2023, Consumers announced a voluntary separation program (VSP) for non-union employees, and the company provided evidence that 161 gas utility employees were approved for

and accepted early separation at a cost savings of \$7.99 million in O&M expense. Exhibit AG-63. The Attorney General argued that this amount cannot be validated because the company failed to provide any underlying documentation demonstrating how the savings were incorporated. She recommended that the Commission disallow the full amount from O&M expense for the test year. 4 Tr 2020; Exhibit AG-63. Consumers countered that it did not provide calculations of the VSP savings because the savings are actual amounts, and the company could not provide specific workpapers because “each witness had knowledge and used the knowledge of the VSP savings when developing their O&M expense for the case.” 4 Tr 1597.

The ALJ recommended that the Commission adopt the Attorney General’s proposed full disallowance because “the company has not demonstrated that the VSP savings were specifically incorporated into the O&M expenses for the test year and consequently has not sustained its burden to show that \$7,989,000 of its O&M expenses are reasonable and prudent.” PFD, p. 380. The ALJ cautioned Consumers to provide clear evidence in the future showing how the VSP cost savings are accounted for in rates. *Id.*

In exceptions, Consumers argues that the ALJ erred because:

these savings are actual amounts. The Company disclosed to the Attorney General the number of employees by area and the dollar value of the savings associated with their departure. While specific workpapers identifying these VSP savings for each witnesses’ exhibit were not created, all O&M witnesses included total projected O&M expenses based on the forecasted needs in their business areas. 4 TR 1597. Each witness, with their extensive knowledge and expertise, considered the VSP savings when developing their O&M expense projections for this case. The only exception to this was Company witness Matthew J. Foster who sponsors Corporate O&M expense. Mr. Foster forecasts Corporate O&M by inflating historical O&M expenses. Importantly, he removed VSP savings from the historical year before inflating the expenses, ensuring accuracy. 4 TR 1597. All VSP savings were considered in the development of this case and have been properly incorporated.

Consumers’ exceptions, p. 111.

In reply, the Attorney General argues that the company did not provide underlying calculations or workpapers showing that the cost savings were actually included in projections and the savings cannot be traced. Attorney General's replies to exceptions, p. 72. She avers that it is not adequate to be told simply that the savings were considered.

The Commission respectfully disagrees with the ALJ and finds that Consumers provided sufficient evidence for this expense category. For each company department in which O&M savings occurred as a result of the VSP, Exhibit AG-63 provides: (1) the number of employees who took the option; (2) the savings for the historical year; (3) the projected savings for 2024, 2025, and the test year; (4) the exhibit number and line number where the savings were incorporated; and (5) a note that states "Savings included in labor portion of indicated lines." (One of the referenced exhibits (for Sales Margin/Growth) is confidential.) Recognizing that these employees are no longer with the company, the Commission finds that this evidence adequately demonstrates that the savings were incorporated into the projections for this case and rejects the Attorney General's proposal to remove \$7.99 million from O&M expense for the test year.

6. Employee Incentive Compensation Plan Expense

Consumers explained that the EICP is a form of short-term incentive pay, and that all non-officer compensation is structured to include a base wage and incentive compensation in order to make the employee's total compensation competitive with the market. 4 Tr 1145-1147, 1152-1154. Consumers explained that 50% of non-officer incentive compensation and 70% of officer compensation is based on financial metrics, and the company is not seeking recovery of any expenses related to financial metrics. 4 Tr 1146-1149, 1164-1166. Consumers is seeking recovery of \$1.55 million for the gas portion of EICP, which includes the 30% of officer incentive pay for operational metrics (including the top five officers). 4 Tr 1147, 1169-1170; Exhibit A-41. The

EICP metrics are tied to employee safety, company culture, customer experience, electric reliability, and methane emissions reduction, and both electric and gas are included in the quantification of benefits. 4 Tr 1545-1551; Exhibit A-39.

The Staff supported the \$1.55 million request for EICP with the exception of \$276,300 in EICP for the top five officers. 4 Tr 2607-2610; Exhibits S-8.1, S-8.2. The Staff's recommendation is based on the fact that the information supplied to the Staff by the company lacked the names of the officers linked to the compensation and "only presented how Pay Governance calculates the market data. There was no financial presentation of the compensation data that Staff needed" to compare the officer compensation to the market median. 4 Tr 2609-2610. Thus, the Staff was not able to determine whether the compensation for the top five officers was adequately supported. The Staff recommended approval of \$1.27 million for EICP expense.

The Attorney General objected to the EICP for non-officers as rewarding mediocre performance and noted that base salaries are to be increased by 3.5%. 4 Tr 2024-2027. The Attorney General also objected to the fact that the performance measures commingle electric and gas and thus it was not possible to determine if either side of the company (or another operation) is being subsidized. The Attorney General argued that EICP disproportionately benefits shareholder interests and should be paid for by shareholders. 4 Tr 2030. She recommended a disallowance of 34%, which is \$526,000, based on the argument that achievement of these performance measures is likely to reach only 66%. Thus, she recommended a total disallowance; but, in the alternative, she recommended approval of no more than 66% of the request, which is \$1.02 million. 4 Tr 2030-2031.

Consumers countered that its average EICP operational payouts for 2020 through 2024 were at 105%, thus exceeding the Attorney General's prediction of 66%. 4 Tr 1184. Consumers noted

that if payouts exceed target levels, then shareholders will bear the additional costs. 4 Tr 1182.

Regarding the information that was not supplied to the Staff, Consumers indicated that the database and survey report could not be reproduced due to confidentiality requirements, but that the non-proprietary information given to the Staff should have been adequate for the Staff's purpose. 4 Tr 1185-1187; Exhibit A-132.

The ALJ agreed with the Staff and recommended that the Commission approve \$1.27 million in EICP expense and disallow the amount associated with the top five officers. PFD, p. 397. The ALJ noted that the identical issue was addressed by the Commission in the March 21 order for Consumers' electric side, where the Commission also agreed with the Staff and disallowed the amounts associated with the top five officers. *Id.* (citing the March 21 order, pp. 343-354). The ALJ found that the same program of EICP for non-officers is at issue in the instant case, and he found no compelling reason to deviate from the Commission's recent findings. The ALJ added two directions to Consumers. He recommended that, going forward, the company:

endeavor to find some way to separate electric-specific and gas-specific metrics into their respective rate cases. While conceptually all part of the same overarching compensation program, the Attorney General's concern that gas rate payers may ultimately be subsidizing other parts of the company is well taken where metrics clearly stemming from a different, independent area of the company are included in gas case EICP consideration. At a minimum, this PFD recommends that the company comply with the Commission's prior order and provide additional information. Second, while the Commission was satisfied in Case No. U-21585 that a reduction in non-officer EICP to match achieved metrics was unnecessary, if a pattern of underspending based on unmet metrics unfolds going forward, concomitant reductions in approved EICP cost should be considered.

PFD, pp. 397-398. The ALJ did not recommend approval of the Attorney General's proposal, and stated that his decision rested on finding that "EICP is part of a reasonable level of overall employee compensation." *Id.*, p. 398. He further found that the Staff had been hampered in its ability to independently review the necessary data in order to make market comparisons for officer

EICP, and that the company failed to show any clear tie between officer EICP and a benefit to ratepayers. *Id.*

In exceptions, Consumers argues that the ALJ's concern about whether gas customers may be subsidizing other parts of the company is unwarranted because the ALJ ignores the fact that:

the Company uses an allocation factor to allocate the total EICP cost between its gas and electric utility so that each utility's customers are only paying the portion of the cost that corresponds to each utility's share of the overall program. 4 TR 1170. Furthermore, there is only one gas-specific and one electric-specific metric included in the Company's EICP, all the remaining metrics are applicable to both utilities. Because the program is balanced in this way, it is reasonable to conclude that the allocation factor sufficiently avoids any subsidization between the two utilities.

Consumers' exceptions, p. 107. Consumers also excepts to the disallowance of the projected EICP expense for its top five officers, and notes that in rebuttal the company explained that it provided charts showing "the percentages of base salary, total cash compensation and total direct compensation compared to market." *Id.*, p. 108 (quoting 4 Tr 1187). Consumers notes that, though the names were redacted, the position titles were provided which would allow the Staff to be able to compare officer positions with market materials. Consumers states that it "went to extraordinary lengths to be able to provide access to the highly sensitive third-party data."

Consumers' exceptions, p. 108. Consumers asserts that it has responded to the concerns stated by the Commission in the March 21 order and other orders for its disallowance decisions, and that the evidence shows that the EICP amounts are consistent with the market.

In exceptions, the Attorney General argues that this cost category should be disallowed, but adds that, if the Commission decides to allow incentives based on operational measures, the amount should not exceed \$1.02 million, which is \$250,000 less than the amount supported by the Staff and recommended by the ALJ. The Attorney General argues that this amount reflects the 66% average achievement level that the company has hit for the past five years. Attorney

General's exceptions, p. 43 (citing 4 Tr 2029). The Attorney General disagrees with the ALJ's reasoning and contends that there is a compelling reason to deviate from the decision in the March 21 order because this is a natural gas rate case and that was an electric rate case. She asserts that the ALJ acknowledged that the company failed to provide sufficient information on this record showing the separation of the two units' costs and also failed to meet the standard set by the Commission which requires a showing that the benefits to ratepayers from incentive plans are at least commensurate with the programs' costs. Attorney General's exceptions, p. 45 (citing the December 22, 2005 order in Case No. U-14347, p. 34).

Further, the Attorney General avers that the ALJ's reference to underspending is vague. She argues that the data shows that most employees receive the incentive pay in most years, and that training, discipline, and promotion should be taken into account. She questions some of the company's assertions of cost savings, noting that they are associated with estimates that were not achieved; and she contends that savings related to electric reliability should be calculated using actual SAIDI results rather than comparing averages over time. Attorney General's exceptions, pp. 46-47 (citing 4 Tr 2027-2028). The Attorney General argues that company culture, for example, is a corporate-wide issue and that turnover increased in 2023 over 2020. *See*, 4 Tr 2028; Exhibit A-98. Finally, she objects to the low threshold for payout, arguing that "[e]mployees can fail to meet all but one of the operational goals and still qualify for at least some incentive pay as long as [they] reach a 50 percent threshold for that goal." Attorney General's exceptions, pp. 47-48. She again argues that the actual achievement rate for the past five years is 66%, citing Exhibit AG-66. She avers that this reflects only ordinary performance and should be included in base salaries.

In reply, Consumers argues that the Attorney General mischaracterizes the ALJ's reasoning and comments. Consumers contends that it provided evidence showing that the company sets "total non-officer employee pay at a level that is comparable to the market." Consumers' replies to exceptions, p. 73; *see*, 4 Tr 1145-1171. Consumers also points out that its direct case was filed three months before the March 21 order was issued and argues that it did not have the opportunity to respond to the directives of that case. However, the company contends, it addressed the Commission's concerns and adds that it:

excludes the portion of EICP attributable to its financial metrics and it only requests EICP expense at the 100% payout level of its program even though employees can earn a payout above 100%. 4 TR 1146-1147, 1169. That means that, by design, customer rates include total employee compensation that is less than actual cost and less than market value.

Consumers' replies to exceptions, p. 75; *see*, 4 Tr 1184. Consumers explains its quantification of the metrics. Consumers' replies to exceptions, pp. 78-83. Responding to the Attorney General's mediocre performance argument, Consumers contends that it would be counterproductive to set the EICP thresholds at unachievable levels because employees would no longer be motivated, and adds that it is important to remember that the base salary alone does not compensate ordinary performance because it is intentionally set below market level. Consumers' replies to exceptions, pp. 84-85 (citing 4 Tr 1145-1149).

The Attorney General did not file replies to exceptions on this issue.

The Commission agrees with the ALJ that Consumers has shown the EICP to be part of an overall compensation package that is reasonable and prudent, with the exception of the portion associated with the top five corporate officers. Despite Consumers' arguments that it made extraordinary efforts to be transparent, the Staff remained stymied in its attempt to make the

market comparisons that are relevant to Consumers' compensation projections, testifying as follows:

Staff has two points for not recommending including the top five officers incentive compensation. First, in Company witness Amy M. Conrad's testimony, pages 10-24, she discusses Consumers [sic] compensation philosophy. Employees' salaries should be comparable to the market median, within a target level plus or minus 5% of the market median, giving examples of Consumer's [sic] pay levels compared to market levels. On page 21, lines 14-22, officer compensation packages are targeted at the median or 50th percentile of the market. Staff asked for the compensation level of the top five officers compared to market median. The Company declined to provide this information to Staff (see Staff Exhibit S-8.2, page 1 of 2) through audit responses. The Company instead offered for Staff to examine report extracts of the Pay Governance report, with conditions attached:

- Reviewed in the presence of an appropriate CMS representative
- Maintain the confidentiality of the extracts
- May not copy or distribute the extracts to any other party
- Used only for the sole purpose of this inquiry
- Exempt Pay Governance from any public disclosure/Freedom of Information request or open records acts (See Exhibit S-8.2, page 2 of 2). . . . Staff appreciated the Company taking the time and providing the report extracts, but the reports were anonymous to each executive, and only presented how Pay Governance calculates the market data. There was no financial presentation of the compensation data that Staff needed to examine to make a valid comparison.

4 Tr 2609-2610. The Commission agrees with the Staff's and the ALJ's recommendation. The Commission also finds, on this record, that the remainder of the overall compensation package is reasonable and rejects the Attorney General's 66% performance-based disallowance argument. Finally, the Commission finds that neither the ALJ nor the Attorney General addressed the consideration of the allocation factor described by the company in exceptions. However, the Commission notes that there is a dearth of evidence on the operation of the allocation factor. *See, e.g.,* 4 Tr 1228-1229, 1170-1171. In its exceptions, the company points to 4 Tr 1170; however, the only relevant exchange is the following: "Q. How was the gas portion of the incentive compensation expense determined? A. The allocation percentages were supplied by the Accounting Department." The company witness goes on to describe how gas EICP is allocated

between O&M and capital expenditures. While this is scant information on how the gas portion of EICP is allocated, the Attorney General offered little in the way of evidence as well, presenting only the following testimony:

Additionally, the fact that the performance measures use CMS Energy financial information and comingle electric and gas business measures is a concern. Although the Company is a combined gas and electric utility and makes up 95% of CMS Energy, appropriate cost segregation is required to avoid having gas customers subsidize other businesses, particularly non-utility operations.

4 Tr 2026. The Commission finds that the record lacks sufficient evidence to make a reasoned determination on the Attorney General's subsidization allegation, but cautions Consumers that, in future rate cases, it may want to more fully support its statement that the percentages are supplied by the accountants. In sum, the Commission finds the ALJ's recommendations to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue. *See*, PFD, p. 397-398.

6. Customer Experience Operations and Maintenance Expenses¹⁸

a. Customer Order Service Tracker Expense

Consumers included \$150,951 in Customer Order Service Tracker (COST) expense in this case to implement a service order status tracker to provide both transparency to customers, in terms of timing and location of the assigned crew completing an order, and oversight to internal

¹⁸ As indicated above, several adjusted NOI issues addressed beginning at this portion of the PFD were not objected to in exceptions. In finding the ALJ's recommendations on these issues to be well-reasoned and supported by the record, the Commission thus adopted the ALJ's finding and conclusions on these issues. For ease of reference relative to this portion of the PFD, these issues included: (1) Analytics and Outreach Expense (PFD, p. 402), (2) Digital Customer Operations Experience (PFD, p. 405), (3) MGP Direct Project Management Costs (PFD, p. 409), (4) Gas Uncollectible Expense (PFD, p. 410), (5) Injuries and Damages Expense (PFD, p. 410), (6) Depreciation and Amortization – Non-MGP (PFD, p. 419), (7) Property Tax (PFD, p. 420), (8) Payroll and Other General Taxes (PFD, p. 421), (9) State and Local Income Tax (PFD, p. 422), (10) Federal Income Tax (FIT) (PFD, p. 422), (11) Excess Deferred FIT (PFD, p. 422), and (12) AFUDC (PFD, p. 423).

teams supporting the order, resulting in reduced customer calls, improved resource assignments, crews being enabled to connect with customers through digital channels, and improved customer experience and satisfaction. 4 Tr 1084-1085, 1088-1090; Exhibit A-21, p. 45. MSC took issue with anticipated savings from the COST project not being incorporated into the company's projections (notably, reduced contact center calls and truck-rolls) and thus recommended that such savings amount be disallowed from the company's expense projection (in the amounts of \$528,342 in Contact Center O&M and \$3,824,456 in Gas Operations O&M). 4 Tr 2476-2477; MSC's initial brief, pp. 67-68. Consumers rebutted, arguing that the savings are BCA estimates at this point and not yet realized for purposes of this case. 4 Tr 1137; Consumers' initial brief, pp. 331-332.

The ALJ agreed with MSC that it is "reasonable to expect the COST project will begin generating O&M savings for the company immediately upon roll-out, and it is unreasonable to withhold those savings from ratepayers." PFD, p. 408. The ALJ, however, disagreed with the methodology for MSC's proposed disallowance, finding that "a more measured and cautious approach should be taken for cost savings estimates for a new program [and] . . . that it is reasonable to expect that 25% of the maximum projected savings will be realized during the test year," thus recommending that a savings disallowance of \$176,114 in Contact Center O&M (25% of \$704,456) and \$1,062,349 in Gas Operations O&M (25% of \$4,249,395) be adopted by the Commission instead. *Id.* Alternatively, the ALJ recommended that, "if the Commission does not agree that it is appropriate to incorporate estimated cost savings in the present rate case, then it should direct the company to track and quantify the realized O&M savings from this project in its next rate case so that it can be used to offset other O&M expenses," noting acknowledgment by Consumers that "O&M savings will be evident in the Company's subsequent rate case." *Id.*, p. 409 (quoting 4 Tr 1137).

In exceptions, Consumers asserts that the Commission should accept the ALJ's alternative recommendation "because it more accurately reflects the time frame in which savings from the project will be realized." Consumers' exceptions, p. 109. Consumers contends that the ALJ's calculation for its primary recommendation is not reasonable, as the ALJ's recommended disallowance for savings "is over \$1.2 million which is more than double the cost of the project," "the timing of the savings is misaligned with the completion of the project," and "[a] 25% deduction from Contact Center and Gas Operations O&M each would represent an arbitrary reduction when the Company does not believe savings will be realized within the test year and neither the Contact Center nor Gas Operations have accounted for the savings in building projections for this case." *Id.*, p. 110 (citing PFD, pp. 408-409; 4 Tr 1137).

MSC responds and asserts that Consumers' argument "undermines the credibility of the Company's justification for the project – that the investment is likely to produce significant savings, which the Company is 'confident' will materialize." MSC's replies to exceptions, p. 29 (citing Consumers' exceptions, p. 110). Further, according to MSC:

The project is likely to produce some savings in the test year, upon project roll out, and those savings are necessarily greater than \$0. Yet that is in effect the Company's proposed savings offset. By the Company's logic, *any* reduction to reflect savings above 0% (or \$0) would be arbitrary. CUB witness Denzler used the Company's own reduction projections (10% to 20% fewer service calls and 12% to 15% fewer truck rolls) to calculate savings, and the PFD recommended only 25% of those savings. The Company's position rewards ratepayers with no savings, only the bill of costs. The fact that the Company failed to account for savings in building projections for the case is no fault of the ratepayers. Moreover, it is not credible – the Company specifically quantified savings to justify the expense; there is no reason it could not also specifically accounting [sic: account] for some of those savings when it built its case.

MSC's replies to exceptions, pp. 29-30 (emphasis in original). MSC thus asserts that the Commission should adopt both of the ALJ's recommendations—the 25% offset for savings and

the requirement for the company to track actual savings for future rate cases—an approach “[t]hat is the only approach that is fair to ratepayers.” *Id.*, p. 30.

The Commission agrees with Consumers and the ALJ’s alternative recommendation. The Commission finds that savings to offset the entire costs for this project will not accrue immediately but will rather accrue over time and, finding the project to be reasonable and prudent based on the evidence provided, finds it appropriate for the company to track and quantify O&M savings realized from this project in the company’s next gas rate case so that such savings can be used to offset other O&M expenses moving forward.

7. Inflation Rate and Labor Rates

Consumers utilized inflation factors published by S&P Global in its June 2024 U.S. Economic Outlook publication—3.2% in 2024, 2.4% in 2025, and 2.5% in 2026. 4 Tr 1761. The Attorney General argued that the company used higher inflation rates of 3.5% or more for certain O&M expenses without clearly disclosing the justification and thus recommended specific adjustments to those expenses and for Consumers to be required to clearly disclose, by operating unit and cost function, any forecasted inflationary increases that differ from the Consumer Price Index (CPI) rates. 4 Tr 1999-2000; Attorney General’s initial brief, p. 193. ABATE expressed concern over the company’s reliance on the CPI for its inflation factors and opined that the company should instead use the Blue Chip GDP Chained Price Index as it is more responsive to actual consumer behavior and better aligned with utility cost trends, with ABATE thus recommending a reduction of \$355,100 in projected O&M expenses. 4 Tr 2147-2148; ABATE’s initial brief, p. 33; ABATE’s reply brief, p. 10. MSC raised concern about rate increases far exceeding inflation rates and recommended that the Commission apply productivity offsets using U.S. Bureau of Labor Statistics (BLS) data (0.79% for Michigan labor and 0.83% nationally for non-labor costs) to

adjust the company's cost projections, thus proposing capping O&M and capitalized labor growth to historical 2023-2024 averages plus productivity-adjusted inflation rates of 3.37% for labor and 3.29% for non-labor. MSC also urged the Commission to adopt a policy, similar to that adopted in Case No. U-21585, requiring Consumers to provide evidence that the company is offsetting inflation with actual productivity improvements in future rate cases. 4 Tr 2371-2381; MSC's initial brief, p. 109. Consumers disagreed with the parties, arguing that ABATE's proposal is overly simplistic and inconsistent with the company's actual cost experience, that the company already demonstrates that its costs are reasonable and incorporate known savings, and that the CPI is periodically updated to reflect consumer spending patterns and is consistent with the Commission's longstanding practice of using the CPI in rate cases. 4 Tr 1591-1596; Consumers' initial brief, pp. 335-338; Consumers' reply brief, p. 130.

The ALJ recommended that the Attorney General's proposal be adopted and that ABATE's recommendation be rejected. The ALJ found that the Attorney General's proposal "will highlight costs where the inflation rate differs to provide greater ability to scrutinize whether such increases are reasonable and justified" and that, in response to ABATE's recommendation, "[t]he standard CPI is an adequate and generally recognized gauge for inflation and a new price index should not be adopted based upon a correlation review of a single expense item like gas meters." PFD, p. 416. The ALJ also shared MSC's concern about whether the company adequately offsets inflation with productivity increases and documents such savings, finding MSC's recommendation to apply a productivity offset to inflation to be an idea worthy of consideration to ensure that productivity improvements are moderating costs and providing customers with cost savings that should result from increases in productivity. The ALJ, however, recommended that MSC's proposal to apply productivity offsets across a wide range of O&M and labor expenses to reduce

the effects of inflation not be adopted at this time, instead agreeing with MSC that the Commission should direct Consumers to present, in its next gas rate case, more detailed evidence to demonstrate that it is in fact offsetting inflation with productivity increases. Per the ALJ:

[t]his course of action is consistent with previous Commission precedent and will allow the company to specifically demonstrate how it offsets inflationary increases with productivity gains. The company complains that this requirement would be burdensome, but: (1) the Commission already required the company to do so in its last electric rate case, and (2) the company argues that it already considers productivity or other cost reductions in its cost projections, so this direction should not be overly burdensome because it simply requires the company to more transparently highlight how such considerations are taken into account. This PFD also notes that CUB's proposal to apply a productivity factor offset to inflation would certainly be simpler, easier, and less burdensome, but it may be a more appropriate approach to allow the company to demonstrate how it accounts for productivity gains.

Id., p. 417 (footnote omitted) (citing March 21 order, pp. 355-356).

ABATE objects and maintains that Consumers' non-labor inflation factor is unreasonable. ABATE insists that "the CPI is less accurate than the GDP chained price index based on numerous expense items" and "[t]he most effective way to address [] deficiencies and concerns [explained by the Attorney General and listed in the PFD] is to simply adopt the more accurate GDP chained price index, which is more responsive to consumer substitution." ABATE's exceptions, p. 4 (citing PFD, pp. 410-417; 4 Tr 2146). In other words, according to ABATE:

while the PFD claimed that "a new price index should not be adopted based upon a correlation review of a single expense item like gas meters," the GDP chained price index annually updates an entire basket of goods and services to reflect what consumers are actually buying. (PFD at 416; Fitzhenry 4 Tr 2146-47.) Thus, the GDP chained price index is responsive to customer behavior across various goods, not just gas meters, and better tracks actual inflation in real time. The CPI proposed by Consumers is not responsive to any such changes impacting inflation rates. (Fitzhenry 4 Tr 2146-47.) Further, the CPI is also heavily weighted by the cost of medical expenses, which is obviously inapplicable to non-labor inflation costs for a gas utility like Consumers. (Fitzhenry 4 Tr 2147.)

ABATE's exceptions, pp. 4-5. ABATE thus maintains that its adjustments to the inflation factor should be adopted by the Commission, resulting, again, in an O&M expense reduction of approximately \$355,100. *Id.*, p. 5 (citing 4 Tr 2148).

Consumers partially objects to the ALJ's recommendation. While the company agrees with the ALJ that it would be unreasonable to adopt the GDP chained price index to represent inflation rates and that it would be inappropriate to apply productivity offsets across a wide range of O&M and labor expenses to reduce the effects of inflation, the company expresses concern "with being able to isolate and quantify the precise impact of productivity gains as an offset to inflationary pressures, especially for productivity gains that have not been realized at the time of filing the rate case." Consumers' exceptions, p. 112. Per Consumers:

Productivity improvements often manifest in indirect ways—such as through process efficiencies, technological integration, or workforce optimization. This is not easily captured in traditional financial metrics or short-term reporting frameworks. While the Company incorporates known savings in its cost projections, Company witness Heidi J. Myers explained that "accurately measuring productivity gains that accumulate over time and pointing to a specific spending line item in the case that is impacted can be complex. Productivity as defined by the BLS, is outputs divided by inputs. Trying to identify each and every change in either outputs or inputs in the context of productivity as part of a regulatory filing would be overly burdensome." 4 TR 1593. For this reason, the Company takes exception to this recommendation.

Additionally, the PFD adopted the Attorney General's recommendation to require the Company to disclose, by operating unit and cost function, forecasted inflationary cost increases that are different from the Consumer Price Index ("CPI") forecast inflation rates. PFD, page 416. While indicating that this requirement will highlight costs where the inflation rate differs to provide greater ability to scrutinize whether such increases are reasonable and justified (*Id.*), this fails to recognize that the Company's expenses are not based on inflation. With the exception of Corporate expenses, the Company projects its O&M expenses and explains the development and reasonableness of its projected amounts in its witnesses' testimonies. Inclusion of the Attorney General's recommendation will not provide the comparison that the PFD appears to be trying to achieve. Accordingly, this recommendation should be rejected.

Consumers' exceptions, p. 112.

ABATE responds and, while maintaining its argument that the ALJ's recommendation regarding inflation factors is unreasonable and should be rejected as set forth in its exceptions, asserts that the ALJ's recommendation that Consumers provide more detailed evidence to demonstrate whether the company is, in fact, offsetting inflation with productivity increases is prudent and thus Consumers' exception on this point should be rejected. Responding to Consumers' concerns about the company being able to isolate and quantify the precise impact of productivity gains as an offset to inflationary pressures, ABATE argues:

to the extent this type of accounting is complex the impact of productivity gains should be determined in favor of ratepayers by adopting lower inflationary factors. Further, as the [ALJ] stated in response to this same argument, this "course of action is consistent with previous Commission precedent" and "the Commission already required the company to do so in its last electric rate case." (PFD at 417.) Furthermore, Consumers "argues that it already considers productivity or other cost reductions in its cost projections, so this direction should not be overly burdensome because it simply requires the company to more transparently highlight how such considerations are taken into account." (*Id.*) Indeed, applying "a productivity factor offset to inflation would certainly be simpler, easier, and less burdensome, but it may be a more appropriate approach to allow the company to demonstrate how it accounts for productivity gains." (*Id.*)

ABATE's replies to exceptions, pp. 17-18.

Consumers also responds and asserts that ABATE's argument in exceptions does not discount the reasonableness of the CPI and is inconsistent with Commission precedent. Consumers argues:

Contrary to the assertion that the Chained Price Index is superior due to its annual updates, the CPI is also updated periodically to reflect more recent consumer spending patterns. The Bureau of Labor Statistics ("BLS") updates the CPI to recognize the emergence of new items, changes to existing items, and their relative importance. 4 TR 1595. This ensures that the CPI remains a relevant and accurate measure of inflation, accommodating shifts in consumer behavior and market trends.

Additionally, the Commission has consistently approved the use of the CPI in rate cases, recognizing it as the most widely used measure of inflation. In DTE Electric Company's ("DTE Electric") rate case, Case No. U-21534, the Commission rejected the proposal to switch to the Chained Price Index. See [Commission] Case No. U-21534, January 23, 2025 Order, page 76. The Commission found that

ABATE did not demonstrate that the Chained Price Index's customer substitution treatment was superior to the periodic updates made in the CPI's basket of goods or how the Chained Price Index was superior to the CPI for either labor or non-labor costs. *Id.* The facts in this case are similar to the DTE Electric case, and ABATE has not provided adequate support to move to the Chained Price Index.

Consumers' replies to exceptions, pp. 85-86. Consumers thus asserts that the Commission should approve the continued use of the CPI for inflation in this case.

The Attorney General too responds and states that she "is not sure of the veracity of the Company's claims [in exceptions] that inflation is not considered at all in projecting expenses." Attorney General's replies to exceptions, p. 74. The Attorney General clarifies that the point of her recommendation "is to identify the use of assumed rates of increase when used," noting that, "[i]f there is truly no rate of inflation or other rate of increase used in projecting an expenditure, the Company can indicate that in its testimony." *Id.*, pp. 74-75. For better transparency, however, the Attorney General asserts that the Commission should adopt the ALJ's recommendation.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. The Commission finds that this decision is consistent with Case No. U-21585 and will help to provide better transparency as to the company's cost projection requests in future rate cases. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, pp. 416-417.

D. Net Operating Income Summary

Based on the findings above, Consumers' jurisdictional adjusted NOI is \$570.84 million.

VII. REVENUE DEFICIENCY

The ALJ recounted that following its rebuttal testimony and further adjustments, Consumers revised its revenue deficiency from \$248 million to approximately \$217 million. Based on his findings and recommendations enumerated above, the ALJ recommended a revenue deficiency of \$142.2 million. PFD, p. 423; *see also, id.*, Appendix A. The ALJ noted that his recommended

revenue deficiency did not include the effect of the recommended SAP S/4 HANA O&M deferral. Including the impact of the deferral resulted in recommended revenue deficiency that is lower than the \$142.2 million. PFD, p. 423 (noting that the revenue deficiency impact of the SAP S/4 HANA O&M deferral can be viewed in Confidential Exhibit S-13).

In its exceptions, Consumers argues that the ALJ's recommended revenue deficiency in this case is lower than the company's and the Staff's respective proposed revenue deficiencies. Consumers submits that the evidence it presented in this case supports a higher revenue deficiency than arrived at by the Staff and the ALJ. Consumers' exceptions, pp. 1-2. Several parties filed exceptions to the ALJ's recommendations that impact the revenue deficiency, which are summarized and addressed *supra* in the Rate Base, NOI, and Cost of Service sections of this order.

Consistent with the Commission's findings and determinations described in this order, the Commission finds that for the period ending October 31, 2026, Consumers will experience a total revenue deficiency of \$157,495,000, as follows:

Rate Base	\$11,491,853,000
Required Rate of Return	5.99%
Income Required	\$688,542,000
Adjusted Net Operating Income	\$570,840,000
Income Deficiency (Excess)	\$117,702,000
Revenue Multiplier	1.3381
Revenue Deficiency	\$157,495,000

VIII. COST OF SERVICE, RATE DESIGN, AND TARIFFS

A. Cost Of Service Study

According to Consumers, a cost of service study (COSS) is a “three-part analysis that quantifies the utility’s cost to serve each rate class. It provides the utility and stakeholders with important information regarding each rate class’s contribution to the total revenue requirement and the nature of those costs.” 4 Tr 1227. Consumers explained that the three parts involved in performing a COSS are as follows:

The first step is functionalization, followed by classification, and finally allocation. Cost functionalization involves the identification and separation of plant and expenses into specific categories based on the activity or “function” that each cost is incurred to provide or support. Consumers Energy’s functional cost categories are Transmission, Distribution, and Storage. Cost classification, the second step, involves the categorization of functionalized costs into demand, customer, and energy components according to the primary cost drivers. The final step is cost allocation. Allocation assigns costs to each customer class using a variety of factors that correlate to the identified cost drivers. Common allocation factors include the number of customers, throughput or usage, and peak consumption among others. This process is relatively standard across the utility industry and supported by the National Association of Regulatory Utility Commissioners (“NARUC”) Gas Distribution Rate Design Manual [NARUC Manual].

4 Tr 1228. Consumers further explained that the “fundamental guiding principle used to assign costs in the COSS is cost causation. In other words, the costs assigned to a customer or group of customers should reflect how those customers drive or influence the utility’s costs.” 4 Tr 1227-1228.

Consumers presented three versions of the company’s gas COSS for the 12-month period ending October 31, 2026: (1) COSS Version 1 (COSS V1) “employs the methodologies previously adopted by the Commission in Case No. U-20650 updated for the financial information and supporting data sponsored by other witnesses in this case[;]” (2) COSS Version 2 (COSS V2) “starts with the [COSS V1] and incorporates three Company proposals that are responsive to

issues or topics raised in Case No. U-21490[;¹⁹]” (3) COSS Version 3 (COSS V3) “replaces Average & Peak (‘A&P’) methods with Average & Excess (‘A&E’) as proposed by the Association of Businesses Advocating Tariff Equity (‘ABATE’) [and agreed upon in Consumers’ settlement agreement in Case No U-21490].” 4 Tr 1225-1226. Consumers contended that it presented COSS V3 for “informational purposes” and was not “advocating that the Commission adopt [COSS V3] in its final COSS in this case[; rather Consumers] recommend[ed] adoption of COSS Version 2 for setting rates in this case.” 4 Tr 1226.

The Staff presented a COSS that “functionalizes, classifies, and allocates Consumers Energy Company’s (the Company’s) costs as projected by Staff to customers based on a set of schedules developed for such a purpose.” 4 Tr 2569; *see*, Exhibit S-6, Schedule F-1.1. The Staff’s COSS is a modified version of Consumers’ COSS V2. 4 Tr 2569. The Staff’s COSS provided adjustments to Consumers’ “capital expenditures, operations and maintenance (O&M) and other expenses, rate of return, cost of gas, and present revenue.”²⁰ 4 Tr 2569. The Staff’s COSS also proposed changes to Consumers’ allocation of uncollectible expense and FERC Account 378 as noted in more detail below. 4 Tr 2569.

¹⁹ Consumers proposed three changes to its COSS V2, which are to:

(1) remove Asset Retirement Costs (‘ARC’ or the Asset Retirement Obligation ‘ARO’) from the calculation of other distribution plant; (2) break out and allocate other distribution plant by Federal Energy Regulatory Commission (‘FERC’) account; and (3) breakout and separately allocate Customer Care (‘CCC’) and the Business Customer Care (‘BCC’) expenses. The Company’s proposal to breakout other distribution plant by FERC account complies with the settlement agreement in Case No. U-21490.

4 Tr 1225-1226.

²⁰ See the rate base, cost of capital, and adjusted net operating income sections of this order for discussions on the Staff’s adjustments to Consumers’ capital expenditures, O&M and other expenses, rate of return, cost of gas, and present revenue.

ABATE argued that Consumers' COSS V1's and COSS V2's reliance on the A&P method for the allocation of transmission and distribution (T&D) capacity costs does not accurately reflect cost-causation. 4 Tr 2071. As for Consumers' COSS V3, which replaced the A&P method with the A&E method, ABATE argued that "the A&E method more accurately assigns the T&D capacity costs to the lower-load factor, weather-sensitive customer classes that drive the need for capacity in excess of the amount needed to provide firm service to the system and each customer class on non-peak days." 4 Tr 1226, 2071-2072. As such, ABATE recommended that the Commission adopt Consumers' COSS V3 because it:

more accurately reflects cost-causation on the Company's system than the [A&P] method, while satisfying the Commission's preference to recognize a volumetric component in the allocation of demand-related costs. However, [ABATE] do[es] not recommend a sole strict reliance on [COSS V3], and instead recommend[ed] it be used as a guide to how revenue responsibility should be apportioned through the revenue apportionment than proposed by the Company.

4 Tr 2084. ABATE's arguments are discussed in more detail below.

In finding that Consumers' COSS V2 more accurately reflects the company's cost of service than Consumers' COSS V1, MSU/LBWL recommended the Commission approve Consumers' COSS V2, but with modifications to reflect Consumers' apportionment of other distribution plant costs between high pressure (HP) and non-high pressure (NHP) mains. 4 Tr 2246, 2248.

Specifically, MSU/LBWL found that COSS V2:

does not accurately allocate other distribution plant to Rate XXLT [Rate Schedule Extra Extremely Large Transport]. [COSS V2] misses a step because it does not first functionalize or apportion other distribution plant between High Pressure ("HP") mains and non-High Pressure ("non-HP") mains before allocating other distribution plant to each rate class. The consequence of not first functionalizing other distribution plant is that Rate XXLT is allocated a substantial portion of other distribution plant that is used to serve non-HP mains. Rate XXLT customers are not served from nor otherwise utilize non-HP mains and thus should not be allocated any other distribution plant that serves non-HP mains.

4 Tr 2247. MSU/LBWL argued that “other distribution plant costs that serve non-HP mains should not be allocated to Rate XXL T customers that do not utilize non-HP mains.” 4 Tr 2247-2248. Thus, MSU/LBWL recommended that the Commission approve Consumers’ proposed COSS V2 but modified to “more accurately reflect[] the cost of service to each rate class.”

4 Tr 2248. MSU/LBWL’s proposed modifications to Consumers’ COSS V2 are discussed in more detail below.

1. Uncollectible Expense Allocator

Consumers projected an uncollectible accounts expense for the test year at \$15.33 million based on a three-year historical average Bad Debt Loss Ratio (BDLR) of uncollectible accounts expense to gas service revenue for the years 2021 through 2023.²¹ 4 Tr 1199. For this rate case filing, Consumers claimed that this method of allocating uncollectible expense to each rate class based on three years of historic net write offs provided a reasonable estimate of the uncollectible expense. 4 Tr 1200.

While allocating uncollectible expense based on a three-year average BDLR is an approved allocation of uncollectibles, the Staff found this method of allocation “inappropriate as it does not reflect the reality of the way uncollectible costs are incurred or how they should be borne by the classes.” 4 Tr 2570. The Staff argued that an allocation based on revenue was a more appropriate method as it is more reflective of “how the bills that may end up uncollectible are determined and . . . how Consumers Electric (as well as DTE Gas and DTE Electric) allocates uncollectibles.” 4 Tr 2570. Moreover, the Staff argued that “this method properly reflects the fact that expenses related to uncollectible accounts are a general cost of doing business [. . .] Uncollectible expense

²¹ For further discussion on the amount of gas uncollectible expense Consumers projected, see the gas uncollectible expense section of this order.

should be shared by all customers consistent with how their overall costs are recovered by the Company: by revenue.” 4 Tr 2570.

Similar to the Staff, CUB also argued that the Commission should allocate uncollectible expenses according to revenue, not historical uncollectibles by rate class. 4 Tr 2384. CUB contended that Consumers’ proposed method for allocating uncollectible expenses is inconsistent with past Commission orders that found uncollectible expenses as a general cost of doing business. 4 Tr 2382-2383; *see*, December 9 order, pp. 189-190; March 1, 2024 order, p. 228; and December 1 order, pp. 295-296.

ABATE, however, disagreed with the Staff’s and CUB’s recommendation, finding that their proposed method of allocation would assign uncollectible expense to classes in which no net write-offs were incurred. 4 Tr 2115. Specifically, ABATE argued that:

[w]hile uncollectible expense is a cost of doing business, it is clear from the Company’s analysis of net write-offs (included in Exhibit CUB-3) that it is a cost of doing business with certain types of customers – primarily Residential. The Company tracks this data by rate schedule, and it is undeniable that the Residential customers have been responsible for nearly 90 percent of net write-offs each year from 2021 through 2023[. . .] On the contrary, the large transportation customers have been responsible for little to no net write-offs (or even net negative net write-offs) during that same three-year period. There is no evidence to suggest that the Company’s projected uncollectible expense will be drive by a different rate class in the future test year.

4 Tr 2114 (footnotes omitted). ABATE further argued that the Commission should reject the Staff’s and CUB’s proposed method because it is “unjust, unreasonable, [and] inconsistent with the National Association of Regulatory Utility Commissioners’ (‘NARUC’) Electric Utility Cost Allocation Manual (‘Manual’)[.]” 4 Tr 2115. Rather, ABATE agreed with Consumers’ proposed method of assigning uncollectible expense to rate classes, finding that this method “is reasonable as it keeps the uncollectible expense with the classes containing the customers that drive the

expense, is consistent with the guidance of the NARUC manual, and is the current approved method.” 4 Tr 2115.

Similar to ABATE, MSU/LBWL also disagreed with the Staff’s and CUB’s proposed method of allocation, finding that Consumers’ “method better reflects the underlying cost of service to each rate class[, by] directly assign[ing] uncollectible expense to the rate class that caused the costs.” 4 Tr 2262. As such, MSU/LBWL argued that it is more appropriate “on the basis of cost-causation to allocate uncollectible expense to each rate class based on their three years of historic net write offs.” 4 Tr 2262.

In rebuttal, Consumers agreed with the Staff’s and CUB’s recommendation to change the allocation of uncollectible expense to be based on revenue and supported using Present Total Revenue (Allocator 111) for uncollectible expense in this case. 4 Tr 1245. Consumers found this allocation consistent with its allocation for uncollectible expenses in the Electric COSS. 4 Tr 1245.

The ALJ recommended that the Commission adopt the Staff’s and CUB’s proposed method, agreed to by Consumers, that allocated uncollectible expense based on revenue. PFD, pp. 429-430. The ALJ noted that the Commission addressed similar arguments in its December 9 order wherein the Commission found that:

[t]he Commission agrees with the ALJ’s recommendation to return to allocating uncollectibles on Cost of Service plus Cost of Gas, as proposed by the Staff. While the Commission recognizes that this is a departure from the currently-approved methodology, the Commission finds that the allocation of uncollectibles as a general cost of doing business more accurately reflects both cost of service principles and, as the ALJ noted, the approach used by most other companies. At its heart, DTE Gas’s argument is that allocating uncollectibles in the manner suggested by the Staff—and the manner approved by this Commission for many years prior to the change made just five years ago—would unfairly assign to ratepayers costs they did not cause. Yet as [the Staff] notes, the current allocation approach does just that—assigning the costs of the company’s uncollectibles largely

to residential customers, even though “one customer who does not pay their bill does not ‘cause’ another to pay or not pay, regardless of which class the customers are in.” Indeed, while DTE Gas [. . .] describes a “classes’ (sic) failure to pay their bills,” the Commission finds that such a description is off point. The question of whether to pay—or not to pay—the utility bill rests with the individual customer, not the class in which that customer is situated. Because these costs tie much more closely to the company’s basic cost of doing business than to the current allocation approach that conflates cost causation with mere class membership, the Commission adopts the PFD’s allocation of uncollectibles on the Cost of Service plus Cost of Gas allocator.

PFD, pp. 429-430 (quoting December 9 order, pp. 189-190) (citations omitted). The ALJ asserted that ABATE and MSU/LBWL provided “no additional evidence or argument that would necessitate a reexamination or change to the uncollectible expense allocation method approved for DTE Gas [in the December 9 order], Consumers Electric [in the March 1 order], and DTE Electric [in the December 1 order].” PFD, p. 430. The ALJ also rejected ABATE’s argument that the Staff’s and CUB’s proposed allocation of uncollectible costs was “contrary to the NARUC Manual, which describes various collection methods but does not make specific recommendations as to how costs should be allocated[.]” *Id.*

In its exceptions to the PFD, ABATE asserts that the ALJ’s recommendation to allocate uncollectible costs to rate classes that do not cause them is unreasonable and inconsistent with cost of service principles (which require utilities to allocate costs to the customers that cause them) and amounts to a “significant cost burden that is both inequitable and unreasonable” to large customers who are not responsible for Consumers’ uncollectible expense. ABATE’s exceptions, pp. 18-19. ABATE also argues that the ALJ’s “assertion that there is ‘no additional evidence or argument that would necessitate a reexamination or change to the uncollectible expense allocation method’. . . discounts the significant and inequitable rate increases that its recommendations represent[.]” *Id.*, p. 19. Therefore, ABATE argues the Commission should reject the ALJ’s recommendation to

allocate uncollectible expense based on revenue and “return to its prior practice of ensuring customer classes are not allocated costs that they do not cause.” *Id.*, pp. 18-20.

In its replies to exceptions, the Staff notes that the Commission’s more recent orders represent a shift in the Commission’s position and argues that the ALJ “ruled correctly on the matter based on an appropriate consideration of the record.” Staff’s replies to exceptions, p. 15 (citing the December 9 order and November 18, 2022 order in Case No. U-20836). For these reasons, the Staff asserts that the Commission should adopt the ALJ’s recommendation and accept revenue as the appropriate method for allocating uncollectible expense. *Id.*

The Commission finds the ALJ’s recommendation to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ’s findings and conclusions on this issue. *See*, PFD, pp. 429-430.

B. Other Distribution Plant Allocation

For Consumers’ COSS V2, the company proposed other distribution plant costs to be broken out and allocated by FERC account. 2 Tr 1226. Consumers provided that the other distribution plant includes costs in the following FERC accounts: FERC Account 374 Land & Land Rights (includes cost of land and land rights used in connection with distribution operations), FERC Account 375 Structures & Improvements (includes cost of structures and improvements used in connection with distribution operations), FERC Account 377 Compressor Station Equipment (includes costs of installed compressor station equipment and associated appliances used in connection with distribution system operations), FERC Account 378 (generally includes costs of installed meters, gauges, and other equipment used in measuring and regulating gas in connection with distribution system operations other than the measure of gas deliveries to customers), and FERC Account 382 Meter Installations (includes cost of labor and materials used and expenses

incurred in connection with the original installation of customer meters). 2 Tr 1232. Consumers proposed to allocate other distribution plant using Allocator 104 for FERC Account 374, 375, 377, and 378 because costs in these FERC accounts are incurred to serve all customers and Allocator 104 is “based on each rate class’s respective forecasted total annual throughput and peak month throughput” and Allocator 108 for FERC Account 382 because costs in this FERC account are incurred in connection with the original installation of customer meters and Allocator 108 is “weighted by the average residential customer hook up cost and is based on each rate class’s respective forecasted average number of customers[.]” 4 Tr 1232-1233.

As was agreed to in the terms of Consumers’ settlement agreement approved by the Commission’s July 23 order (July 23 settlement agreement), Consumers provided Exhibit A-57 to provide a “more detailed analysis of FERC Account 378.” 4 Tr 1235-1236. Specifically, Consumers explained that Exhibit A-57 satisfied the July 23 settlement agreement by, among other things, providing “the necessary information to separate and functionalize the costs in FERC Account 378 that service high-pressure mains and those that serve non-high-pressure mains. This detail can be used to determine an allocator to distribute the share of costs for high pressure and non-high pressure.” 4 Tr 1236-1237.

Based on the detailed analysis provided in Exhibit A-57, the Staff recommended Consumers use a “composite allocator [for FERC Account 378] that weights allocators (determined appropriate for each category in the detailed analysis provided by the Company) by the amount of costs in those categories, calculated on Exhibit S-21.0.” 4 Tr 2756. The Staff also agreed with Consumers that “Allocator 104 is appropriately applied to the two ‘All Other Costs’ categories (Huron Compressor Station and Odorization) . . . as no evidence has been provided showing those costs are associated with any given pressure level directly.” 4 Tr 2756.

In its rebuttal, Consumers agreed to use the Staff's proposed composite allocator for FERC Account 378. 4 Tr 1243. Consumers conceded that the Staff's proposed composite allocator "better reflects the cost-causative relationship than the Company's current method which allocates costs based on annual and peak usage for all customers at all pressure levels." 4 Tr 1243.

MSU/LBWL also agreed with the Staff's proposed composite allocator for FERC Account 378, finding that "the proposed composite allocator best reflects how costs in FERC Account 378 should be allocated based on information provided by Consumers Energy about which costs are associated with each pressure level." 4 Tr 2261. Additionally, MSU/LBWL agreed with Consumers' "allocation of meter installation plant based on weighted customers (allocator 108)[, finding that t]he allocator appropriately reflects how costs are incurred to serve each class." 4 Tr 2255. However, MSU/LBWL disagreed with Consumers' allocation of Allocator 104 for FERC Accounts 374, 375, 377, and 378, and instead recommended Consumers allocate these FERC Accounts "based on a new allocator 217 that is the weighted average of two existing allocators: (1) HP mains allocator 105, which is applied to the portion of other distribution plant functionalized as HP mains, and (2) non-HP mains allocator 106, which is applied to the portion of other distribution plant functionalized to non-HP mains." 4 Tr 2249. MSU/LBWL explained that "Allocators 105 and 106 are weighted by the portion, respectively, of HP and non-HP mains investment. The approach to first functionalize and then allocate costs is well established and widely utilized in the utility industry." 4 Tr 2249 (referencing to the NARUC Manual, pp. 20-28). Thus, MSU/LBWL argued, "Allocator 217 represents a reasonable approach" that "first functionalizes other distribution plant into HP and non-HP mains and then allocates other distribution plant to each rate class[;]" this approach "reduces Rate XXLT's proposed revenues

from \$10.1 million to \$9.0 million, which represents a rate decrease of 11.00 percent, as shown on Exhibit LBWL/MSU-4 (TSL-4).” 4 Tr 2248-2250.

ABATE agreed with the Staff’s proposed use of a composite allocator for FERC Account 378, finding the Staff’s proposal for a “more granular approach” reasonable. 4 Tr 2117-2119; ABATE’s initial brief, p. 74. ABATE also agreed with MSU/LBWL’s proposal to allocate FERC Accounts 374, 375, 377, and 378 to Allocator 217 instead of Allocator 104, finding MSU/LBWL’s proposal a reasonable approach that recognized the HP and non-HP infrastructure that is used to provide service to various classes. 4 Tr 2117-2119; ABATE’s initial brief, p. 74.

In rebuttal, the Staff disagreed with MSU/LBWL’s proposal to allocate FERC Accounts 374, 375, 377, and 378 to Allocator 217, arguing that “[t]he proportion of the costs in [FERC] accounts 374-377 [sic] that are associated with transmission, HP, and non-HP mains is unknown, [and] it is Staff’s understanding that the Company does not have records on which pressure level the items in these Other Distribution Plant accounts are installed or associated with.” 4 Tr 2760. The Staff further explained that “[t]he proposed ‘functionalization’ effectively assumes that the costs in these Other Distribution plant accounts are distributed between HP and non-HP mains in proportion to the costs of mains in each category, [and] . . . [n]o evidence was presented that would support this assumption.” 4 Tr 2760-2761.

Consumers also rebutted MSU/LBWL’s proposal to allocate FERC Accounts 374, 375, 377, and 378 to Allocator 217. 4 Tr 1244. Consumers argued that “[w]ithout additional analysis of the composition of the remaining \$149 million in Other Distribution Plant, the Company believes it is unreasonable to change the allocation method for FERC accounts 374, 375, and 377 solely based on pressure.” 4 Tr 1244.

The ALJ recommended the Commission approve the use of a composite allocator for FERC Account 378 based on agreement of the parties. PFD, p. 434. The ALJ also agreed with Consumers and the Staff that there was insufficient information in the record to support a change in the allocation method for FERC Accounts 374, 375, 377, and 378 based on pressure level, and thus rejected MSU/LBWL's proposal to allocate these FERC Accounts to Allocator 217 instead of Allocator 104. *Id.* Thus, the ALJ recommended the Commission adopt Consumers' breakout and allocation of other distribution plant costs in FERC Accounts 374, 375, 377, and 378 to Allocator 104, as amended by the Staff, and FERC Account 382 to Allocator 108. *Id.*

In its exceptions to the PFD, ABATE argues that the record did provide justification for allocating other distribution plant using a weighted average for HP and non-HP distribution mains. ABATE's exceptions, p. 20. Specifically, ABATE contends that:

Consumers provided a workpaper demonstrating that it first functionalizes other distribution plant into high pressure ("HP") and non-HP mains, and then allocates other distribution plant to each rate class. Specifically, other distribution plant is first functionalized into HP mains of 13.23% and non-HP mains of 87.66% based on HP and non-HP mains investment. As such, the information necessary to adopt LBWL/MSU's recommendation [to allocate FERC Accounts 374, 375, and 377 by pressure] is in the record.

Id. (citations omitted). ABATE also argues that the allocation of FERC Accounts 374, 375, and 377 "should follow the allocation of other demand-related distribution plant, which is mains[.]" and if "mains are functionalized as HP and non-HP, [then] it is reasonable to apply the same approach to the other demand-related distribution accounts. Furthermore, it is reasonable to use the weighting of mains between HP and non-HP as a proxy for functionalization when direct plant records are unavailable[.]" *Id.* As such, ABATE contends that the Commission should adopt the MSU/LBWL proposal to functionalize FERC Accounts 374, 375, and 377 using Consumers'

workpaper based on mains costs at each pressure level to more accurately allocate costs in accordance with their causation. *Id.*, p 21.

In its replies to exceptions, Consumers argues that the Commission should reject ABATE's exception because "it is not appropriate to functionalize FERC Accounts 374, 375, and 377 based on pressure without additional analysis of whether those accounts contain costs that are not associated with a particular pressure class, such as the analysis that was performed for [FERC] Account 378." Consumers' replies to exceptions, p. 88.

The Staff also argues in its replies to exceptions that the Commission should reject ABATE's exception because there is "[n]o dispute over whether the information necessary to enact the proposal originally made by LBWL/MSU can be found in the record of this case, [which was] well covered and considered by the ALJ in the PFD." Staff's replies to exceptions, pp. 13-14. Rather, the Staff argues, "[t]he dispute was whether there was enough information on the contents of the accounts in question on the record to *justify* the proposed allocation; the ALJ, after considering the evidence and arguments on both sides, properly found that there was not sufficient information." *Id.*, p. 14 (emphasis in original).

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue. *See*, PFD, p. 434.

C. Transmission Distribution Plant Allocation

According to Consumers, its proposed COSS V1 and COSS V2 both rely on the A&P method for the allocation of T&D capacity costs while its COSS V3 relies on the A&E method. *See*, 4 Tr 1225-1226. Although COSS V3 relies on the A&E method for the allocation of T&D capacity costs, Consumers asserted that it is not proposing to adopt the A&E method; "[w]hile the

Company believes the A&E method is reasonable and makes some improvements to the A&P method, the Commission has consistently ruled in favor of using the A&P method to allocate distribution mains costs, such as in [the Commission’s October 28, 1993 order in] Case No. U-10150 [(October 28 order)], [July 31, 2017 order in] Case No. U-18124, and [September 26, 2019 order in] Case No. U-20322 [(September 26 order)], to name a few.” 4 Tr 1235.

ABATE argued that Consumers’ reliance for COSS V1 and COSS V2 on the A&P method for the allocation of T&D capacity costs does not accurately reflect cost-causation. 4 Tr 2071. ABATE asserted that Consumers’ COSS V1 and COSS V2 do not “allocate T&D main capacity costs in accordance with the load characteristics that drive[] Consumers’ investment in T&D main capacity.” 4 Tr 2082. ABATE contended that the A&P method would increase costs for Rates small transport (ST), large transport (LT), and extra-large transport (XLT) customers by shifting the costs from residential, General Service (GS)-3, and Rate extra extra-large transport (XXLT) customers to Rates ST, LT, and XLT customers. 4 Tr 2081 (citing Table JAY-3). Thus, ABATE argued that a reasonable alternative to the A&P method is the A&E method as proposed in the COSS V3 because it “reflects a more equitable distribution of the claimed revenue deficiency[,] makes a gradual but meaningful movement toward cost of service, and ensures that no class receives an increase greater than 1.6 times the system average.” 4 Tr 2082-2083. Specifically, ABATE explained:

The [A&E] method is similar to the [A&P] method, in that they both include a component based on average demand that is weighted by the utility’s system load factor. Both methods also provide a measure of each class’s peak demand. However, the two methods differ in the approach to determining the demand component, which results in the [A&E] method being superior.

The demand component of the [A&P] allocator reflects each class’s contribution to system peak day demand (i.e., coincident peak demand), which also includes the

average demand. On the other hand, the [A&E] allocator reflects the difference between each class's NCP [Non-Coincident Peak] demand and average demand (i.e., demand in excess of average demand), and as such does not suffer from the inherent flaw of double counting the average demand like the [A&P] method does.

Thus, the [A&E] method assigns greater cost responsibility to gas deliveries that are more variable due to weather sensitivity or other factors. This is more reflective of cost-causation, as the excess T&D main capacity is held in reserve to meet the demand of weather-sensitive loads that spike on a peak day.

4 Tr 2093. While ABATE recommended the A&E method because it “more accurately reflects cost-causation on the Company’s system than the [A&P] method,” ABATE cautioned that it did not “recommend a strict reliance on the [A&E method], and instead recommend that it be used as a guide to how revenue responsibility should be apportioned through the revenue collection and rate design in this case[.]” 4 Tr 2083-2084.

Consumers disagreed with ABATE’s argument, claiming that ABATE proposed a revenue methodology that adjusted rate design outcomes to reflect ABATE’s preferred COSS V3, which utilizes an A&E allocator. 4 Tr 1808. Consumers argued that ABATE relies on revenue apportionment rather than using a COSS to guide revenue collection to “essentially shift[] revenue between classes without a supporting cost basis. Revenue apportionment that shifts cost recovery between rate schedules to reflect a rejected cost-allocation method undermines the very purpose of conducting a COSS in the first place.” 4 Tr 1808 (citing November 7 order, pp. 224, 228-229).

The Staff also disagreed with ABATE’s recommendation to use COSS V3 (which uses the A&E method to utilize monthly class NCP for the share of design peak day by class), arguing that ABATE failed to provide any support for “why class NCP is appropriately considered a cost causative element other than it does not result in an allocation equivalent to coincident peak demand[.]” 4 Tr 2762. The Staff asserted that the A&E method proposed by ABATE “fails to properly recognize usage of the system and the appropriate allocation of costs[, and . . .] also

breaks the link between system load factor, peak, and usage that the A&P method relies on.” 4 Tr

2762. Moreover, the Staff argued that it:

is uncertain what the justification for using system load factor for weighting is when the peak used to calculate that load is no longer part of the equation, as ABATE . . . provides none. The A&P method does properly recognize usage of the system and the appropriate allocation of costs [. . . The] A&E method[] also fail[s] to recognize that delivering the ‘average amount of gas on a peak day (or during a class’ NCP month) does not result in the same costs as on an average day. [The A&E method] also fail[s] to recognize that average usage is really another way of incorporating throughput, or the entirety of gas used throughout the year, of which the average used on one of the days of the year represents an exceedingly small portion, thereby overcorrecting a problem that does not exist in the first place. These are further reasons the claimed “double-count” does not exist.

4 Tr 2762-2763.

The Staff agreed with Consumers’ use of the A&P method, noting that the A&P methodology is “one of three most commonly used allocation methods for demand-related costs according to the NARUC Manual.” 4 Tr 2576 (citing NARUC Manual, p. 27). The Staff asserted that the A&P allocation method does a better job than the A&E method in reflecting the variability in load between classes “[b]y using both design peak and throughput by class, weighted by load factor[.]”

4 Tr 2764. Specifically, the Staff provided that it:

proposed using the A&P allocation method because it better reflects the classes’ use of the system than the alternatives. High and low load factor customers use the distribution system differently, so it is not fair to allocate the costs for using that system as if it were used for a single purpose, whether that be to meet design day peak demand, average throughput, or class/individual customer demands. Because customer classes use the distribution system differently, it is reasonable to use an allocation method that combines how those disparate classes cause costs. The fact that this method also balances the interests of high and low load factor customers is an additional benefit of its use that stems directly from properly reflecting different uses of the system. Staff maintains that the most reasonable allocation method is A&P.

4 Tr 2576.

The ALJ agreed with Consumers and the Staff that COSS V2, as modified by the recommendations already discussed, should be used for setting rates in this proceeding. PFD, p. 444. The ALJ noted that “ABATE’s issues and arguments regarding the A&P method have been raised and repeatedly rejected in prior rate cases.” *Id.*, pp. 444-445 (September 26 order, pp. 111-119; October 28 order, pp. 95-98; November 7 order, pp. 228-229; and December 9, 2016 order in Case No. U-17999, pp. 57-59). The ALJ also agreed with Consumers and the Staff that ABATE’s proposed revenue allocation appeared to “shift revenue from one customer class to another consistent with ABATE’s preferred outcome, but without any meaningful COS basis.” *Id.*, p. 445.

In its exceptions to the PFD, ABATE asserts that the Commission should reject the ALJ’s recommendation to use COSS V2, as modified in the PFD, to set rates in this proceeding, arguing that the ALJ’s recommendation results in inequitable and excessive rate increases for larger customers by allocating to them costs that they do not cause. ABATE’s exceptions, pp. 6, 15. ABATE also argues that the ALJ’s assertion that ABATE’s proposed revenue apportionment “appears to shift revenue from one customer class to another consistent with ABATE’s preferred outcome, but without any meaningful COS basis[,]” is inconsistent with the record. *Id.*, p. 11. ABATE contends that its proposed revenue apportionment:

moderates the inflated Rate ST, LT, and XLT increases proposed by the Company by using the results of the Company’s [COSS V3] to guide rate design and balance the interests of high and low load factor customers[,] result[ing] in a more equitable distribution of the claimed revenue deficiency and makes a gradual but meaningful movement toward cost of service while also ensuring that no class receives an increase greater than 1.6 times the system average. This approach to utilizing the [COSS V3] more accurately reflects cost-causation on the Company’s system than strict adherence to the [COSS V2 A&P] method while still embodying the PFD’s assertion that cost allocation include a throughput factor. Thus, utilizing [COSS V3] to inform and guide how revenue responsibility should be apportioned through the revenue allocation and rate design in this case reflects a more equitable and cost-based revenue apportionment than proposed by the Company or Staff.

* * *

ABATE's proposed revenue apportionment [. . .] establish[es] an equitable cost allocation which reflects both cost of service based on the [COSS] and gradualism while also avoiding rate shock. In other words, ABATE's proposed revenue apportionment utilizes and is based on Consumers' [COSS V3] and [COSS V2] to guide rate design in this case and thus move classes toward a more rational and equitable revenue allocation based on a more accurate measure of class cost of service. The [ALJ]'s assertion that this apportionment is not based in the [COSS] is therefore inaccurate.

Id., pp. 13-14 (citations omitted). Thus, ABATE argues that the Commission should reject the ALJ's recommendation to approve the A&P method for T&D cost allocation and instead adopt ABATE's proposed revenue apportionment. *Id.*, p. 14.

In its replies to exceptions, Consumers disagrees with ABATE's arguments, noting that the Commission has "consistently approved the use of the A&P method to allocate distribution mains costs." Consumers' replies to exceptions, p. 86 (citing 4 Tr 1235). Additionally, Consumers agrees with the ALJ's recommendation to use COSS V2, as modified by the PFD. Consumers' replies to exceptions, p. 86.

In its replies to exceptions, the Staff, while acknowledging that the "A&E method is not based solely on demand or design day and that the A&E method does include throughput, just like the A&P method[, argues that] . . . the A&P method has been used for decades by the Commission and the A&E method does not appear in the NARUC Gas rate design manual." Staff's replies to exceptions, p. 14. The Staff asserts that the "ALJ ruled correctly on the matter based on an appropriate consideration of the record[, and f]or this reason (as well as those cited by the PFD)[, the] Staff recommends that the Commission adopt the PFD and accept the A&P method for allocating mains." *Id.*

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue, and finds that COSS V2, as modified, should be approved. *See*, PFD, pp. 444-445.

IX. RATE DESIGN

According to Consumers, "the information provided by the COSS is used to guide rate design[.]" 4 Tr 1227. Consumers explained that:

[g]enerally, the Company has designed rates so that the revenue recovered from each customer class reflects the adjusted costs for that class in the Company's test year Cost of Service Study ("COSS"). The Company also considers: (i) establishing rates that promote efficient use of the Company's gas system and promoting energy efficiency; (ii) establishing rates that promote a favorable business climate; and (iii) designing rates that provide the Company with a fair opportunity to collect its revenue requirements.

4 Tr 1786. In this proceeding, Consumers proposed gas delivery revenue and associated rate increases/decrease for each rate class as follows: (1) to maintain its existing residential rate structure with an excess peak demand charge for rate A-1 customers with higher metering costs; (2) to maintain the current rate structure for rates GS-1, GS-2, and GS-3 and maintain the current economic breakeven points; (3) to maintain the current rate structure for rates ST, LT, XLT, and XXLT; and (4) to change the current Transmission-Only Transportation (TOT) Service Rate structure to align with full-service transportation rate structures. 4 Tr 1786-178; *see*, Exhibit A-16.

The ALJ noted that the "parties did not dispute the company's proposed Authorized Tolerance Levels, [Consumers'] proposed discount and carrying cost rates for the customer attachment program or Consumers' proposed Home Products credit." PFD, p. 446, n. 2084 (citing Consumers' initial brief, pp. 347-348). The ALJ also noted that Consumers agreed in its rebuttal to update the excess peak demand threshold from 45 Mcf [one thousand cubic feet] to 92 Mcf for Rate A-1 customers, as suggested by the Staff. *Id.* (citing 4 Tr 1802 and Staff's initial brief,

p. 101). The ALJ identified these as uncontested issues “[g]iven the lack of controversy regarding these proposals,” and recommended that these uncontested issues be adopted. PFD, p. 446.

The Commission finds the ALJ’s analysis and recommendations related to these uncontested issues to be well-reasoned and supported in the record. *See, id.*, p. 446, n. 2084. Therefore, the Commission adopts the ALJ’s recommendations on these uncontested issues. The contested issues, objected to in exceptions, are discussed in detail below.

A. Transmission-Only Transportation Service Rate

According to Consumers, the TOT Service Rate currently offers “one single rate – a volumetric charge of \$0.4533 per Mcf. The Company is proposing to offer four rate options (STT [small transmission transport], LTT [large transmission transport], XLTT [extra-large transmission transport], XXLTT [extra extra-large transmission transport]) that consist of both a Customer Charge and a volumetric Transmission Charge.” 4 Tr 1797. Consumers explained that it designed “customer charges and transportation charges to collect revenues from Transmission-Only customers” to align the transmission-only rates with the full-service transportation rate schedules and to maintain economic breakeven points. 4 Tr 1797-1798. Specifically, Consumers provided:

Consistent with the rate design structures proposed for full transportation service customers, the Company is proposing customer charges and transportation charges to collect revenues from Transmission-Only customers. The customer charges for STT and XXLTT are set based on the COSS. The principal customer charges for LTT and XLTT are set to maintain the economic breakeven points. These rate changes maintain economic breakeven points between Rate STT and Rate LTT at 100,000 Mcf annually and a breakeven point between Rate LTT and Rate XLTT at 500,000 Mcf annually, as well as provide for recovery of the annual revenue requirement for Transmission-related costs. Consistent with rate design proposed for full transportation service customers, and to maintain current approved breakeven points, the Company is proposing to shift proposed revenue between transmission-only rate schedules. Approximately \$1.5 million has been shifted into Rates STT and LTT from Rate XLTT. Furthermore, to mirror the proposal for XXLTT, the Company is proposing to maintain Rate XXLTT’s minimum annual eligibility requirement of 4 Bcf [billion cubic feet].

* * *

The revenue from these customers will be included in Other Revenue and will serve as an offset to the Company's revenue requirement.

4 Tr 1797-1798.

The Staff opposed Consumers' proposal, asserting that all TOT Service customers should be served on a single rate. 4 Tr 2585. The Staff argued that Consumers' proposed TOT Service rates "do not reflect the breakeven points of the associated rate schedules and therefore should not be used. In addition, the service provided to the [TOT] customers has not been shown to differ in a way that supports separate rates for the breakeven-based classes." 4 Tr 2585.

In rebuttal, Consumers argued that it has developed and applied breakeven points for TOT Service customers "consistent with how rates are designed for end-use transportation customers. This approach ensures internal consistency across all transportation rate classes and better reflects cost-causation principles. The use of breakeven analysis in designing these rates helps determine appropriate fixed and variable components while supporting rate stability for customers." 4 Tr 1803. Moreover, Consumers argued that the TOT Service rates for this case are set according to the same breakeven point thresholds used by the Transportation class rate schedules. 4 Tr 1803.

The ALJ agreed with the Staff and rejected Consumers' proposal at this time, finding that "Consumers failed to adequately support its proposal and demonstrate that separate rates, including breakeven thresholds, for TOT customers are justified as they are for other transportation customers." PFD, p. 448.

In its exceptions to the PFD, Consumers asserts that it provided ample evidence to support its proposal that service to TOT customers differs just like service to other transportation customers differs. Consumers' exceptions, p. 116. Thus, Consumers argues that the Commission should

reject the ALJ's recommendation and adopt Consumers' proposed rate design for TOT customers.
Id.

In its replies to exceptions, the Staff asserts that the "ALJ correctly found, based on a review of the record, that the Company did not support its proposal." Staff's replies to exceptions, p. 11. The Staff argues that Consumers is merely reiterating the same argument again in exceptions that the company has already raised in its testimony and briefs, and Consumers reiteration of its arguments "fails to allay Staff's concerns that, as noted in the PFD, 'the Company has still failed to show 'how service provided to these customers differed in a way that supports separate rates for the break-even based [sic] classes.'" *Id.*, pp. 11-12 (quoting Staff's initial brief, p. 102). Thus, the Staff argues that the Commission should reject Consumers' proposal for separate rates, including breakeven thresholds, for TOT customers. Staff's replies to exceptions, p. 12.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. Consumers did not adequately support its proposal for four different TOT Service rate options or their breakeven thresholds. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue. *See*, PFD, pp. 448-449.

B. Economic Breakeven Points

According to Consumers, "[a]n economic breakeven point is the point of volumetric usage where revenue collected from one rate would equal revenue collected on a difference rate." 4 Tr 1793. Consumers explained that the company strives to maintain economic breakeven points as part of the rate design because:

[m]aintaining breakeven points allows for greater precision in revenue prediction and, therefore, greater accuracy in setting rates and minimizes confusion for customers. When economic breakeven points change, customers have an economic incentive to switch from their existing rate to a more economical rate. This can result in under- and over-recovery of costs if many customers shift rates. In addition, frequent shifts from rate to rate on a large scale can create volatility in

revenues received by the Company. This makes it difficult to accurately predict future revenues for ratemaking and planning purposes. Maintaining economic breakeven points minimizes volatility by eliminating any economic incentive to change rates when the customer use has not changed, while simultaneously establishing cost-based rates for the General Service class. However, it may be necessary in certain circumstances to realign the breakeven points if the individual rate classes continue to move further from their cost-basis and maintaining the current breakeven points is no longer appropriate.

4 Tr 1794. Consumers asserted that it is not recommending any changes to the breakeven points at this time because the company's proposed transportation changes in this case align closely with the COS and a change to the breakeven points was not needed." 4 Tr 1795.

The Staff agreed with Consumers' rate design method that maintains breakeven points between GS and transportation rate schedules. 4 Tr 2586. The Staff reiterated the importance of maintaining economic breakeven points, noting that if breakeven points "were changed without cause, or without properly reflecting such a change in the determinants, the Company's ability to collect its targeted revenue would be inappropriately impaired." 4 Tr 2586.

ABATE disagreed with Consumers' rationale for using economic breakeven points, arguing that Consumers has not provided evidence to "show that frequent rate shifting and revenue volatility would occur if rates for all Transportation rate schedules were based on the [COSS] rather than a desire to maintain economic breakeven points." 4 Tr 2104. ABATE noted that Consumers' tariff prevents customers from changing from one transportation service rate to another for a minimum of 12 months once the customer selects a rate under which it will take service. 4 Tr 2104. ABATE argued that "the greatest level of transportation customer rate switching in recent years occurred in 2024 (despite no change in economic breakeven points), and involved 87 Rate LT customers[, and] the Company was not negatively affected by this rate switch, as it experienced an approximate \$37 million revenue sufficiency in 2024." 4 Tr 2104

(footnotes omitted); *see*, Exhibit AB-3. ABATE recommended that breakeven points be reestablished based on COSS V3. 4 Tr 2106.

In rebuttal, Consumers asserted that it is “justifiably concerned about rate shifting[,]” arguing that:

[c]urrent approved breakeven points reflect economic thresholds that guide how customers evaluate their rate class alignment. If the Company were to abruptly shift transportation rates to align precisely with the current class COSS without considering these breakeven points—or without re-running the full forecasting and cost-allocation process—there is a material risk of distorting cost recovery. Specifically, the Company could experience customer migration between rate classes or changes in usage patterns, leading to either over-recovery or under-recovery of authorized revenues. Rate design and customer class assignment are part of a cyclical, iterative process. If these thresholds were altered midstream—without adjusting load forecasts, usage patterns, and cost allocations accordingly—it would invalidate the assumptions embedded in the class COSS and result in rates that no longer align with actual cost causation.

4 Tr 1809. Moreover, Consumers noted that ABATE’s argument regarding the minimal rate shifting that has occurred over the last several years shows that the company has been appropriately setting breakeven points. 4 Tr 1809.

In rebuttal, the Staff asserted that ABATE’s proposed method of rate design “fails to either lock the breakevens in place or move determinants appropriately, and should be rejected for that reason. It has also not been shown that the current rate schedule delineations are justified by differential use of the system.” 4 Tr 2767. The Staff also noted that ABATE’s attempts to support its proposal by showing how rare it is for customers to switch rates is misplaced, explaining that:

ABATE witness [Jessica A.] York fails to acknowledge [. . .] that this minimal rate switching is mainly a result of past rate designs *being done in such a way so as to minimize rate switching*. Using the fact that such considerations have been successful in minimizing rate switching should not be considered as evidence that such considerations are unnecessary; in fact, it is evidence that they should continue to be utilized.

4 Tr 2767 (emphasis in original).

The ALJ agreed with Consumers and the Staff that Consumers' rate design and economic breakeven points for transportation customers are reasonable and recommended this be adopted for the following three reasons:

First, by failing to provide additional analyses of sales, determinates, allocations, etc., ABATE's recommendation is unsupported and cannot be adopted, as the company and the Staff point out. Second, the proposal to reset breakeven points consistent with ABATE's preferred COSS [COSS V3], should be dismissed because ABATE's COSS was rejected, as discussed in detail above. Finally, this [ALJ] agrees with Consumers and Staff that the company's concerns about rate shifting (and potential customer confusion) are well founded, and that attempting to set new breakeven points as part of this proceeding could result in significant instability in revenue collection and could cause customer confusion.

PFD, p. 455.

In its exceptions to the PFD, ABATE asserts that the ALJ's recommendation to maintain Consumers' proposed breakeven points between rates should be rejected because it does not reflect cost of service. ABATE's exceptions, pp. 15-18. Specifically, ABATE argues that it did not need to provide additional analyses of sales, determinates, or allocations to reestablish breakeven points when Consumers "explicitly stated that its proposed rate design does not 'align precisely with the current class COSS' and implicitly acknowledged that ABATE's proposal would force Consumers' rate design to do so." *Id.*, p. 16 (quoting 4 Tr 1808-1810). ABATE also argues that the ALJ's claims regarding rate shifting (and potential customer confusion) and significant instability in revenue collection are contradicted by the record where "Consumers provided no evidence to show that 'frequent' rate shifting and revenue volatility would occur if rates for all transportation rate schedules were based on the [COSS . . . and] the Company's tariffs explicitly prevent the claimed rate shifting and customer confusion concerns." ABATE's exceptions, p. 16. (emphasis in original) (referencing PFD, p. 455). As a result, ABATE

recommends that the Commission find the ALJ's recommendation unreasonable, and reestablish the breakeven points based on COSS V3. ABATE's exceptions, p. 18.

In its replies to exceptions, Consumers asserts that the ALJ correctly found the company's proposed economic breakeven points to be reasonable. Consumers' replies to exceptions, p. 94. Consumers argues that ABATE's assertion in its exceptions that the company implicitly acknowledged that ABATE's proposal would force Consumers' rate design to align with the current class COSS is inaccurate; "the Company has not acknowledged this, implicitly or otherwise [. . . and has] clearly said that ABATE's proposal was not cost based." *Id.*, p. 93 (citing 4 Tr 1808). Moreover, Consumers notes that the ALJ found that ABATE's proposal to reset the breakeven points should be dismissed because ABATE's preferred COSS, COSS V3, was rejected, which ABATE failed to address in its exceptions. Consumers' replies to exceptions, p. 93 (citing PFD, p. 455). Consumers also argues that it has produced evidence to justify the company's concerns with rate shifting; this evidence "is grounded in the Company's experience and in the ratemaking principles the Company followed when setting breakeven points[, and t]he Company provided data to ABATE showing that rate shifting has occurred in recent years." Consumers' replies to exceptions, p. 94 (citing 4 Tr 1809 and Exhibit AB-1). As such, Consumers recommends the Commission adopt its proposed rate design and breakeven points. Consumers' replies to exceptions, p. 95.

In its replies to exceptions, the Staff asserts that ABATE's arguments in its exceptions on the economic breakeven points should be rejected. Staff's replies to exceptions, p. 13. The Staff argues that ABATE's arguments in exceptions are merely a repeat of arguments ABATE has already made in previous briefing, the ALJ already considered alongside the arguments made in

opposition by the Staff and Consumers, and the ALJ already decided on in favor of the Staff and the company based on the strength of those arguments from the record. *Id.*

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue. *See*, PFD, p. 455.

C. Customer Charges

Consumers calculated its residential customer charge by limiting "the customer charge to only those costs associated directly with supplying service to a customer," resulting in "a residential customer charge of \$21.96 per month." 4 Tr 1790. Consumers stated that customer charges "are intended to capture costs 'directly associated with supplying service, such as metering, service laterals, and customer billing.'" Consumers' initial brief, p. 351 (quoting 4 Tr 1804). Consumers contended that it used the same methods and inputs that the Commission previously approved, such as in Case No. U-4331. Consumers' initial brief, pp. 344, 351 (internal citation omitted). The company stated that it used "a combination of historical and projected expenses." Consumers' initial brief, p. 344 (citing 4 Tr 1242). Despite a cost-based residential customer charge being calculated to be higher, Consumers proposed a total of only \$20.00 per month (with a Rate GS-1 charge increase to \$24.00 per month) as "it still moves the residential customer charge closer to the cost to serve these customers consistent with cost-causation principles." *Id.*, p. 352 (internal citation omitted).

Consumers' witness, Mr. Smith, testified that the increase in customer charge "results in a corresponding increase to the low-income RIA [(Residential Income Assistance)] monthly credit" with "[t]he more revenue collected via the fixed customer charge, the greater the proportion of the RIA customer's bill is offset by the fixed monthly credit." 4 Tr 1790. Mr. Smith testified that the

increased customer charge will not adversely affect customers who qualify for income assistance, stating that “customers qualifying for the RIA provision will see the benefit of lower bills, since the customer charge is completely offset by the RIA credit.” 4 Tr 1791. Consumers argued that this is because “when a larger portion of revenue is collected through the fixed customer charge, a smaller portion of the proposed revenue is collected through the variable distribution charge. This lower variable charge translates into a lower monthly bill for the most vulnerable customers” such that “the RIA customer with the higher customer charge would enjoy a lower overall bill.” Consumers’ initial brief, p. 353 (internal citation omitted).

The Staff accepted Consumers’ recommendation of a customer charge for Rate GS-1 of \$24.00, which was an increase of \$6.00, along with accepting that all other customer charges be set by rate design, but it disagreed with Consumers’ method of calculating the residential customer charge using a combination of historical and projected costs. *See*, 4 Tr 2571. The Staff recommended a residential charge of \$19.00 per month, one dollar less than Consumers’ proposed residential charge. Staff’s initial brief, p. 91 (citing 4 Tr 2571-2572). The Staff also recommended that the Commission rely on its historical method instead of Consumers’ “problematic” forecasted method. Staff’s initial brief, p. 91 (citing 4 Tr 2571). While the Staff acknowledged that its recommended increase in the residential customer charge is large, it argues that “recent settlements have resulted in the residential customer charge drifting away from the cost-of-service.” Staff’s initial brief, p. 91 (citing 4 Tr 2572). The Staff notes that in previous rate cases, its “calculations would have justified increased customer charges but the settlements either resulted in smaller increases, or in one case, no increase in the residential customer charge at all.” 4 Tr 2572.

Because of the methodology used and set forth in Case No. U-4331, Consumers argued against the Staff's proposal to only use historical amounts. *See*, Consumers' initial brief, p. 344.

The Attorney General's witness, Mr. Coppola, also testified regarding Consumers' proposed residential charge, noting that "[t]he proposed change from \$15.00 to \$20.00 per month represents an increase of 33%. Such a large increase could cause financial hardship to customers in smaller households who use less gas than the average customer." 4 Tr 2035. Mr. Coppola also stated that "[f]ixed monthly charges also discourage energy conservation" and that while a customer "cannot reduce fixed monthly charges[,] increasing the volumetric rate customers pay helps encourage conservation because of the higher cost. 4 Tr 2035. As such, the Attorney General suggested that the Commission reject Consumers' proposed increase in the monthly service charge, maintaining the \$15.00 residential customer monthly charge as well as the \$18.00 monthly service charge for Rate GS-1. 4 Tr 2035.

Due to cost-causation principles, Consumers disagreed with the Attorney General's proposal to keep rates static, claiming that the Attorney General's "proposal is not supported by any cost study." Consumers' initial brief, p. 352 (citing 4 Tr 1804).

MSC provided four reasons why Consumers' proposed fixed charge increase should be denied. First, MSC argued that higher customer charges are regressive, and such fixed charges are "more likely to harm low-income customers, especially those with low usage." MSC's initial brief, pp. 113-114 (citing 4 Tr 2481). Instead, MSC suggested raising the RIA credit without raising the customer charge. MSC's initial brief, p. 114 (citing 4 Tr 2481). Because only one in six LMI customers participates in Consumers' energy assistance programs, MSC argued that "the majority of LMI customers are not reached by any" of the company's assistance programs, "including RIA" such that Consumers' proposition is "unlikely to alleviate the serious impacts

raising the customer charge would have on LMI customers.” MSC’s initial brief, p. 114 (citing 4 Tr 2481). Secondly, MSC argued that an increased fixed customer charge weakens price signals, impeding customer interests. *See*, MSC’s initial brief, pp. 113-115. MSC testified that ““as customer usage becomes decoupled from their bill, the ability to conserve energy and save money is impeded.”” *Id.*, p. 114 (quoting 4 Tr 2481). In short, MSC stated, “there is less incentive to reduce energy waste.” MSC’s initial brief, p. 114. MSC argued that by reducing a customer’s ability to influence their own energy burden, LMI customers are harmed because they “may now be unable to reduce consumption in order to afford their energy burden.” *Id.*, p. 115. Thirdly, MSC testified that, according to the National Association of State Utility Consumer Advocates, “customers do not prefer higher fixed charges” and would rather be able “to control their own energy burden.” *Id.* (citing 4 Tr 2482). Lastly, MSC noted that Consumers’ residential customer charge is the highest in Michigan, and “nearly 40% higher than Consumers’ nearest competitor[,]” which is DTE Energy at a monthly residential customer charge of \$14.50. MSC’s initial brief, p. 115 (citing 4 Tr 2483). MSC argued that because Consumers operates similarly to DTE Energy, there is no justification for its fixed customer charge to be that much higher in comparison. As such, MSC suggested that the Commission wholly reject Consumers’ increased fixed customer charge.

In rebuttal, Consumers argued against the Attorney General’s and MSC’s recommendations. Regarding the Attorney General’s recommendation, the company argued that the recommendation is “not based on any cost study.” 4 Tr 1804. Instead, Consumers argued that “[i]f the final Commission-approved Cost-of-Service Study supports a residential charge greater than \$15.00 and a GS-1 customer charge greater than \$21.00, then these customer charges should be designed to reflect that higher cost” and that both Consumers and the Staff have calculated customer charges

that support a higher charge. 4 Tr 1804. Furthermore, acknowledging that prior cases have settled with no or smaller increases in customer charges, Consumers contended that such has “widened the gap between calculated and approved charges over time. The proposed increase aims to address this growing disparity.” 4 Tr 1804. The company averred that an increase in the customer charge “is beneficial for low-income customers in the RIA provision” because the customer charge is offset by the RIA credit. 4 Tr 1805. Consumers explained that when more of the proposed revenue is collected from a fixed customer charge, less revenue is collected from a variable distribution charge which results “in a lower monthly bill for the most vulnerable customers.” 4 Tr 1805.

Consumers addressed MSC’s four reasons for disagreeing with the company’s proposed residential charge. First, the company stated that the idea “that fixed customer charges are inherently regressive and harm[] LMI customers oversimplifies both the nature of utility cost recovery and the broader tools available to support affordability.” 4 Tr 1806. Consumers stated that LMI customers who receive an RIA credit “benefit from a higher customer charge” and while not all LMI customers receive the RIA credit, the company finds that “affordability issues are better addressed through targeted low-income assistance programs (e.g. RIA and LIAC [(Low-Income Assistance Credit)]) and energy efficiency investments provided by the Company’s Energy Waste Reduction programs.” 4 Tr 1806. In short, Consumers noted, even for customers who do not receive the RIA credit, all customers who pay “a \$20.00 Customer Charge and consum[e] 8 Mcf or more per month actually experience[] a *lower* bill.” 4 Tr 1806 (emphasis in original). The company stated that “the remaining usage-based rate more closely reflects the marginal cost of delivering gas” by removing fixed costs from the volumetric rate. 4 Tr 1807. Next, Consumers argued that even by increasing its customer charge, a typical residential

customer's monthly energy charges would still result in a lower bill as volumetric rates make up most of a typical residential customer's bill. *See*, Consumers' initial brief, p. 354. Third, Consumers argued that Mr. Denzler referenced a 10-year-old resolution that does "not represent customers' current preferences" regarding lower customer charges. Consumers' initial brief, p. 354. Consumers contended that it was unclear whether MSC conducted a survey of the company's customers in stating that customers prefer lower charges, and that as such, MSC's argument "does not seem to account for the unique circumstances of individual utilities or regions." 4 Tr 1807. Lastly, regarding MSC's testimony, Consumers stated that "[c]omparing fixed charges across utilities without examining the underlying cost-of-service studies, system configurations, and customer demographics is an oversimplification that can lead to flawed conclusion[s]" as "[e]ach utility's customer charge is based on the unique costs it incurs to serve a residential customer." Consumers' initial brief, p. 355 (citing 4 Tr 1807). To add credence to its rebuttal, Consumers asserted that "Mr. Denzler conceded that he has not evaluated whether other Michigan utilities' service areas or customer demographics contributed to their different customer charges." 4 Tr 1807-1808 (citing Exhibit A-156 (SAS-9)). The company further asserted that a utility's rate design should be based on its actual cost to serve its customers, and that Consumers' "fixed customer charge is based on its own cost-of-service study, which reflects the actual costs incurred to maintain safe and reliable service for each customer." 4 Tr 1808.

In its reply brief, Consumers argued that in Case No. U-17999, the Commission held that "customer charges should be limited to the costs associated directly with supplying service to the customer." Consumers' reply brief, p. 133 (quoting the December 9, 2016 order in Case No. U-17999, p. 66). Consumers also averred that in requesting a lower increase, it was moderating the impact of the customer charge, although such "is a secondary consideration." Consumers' reply

brief, p. 134. Consumers concluded by stating that its proposed customer charge “moves it closer to its cost of service than any other party’s proposed customer charge.” *Id.*

In its reply brief, the Staff stated that it was resting on its position as discussed in its initial brief as “no new or novel arguments have been presented by other parties.” Staff’s reply brief, p. 16.

MSC also addressed the customer charge in its reply brief. MSC argued that the decision in Case No. U-17999 does not fully support Consumers’ position. MSC stated that in Case No. U-17999, the Commission discussed limiting what costs could be included, not that no other issues could be considered. *See*, MSC’s reply brief, pp. 18-19. As such, MSC concluded, the Commission should reject Consumers’ “claim that any non-cost based recommendations should be denied.” *Id.*, p. 19.

The ALJ agreed with the Staff’s methodology of using historical costs to calculate the residential customer charge, stating that “adoption of the company’s approach could result in inappropriate costs being included in the customer charge.” PFD, p. 462. While the ALJ agreed with both Consumers and the Staff that “the customer charge, like other costs, should be based on COSS principles[,]” he found that 25-30% increases could cause “rate shock, especially for non-RIA customers and customers that use less than average amounts of gas.” *Id.* Thus, the ALJ suggested that the Commission approve only a \$17.00 monthly charge for residential customers, and a \$21.00 monthly charge for Rate GS-1 customers “with any remaining disparity between the COSS and customer charges to be addressed in future rate cases” to align such “with the principle of gradualism in rate design while still adjusting the customer charge in a direction that reflects the cost of service.” *Id.*

In its exceptions, Consumers states that customer charges are intended to capture costs incurred to serve customers and should be done with cost-causation principles. *See*, Consumers' exceptions, p. 116. Consumers argues that the recommendation to keep the current customer charges for residential and Rate GS-1 customers put forward by the Attorney General should be denied because they were not cost-based. *Id.* (citing 4 Tr 1804, 2035, and 2480). Additionally, Consumers asserts that the ALJ erred by proposing a lower customer charge than the company's and the Staff's proposed charge because Consumers' proposed method "was the Commission-approved method" (adopted by the Commission in Case No. U-4331) and the ALJ's adjustment "verges on elevating gradualism above cost-based ratemaking that should be the chief guiding principle." Consumers' exceptions, pp. 117-118. Consumers also disagrees with using only the historical costs, as the Staff did in its calculation, instead of using historical costs in combination with the projected costs, stating that its "methodology for calculating the customer charge is consistent with the method approved in the Company's previous gas rate cases, calculating the customer charge based on a combination of historical and projected expenses." *Id.*, p. 118 (citing 4 Tr 1242). Consumers contends that the Legislature allows utilities the authority to "use projected costs and revenues for a future consecutive 12-month period in developing [their] requested rates and charges." Consumers' exceptions, p. 119 (citing MCL 460.6a(1)). Consumers also highlights that the Staff suggested that only historical amounts be used in the company's last electric rate case, Case No. U-21585, in which the ALJ recommended that the historical costs-only method be denied, and the Commission adopted the ALJ's recommendation. *See*, Consumers' exceptions, p. 119 (citing March 21 order, pp. 425-427).

Continuing in its exceptions, Consumers asserts that cost-based ratemaking principles should not be superseded by gradualism principles, arguing that while "the ALJ recognized the need to

move the customer charge toward the actual cost of service [. . .] The math, however, does not support the conclusion that the Company's proposed customer charge will lead to rate shock."

Consumers' exceptions, p. 120. To support this conclusion, Consumers again states that by collecting more revenue through a fixed customer charge, less is collected through a variable distribution charge and "for customers receiving the RIA credit, the customer charge is completely offset by the credit." Consumers' exceptions, p. 120 (citing 4 Tr 1791, 1805). Consumers continues arguing for its increased customer charges by stating that adherence "to cost-causation principles when proposing the customer charge was the Company's highest priority – just like it has been the Commission's highest priority in the past when setting the customer charge."

Consumers' exceptions, p. 121. Consumers also states that "[r]educing the customer charge further in the name of gradualism elevates gradualism principles above cost-based ratemaking principles contrary to longstanding practice" which "exists for a reason." *Id.* Consumers then highlights DTE Gas's 2015-2016 gas rate case, Case No. U-17999, in which "the Commission adopted a 'cost of service based customer charge' that excluded costs not directly tied to individual customers." Consumers' exceptions, p. 121. Consumers asserts that its proposed residential customer charge is closer to its cost of service than any opposing party's proposed residential customer charge, and that Rate GS-1 was also a cost-based customer charge, and as such, both should be approved. *Id.*, pp. 121-122.

In her exceptions, the Attorney General contends that even the ALJ's suggestion to increase the residential charge by \$2.00 a month for residential charges and \$3.00 for small commercial (Rate GS-1) customers should be rejected as the monthly charges "were just increased in the Company's last rate case." Attorney General's exceptions, p. 49. She also reasserts her position that the increases "will result in higher bills without a corresponding increase in gas usages[,] and

fixed monthly charges discourage energy conservation since reduced usage does not result in a reduction in gas bills.” *Id.* (citing Attorney General’s initial brief, p. 198).

In its replies to exceptions, Consumers reasserts its position that customer charges should only involve costs directly associated with providing a customer service, and that the more the charge is below a utility’s cost basis, “the more the wrong customers will be charged.” Consumers’ replies to exceptions, p. 95 (internal citations omitted). The company also contends that increasing its customer charges will “generally *not* result in higher bills or discourage energy conservation.” *Id.*, p. 96 (emphasis in original). Consumers further argues that a higher customer charge will “*not* send poor price signals or impede customers’ ability to conserve energy.” Consumers’ replies to exceptions, p. 96 (citing 4 Tr 2481-2482; Consumers’ initial brief, p. 354) (emphasis in original).

In its replies to exceptions, the Staff posits that both Consumers’ and the Attorney General’s positions should be rejected because “[n]either the Company nor the [Attorney General] produce any new arguments for why the PFD adopted its recommended customer charges.” Staff’s replies to exceptions, p. 15 (citing PFD, pp. 456-462). The Staff noted that while customer charges were increased in Consumers’ last case, that was “still below the cost of service” and done as part of a settlement. Staff’s replies to exceptions, p. 15 (citing Staff’s initial brief, p. 91).

In its replies to exceptions, MSC reiterates its position to maintain Consumers’ customer charges, stating, however, if the Commission were to approve a change, that it should adopt the ALJ’s position. MSC defines gradualism as “the idea that rates should be adjusted in small increments over time to provide a stability and predictability for customers” and claims that gradualism is supported by Commission precedent. MSC’s replies to exceptions, p. 36 (citing July 30, 1982 order in U-6839, pp. 92-93). MSC also states that the Commission should consider “both cost-of-service principles *and* countervailing, non-cost-based issues.” MSC’s replies to

exceptions, pp. 36-37 (citing December 9, 2016 order in Case No. U-17999, p. 107) (emphasis in original). MSC argues that the Commission is not required to raise customer charges to the maximum allowed and that the ALJ properly considered non-cost issues such as harm to LMI customers and rate shock. MSC's replies to exceptions, p. 37. MSC claims that Consumers' low-income assistance programs do not mitigate the burden of its increased customer charges because "Consumers fails to address the fact that it cannot reach all LMI customers—and other vulnerable customers—with its assistance programs, which include RIA." *Id.* (citing 4 Tr 2481). MSC also disagrees with Consumers' assertion that a reduction to variable charges offset the amounts customers will owe due to higher customer charges, asserting that "[t]he benefits to LMI customers [. . .] are [. . .] overstated" along with noting that the average residential customer will not have consumed enough gas to see a net savings. MSC's replies to exceptions, pp. 38-39. In fact, while Consumers asserted that customers consuming eight Mcf or more a month will have savings, "residential customers only consumed an average of 7.67 Mcf per month in 2024, and LMI customers often have proportionally lower natural gas usage than the average customer." *Id.* (internal citations omitted).

After review of the record and arguments presented by the parties, the Commission finds that the ALJ's recommendations on these issues are well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions to approve a residential customer charge of \$17.00 per month, and a Rate GS-1 charge of \$21.00 per month.

D. Tariffs

Consumers' witness, Mr. Harrington, relied upon Exhibits A-71 and A-16 to provide a summary and explanation of the company's tariff changes in its gas rate book. *See*, 4 Tr 1474.

While there were various types of changes, changes on Tariff Sheet Nos. D-2.30, D-10.00 through D-13.00, E-8.00, and E-10.00 proposed price changes. *See*, Exhibits A-16 and A-71.

The Staff supported updating Consumers' tariff sheets "to reflect changes in Staff proposed rates." 4 Tr 2587. The Staff also suggested that the Commission "make rates effective fourteen calendar days after the final order" so that all of the parties have time "to ensure the accuracy of the rates and tariffs approved by the Commission and notify the Commission of any errors." Staff's initial brief, p. 103 (citing 4 Tr 2587). Per the Staff, "[i]f no errors are found, then the rates and tariffs would go into effect at the end of the review period set in the order. If, however, errors are identified, corrections would be filed in the docket prior to implementation." 4 Tr 2587. The Staff stated that its suggestion was uncontested and as such, should be adopted by the Commission.

The ALJ noted that "[t]here were no specific issues raised with respect to the company's proposed tariffs" and as such, the tariffs should be revised and updated by the Commission. PFD, p. 463. Additionally, as there were no objections to the Staff's 14-calendar day period to make new rates effective, the ALJ recommended that the proposal be adopted. *Id.*

After review of the record and arguments presented by the parties, the Commission finds that the ALJ's recommendations on these issues are well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions to revise and update Consumers' tariffs while incorporating the Staff's suggestion of a 14-calendar day review period before implementation of the tariff rates from the date of the final order.

X. OTHER ISSUES

A. Probabilistic Modeling

Consumers' initial brief begins by explaining that its "Transmission Probabilistic Risk Model [(TPRM)] is designed to calculate the total risk of an asset by assessing threats . . . and the

consequences of failure” Consumers’ initial brief, p. 73 (citing 4 Tr 1816). Consumers stated that its TPRM “is run annually by the vendor,” which is followed by a 3-month configuration and analysis period. Consumers’ initial brief, p. 73 (citing 4 Tr 1814). Consumers’ witness, Mr. Snyder, described that Consumers uses the model to understand an asset’s risk and threats, which allow the company to prioritize projects and ensure compliance by comparing previous year risk results to the current year, but that multiple years cannot be compared “because of the migration from a relative [risk model] to a new probabilistic risk model. Comparing long-term risk results for overall reduction values is not appropriate with integrity related asset models because the threats in the model are time dependent.” 4 Tr 1814-1818. The company also noted that it plans to begin probabilistic risk modeling in 2027 for distribution assets and that it is planning to replace all of its highest risk materials to comply with PHMSA by 2035. Consumers’ initial brief, p. 55, 75 (internal citations omitted).

In its initial brief, MSC stated that using a probabilistic risk model would improve Consumers’ cost-effectiveness of its EIRP and other material replacement programs. *See*, MSC’s initial brief, p. 33. MSC asserted that “[a] probabilistic risk model is a more rigorous tool than a relative risk model.” *Id.*, p. 34 (citing 4 Tr 2343). MSC also testified that Consumers should utilize probabilistic risk modeling and cost-effectiveness calculations in its future rate cases. *See*, 4 Tr 2314-2316. MSC stated that “[a] probabilistic risk model utilizes historical data and subject matter expertise to estimate the likelihood of failure and consequence of failure for specific areas or pipeline segments. The multiplication of likelihood and consequence is the risk.” 4 Tr 2338. MSC also explained that cost-effectiveness, “or risk spend efficiency (RSE), is calculated by dividing risk reduction of each mitigation alternative by cost” where risk reduction “is calculated as the level of risk multiplied by mitigation effectiveness (percent reduction in likelihood and/or

consequence), discounted appropriately in each year. Mitigation effectiveness can be determined on historical data and/or subject matter expertise.” 4 Tr 2338. MSC provided the following calculation for such:

$$\text{RSE} = \text{Risk Reduction (Risk x Mitigation Effectiveness)} / \text{Cost}$$

4 Tr 2338.

MSC testified that risk modeling and cost-effectiveness calculations provide “transparency and insight into tradeoffs between risk reduction and affordability” because they “allow [intervenors] to examine the level of risk reduction expected[, . . .] the cost to achieve this, and an ability to assess alternatives that could better maximize risk reduction and minimize costs.” 4 Tr 2339. However, MSC warned that such transparency was lacking in Consumers’ application, resulting in the Commission being required to rely on “relatively vague utility proclamations without data-driven, analytical support that Consumers’ proposals are in the ratepayer interest.” 4 Tr 2339. MSC then outlined several utilities that use risk modeling and cost-effectiveness in their decision-making, such as Washington Gas in Washington, D.C. 4 Tr 2340.

MSC stated that Consumers’ testimony is incorrect in stating that probabilistic risk models are complicated, time consuming, and have limited effectiveness because “the probabilistic risk model that Consumers is developing for distribution will be an extension of the model that already contains the transmission model.” MSC’s initial brief, p. 42 (internal citations omitted). Furthermore, MSC contradicted Consumers’ testimony that a probabilistic risk model cannot be used to evaluate cost effectiveness without further substantial development because “cost estimates for transmission-related remediation projects are not based on site-specific factors – they are based on the history of the line segment and the average cost of a dig” such that the company

“could use the same kind of information to estimate costs as part of an RSE process using a probabilistic risk model for distribution.” MSC’s initial brief, p. 42.

MSC acknowledged that Consumers stated that it developed a probabilistic risk model for transmission assets and Transmission Operated by Distribution assets, and that it plans to develop probabilistic risk models for storage wells and distribution assets, which will begin use in 2025 and 2027, respectively. 4 Tr 2342. However, MSC argued that relative risk models “cannot examine cost-effectiveness of remediation alternatives” whereas a probabilistic risk model can calculate a quantitative risk score “that can be used to understand the cost-effectiveness of alternative remediations and risk across different types of assets.” 4 Tr 2343. As such, MSC argued that Consumers cannot calculate cost-effectiveness without a probabilistic risk model, which it does not have for such asset classes as storage wells. 4 Tr 2343-2344.

To resolve this issue and provide greater transparency, MSC made several recommendations. First, MSC suggested that Consumers provide “far greater transparency regarding the tradeoffs between safety and affordability” both on a regular basis and in its applications. 4 Tr 2349. Next, MSC suggested that future rate case applications use “probabilistic risk modeling and cost-effectiveness calculations to a much greater extent for all asset classes” and that such be available to intervenors and the Commission. 4 Tr 2350.

In rebuttal, while Consumers agreed that probabilistic risk modeling and cost-effectiveness calculations are valuable, Consumers’ witness, Mr. Snyder, argued that MSC did not acknowledge “the nature and limitations of the Company’s current [TPRM] and risk models in general.” 4 Tr 1815. Consumers testified that its probabilistic risk model was created for its Transmission Integrity Management Program “with the purpose of calculating the total risk of an asset.” 4 Tr 1815. In short, Consumers’ probabilistic risk model was “designed to calculate current state

risk[,]” not to perform cost analysis or calculate mitigation effectiveness. 4 Tr 1818. Furthermore, the company’s TPRM “was developed to comply with PHMSA’s best practices for risk modeling[,]” which “calculates a probability of failure based on the confidence of the data provided.” Consumers’ initial brief, p. 76 (citing 4 Tr 1823). The company contended that there are several factors to be considered such as system reliability and resiliency, customer impact, and permanent versus temporary repair. *See*, 4 Tr 1818-1819.

Furthermore, Consumers disagreed with the assertion that it should utilize probabilistic risk modeling and cost-effectiveness calculations in its future rate cases, stating that “[d]eveloping the models is a tremendous undertaking and the Company will in all likelihood not have probabilistic models for all asset classes prior to its next rate case.” 4 Tr 1824. Consumers also contended that MSC’s recommendations were “unduly burdensome and unnecessary as the Company currently operates the system in a safe and effective manner taking into consideration safety and affordability.” 4 Tr 1825. Consumers explained that it “compares previous year risk results to current year risk results to understand the full impact of work performed in the previous year” such that, due to migration from a new probabilistic risk model, multiple years of risk cannot be compared. 4 Tr 1825. Overall, Consumers criticized risk modeling because it requires a history of data collection and sharing confidential and critical information without directly addressing affordability or acceptable risk levels. 4 Tr 1822.

Consumers briefly mentioned probabilistic modeling in its reply brief, stating that the Commission’s Statewide Energy Assessment (SEA report) final report in Case No. U-20646 (issued on September 11, 2019) recommended “using probabilistic risk models to prioritize investment across natural gas investment portfolios, limit risks associated with commodity supply, and enhance natural gas delivery through the development of demand response and remote gas

shutoff systems” and that in its Natural Gas Distribution Plan (NGDP), the company addressed such. Consumers’ reply brief, p. 136.

The ALJ felt that MSC’s recommendations for Commission action on this issue need not be addressed “because the company is already developing probabilistic models for a variety of asset classes, including a distribution-related probabilistic model.” PFD, p. 470. The ALJ was not convinced that “all programs should be evaluated for cost effectiveness[,]” as calculating such “for all programs would be unduly burdensome” and as such, he declined to adopt MSC’s recommendations regarding cost effectiveness calculations as incorporated into Consumers’ probabilistic risk models. *Id.*, p. 471.

In its exceptions, Consumers stated that the company is already following the recommendations from the Commission’s SEA report. Consumers’ exceptions, p. 122.

In its exceptions, MSC highlights that Consumers plans to spend \$3.6 billion in the next decade on the EIRP, VSR, and MCNM. *See*, MSC’s exceptions, pp. 27-28. MSC contends that by requiring Consumers to undergo probabilistic risk modeling “to determine reasonable and prudent annual capital spending[,]” it will allow for “*some* consideration of cost-effectiveness into Consumers’ material replacement programs where none currently exists.” *Id.* MSC also contends that Consumers’ current Distribution Risk Analysis Model (DRAM) is “more or less just a priority ranking” model, whereas probabilistic models can more accurately assess pipeline risk “to achieve the reductions, and a meaningful assessment of alternatives.” *Id.*, pp. 28-29. While MSC acknowledges the ALJ’s comment that Consumers is already developing probabilistic models for

various asset classes, “the real point of contention is that Consumers is not developing the distribution probabilistic model to assess cost-benefit or cost effectiveness.” *Id.*, pp. 30-31.

MSC asserts that the Commission should reject the ALJ’s recommendation and instead require Consumers “to begin integrating cost-benefit evaluation in its material replacement capital programs” for four reasons. *Id.*, p. 31. First, MSC argues that without a cost-benefit evaluation, Consumers will continue increasing its “rate base revenue requirements collected against flat or declining sales.” *Id.* Secondly, MSC contends, to not do so would depart from Commission precedent stating that BCAs are required to support large capital expense recovery, citing the Commission’s directives in Case Nos. U-21297 and U-20697. *See, id.*, pp. 31-32. Thirdly, MSC contends that the ALJ’s concern of the burden of requiring BCAs for legally mandated programs “is not a basis for requiring evaluation of the costs and benefits of discretionary programs.” *Id.*, p. 32. Lastly, regarding whether BCA can be integrated with probabilistic risk modeling, MSC argues that the ALJ relied on Consumers’ witness who claimed that its probabilistic risk model “cannot be used to evaluate cost effectiveness without further development, specifically to predict site-specific costs of remediation.” *Id.* (citing 4 Tr 1815-1816). MSC asserts that even Consumers’ own witness, Mr. Snyder, admitted that such cost estimates are not for site-specific factors but are based on history and average cost and as such, MSC argues that Consumers could use that “same kind of information to estimate costs using a probabilistic risk model for distribution.” MSC’s exceptions, pp. 32-33 (citing Exhibit MEC-69).

In its replies to exceptions, Consumers agreed with the PFD, rejecting MSC’s recommendation that cost effectiveness calculations be integrated into the company’s probabilistic

risk modeling as it was “not possible to integrate with the existing probabilistic model.”

Consumers’ replies to exceptions, p. 96 (citing PFD, p. 471).

In addition, Consumers argues that it already addresses leaks, improving natural gas distribution system integrity, and enhancing public safety. Consumers’ replies to exceptions, p. 97 (citing 3 Tr 382). Consumers states that it uses a “relative risk model that assesses the risks and threats . . . along with subject matter expert input.” Consumers’ replies to exceptions, p. 97 (citing 3 Tr 463, 469-470). Consumers also states that MSC does not understand the company’s current probabilistic risk modeling nor what it is developing as its TPRM “is designed to calculate the total risk of an asset [. . .] and the consequences of failure [. . ..]” Consumers’ replies to exceptions, p. 99 (citing 4 Tr 1816). Consumers asserts that its vendor runs the model annually with data that “takes up to 90 days, followed by a three-month configuration and analysis period on vendor servers.” Consumers’ replies to exceptions, p. 99 (citing 4 Tr 1816). Consumers then compares the previous year’s risk to the current year’s results to ensure safe and reliable gas service by relying “on industry knowledge, cost, system reliability, and customer impact to select mitigation methodologies.” Consumers’ replies to exceptions, p. 100 (citing 4 Tr 1818). The company contends that it would require substantial development to incorporate MSC’s recommended true-cost-effectiveness calculation as currently, “any cost analysis must be currently done outside the model and would require [. . .] using Artificial Intelligence to predict the future repairs, where they are, how many, and the cost of remediation.” Consumers’ replies to exceptions, pp. 100-101 (citing 4 Tr 1817). Consumers asserts that its probabilistic risk model is

not a financial evaluation tool; it is merely intended to provide insight into threats on its system. Consumers' replies to exceptions, p. 101.

In its replies to exceptions, MSC reiterates its recommendation "that Consumers use a probabilistic risk model to evaluate the cost and benefit of available alternatives rather than simple prioritization ranking the Company now performs using [DRAM]." MSC's replies to exceptions, pp. 8-9 (citing MSC's exceptions, pp. 27-33).

After review of the record and arguments presented by the parties, the Commission finds that the ALJ's recommendations on these issues are well-reasoned and supported by the record. Consumers is already developing probabilistic risk models for a variety of asset classes, and the Commission is not persuaded that requiring the level of detail outlined by MSC is warranted at this time. However, the Commission finds that Consumers should continue to work to incorporate both risk and cost effectiveness into its planning and decision making, as the Commission believes that quantifying decisions through the use of probabilistic risk modeling will result in better outcomes for customers. The Commission encourages Consumers to continue to prudently develop its probabilistic risk modeling capabilities and apply them as available, and continue to better understand the interactions of safety and cost effectiveness in its planning process.

B. Natural Gas Delivery Plan

The ALJ divided this section into subsections, making his recommendation at the end, and that pattern will be followed here. The parties' individual subtopic arguments will be presented and then analyzed at the end.

Consumers explained that "[t]he NGDP was developed to provide a transparent investment plan for the next decade for the Company's natural gas assets." 4 Tr 569. Consumers identified the NGDP's four main objectives: (1) safety, (2) reliability, (3) affordability, and (4) clean energy

transformation. 4 Tr 570-571. Consumers noted that it has “10-year objectives, goals, and outcomes to be successfully achieved” regarding its asset areas, as well as new additions to the NGDP, such as “a section associated with energy and environmental justice (‘EEJ’).” Furthermore, Consumers noted that “EEJ broadly relates to a holistic view of energy equity, community benefits and impacts on disproportionately impacted communities within the Company’s gas service territory.” 4 Tr 572. The company also identified EEJ communities, referencing the MIEJScreen tool, where EEJ communities are regions with scores of 80+. 4 Tr 573.

1. Future Gas Demand

MSC criticized Consumers’ continued investment in natural gas infrastructure, alleging that the “uncertainty around the future of natural gas nationally and within the state of Michigan” renders future demand for natural gas uncertain. 4 Tr 2454. MSC decried Consumers’ spending on natural gas assets, because as the demand for natural gas is uncertain, so “is the true lifecycle of gas assets[.]” meaning that assets that are not fully utilized will become “stranded costs” such that both Consumers and its customers would suffer. 4 Tr 2454.

In its initial brief, MSC argued that Consumers’ NGDP “does not reflect investments consistent with the findings of this decarbonization pathways analysis, with the company eschewing electrification and non-pipeline alternatives [(NPAs)] in favor of fuel-based decarbonization solutions or no decarbonization at all.” MSC’s initial brief, p. 125 (citing 4 Tr 2273-3376). Thus, MSC proffered several proposals: (1) advise Consumers to reassess the viability of demand response “every 3 years to address changing system dynamics[.]” (2) require Consumers to show its pipe replacement investments are cost-effective and “superior to leak repair as well as NPAs such as efficiency and electrification[.]” and (3) have the Commission initiate a

docket where “Consumers’ investment choices can be scrutinized against cost-effective alternatives” and where intervenors can help ensure Consumers’ “investments remain used and useful in the context of reducing gas demand.” MSC’s initial brief, pp. 136-137, 139. MSC posited that intervenors should have equal standing with Consumers as “ratepayers deserve a more robust NGDP with requirements to consider NPAs and leak repairs and [to] prove the cost-effectiveness of investments.” *Id.*, p. 139.

MSC’s witness, Dr. deLeon, also testified regarding Consumers’ NGDP, specifically focusing on issues relating to the energy transition, which she defines as “the economy-wide transition to reduce [greenhouse gas] emissions.” 4 Tr 2317. As Consumers’ witness Mr. Denzler opined, MSC mentioned that due to gas sales declining as the energy transition progresses, “some gas utility assets will no longer provide service or will not be used and useful[,]” which will lead them to be removed from Consumers’ rate base, thus turning them into “stranded assets.” 4 Tr 2319. As MSC stated, “[i]f the constructed stranded assets are not fully depreciated, the Company’s remaining customers or investors will bear the risk of those stranded costs.” 4 Tr 2319-2320.

Consumers asserted that it is planning for the future regarding the energy transition, just not in MSC’s “desired way.” Consumers’ initial brief, p. 363. Consumers argued that MSC was attempting to interfere with its managerial discretion in planning for the future, while failing to recognize that customers “value affordability and reliability” and that “[n]atural gas infrastructure also provides significant energy capacity for Michigan[,]” especially during cold snaps. *Id.*, pp. 363-364. Consumers also asserted that “natural gas is the least cost energy source for Michigan” and that, it is “actively investigating all potential carbon reduction pathways to meet the needs of customers in the future.” *Id.*, p. 364. Lastly, Consumers argued that it collaborates with a range of industry partners “to inform and validate modeling and analysis assumptions.” *Id.*

Consumers argued that this adds diversity to its natural gas system that “not only increases resiliency, but also increases optionality across the system, lowering the risk of not achieving carbon neutrality. It also leverages the benefits of affordable natural gas.” *Id.*, p. 365 (internal citation omitted). Against this backdrop, Consumers recommended that MSC’s arguments be rejected.

In its reply brief, Consumers again argued that MSC should not be allowed to interfere with the company’s managerial discretion in planning for the future. Consumers’ reply brief, p. 134. Consumers asserted that the comprehensive 10-year plan for its gas systems found in its NGDP was in response to the Commission’s September 26, 2019 order in Case No. U-20322 that directed Consumers to develop a plan to address long-term operational and investment needs for the supply and delivery of natural gas. *See, id.*, pp. 134-136. Consumers argued that its NGDP “provides a clear and transparent investment plan framework for the next decade[.]” which “considers safe and reliable gas supply[.]” *Id.*, p. 136. Consumers also argued that “[t]he Commission has never required or requested that the Company examine decarbonization as part of its NGDP. In fact, Michigan does not have statutes in place that address[] the decarbonization of the gas system” but that the company has done so of its own initiative as one of its primary objectives of its NGDP. *Id.*, p. 137. Consumers also stated that the decarbonization analysis of its NGDP “was a state level analysis performed by a third party” not to meet statutory mandates but as a potential carbon reduction pathway “to meet the needs of customers in the future with an established decarbonization framework[.]” which could include NPAs. *Id.*, pp. 137-138.

Additionally, Consumers’ witness, Mr. Dreisig, rebutted the idea of natural gas infrastructure becoming a stranded asset, arguing that “low-cost, natural gas is by far the least cost energy source for Michigan” and that “the natural gas system is critical to Michigan’s energy future.” 4 Tr 579.

Consumers also testified that “the natural gas infrastructure provides significant energy capacity for Michigan.” 4 Tr 580. In fact, Consumers posited, natural gas “will become more critical from the perspective of the energy transition” with coal plants retiring coupled with the high cost of nuclear energy. 4 Tr 581.

2. Non-Pipeline Alternatives

MSC explained that NPAs are an alternative to traditional infrastructure investments that meet customer needs while providing positive solutions such as reducing emissions and the risk of future stranded assets. 4 Tr 2353. MSC also provided examples of NPA portfolio components, which “include electrification, energy efficiency, and other measures that reduce or eliminate customers’ demand for natural gas.” 4 Tr 2353. MSC noted, however, that Consumers did not address NPAs in its application, “nor has it proposed any NPA projects in its capital investment plan” and that by failing to do so, “the Company runs a high risk of spending more money than is necessary to achieve the safe and reliable gas system that it is obligated to maintain and operate.” 4 Tr 2353-2354. Because of this, MSC asserted, Consumers did not provide substantive justification when asking for approval for billions of dollars of capital investments. 4 Tr 2354. In response, MSC provided four suggestions: (1) that the Commission open a docket to establish a common framework and planning parameters, which includes considering NPAs and other alternatives; (2) that the Commission set forth minimum requirements for an NPA framework; (3) that the Commission launch an inclusive process for intervenors to develop NPA framework details; and (4) that the Commission require Consumers to evaluate NPAs instead of traditional

gas infrastructure investments before the company can obtain cost recovery for traditional investments. 4 Tr 2314.

Ms. Napoleon also discussed NPAs on behalf of MSC, stating that “[b]y decreasing gas combustion, NPAs reduce emissions and can provide health benefits associated with improved indoor air pollution.” 4 Tr 2284. As Consumers is not currently planning to implement NPAs at this time, MSC suggested that “[p]rior to the next EWR Plan [. . .] the Commission should require consideration of NPAs.” 4 Tr 2284-2285. This would allow customers to choose alternatives such as weatherization and building envelope measures, which would align the company’s EWR programs with Michigan’s climate targets. 4 Tr 2284-2285.

Consumers asserted that Consumers’ NGDP does indeed consider NPAs, stating that “the Company is actively investigating all potential carbon reduction pathways to meet the needs of customers in the future with an established framework.” 4 Tr 582. Consumers stated that the company collaborates extensively with industry-wide partners regarding modeling and analysis assumptions, including the Low Carbon Resources Initiative and the MI Hydrogen Initiative, among others. 4 Tr 582. However, Consumers also questioned the value of NPAs, stating that when the company introduces new technologies, it raises costs for customers, “and in some cases jeopardize[s] the safety of the gas system” while “customers are most interested in reliable, low-cost energy, not more expensive non-pipe[line] alternatives.” 4 Tr 583. Furthermore, Consumers asserted that not all NPAs reduce emissions and that “technologies powered by the electric grid like heat pumps and hydrogen electrolyzers actually emit more carbon than heating with natural

gas today.” 4 Tr 585. Consumers also stated that its NGDP includes potential carbon reduction pathways, which could include NPAs. *See*, Consumers’ reply brief, pp. 137-138.

3. Renewable Natural Gas Program

MSC testified regarding Consumers’ Renewable Natural Gas (RNG) Program and explained that Consumers has a voluntary program allowing customers to offset carbon emissions through RNG; however, no customers have been enrolled since April 2024. 4 Tr 2323. As such, MSC questioned the virtue of Consumers’ voluntary RNG program in how it relates to the company’s greenhouse gas emission reduction goals. 4 Tr 2323.

Consumers countered MSC’s concerns, stating there is a “high interest in RNG” but that its customers do not want a natural gas decarbonization solution until it is needed, and that customers’ interest “well exceeds the Company’s available production” at this time and will likely expand in the future. 4 Tr 581-582.

4. Decarbonization

MSC testified that there was no evidence that Consumers considered decarbonization when developing its NGDP. *See*, 4 Tr 2326. MSC stated that Consumers’ NGDP includes a 10-year focus on distribution assets, while it “has not provided any indication that it considered other options, such as pipe repair of NPAs, that could be more suitable for a changing environment.” 4 Tr 2327-2327. Likewise, MSC testified that it found Consumers’ statement that it identified the optimal decarbonization pathway unpersuasive because other states have conducted studies that come to “vastly different conclusions” about the optimal decarbonization pathway. 4 Tr 2277. MSC noted that “nowhere does the decarbonization study recommend demand-side measures such as energy efficiency or demand response to reduce emissions. Demand-side measures are essential components of decarbonization studies in other states, so it is puzzling why the Michigan study

apparently did not include them.” 4 Tr 2278. MSC further stated that “the Michigan decarbonization study refers to carbon capture in the balanced scenario. [However, c]arbon capture and storage is cost-prohibitive for addressing emissions of individual gas [customers].” 4 Tr 2278. Likewise, she noted, other states, such as Massachusetts, New York, and Maryland came to “vastly different conclusions [. . . about] hybrid electric and gas space heating to meet decarbonization goals.” 4 Tr 2277. MSC believed that the Michigan study “inappropriately assumed high levels of pipe replacement in all scenarios, consistent with *status quo* operations.” 4 Tr 2277 (emphasis in original).

Consumers testified regarding MSC’s claims that the Michigan study was inappropriate, stating that the Electric Power Research Institute conducted the Low Carbon Resource Initiative net-zero 2050 study, which resembled the company’s own study. *See*, 4 Tr 583. The company stated that the MI Healthy Climate Plan also aligned with Consumers’ decarbonization study, “demonstrating that no one pathway is viable to achieving the State’s 2050 net zero ambitions.” 4 Tr 583. Consumers disagreed with MSC’s witness that electrification can save costs by avoiding traditional infrastructure investments, instead stating that the economics of such “are based on a combination of technology capital costs, costs of energy, and technology efficiencies specific to geographic regions” such that the “components are not mutually exclusive.” 4 Tr 584. In short, Consumers stated, in colder climates like Michigan, supplemental heating is required because “electrified space heating efficiency drops considerably and consumes more energy in colder climates.” 4 Tr 584. Moreover, the company noted that “independent third party studies” have concluded that electrification in Michigan “is likely not cost effective due to climate and building retrofits required to realize benefits” given that “the median residential home in Michigan is 51 years old” and that older homes often lack “sufficient insulation to take advantage of heat pump

efficiencies.” 4 Tr 584-585. Furthermore, Consumers testified that the company “conducted demand response program pilots during the 2020/2021 and 2021/2022 winter seasons” which resulted in “a full-scale customer program for natural gas demand response” which “would not provide enough benefits to be cost effective.” 2 Tr 111-112.

MSC argued that Consumers was “[l]ooking backwards” at historical retirement data regarding Michigan residential homes rather than at its own NGDP, ignoring that residences “are increasingly electrifying.” MSC’s reply brief, p. 3. MSC also asserted that while many customers will electrify in the next 20 years, those who do not turn to electricity will likely also decrease their gas usage. *Id.* MSC argued that Consumers “[p]rojecting customers will stay on the system at a steady rate for 20 years will cause existing customers to cover costs without accrued benefit.” *Id.*

The Staff testified in rebuttal that it “does not agree that this rate case docket is the appropriate venue for recommending changes to EWR and Efficient Electrification (EFEL) program design” because such “are addressed within legislatively mandated Energy Optimization Proceedings.” 4 Tr 2773.

Regarding NGDP overall, the ALJ generally agreed with MSC’s concerns on whether Consumers’ NGDP appropriately considered the uncertainty of future gas demand and “the impending energy transition.” PFD, p. 481. While the ALJ acknowledged that Consumers’ NGDP does include its own emission reduction goals, he noted that such an approach “is insufficiently detailed” because it “does not appear to implement the study’s findings or address the potential decline in gas demand that would accompany a transition towards electrification.” *Id.*, p. 482. Thus, the ALJ suggested that the Commission order Consumers to file “an updated NGDP that considers the costs and risks of various energy transition pathways” amongst other

considerations, and require that Consumers “meaningfully engage interested parties in the development of its updated NGDP” to be filed in this matter “no later than December 31, 2026.” *Id.*, pp. 482-483. However, the ALJ declined to adopt MSC’s other recommendations as he felt that the filing of an updated NGDP would adequately address all other concerns.

In its exceptions, Consumers argues that its NGDP complies with Commission requirements as set forth in Case No. U-20322, and that its NGDP “provides a clear and transparent investment plan framework for the next decade” which “considers safe and reliable gas supply and how the Company plans to evolve its assets [. . . .]” Consumers’ exceptions, p. 122. Consumers asserts that its NGDP “develops a strategic framework in response to decarbonization goals and future policy.” *Id.*, p. 123 (citing 4 Tr 569). The company states that gas system decarbonization is one of its own climate goals, which “align[s] with the MI Health Climate Plan.” Consumers’ exceptions, pp. 123-124 (citing Exhibit A-42).

MSC also filed exceptions on this issue, stating that the ALJ was correct in recognizing that Consumers’ “NGDP does not adequately consider the uncertainty of future gas demand nor the impending energy transition.” MSC’s exceptions, p. 38 (citing PFD, p. 482). MSC outlines its initial brief’s arguments, mentioning how Consumers erred in not considering NPAs, that stranded assets are likely to occur, and that the proposed NGDP is “inconsistent with the Michigan Healthy Climate Plan and state greenhouse gas reduction goals.” MSC’s exceptions, p. 38 (citing MSC’s initial brief, pp. 4, 125, 137). MSC supports the ALJ’s proposal for an updated NGDP but conclude that the ALJ’s instruction lacks clear direction whereas its own recommendations “provide procedural safeguards for a robust NGDP” and provides what they feel are required elements for an updated NGDP. MSC’s exceptions, p. 39; *see, id.*, pp. 39-40. Lastly, MSC

recommends that the Commission require Consumers to update its NGDP by the end of 2025 instead of 2026. *See, id.*, p. 40.

In its replies to exceptions, Consumers quotes the ALJ's recommendation that involves NPAs and projected impacts regarding transitioning to electrification and decarbonization, while insisting that it "has voluntarily made 'clean' one of the primary objectives of the NGDP and incorporated the 'reduction of the Company's and its customers' contribution to climate change through gas system decarbonization.'" Consumers' replies to exceptions, p. 102 (citing PFD, p. 482; Exhibit A-42).

Regarding MSC's recommendations, Consumers asserts that the long list of procedural safeguards is unreasonable and unwarranted because they are not safeguards so much as they are evidence of "MSC's true objective of trying to dictate the Company's planning process." Consumers' replies to exceptions, p. 102. Consumers highlights that Michigan does not have statutes to address decarbonization of the gas system, and that MSC's efforts to force the company to decarbonize through electrification is an attempt to interfere with its managerial discretion, noting that the Commission "does not have the authority to dictate how the Company plans for its natural gas business." *Id.*, pp. 102-103. Consumers also notes that every rate case provides the parties with an opportunity to review and comment on costs and that "MSC has not provided a reason why this process should be modified" to allow for comments. *Id.*, p. 103.

In replies, MSC asserts that Consumers' NGDP did not fully consider decarbonization, and that it also failed to consider NPAs. MSC's replies to exceptions, p. 39. MSC criticizes Consumers' assertion that it considers electrification by stating that "instead it relies upon an executive summary from a statewide pathways analysis . . . and includes no comparison of costs between capital investments and decarbonization alternatives." *Id.*, p. 40 (citing 4 Tr 608-609;

MSC’s initial brief, pp. 136-139). As such, MSC reasserts that the Commission should “outline with specificity elements of an NGDP that adequately considers decarbonization[,]” setting out a process where intervenors can comment on Consumers’ NGDP before its next rate case. MSC’s replies to exceptions, pp. 40-41 (internal citations omitted).

After review of the record and arguments presented by the parties, the Commission finds that the ALJ’s recommendations on these issues are well-reasoned and supported by the record. The NGDP is the appropriate place for planning for the future of the gas system and the energy transition, and the Commission does not find it necessary to open a new docket for NGDPs or an NPA framework at this time. However, as part of future NGDPs, the Commission expects that the company will consider and evaluate NPAs, as the consideration of alternatives—including NPAs—is critical to demonstrating the reasonableness and prudence of the proposed investments the company ultimately selects. Additionally, the Commission finds that Consumers’ natural gas sales forecasting (including LAUF) should be consistent with what it presents in its NGDP, Gas Cost Recovery cases, and publicized corporate sustainability goals. Furthermore, the Commission wishes to remind utilities that it will not assign any weight to third-party studies that are unable to be scrutinized. Lastly, the Commission adopts the ALJ’s recommendation as reasonable and prudent that Consumers file an updated NGDP by December 31, 2026.

The Commission finds this additional detail is necessary to better understand how the company is evaluating the changes taking place in the gas industry, and that developing a more comprehensive record is critical for the Commission to perform its core regulatory functions of evaluating the reasonableness and prudence of the company’s proposed investments. The Commission evaluated similar issues in its November 7 order involving DTE Gas’s most recent gas rate case:

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 [gas cost recovery] plans, IRP [integrated resource plan] cases, general rate cases, and GDPs).

November 7 order, p. 121.

As such, the Commission adopts the similar requirements and findings as proposed by the ALJ in the present case. *See*, PFD, pp. 321, 482.

THEREFORE, IT IS ORDERED that:

A. Based on the findings in this order adopting a test year beginning November 1, 2025, and ending on October 31, 2026, a jurisdictional rate base of \$11,491,853,000, an authorized rate of return on common equity of 9.80%, and an authorized overall rate of return of 5.99%, Consumers Energy Company is authorized to implement rates that increase its annual natural gas revenues by \$157,495,000, on a jurisdictional basis, over the rates approved in the July 23, 2024 order in Case No. U-21490.

B. Consumers Energy Company is authorized to implement rates consistent with the revenue deficiency approved by this order on a service-rendered basis for natural gas service provided on and after November 1, 2025, as reflected in Attachment A (a summary of revenue by rate class) and Attachment B (tariff sheets) to this order. Within 30 days of the date of this order, Consumers Energy 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, Consumers Energy Company shall promptly file the final tariff sheets in this docket and serve all parties.

C. In its next natural gas rate case, Consumers Energy Company shall provide a thorough justification of its contributions in aid of construction and customer attachment program methodologies, inclusive of an explanation as to whether it is appropriate to revise its assumptions to include declining natural gas demand, customer adoption rates for the customer attachment programs based on historical experience when calculating new attachment surcharges, and how to avoid unfair subsidization by existing customers.

D. Consumers Energy Company shall meet with the Commission Staff on a quarterly basis to report on the progress of the SAP S/4HANA Implementation Project and to provide updates which include any advancements and/or setbacks in project implementation, budget adherence, changes to the project scope, timeline, expenses, and anticipated and actual problems associated with operations or customer interactions. Consumers Energy Company shall record any over- and underrecovery of each projected expense associated with the SAP S/4HANA Implementation Project as compared to the 80% base that Consumers Energy Company expects to include in any future natural gas rate case until the project is complete.

E. In its next natural gas rate case, Consumers Energy Company shall continue to provide substantive justification as to why its approach in determining its working capital cash balance remains appropriate and should continue to be approved.

F. Beginning with its next natural gas rate case, Consumers Energy Company shall provide tracked and quantified operations and maintenance savings realized from its Customer Order Service Tracker, as set forth in this order.

G. In its next natural gas rate case, Consumers Energy Company shall disclose, by operating unit and cost function, any forecasted inflationary cost increases that are different from Consumer Price Index forecast inflation rates.

H. In its next natural gas rate case, Consumers Energy Company shall present detailed evidence to demonstrate the efforts that the company is taking to offset inflation with productivity increases.

I. In future natural gas rate cases, Consumers Energy Company shall provide all raw data and inputs used to develop its deliveries and customer count forecast models and shall work with the Commission Staff to improve the company's exhibits and testimony concerning forecasts for residential income assistance projections.

J. In future natural gas rate cases, Consumers Energy Company shall incorporate the impact on gas demand attributable to increasing customer electrification measures and trends, as well as any effect of Public Act 229 of 2023 not already accounted for in the company's model. Energy efficiency or electrification inputs into the company's load forecast should stem from a consistent set of data, whether from other cases before the Commission or a reliable third-party source of data.

K. In its next natural gas rate case, Consumers Energy Company shall include forecasted yearly sales for each major customer class for the 10-year gas delivery plan horizon and include for each year a list of the amount of throughput expected on a peak demand day.

L. In future natural gas rate cases, Consumers Energy Company shall provide historical and projected fleet responsibility costs by capital expenditures and operations and maintenance

expenses, with more detailed information on the types of work these dollars support and the value received for these costs, by cost category and business unit.

M. Consumers Energy Company shall conduct a specific study as to the expected savings of electrifying its fleet assets, by asset type (light duty car, pickup, van, heavy-duty, etc.) to be provided in the company's next gas rate case. The company shall incorporate the results of its study into future cost recovery requests presented to the Commission.

N. As directed and set forth in this order, Consumers Energy Company shall prepare a detailed analysis of vehicle idling.

O. Beginning on the effective date of the new tariffs arising from this order, Consumers Energy Company shall charge a residential customer charge of \$17.00 per month, and a GS-1 charge of \$21.00 per month.

P. Consumers Energy Company shall incorporate cost effectiveness into its risk modeling, as described in this order.

Q. Consumers Energy Company shall file an updated Natural Gas Distribution Plan no later than 5:00 p.m. (Eastern time) on December 31, 2026, based on the guidance provided in this order.

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 sheacl@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

Shaquila Myers, Commissioner

By its action of September 30, 2025.

Lisa Felice, Executive Secretary

Consumers Energy Company
Summary of Present and Proposed Revenue by Rate Schedule
Total Revenue
Case No. U-21806

ATTACHMENT A
Page 1 of 3

Line	(a)	(b)	(c)	(d)	(e)
No.	Description	Present Revenue	Proposed Revenue	Difference Revenue	Percent
		\$000	\$000	\$000	%
	Residential Service				
1	Single Family Dwelling A	\$ 1,578,388	\$ 1,706,140	\$ 127,752	8.1
2	Multifamily Dwelling A-1	53,863	57,199	3,336	6.2
3	Total Residential Service	1,632,250	1,763,339	131,089	8.0
	General Service				
4	Small Service GS-1	271,029	276,266	5,237	1.9
5	Medium Service GS-2	224,497	226,476	1,979	0.9
6	Large Service GS-3	55,417	55,941	524	0.9
7	Outdoor Lighting GL	-	-	-	NA
8	Total General Service	550,943	558,683	7,740	1.4
9	Total Gas Sales ⁽¹⁾	2,183,194	2,322,022	138,829	6.4
	Transportation				
10	Small Transport ST	34,864	44,487	9,624	27.6
11	Large Transport LT	27,199	32,838	5,639	20.7
12	Extremely Large Transport XLT	30,204	34,553	4,349	14.4
13	Extra Extremely Large Transport XXLT	10,129	8,870	(1,259)	(12.4)
14	Total Transportation	102,396	120,749	18,353	17.9
15	Total Service (Delivery & Fuel)	<u>\$ 2,285,590</u>	<u>\$ 2,442,771</u>	<u>\$ 157,181</u>	<u>6.9</u>
16	Additional Late Payment Charge Revenue	0	314	314	
17	Revenue Increase/(Decrease) Due to Rounding	0	-	0	
18	Revenue (Sufficiency)/Deficiency	<u>\$ 2,285,590</u>	<u>\$ 2,443,085</u>	<u>\$ 157,495</u>	6.9

Notes

⁽¹⁾ Includes aggregate billed transportation accounts.

Line No.	(a) Description	(b) Units	(c) Present	(d) Proposed
Residential Class				
Single Family Dwelling A				
1	Customer Charge	\$/Mth	\$ 15.00	\$ 17.00
2	Income Assistance - RIA Program	\$/Mth	\$ (15.00)	\$ (17.00)
3	Income Assistance - LIAC Pilot	\$/Mth	\$ (30.27)	\$ (30.27)
4	Distribution Charge	\$/Mcf	\$ 5.1950	\$ 5.7786
Multifamily Dwelling A-1				
5	Customer Charge	\$/Mth	\$ 15.00	\$ 17.00
6	Excess Peak Charge	\$/Mcf	\$ 0.0913	\$ 0.1035
7	Distribution Charge	\$/Mcf	\$ 5.1950	\$ 5.7786
General Service				
Small Service GS-1				
8	Customer Charge - Principal	\$/Mth	\$ 18.00	\$ 21.00
9	Customer Charge - Contiguous	\$/Mth	\$ 14.00	\$ 21.00
10	Distribution Charge	\$/Mcf	\$ 4.9147	\$ 4.9461
Medium Service GS-2				
11	Customer Charge - Principal	\$/Mth	\$ 133.32	\$ 133.73
12	Customer Charge - Contiguous	\$/Mth	\$ 40.00	\$ 45.00
13	Distribution Charge	\$/Mcf	\$ 3.5306	\$ 3.5935
Large Service GS-3				
14	Customer Charge - Principal	\$/Mth	\$ 324.50	\$ 330.17
15	Customer Charge - Contiguous	\$/Mth	\$ 80.00	\$ 125.00
16	Distribution Charge	\$/Mcf	\$ 3.3012	\$ 3.3578
Outdoor Lighting GL				
17	Single Mantle	\$/Lum.	\$ 6.00	\$ -
18	Multiple Mantle	\$/Lum.	\$ 11.00	\$ -
Transportation				
Small Transport ST				
19	Customer Charge - Principal	\$/Mth	\$ 973.32	\$ 1,160.00
20	Customer Charge - Contiguous	\$/Mth	\$ 60.00	\$ 105.00
21	Distribution Charge	\$/Mcf	\$ 1.4273	\$ 1.8446
Large Transport LT				
22	Customer Charge - Principal	\$/Mth	\$ 2,026.79	\$ 4,685.01
23	Customer Charge - Contiguous	\$/Mth	\$ 60.00	\$ 105.00
24	Distribution Charge	\$/Mcf	\$ 1.3009	\$ 1.4216
Extremely Large Transport XLT				
25	Customer Charge - Principal	\$/Mth	\$ 16,379.74	\$ 18,384.33
26	Customer Charge - Contiguous	\$/Mth	\$ 60.00	\$ 105.00
27	Remote Meter Charge	\$/Mth	\$ 70.00	\$ 70.00
28	Distribution Charge	\$/Mcf	\$ 0.9564	\$ 1.0928
Extra Extremely Large Transport XXL T				
29	Customer Charge - Principal	\$/Mth	\$ 43,617.55	\$ 35,089.70
30	Remote Meter Charge	\$/Mth	\$ 70.00	\$ 70.00
31	Distribution Charge	\$/Mcf	\$ 0.5177	\$ 0.4601

Line No.	(a) Description	(b) Units	(c) Present	(d) Proposed
	Authorized Tolerance Level (ST, LT, XLT, XXLT) ⁽²⁾			
32	2.0% ATL	\$/Mcf	\$ (0.0732)	\$ (0.0738)
33	4.0% ATL	\$/Mcf	\$ (0.0507)	\$ (0.0511)
33	6.5% ATL	\$/Mcf	\$ (0.0225)	\$ (0.0227)
34	7.5% ATL	\$/Mcf	\$ (0.0113)	\$ (0.0113)
34	8.5% ATL	\$/Mcf	\$ -	\$ -
35	9.5% ATL	\$/Mcf	\$ 0.0113	\$ 0.0113
35	10.5% ATL	\$/Mcf	\$ 0.0225	\$ 0.0227
	Customer Attachment Program			
36	Discount Rate	%	7.07	7.08
37	Carrying Cost Rate	%	8.74	8.73
	Other Transportation			
38	Authorized Gas Use Charge	\$/Mcf	\$ 1.00	\$ 1.00
39	Unauthorized Gas Use Charge	\$/Mcf	\$ 10.00	\$ 10.00
40	Load Balancing Charge	\$/MMBtu	\$ 0.25	\$ 0.25
41	EUT Gas In Kind	%	2.45	2.45
	Non-Transmitting Gas Meter - Automated Meter Reading (AMR) Provision			
42	One Time Charge Prior to AMR Install	\$/Customer	\$ 109.94	\$ 109.94
43	One Time Charge After AMR Install	\$/Customer	\$ 177.53	\$ 177.53
44	Monthly Charge	\$/Customer	\$ 6.03	\$ 6.03

Notes

⁽¹⁾ Excludes Outdoor Lighting GL

⁽²⁾ Only the 2.0% ATL adjustment is available to XXLT and the 4.0% ATL credit is subtracted to get a credit of \$(0.0227)

INDEX
(Continued From Sheet No. A-5.00)

SECTION F
GAS CUSTOMER CHOICE PROGRAM

	<u>Sheet No.</u>
F1. GENERAL PROVISIONS	F-1.00
F2. CUSTOMER PROTECTIONS	F-4.00
F3. SOLICITATION REQUIREMENTS	F-7.00
F4. SUPPLIER LICENSING AND CODE OF CONDUCT	F-8.00
F5. PROCEDURES FOR COMPLAINTS BETWEEN SUPPLIERS AND THE COMPANY	F-10.00
GAS CUSTOMER CHOICE RATE CC	F-11.00

SECTION G
GROUP TRANSPORTATION SERVICE PROGRAM

G1. GENERAL PROVISIONS AND DEFINITIONS	
G1.1 Definitions	G-1.00
G1.2 Application of Rules	G-3.00
G1.3 Possession of Gas	G-3.00
G2. RECORDS, ACCOUNTING AND CONTROL	
G2.1 Transmittal of Notices, Bills and Payments	G-3.00
G2.2 Nomination, Accounting and Control	G-3.00
G3. GAS QUALITY	
G3.1 Quality	G-4.00
G4. SERVICE REQUIREMENTS	
G4.1 Quantities	G-5.00
G4.2 Delivery Pressure	G-6.00
G4.3 Shutoff of Service	G-6.00
G5. BILLING	G-6.00
G6. UNAUTHORIZED GAS USAGE CHARGE	G-6.00
G7. CUSTOMER PARTICIPATION IN A GROUP	G-6.00
G8. DEPOSIT REQUIREMENTS	G-7.00
G9. GROUP ADMINISTRATOR CONTRACT TERMINATION	G-7.00
G10. GROUP TRANSPORTATION SERVICE PROGRAM STANDARDS OF CONDUCT	G-8.00
G11. GROUP TRANSPORTATION SERVICE PROGRAM STANDARDS OF CONDUCT COMPLAINT PROCEDURES	G-9.00
GROUP TRANSPORTATION SERVICE PROGRAM RATE	G-10.00

SECTION H
STANDARD CUSTOMER FORMS INDEX

STANDARD FORMS	H-1.00
----------------	--------

(Continued From Sheet No. C-36.00)

C8. CUSTOMER ATTACHMENT PROGRAM

A. Purpose

The Company proposes to make extension of its gas mains and/or service lines from time to time, at its own cost, to serve applicants whose requirements will not disturb or impair the service to prior users or will not require an expenditure out of proportion to the revenue obtainable therefrom.

The Company reserves the right to delay or deny a request for service under this rule, if fulfilling such a request could, in the Company's opinion, create conditions potentially adverse to the Company or its Customers. Such conditions may include, but are not limited to, safety issues, system operating requirements or capital constraints. The provisions under this Rule are in addition to the existing rules and tariffs for customer gas service.

When relocation or modification of Company facilities to an existing structure with gas service is requested or made necessary by the customer, all costs for the relocation or modification shall be charged to the requesting party.

B. Customer Contribution

A customer contribution shall be required totaling the following components: Connection Fee, any Revenue Deficiency, any Excessive Service Line Fee, and any Direct Charges. Direct Charges include, but are not limited to, any specific license fees, inspection fees, or rights of way fees charged by any political subdivision for any construction provided under this rule and are to be paid directly to the Company. Direct charges shall also include an additional charge per foot for winter construction of all underground construction as installed, excluding conduit, applied to projects constructed during the period of December 15 to April 15, for installation of distribution or service facilities. This charge shall be based on periodic reviews of actual costs by the Company *and may be waived, in whole or in part, at the Company's discretion for certain changes in work schedule or when work conditions or site conditions enable efficient construction and resource deployment which permit the Company to not incur certain costs.*

Any written communication from the Company regarding construction activity and its associated contribution due from the customer, unless specified otherwise in the document, shall have an expiration date of 60 days from the date issued. If either the customer or the Company takes no action by that time, the Company shall have the right to withdraw the proposal or modify the conditions under which it was made.

The Company, at its sole discretion, may waive fees or extend the service line limit for attaching parties located at the Company's storage fields or gas well locations based on the economics of a proposed project, when provided for in writing by the Company. The Company, at its sole discretion, may also waive in writing, fees for select attaching parties or projects where work conditions or site conditions enable efficient construction and resource deployment which permit the Company to not incur certain costs.

C. Payment of Customer Contribution

The Connection Fee, Direct Charges and the Excessive Service Line Fee are payable in lump sum prior to construction. The Company may choose to collect these charges after construction, but prior to the meter being set, at the Company's discretion, when it allows the Company to better align the construction schedule with the customers' desired service dates. The Connection Fee is non-refundable. The Direct Charges and Excessive Service Line Fee are refundable if the service line has not been installed. If the service line has been installed, the Direct Charges and Excessive Service Line Fees are non-refundable. In the case of a lump sum default of payment, and after 180 days have passed, the account will automatically be set up as a fixed monthly surcharge payment.

(Continued on Sheet No. C-38.00)

Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan

Effective for service rendered on
and after XXXXXX, XX 2025

Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806

(Continued From Sheet No. C-39.00)

C8. CUSTOMER ATTACHMENT PROGRAM (Contd)

I. Model Assumptions

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 the customer's annual consumption levels.

Incremental Costs:

(1) Carrying Cost Rate

The carrying cost rate will be based on the weighted rate of debt, preferred stock, equity and associated taxes. The cost will be equal to and weighted in proportion to those authorized in the Company's most recent rate order. The carrying cost rate is equal to **8.73%**.

(2) Plant in Service

Plant in Service shall reflect the 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 the 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.

(4) Depreciation

Depreciation expense will be the product of Plant in Service multiplied by the appropriate prescribed depreciation rates approved for the Company.

(5) Property Taxes and Other Operating Expenses

Property taxes will be the product of Plant in Service multiplied by the 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, preferred stock and common equity. The cost will be equal to and weighted in proportion to those authorized in the Company's most recent rate order. Based on the Company's rate order in Case No. **U-21806**, the discount rate is equal to **7.08%**.

J. 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 the Company.

(Continued on Sheet No. C-41.00)

Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan

Effective for service rendered on
and after XXXXXX, XX 2025

Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806

SURCHARGES

Each Rate Schedule may be subject to Rule No. C8., Customer Attachment Program.

<u>Rate Schedule</u>	Energy Efficiency ⁽¹⁾ Program Surcharge (Case No. U-21557) Effective beginning the January 2025 Billing Month ^{(2) (3)}
Rate A	\$0.3532/Mcf
Rate A-1	0.3532/Mcf
Rate GS-1	0.6802/Mcf
Rate GS-2	0.6802/Mcf
Rate GS-3	
0 – 100,000 / Year	0.6802/Mcf
> 100,000 / Year	0.0338/Mcf
Rate ST	
0 – 100,000 / Year	0.6802/Mcf
> 100,000 / Year	0.0338/Mcf
Rate LT	
0 – 100,000 / Year	0.6802/Mcf
> 100,000 / Year	0.0338/Mcf
Rate XLT	
0 – 100,000 / Year	0.6802/Mcf
> 100,000 / Year	0.0338/Mcf
Rate XXL	
0 – 100,000 / Year	NA
> 100,000 / Year	0.0338/Mcf
Rate CC	Per applicable distribution
Rate TOT	Rate Schedule NA

⁽¹⁾ All surcharges shall be applied on a monthly basis. The customer's consumption will be reviewed annually in the January bill month. Following the annual review, the customer may be subsequently moved to the surcharge level for their applicable rate for the next billing period based on the customer's average consumption for the previous year. No retroactive adjustment will be made due to the application of EE surcharges associated with increases or decreases in consumption.

⁽²⁾ An Energy Efficiency Program Surcharge amount may vary during specific months as authorized by the Michigan Public Service Commission. The Company will file a new tariff sheet to reflect any change in surcharges once the financial incentive recovery period has been completed.

⁽³⁾ The Energy Efficiency Program Surcharge for each rate will be shown as above on the monthly utility bill under Other Surcharges for all customers.

Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan

Effective for service rendered on
and after XXXXXX, XX 2025

Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806

SURCHARGES

Each Rate Schedule may be subject to Rule No. C8., Customer Attachment Program.

Rate Schedule	Energy Efficiency Large Gas Transportation Opt-Out Program Surcharge ⁽¹⁾ (Case No. U-21321) Effective beginning the March 2024 <u>Billing Month</u>	
Rate A		NA
Rate A-1		NA
Rate GS-1		NA
Rate GS-2		NA
Rate GS-3		NA
Rate ST		
> 100,000 / Year		\$0.0132/Mcf
Rate LT		
> 100,000 / Year		0.0132/Mcf
Rate XLT		
> 100,000 / Year		0.0132/Mcf
Rate XXL		
> 100,000 / Year		0.0132/Mcf
Rate CC		NA
Rate TOT		NA

- ⁽¹⁾ Gas Transportation customers on Rate ST, LT, XLT, or XXL using more than 100,000 Mcf per year may be eligible to opt-out of the Energy Efficiency program. Eligible customers who elect to opt-out of the Energy Efficiency program will pay the Energy Efficiency Large Gas Transportation Opt-Out Program surcharge per Mcf on a monthly basis. Eligibility is determined solely by the Company and is dependent upon terms and conditions of the Energy Efficiency Large Gas Transportation Customer Opt-Out Program as authorized in the April 17, 2012 order in Case No. U-16670.
- ⁽²⁾ The Energy Efficiency Large Gas Transportation Opt-Out Program Surcharge will be shown on the monthly utility bill under Other Surcharges for all customers.

SURCHARGES

Rate Schedule	<i>Home Products Credit</i> <i>(Case No. U-21806)</i> <i>Effective for service rendered</i> <i>November 1, 2025 through</i> <i><u>October 31, 2027</u></i>	<i>Home Products Credit</i> <i>(Case No. U-21490)</i> <i>Effective for service rendered</i> <i>October 1, 2024 through</i> <i><u>October 31, 2025</u></i>
Rate A	<i>\$(0.1342)/Mcf</i>	<i>\$(0.1428)/Mcf</i>
Rate A-1	<i>(0.1342)/Mcf</i>	<i>(0.1428)/Mcf</i>
Rate GS-1	<i>(0.0909)/Mcf</i>	<i>(0.1033)/Mcf</i>
Rate GS-2	<i>(0.0552)/Mcf</i>	<i>(0.0623)/Mcf</i>
Rate GS-3	<i>(0.0446)/Mcf</i>	<i>(0.0466)/Mcf</i>
Rate ST	<i>(0.0313)/Mcf</i>	<i>(0.0290)/Mcf</i>
Rate LT	<i>(0.0220)/Mcf</i>	<i>(0.0201)/Mcf</i>
Rate XLT	<i>(0.0156)/Mcf</i>	<i>(0.0152)/Mcf</i>
Rate XXL	<i>(0.0074)/Mcf</i>	<i>(0.0085)/Mcf</i>
Rate TOT	NA	NA
Rate CC	Per applicable distribution Rate Schedule	Per applicable distribution Rate Schedule

M.P.S.C. No. 3 - Gas
Consumers Energy Company

Sheet No. D-9.00

(Continued From Sheet No. D-8.00)

RATE CATEGORIES (Contd)

<u>Description</u>	<u>Rate Category</u>
TRANSPORTATION SERVICE RATE	
Small, Cost-Based	ST
Large, Cost-Based	LT
Extremely Large, Cost-Based	XLT
Extra Extremely Large, Cost-Based	XXLT
TRANSMISSION ONLY TRANSPORTATION SERVICE RATE TOT	TOT
CUSTOMER CHOICE RATE CC	CC

Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan

Effective for service rendered on
and after XXXXXX, XX 2025

Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806

RESIDENTIAL SERVICE RATE A

Availability

Subject to any restrictions, this rate is available to any customer desiring gas service for any usual residential use in private family dwellings; tourist homes, rooming houses, dormitories, nursing homes and other similarly occupied buildings containing sleeping accommodations for up to six persons; or multifamily dwellings containing two households served through a single meter.

This rate is not available for resale service, multifamily dwellings containing more than two living units served through a single meter or for tourist homes, rooming houses, dormitories, nursing homes and similarly occupied buildings containing sleeping accommodations for more than six persons or for any other Non-Residential usage.

Residences in conjunction with commercial or industrial enterprises and mobile home parks may take service on this rate only under the Rules and Regulations contained in the Company's Gas Rate Book.

Monthly Rate

Customer Charge

\$17.00 per customer per month, plus

Income Assistance Service Provision:

When service is supplied to a Principal Residence Customer, where the total household income does not exceed 150% of the Federal Poverty level, a credit shall be applied during all billing months. The total household income is verified when the customer has provided proof that they have received, or are currently participating in, one or more of the following within the past 12 months:

1. A Home Heating Credit energy draft
2. State Emergency Relief
3. Assistance from a Michigan Energy Assistance Program (MEAP)
4. Medicaid

If a customer does not meet any of the above requirements, a low-income verification form will be provided by the Company for the customer to complete and return.

The monthly credit for the Income Assistance Service Provision (RIA) shall be applied as follows:

Income Assistance Credit: \$(17.00) per customer per month

If a credit balance occurs, the credit shall apply to the customer's future gas utility charges.

Low Income Assistance Credit (LIAC):

Company selected Residential customers may receive LIAC for up to 12 consecutive months. The number of customers enrolled may be adjusted, at the Company's discretion, in order to dispense Commission-approved LIAC funding on an annual basis. Any shortfall in the dispensing of annual LIAC funds to qualified customers shall be carried over into the subsequent LIAC program year. LIAC customer selection will be based on highest need and with total household income that does not exceed 150% of the Federal Poverty level. The total household income is verified when the customer has provided proof that they have received, or are currently participating in, one or more of the following within the past 12 months:

1. Customers whose total household income does not exceed 150% of the Federal Poverty level within the last 12 months
2. Customers who have received assistance from a Michigan Energy Assistance Program (MEAP)
3. Customers who have received a Home Heating Credit energy draft
4. A State Emergency Relief program
5. Medicaid
6. Customers that have participated in a Supplementary Nutrition Assistance Program where the total household income does not exceed 150% of the Federal Poverty level within the last 12 months

If the customer does not meet any of the above requirements, a low-income verification form will be provided by the Company for the customer to complete and return.

The monthly credit for LIAC shall be applied as follows:

Low Income Assistance Credit: (\$30.27) per meter per month

If a credit balance occurs, the credit shall apply to the customer's future gas utility charges. Re-enrollment, if applicable, and confirmation of qualification is required for each annual period of participation.

Customers selected for LIAC, will not be eligible for the RIA provision while enrolled in LIAC.

(Continued on Sheet No. D-11.00)

RESIDENTIAL SERVICE RATE A
(Continued From Sheet No. D-10.00)

Monthly Rate (Contd)

Distribution Charge

\$5.7786 per Mcf for all Mcf purchased.

Gas Cost Recovery Charge

The gas cost recovery factors are shown on Sheet No. D-5.00.

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 Nos. D-2.00 through D-4.00.

Minimum Charge

The Customer Charge included in the rate, adjusted for qualified service provision credit and any applicable non-consumption based surcharges.

Due Date and Late Payment Charge

The due date of the customer's bill shall be 21 days from the date of transmittal. A late payment charge of 2%, not compounded, of the portion of the bill, net of taxes, shall be assessed to any bill that is delinquent. A customer who participates in the Winter Protection Plan or who is 65 years of age or older and who has notified the Company the customer is 65 years of age or older, shall be exempt from a late payment charge as described in Rule B2., Consumer Standards and Billing Practices for Electric and Natural Gas Service, R 460.125, Late payment charges.

Term and Form of Contract

Service under this rate shall not require a written contract.

Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan

Effective for service rendered on
and after XXXXXX, XX 2025

Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806

MULTIFAMILY DWELLING SERVICE RATE A-1

Availability

Subject to any restrictions this rate is available to any multifamily dwelling installation containing more than two households served through a single meter and where, in the Company's opinion, it is impractical to provide gas service to each household through an individual meter. This rate is not available for multifamily dwellings containing two households served through a single meter.

Monthly Rate

Customer Charge

\$17.00 per month

Distribution Charge

\$5.7786 per Mcf for all Mcf purchased plus
\$0.1035 per Mcf of excess peak demand

Gas Cost Recovery Charge

The gas cost recovery factors are shown on Sheet No. D-5.00.

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 Nos. D-2.00 through D-4.00.

Minimum Charge

The Customer Charge included in the rate, adjusted for qualified service provision credit and any applicable non-consumption based surcharges.

Due Date and Late Payment Charge

The due date of the customer's bill shall be 21 days from the date of mailing. A late payment charge of 2% of the unpaid balance outstanding, net of taxes, shall be assessed to any bill which is not paid in full on or before the due date shown thereon.

Determination of Excess Peak Demand

The Mcf used for billing the excess demand shall be equal to all usage in excess of 92 Mcf in the peak month. The peak month shall be that month in the latest 12 months in which the greatest consumption occurred.

If 12 months of historical data are not available for a premises, then the Company shall use an estimated peak usage while accumulating 12 months of data. If, during the accumulation of 12 months of data, any month's actual usage exceeds the original estimated peak usage, then the actual usage shall become the new peak demand. However, if after 12 months the estimated peak usage exceeds the actual peak month's usage, then the customer's bills shall be recalculated using the actual and any overcharge shall be refunded with interest.

Term and Form of Contract

Service under this rate shall not require a written contract.

Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan

Effective for service rendered on
and after XXXXXX, XX 2025

Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806

GENERAL SERVICE RATE (Rates GS-1, GS-2 and GS-3)

Availability

Subject to any restrictions, this rate is available to any customer desiring gas service for any Non-Residential usage which includes tourist homes, rooming houses, dormitories, nursing homes and similarly occupied buildings containing sleeping accommodations for more than six persons. Gas shall not be purchased under any other rate for any equipment or process which uses gas under this rate.

This rate is not available for residential usage or for resale purposes.

Monthly Rate

	Service Category		
	GS-1	GS-2	GS-3
Principal Customer Charge	\$21.00/meter	\$133.73/meter	\$330.17/meter
Contiguous Customer Charge	21.00/meter	45.00/meter	125.00/meter
Distribution Charge	\$4.9461/Mcf	\$3.5935/Mcf	\$3.3578/Mcf

Selection of Service Category and Rates

Customers may choose the Service Category under which they take service, consistent with the provisions of Rules C4.1, Classes of Service, and C4.2., Choice of Rates. When the Customer is selecting its initial Service Category, the Company must advise them that the estimated economic breakeven point between GS-1 and GS-2 is approximately 1,000 Mcf per year and the estimated economic breakeven point between GS-2 and GS-3 is approximately 10,000 Mcf per year. Economic breakeven points may vary based on the usage and number of customer contiguous accounts. After the initial selection is made, then it is the 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-5.00.

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 Nos. D-2.00 through D-4.00.

Minimum Charge

The Customer Charge included in the rate and any applicable non-consumption based surcharges.

Due Date and Late Payment Charge

The due date of the customer's bill shall be 21 days from the date of mailing. A late payment charge of 2% of the unpaid balance outstanding, net of taxes, shall be assessed to any bill which is not paid in full on or before the due date shown thereon.

Term and Form of Contract

Service under this rate shall not require a written contract.

Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan

Effective for service rendered on
and after XXXXXX, XX 2025

Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806

This sheet has been cancelled and is reserved for future use.

Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan

Effective for service rendered on
and after XXXXXX, XX 2025

Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806

TRANSPORTATION SERVICE RATE
(Rates ST, LT, XLT and XXLT)

Availability

Subject to any restrictions, service under this Rate Schedule is available to any customer that could otherwise purchase gas under another Company Rate Schedule. A customer selecting transportation service, is not eligible to receive Gas under any of the Company's firm Gas sales rates for a minimum period of one year from the date the customer commenced taking Transportation Service.

Service provided to Rate Schedule XXLT is available to customers with an annual minimum throughput of 4,000,000 Mcf, subject to an annual review to ensure the minimum requirement is met. Customers served under the XXLT Rate Schedule will be required to operate at a contracted Authorized Tolerance Level of 4% or less.

Under this Rate Schedule, the Company shall transport Gas for the customer to the interconnections between the Company's facilities and those of the customer (points of delivery) from the interconnections between the Company's facilities and those of a third party that delivers Gas to the Company for redelivery to the customer (points of receipt).

A producer or a broker may contract for service on this Rate Schedule for the transportation of Gas from a wellhead through the Company's system to another pipeline, for the transportation of Gas from one pipeline to another pipeline or for the transportation of Gas from a specified interconnection between the Company's facilities and those of a third party for delivery to a specific customer within the Company's integrated distribution system, provided that all Gas transported for a producer or broker pursuant to this Rate Schedule is consumed in and never leaves the State of Michigan after entering the Company's system.

All customers requesting transportation service under this Rate Schedule shall make written application for such service on a form provided by the Company.

Monthly Rate

	Service category			
	ST	LT	XLT	XXLT
Principal Customer Charge	\$1,160.00/meter	\$4,685.01/meter	\$18,384.33/meter	\$35,089.70/meter
Contiguous Customer Charge	105.00/meter	105.00/meter	105.00/meter	NA
Remote Meter Charge	NA	NA	70.00/meter	70.00/meter
Transportation Rates	1.8446/Mcf	1.4216/Mcf	1.0928/Mcf	0.4601/Mcf *

*The XXLT Transportation Rate reflects a contracted Authorized Tolerance Level of 4%.

Selection of Service Category and Rates

A customer may choose the Service Category under which they take service, consistent with the provisions of Rules C4.1, Classes of Service, and C4.2, Choice of Rates. When the customer is selecting its initial Service Category, the Company must advise them that the estimated economic breakeven point between ST and LT is approximately 100,000 Mcf per year, the estimated economic breakeven point between LT and XLT is approximately 500,000 Mcf per year. The estimated economic breakeven points assume an 8.5% ATL for rates ST, LT and XLT and exclude contiguous customer charges and all surcharges. Economic breakeven points may vary based on the throughput, contracted ATL and number of customer contiguous accounts. After the initial selection is made, then it is the customer's responsibility to determine when it is appropriate to switch Service Categories, as permitted by Rule C4.2, Choice of Rates.

(Continued on Sheet No. E-9.00)

**Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan**

**Effective for service rendered on
and after XXXXXX, XX 2025**

**Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806**

TRANSPORTATION SERVICE RATE
(Rates ST, LT, XLT and XXL T)
(Continued From Sheet No. E-9.00)

Monthly Rate (Contd)

Load Balancing Charge (Contd)

ST, LT and XLT customer's ATL shall be 8.5% of the Customer's ACQ unless the customer contracts for a different percent in accordance with the following table. The Transportation Charge shall be adjusted as follows except for Transportation customers served on XXL T, where service is offered at 4% ATL or less:

Authorized As a % of ACQ <u>Tolerance Level</u>	ST, LT and XLT Transportation <u>Charge Adjustment</u>	XXLT Transportation <u>Charge Adjustment</u>
2.0%	\$(0.0738) Per Mcf	\$(0.0227)/Per Mcf
4.0%	\$(0.0511) Per Mcf *	No Change*
6.5%	\$(0.0227) Per Mcf	N/A
7.5%	\$(0.0113) Per Mcf	N/A
8.5%	No Change	N/A
9.5%	\$ 0.0113 Per Mcf	N/A
10.5%	\$ 0.0227 Per Mcf	N/A

*For XXL T customers, the 4% ATL adjustment is reflected in their Transportation Rate, therefore there is no additional ATL adjustment required.

The monthly injection of Gas into the customer's ATL shall be at the customer's discretion except in September and October when any monthly injections in excess of 1.43% of the customer's ACQ, will be charged the Load Balancing Charge. A balance transfer between customers that does not directly result in any physical injection of gas into the Company's system may, in the Company's discretion, be exempted from the 1.43% monthly limit. Such a waiver may be granted once within any 12-month period.

Due Date and Late Payment Charge

The due date of the customer's bill shall be 21 Days from the date of mailing. A late payment charge of 2% of the unpaid balance outstanding, net of taxes, shall be assessed to any bill which is not paid in full on or before the due date shown thereon.

Metering Requirements

All eligible XLT and XXL T customers shall be required to provide, at no expense to the Company, a dedicated telecommunication line(s) as required for metering purposes, to a location specified by the Company. The communication link must be installed and operating prior to a transportation customer receiving service under Service Category XLT or XXL T. The customer shall be responsible for (i) ensuring that the communication links allow access to the meter data by the Company and are compatible with the Company's metering and billing systems, and (ii) all associated costs relating to the communication links including other accompanying equipment and monthly fees. The Company shall own and maintain the actual metering equipment and modem.

(Continued on Sheet No. E-11.00)

Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan

Effective for service rendered on
and after XXXXXX, XX 2025

Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806

TRANSMISSION ONLY TRANSPORTATION SERVICE RATE TOT

Availability

Subject to any restrictions, service under this Rate Schedule is available to customers desiring to move gas through the Company's transmission system *only*. ***This rate is not available to power generation customers.***

Under this Rate Schedule, the Company will transport natural gas volumes for a customer on the Company's gas transmission system only. The Company, in its sole judgement, shall have the right to determine if capacity is available for transportation under this Rate Schedule.

All customers requesting transmission service under this Rate Schedule shall make written application for such service on a form provided by the Company. The point(s) of receipt and point(s) of delivery shall be mutually agreed upon by Company and Customer and set forth in the contract. Any rates, terms and conditions not covered by Tariff shall be as contained in Company's standard Contract for Transmission Only Transportation Service.

Monthly Rate

Transmission Only Charge

\$0.6229 per McF

Operational Balance Agreement (OBA)

The aggregate quantity of gas delivered by the Company to the customer's delivery point(s), may be inadvertently greater or less than the aggregate quantity of gas nominated for delivery by the customer. This inadvertent over-delivery or under-delivery of gas by the Company to the customer relative to the nominated quantities shall be governed by a separate OBA with a delivery point operator.

The Company reserves the right to require the customer to balance nominations with physical deliveries on a daily basis, and to reduce the Operational Imbalance to the maximum thresholds identified in the OBA or to a level determined by the Company if no OBA is applicable upon notification, by the Company that such an action is required, and the customer agrees to take the action(s) necessary to reduce the imbalance. If the customer does not make a nomination to reduce the imbalance within 24 hours of such notification by the Company, the customer will pay a penalty of \$10/MMBtu per day for each MMBtu of the daily Operation Imbalance.

Gas-in-Kind

Company shall retain 2.45% 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.

Due Date and Late Payment Charge

The due date of the customer's bill shall be 21 days from the date of mailing. A late payment charge of 2% of the unpaid balance outstanding, net of taxes, shall be assessed to any bill which is not paid in full on or before the due date shown thereon.

Metering Requirements

All eligible Customers metering requirements shall be in alignment with their delivery point operator according to their Interconnect Agreement.

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 Nos. D-2.00 through D-4.00.

Term and Form of Contract

All service under this rate shall require a written contract with a minimum term of one year and month-to-month thereafter which must be approved by an authorized agent before it shall be binding upon the Company. Customers who choose to terminate their contract shall be required to give the Company a ninety (90) day written notice.

Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan

Effective for service rendered on
and after XXXXXX, XX 2025

Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806

SECTION G GROUP TRANSPORTATION SERVICE PROGRAM STANDARDS AND BILLING PRACTICES

These General Rules and Regulations for Group Transportation Service customers are not to supersede but are in addition to Rule B1, Technical Standards for Gas Service. Under this program, a gas Supplier may aggregate the receipts and deliveries of gas transportation customers taking service under the Company's Gas Transportation Service Rate Schedules by establishing a Group with those transportation customers who have agreed to participate in the program. The Supplier will also establish a Group Administrator, who will enroll transportation customers into the Group, manage the Group, and take responsibility for all fees and penalties associated with the Group. The transportation customer will continue to be billed under the Gas Transportation Service Rate Schedule designated on its transportation service contract, except that, as a member of a Group, Authorized Gas is not available, and the transportation customer will not be subject to the Unauthorized Gas Usage Charge or Load Balancing Charge as set forth in the Gas Transportation Service Rate Schedule.

G1. GENERAL PROVISIONS AND DEFINITIONS

G1.1 Definitions.

As used in this section:

- (a) "Account" shall mean transportation customer's facilities and operations directly connected with the individual facilities identified in the transportation service contract between the Company and the transportation customer. The gas for each account shall be measured by a single Company meter.
- (b) "Allowance for Use and Loss" is defined in Rule G4.1.C. in Section G.
- (c) "Business Day" means Monday through Friday, excluding Company holidays.
- (d) "Cubic Foot of Gas" means the volume of gas which occupies one cubic foot when such gas is at a temperature of sixty degrees (60°) Fahrenheit and at a pressure base of fourteen and sixty-five hundredths (14.65) psia dry.
- (e) "Day" means a period of 24 consecutive hours (23 hours when changing from Standard to Daylight Time and 25 hours when changing back to Standard Time) beginning at 10:00 AM Eastern Clock Time or at such other time as may be mutually agreed.
- (f) "Enrollment" means an identification of the transportation customers to be aggregated in a Group. The Enrollment will be in a form specified by the Company. All Enrollments must be received at least *sixty days* prior to the calendar month in which the transportation customer will become part of the Group, and an Enrollment will be effective for a period of at least twelve (12) months.
- (g) "Gas" means natural gas, manufactured gas, or a combination of the two which meets the "quality" standards as specified in Rule G3, Gas Quality of the Company's Gas Rate Book.
- (h) "Gas Rate Book" means the standard rules and regulations and rates governing the sale of natural gas service as approved by the Michigan Public Service Commission.
- (i) "Group" shall mean an aggregation of transportation customers, enrolled by a Group Administrator, who take service under Transportation Service Rate Schedules ST, LT, XLT, or XXLT and have agreed to participate in the Program. All transportation customers in a particular customer Group must have the same Authorized Tolerance Level, as defined in Section E.1.1 of the Company's Gas Rate Book.
- (j) "Group Administrator" shall mean the administrator of the Group.
- (k) "Group Annual Contract Quantity" (GACQ) means the sum of the individual contracted transportation customer Annual Contract Quantities, as defined in section E1.1, enrolled by the Group Administrator in a Group.
- (l) "Group Authorized Tolerance Level" (GATL) means the Authorized Tolerance Level (ATL) of the transportation customers in a Group. The GATL shall be established as 2.0%, 4.0%, 6.5%, 7.5%, 8.5%, 9.5%, or 10.5% of the Group's GACQ, and all transportation customers in a Group shall have the same underlying contractual ATL, as defined in section E1.1 of the Company's Gas Rate Book.

(Continued on Sheet No. G-2.00)

Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan

Effective for service rendered on
and after XXXXXX, XX 2025

Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806

(Continued From Sheet No. G-1.00)

G1. GENERAL PROVISIONS AND DEFINITIONS (Contd)

G1.1 Definitions (Contd)

- (m) "Group Maximum Daily Quantity" (GMDQ) means the sum of the Maximum Daily quantities of all transportation customers enrolled in the Group, as defined in section E1.1 of the Company's Gas Rate Book.
- (n) "Group Minimum Daily Quantity" (GMinDQ) means the minimum amount of gas that should be delivered by the Group Administrator when required to do so at the Company's sole discretion. The GMinDQ will be calculated as a percentage of the GMDQ.
- (o) "MMBtu" means one million Btu.
- (p) "Month," except as provided with respect to billing, means a period beginning at 10:00 AM Eastern Clock Time on the first day of a calendar month and ending at 10:00 AM Eastern Clock Time on the first day of the following calendar month or at such other time as may be mutually agreed.
- (q) "Nominations" means the process by which the Group Administrator notifies the Company of expected transportation quantities.
- (r) "Supplier" means an entity who supplies natural gas to an end-use gas transportation customer on Consumers Energy's gas system.
- (s) "Total Heating Value Per Cubic Foot" means the number of Btu produced by the combustion, at constant pressure, of one cubic foot of gas, with air of the same pressure and temperature as the gas, when the products of combustion are cooled to the initial temperature of the gas and air, and when the water formed by the combustion is condensed to the liquid state. This definition applies regardless of the equipment used to determine the total heating value per cubic foot.
- (t) "Unauthorized Gas Usage Charge" is defined under the Monthly Fees Applicable to the Group Administrator section of the Group Transportation Service Program.

(Continued on Sheet No. G-3.00)

Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan

Effective for service rendered on
and after XXXXXX, XX 2025

Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806

(Continued From Sheet No. G-2.00)

G1. GENERAL PROVISIONS AND DEFINITIONS (Contd)

G1.2 Application of Rules.

Unless otherwise provided for within this Section G, or under the transportation customer's contracted Transportation Service Rate Schedule, transportation customers and Group Administrators are subject to the provisions of the Company's Gas Rate Book. Transportation customers enrolled in the Group Transportation Service Program shall be considered customers of the Company.

G1.3 Possession of Gas.

A. Responsibility for Gas

The Company and the transportation customer shall each be responsible for its own equipment and facilities on its own side of a delivery point. The Group Administrator shall have good title or good right to make delivery and, further, shall warrant for itself, its successors and assigns that such gas shall be free and clear of all liens, encumbrances, and claims whatsoever. With respect to any such adverse claim that may arise to said gas or to royalties, taxes, license fees or charges thereon, the transportation customer and Group Administrator shall indemnify and hold the Company harmless from all suits, actions, debts, accounts, damages, costs, losses, and expenses arising from or out of the same.

B. Indemnification of the Company

In the absence of negligence, recklessness or willful misconduct on the part of the Company or of the Company's officers, employees or agents, the transportation customer and the Group Administrator waive any and all claims against the Company, its officers, employees or agents, arising out of or in any way connected with (1) the quality, use or condition of the gas after delivery from the Company's line for the account of such transportation customer; (2) any losses or shrinkage of gas during or resulting from transportation and (3) all other claims and demands arising out of the performance of the duties of the Company, its officers, employees, or agents.

G2. RECORDS, ACCOUNTING AND CONTROL

G2.1 Transmittal of Notices, Bills and Payments.

Transportation customers enrolled in a Group are required to enroll in the electronic billing program Business e-Bill or other electronic invoice delivery program as determined by Consumers Energy. It is the responsibility of the transportation customer to give access to the Group Administrator to view the transportation customer's bill.

G2.2 Nominations, Accounting and Control.

A. All nominations shall be submitted by facsimile, e-mail, or an available electronic nomination system.

B. Daily: The Group Administrator shall notify the Company's Transportation Services Department of the daily quantity of gas (in MMBtu) being nominated for delivery to the Company on behalf of the transportation customers in the Group. Such nominations shall be submitted by 2:00 PM Eastern Clock Time on the Business Day prior to the effective day of the proposed delivery. Nominations made after the 2:00 PM deadline shall be accepted at the sole discretion of the Company.

(Continued on Sheet No. G-4.00)

Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan

Effective for service rendered on
and after XXXXXX, XX 2025

Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806

(Continued From Sheet No. G-4.00)

G4. SERVICE REQUIREMENTS

G4.1 Quantities.

- A. The Group Administrator may deliver, or cause to be delivered, and the Company shall, subject to other provisions in the Company's Gas Rate Book, accept quantities of gas up to the GMDQ specified in the Group transportation service contract.
- B. Deliveries to the Company may be made by or on behalf of the Group Administrator at existing interconnections between the gas transmission facilities of the Company and other pipeline systems. These points of receipt shall be those that are agreed to from time to time by the Group Administrator and the Company.
- C. The Company shall retain 2.45 percent of all gas received for transportation customers in the Group to compensate it for the Company's use and lost and unaccounted for on the Company's system ("Allowance for Use and Loss"). This volume shall not be included in the quantity available for delivery to transportation customers in the Group.
- D. The amount of gas available for use by the Group will be calculated as the amount of gas received by the Company less the allowance for gas-in-kind, plus the net effect of any balance transfers, plus any withdrawals from the Group's storage balance. For purposes of this calculation, gas transferred to or from another Group or transportation customer during the billing month shall not be considered.

If, in any month, the amount of gas available for use by the Group is more than the quantity of gas taken by the transportation customers enrolled in the Group at their points of delivery, then the difference shall be retained by the Company and delivered to the Group in those succeeding months when the amount of gas available for use by the Group is less than the requirements of those transportation customers enrolled in the Group. Such subsequent deliveries to the Group shall be subject to the withdrawal limitations identified under the Monthly Fees Applicable to the Group Administrator section of the Group Transportation Service Program. Should the amount of gas available for use by the Group at any month-end exceed the GATL, then the Company shall assess the Group Administrator a Load Balancing Charge for any month-end balance that exceeds the GATL.

- E. In the event of the termination of a Group Administrator's contract, the Group Administrator must transfer any gas retained by the Company to another Group or to a transportation customer taking service under a Transportation Service Rate Schedule within 60 days. If the Group Administrator has not withdrawn or transferred all of the gas retained by the Company within 60 days, the Company will cash out the remaining balance at a rate of \$1.00 per Mcf.
- F. Upon joining a Group, any volumes in the transportation customer's Authorized Tolerance Level balance will transfer into the Group Administrator's Group Authorized Tolerance Level balance. Upon leaving a Group, the transportation customer's Authorized Tolerance Level will follow the transportation customer and the Group Administrator's Group Authorized Tolerance Level will be reduced by the transportation customer's Authorized Tolerance Level.

(Continued on Sheet No. G-6.00)

Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan

Effective for service rendered on
and after XXXXXX, XX 2025

Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806

(Continued From Sheet No. G-5.00)

G4. SERVICE REQUIREMENTS (Contd)

G4.2 Delivery Pressure.

All deliveries of gas by the Group Administrator and the Company shall be made at a pressure sufficient to effect same, provided that neither party shall directly or indirectly cause the other to make such deliveries at a pressure in excess of that which would be a reasonably expected maximum.

G4.3 Shutoff of Service.

The Company shall not be required to perform service under a Group transportation service contract if the Group Administrator has failed to comply with any and all terms of the Group Administrator's contract and the Company's Gas Rate Book.

G5. BILLING

On or before the last Business Day of each calendar month, the Company shall endeavor to render a statement to the Group Administrator for service during the prior calendar month. Such statement will also include any Unauthorized Gas Usage Charges, failure fees, or Load Balancing Charges incurred by the Group.

G6. UNAUTHORIZED GAS USAGE CHARGE

If, in any month, the Group exceeds the amount of gas available for use by the Group, the excess amount will be treated as unauthorized use and be subject to the Unauthorized Gas Usage Charge as designated under the Monthly Fees Applicable to the Group Administrator section of the Group Transportation Service Program.

G7. CUSTOMER PARTICIPATION IN A GROUP

Transportation customers may elect to participate in the Group Transportation Service Program, and Group Administrators may solicit transportation customer participation at any time. However, transportation customer enrollments must be received by the Company, in a form acceptable to the Company, by the first business day of the calendar month 60 days preceding the customer's enrollment in the Group. Each Supplier may elect to have an unlimited number of Groups with a maximum enrollment of 200 contract accounts per group. A Supplier can select desired ATL for each group. A customer who is a transportation customer of the Company must comply with all requirements of the Transportation Service Rate Schedule on which it takes service, excluding any penalties for Unauthorized Gas Usage Charges or Load Balancing Charges, which will be the responsibility of the Group Administrator.

The transportation customer's enrollment in a Group shall remain in effect for a period of at least twelve (12) months from the date of the enrollment. During that time, gas delivered to the transportation customer shall be provided to the Company by the Group Administrator of the Group in which the transportation customer is enrolled. A transportation customer enrolled in a Group cannot be enrolled in more than one Group at any time and is not eligible to designate receipts from any source other than the Group in which it is enrolled. The transportation customer's selection of a Group shall be effective until: (i) terminated by the transportation customer or the Supplier, (ii) the Supplier becomes disqualified from participating in the Group Transportation Service Program, or (iii) the Company receives an enrollment for that transportation customer in another Group. The Company shall incur no liability for relying on information received from a transportation customer or a Group Administrator which the Company believes to be genuine.

Transportation customers may also request to de-enroll in the Group Transportation Service Program, and those requests for de-enrollment must be received at least 60 days prior to desired effective date. Enrollment will remain in effect through the last day of the calendar month. Customers will transfer to another group or return to the Gas Transportation program effective on the first day of the month following de-enrollment. Customers leaving a Group will not retain any portion of the Group's Authorized Tolerance Level Balance. Upon de-enrollment from the Group Transportation Service Program, the customer will be subjected to the Company's Transportation Service Rate Schedule.

(Continued on Sheet No. G-7.00)

Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan

Effective for service rendered on
and after XXXXXX, XX 2025

Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806

(Continued From Sheet No. G-7.00)

G10. GROUP TRANSPORTATION SERVICE PROGRAM STANDARDS OF CONDUCT

This rule is intended to promote fair competition and a level playing field among all participants involved in transportation within the Company's regulated gas service territory. The Company will conduct its business to conform to the following Group Transportation Standards of Conduct:

- A. The Company will apply any tariff provision relating to transportation service in the same manner without discrimination to all similarly situated persons.
- B. The Company will not give its marketing affiliate or customers of its affiliate preference over any other non-affiliated gas marketers or their customers in matters relating to transportation service including, but not limited to, nominating, balancing, metering, billing, storage, standby service, curtailment policy or price discounts.
- C. The Company will not communicate to any customer, Supplier, Group Administrator, or third parties that any advantage may accrue to such customer, Supplier, Group Administrator, or other third party in the use of the Company's services as a result of that customer, Supplier, Group Administrator, or other third party dealing with its marketing affiliate and shall refrain from giving any appearance that it speaks on behalf of its affiliate.
- D. The Company will process all similar requests for transportation service in the same manner and within the same period of time.
- E. The Company will not provide leads or provide market sensitive information regarding a current or potential customer or marketer to its marketing affiliate. If a customer requests information about marketers, the Company will provide a list of all marketers operating on its system, including its affiliate, but will not promote its affiliate.
- F. If a customer makes a request in writing that its historic volumetric sales and transportation data be provided to a particular marketer or marketers in general, that request will be honored by the Company until revoked by the customer *or after 5 years from the date of the request*. To the extent the Company provides to its marketing affiliate a discount or information related to the transportation, sales or marketing of natural gas, including but not limited to the Company's customer lists, that is not readily available or generally known to any other marketer, Supplier, or Group Administrator, or has not been authorized by a customer, it will provide details of such discount or provide the information contemporaneously to all potential marketers on its system that have requested such information. A marketer may make a standing request for contemporaneous disclosure of such information.
- G. The Company will not condition or tie its agreement to release interstate pipeline capacity to any agreement by a gas marketer, customer, Supplier, Group Administrator, or pipeline transporter relating to any service in which its marketing affiliate is involved.
- H. The Company will not condition or tie an agreement to provide a transportation discount to any agreement by a marketer, customer, Supplier, Group Administrator, or pipeline transporter relating to any service in which its marketing affiliate is involved.
- I. The Company's operating employees and the operating employees of its marketing affiliate will function independently of each other, be employed by separate business entities, and reside in separate offices.
- J. The Company will keep separate books of accounts and records from those of its marketing affiliate.

(Continued on Sheet No. G-9.00)

Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan

Effective for service rendered on
and after XXXXXX, XX 2025

Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806

(Continued From Sheet No. G-8.00)

G11. GROUP TRANSPORTATION SERVICE PROGRAM STANDARDS OF CONDUCT COMPLAINT PROCEDURES

If the Company receives a verbal complaint related to its Rules, Regulations and Rate Schedules Governing the Sale or Transportation of Natural Gas, M.P.S.C. No. 2, Section G10, Group Transportation Service Program Standards of Conduct, the Company will attempt to resolve the complaint on an informal basis. If the Company and the complainant are unable to resolve the complaint on an informal basis, the procedures outlined below will be followed:

- A. Complainant will route all formal complaints in writing to:

Consumers Energy
One Energy Plaza
Jackson, MI 49201

Attention: Legal Department

- B. The Company will acknowledge the receipt of the formal written complaint, in writing, within five working days of receipt by the Company.
- C. The Company will confirm and amend the prepared written statement of the complainant to ensure the complaint includes the name of the complainant, relevant dates, and specific claims.
- D. The Company will prepare a written statement communicating to the complainant the results of the Company's preliminary investigation within 30 days of the initial receipt of the complaint by the Company with a description of the action taken or proposed to be taken.
- E. (1) If the complainant is satisfied with the action taken or proposed to be taken, complainant will acknowledge its agreement by signing and returning a copy of the Company's written statement addressing the action taken or proposed to be taken.
- (2) If the complainant is not satisfied with the Company's response, then the complainant may address the complaint to the Commission.
- F. If a transportation customer has a complaint against a Group Administrator or Supplier, the transportation customer should try to resolve it first with the Group Administrator or Supplier. If the complaint is unresolved, the transportation customer may address the complaint to the Commission. The Company shall have no responsibility for resolving disputes between transportation customers and Group Administrators or Suppliers but shall provide information as requested by the transportation customer or the Commission.

GROUP TRANSPORTATION SERVICE PROGRAM RATE

Availability

Subject to any restrictions, participation in the Group Transportation Service Program is available to any Supplier who wishes to aggregate the receipts and deliveries of transportation customers taking service under Transportation Service Rate Schedules. All transportation customers in a particular Group must have the same Authorized Tolerance Level, as defined in Section E.1.1 of the Company's Gas Rate Book. Furthermore, all transportation customers in a Group shall be enrolled by the Supplier's Group Administrator, utilizing a form specified by the Company.

Under this Program, the Company shall transport gas for the Group from the interconnections between the Company's facilities and those of a third party that delivers gas to the Company for redelivery (points of receipt) to the interconnections between the Company's facilities and those of the transportation customers within the Group (points of delivery). Each Group shall have a Group Administrator who will be responsible for all penalties associated with the aggregation of receipts and deliveries of the Group. Each Supplier desiring to establish a Group shall make written application for such service on a form provided by the Company. The Company will convert the transportation customer's consumption from Mcf to MMBtu using monthly system-average Btu content. The Company, at its discretion, shall issue operation flow orders, or take other action which is deemed necessary, to ensure system reliability. The Company will act as supplier of last resort under the Program.

A transportation customer who is part of a Group remains subject to the obligations of both the Transportation Service Rate Schedule under which it takes service and the transportation service contract between the transportation customer and the Company. The transportation customer will continue to be billed under the Transportation Service Rate Schedule designated on its transportation service contract. Members of a Group will not be subject to the Unauthorized Gas Usage Charge or Load Balancing Charge as set forth in the Transportation Service Rate Schedule. A transportation customer whose account is in arrears shall not be eligible to be part of a Group. Enrollment in a Group is voluntary.

Monthly Fees Applicable to the Group Administrator

Group Administrative Fee	\$200/group
Customer Account Maintenance Fee	\$5.00/customer account enrolled

Unauthorized Gas Usage Charge

The Group Administrator shall be billed for unauthorized usage at the rate for service under Transportation Service Rate ST plus an Unauthorized Gas Usage Charge. Such Unauthorized Gas Usage Charge shall be the highest Midpoint price reported for Michigan or Chicago LDC's during the applicable month as reported by Gas Daily or, in the event that Gas Daily discontinues its reporting of such prices, any comparable reporting service, plus \$10 per Mcf for all gas taken by the Group in excess of the amount of gas available for use by the Group, as defined in Section G4.1D.

Monthly withdrawals from the Group's previous month-end storage balance during November through March will be limited to 3% of the Group's ACQ.

(Continued on Sheet No. G-11.00)

Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan

Effective for service rendered on
and after XXXXXX, XX 2025

Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806

GROUP TRANSPORTATION SERVICE PROGRAM RATE
(Continued From Sheet No. G-10.00)

Monthly Fees Applicable to the Group Administrator (Contd)

Load Balancing Charge

Should the amount of gas available for use by the Group at any month-end exceed the Group Authorized Tolerance Level, then the Company shall assess the Group Administrator a Load Balancing Charge of \$1.00 per MMBtu for the excess. In addition, there is a 2.0 percent gas-in-kind for fuel used for injection for any month-end balance of gas that exceeds the Group Authorized Tolerance Level and is in excess of the prior month-end storage balance.

The monthly injection of gas into the Group's ATL shall be at the Group Administrator's discretion, except in September and October when any monthly injections in excess of 1.43% of the Group's ACQ shall be charged the Load Balancing Charge.

Due Date and Late Payment Charge

The due date of the Group Administrator's bill shall be 21 days from the date of mailing. A late payment charge of 2% of the unpaid balance outstanding, net of taxes, shall be assessed to any bill which is not paid in full on or before the due date shown thereon.

Term and Form of Contract

All service under the Group Transportation Service Program shall require a written contract with a term of one year, and month-to-month thereafter, which must be approved by an officer of the Company or a duly authorized agent before it shall be binding upon the Company.

Issued XXXXXX, XX 2025 by
Garrick Rochow,
President and Chief Executive Officer,
Jackson, Michigan

Effective for service rendered on
and after XXXXXX, XX 2025

Issued under authority of the
Michigan Public Service Commission
dated XXXXXX, XX 2025
in Case No. U-21806

PROOF OF SERVICE

STATE OF MICHIGAN)

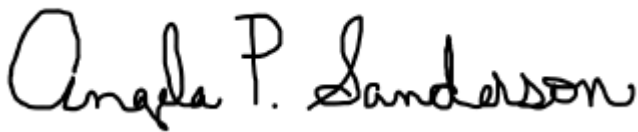
Case No. U-21806

County of Ingham)

Brianna Brown being duly sworn, deposes and says that on September 30, 2025 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 30th day of September 2025.



Angela P. Sanderson
Notary Public, Shiawassee County, Michigan
As acting in Eaton County
My Commission Expires: May 21, 2030

Service List for Case: U-21806

Name	On Behalf Of	Email Address
Alena M. Clark	MPSC Staff	clarka55@michigan.gov
Amit T. Singh	MPSC Staff	singha9@michigan.gov
Anna B. Stirling	MPSC Staff	stirlinga1@michigan.gov
Anne M. Uitvlugt	Consumers Energy Company	anne.uitvlugt@cmsenergy.com
Benjamin J. Holwerda	Association of Businesses Advocating Tariff Equity	bholwerda@clarkhill.com
Bret A. Totoraitis	Consumers Energy Company	bret.totoraitis@cmsenergy.com
Celeste R. Gill	Department of Attorney General	gillc1@michigan.gov
Christopher M. Bzdok	Michigan Environmental Council	chris@tropospherelegal.com
Christopher M. Bzdok	Sierra Club	chris@tropospherelegal.com
Cole V. Lussier	Michigan State University	clussier@dickinsonwright.com
Cole V. Lussier	Lansing Board of Water & Light	clussier@dickinsonwright.com
Consumers Energy Company (1 of 2)	Consumers Energy Company	mpsc.filings@cmsenergy.com
Consumers Energy Company (2 of 2)	Consumers Energy Company	kelly.hall@cmsenergy.com
Daniel H.B. Abrams	The Ecology Center	dabrams@elpc.org
Daniel H.B. Abrams	Union of Concerned Scientists, Inc.	dabrams@elpc.org
Daniel H.B. Abrams	Environmental Law & Policy Center	dabrams@elpc.org
Daniel H.B. Abrams	Vote Solar	dabrams@elpc.org
Evan B. Keimach	Consumers Energy Company	evan.keimach@cmsenergy.com
Gary A. Gensch Jr.	Consumers Energy Company	gary.genschjr@cmsenergy.com
Holly L. Hillyer	Citizens Utility Board of Michigan	holly@tropospherelegal.com
Holly L. Hillyer	Sierra Club	holly@tropospherelegal.com
James M. Varchetti	ALJs - MPSC	varchettij@michigan.gov
Jennifer U. Heston	Retail Energy Supply Association	jheston@potomaclaw.com
Justin K. Ooms	Energy Michigan, Inc.	jkooms@varnumlaw.com
Laura A. Chappelle	Energy Michigan, Inc.	lachappelle@varnumlaw.com
Lori Mayabb	MPSC Staff	mayabbl@michigan.gov
Mark Matus	Lansing Board of Water & Light	mark.matus@lbwl.com
Mark R. Ruszkiewicz	Consumers Energy Company	mark.ruszkiewicz@cmsenergy.com
Michael J. Orris	MPSC Staff	orrism@michigan.gov
Michael J. Pattwell	Association of Businesses Advocating Tariff Equity	mpattwell@clarkhill.com
Nihal Shrinath	Sierra Club	nihal.shrinath@sierraclub.org
Nolan J. Moody	Lansing Board of Water & Light	nmoody@dickinsonwright.com
Nolan J. Moody	Michigan State University	nmoody@dickinsonwright.com

Spencer A. Sattler
Stephen A. Campbell

Consumers Energy Company
Association of Businesses
Advocating Tariff Equity
Energy Michigan, Inc.

spencer.sattler@cmsenergy.com
scampbell@clarkhill.com

Timothy J. Lundgren

tjlundgren@varnumlaw.com