STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of **DTE GAS COMPANY** for authority to increase its rates, amend its rate schedules and rules governing the distribution and supply of natural gas, and for miscellaneous accounting authority.	))))))	Case No. U-21973

At the September 10, 2026 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

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I. HISTORY OF PROCEEDINGS

On November 13, 2025, DTE Gas Company (DTE Gas)[1] filed a rate application in this case, with supporting testimony and exhibits,[2] requesting a $237.5 million revenue increase, which includes an infrastructure recovery mechanism (IRM) roll-in of $74.8 million, and other relief. The company is currently providing service pursuant to rates established by the November 7, 2024 order in Case No. U-21291 (November 7 order).[3]

The company states that the rate increase request is based on a projected 12-month period of October 1, 2026 through September 30, 2027. DTE Gas explained that its revenue deficiency was calculated using the historical data from the 12-month period ended December 31, 2024, that was then normalized and adjusted for known and measurable changes to arrive at the projected test year. Per the company, the projected test year includes capital expenditures, increases in operations and maintenance (O&M) expenses, and capital structure cost changes. DTE Gas's application, p. 3.

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[1] Along with DTE Gas, DTE Energy Company (DTE Energy) and DTE Electric Company (DTE Electric) are referenced a multitude of times in this case. The Commission notes that several parties and the administrative law judge refer to DTE Gas simply as "DTE," leading to confusion in some areas of the case as to which "DTE" entity is at issue. For the purposes of this order, the Commission finds that when the parties and the administrative law judge use the acronym "DTE," it refers to "DTE Gas" and the terms are interchangeable. The Commission has provided information in brackets to distinguish between DTE Gas and other "DTE" entities, where necessary. Additionally, some parties refer to the Commission as "MPSC" and to the Attorney General as "AG" in quoted materials throughout this order.

[2] On December 12, 2025, and April 14, 2026, DTE Gas filed revised testimony and exhibits. On April 10, 2026, DTE Gas filed revised rebuttal testimony. On March 24, 2026, and April 22, 2026, CUB filed revised testimony.

[3] On December 6, 2024, DTE Gas and other parties filed petitions for rehearing in Case No. U-21291. On February 27, 2025, the Commission issued an order in that docket (February 27 order) partially granting DTE Gas's petition for rehearing. Rates consistent with the revenue deficiency approved in the February 27 order were implemented for service provided on and after March 13, 2025.

In its application, DTE Gas contended that the rate increase is necessary to pay for the impacts of extensive infrastructure investments, additional projected O&M expense required to ensure reliability of the system, the safety of customers, compliance with State and Federal requirements, collective bargaining and market-driven wage increases, lower forecasted sales, and to allow the company to earn a reasonable opportunity to earn an authorized return for the test period. DTE Gas's application, p. 2. DTE Gas proposed a return on equity (ROE) of 10.25%, a permanent capital structure of approximately 50.75% equity and 49.25% debt, and annual inflation factors of 3.0% in 2025, 2.9% in 2026, and 2.9% in 2027. DTE Gas's application, p. 4. As noted above, the company also proposed an IRM with two adjustments to include cathodic protection and a regulatory station replacement program, and with an adjusted surcharge to begin January 1, 2027. *Id*., pp. 3-4.

A prehearing conference was held on December 11, 2025, before Administrative Law Judge Christopher S. Saunders (ALJ), at which the ALJ acknowledged the intervention of the Michigan Department of Attorney General (Attorney General) and granted intervention to the Association of Businesses Advocating Tariff Equity (ABATE); the Citizens Utility Board of Michigan (CUB); the Michigan Environmental Council (MEC); We Want Green Too, Urban Core Collective, and Soulardarity (collectively, the Frontline Organizations (FLO)); Detroit Thermal, LLC (Detroit Thermal); City of Ann Arbor (Ann Arbor); Billerud Americas Corporation (Billerud); Energy Michigan; the Retail Energy Supply Association (RESA); and the Utility Workers Union of America, Local 223. The Commission Staff (Staff) and DTE Gas also participated in the proceeding. A schedule for the case was established by the ALJ in accordance with the 10-month timeframe set forth in MCL 460.6a(5).

The ALJ issued a protective order for use in this case on December 3, 2025.

On April 8, 2026, the Staff filed a motion to strike certain portions of the testimony of ABATE witness Jessica York. On April 13, 2026, ABATE filed its response to Staff's motion. On April 17, 2026, the ALJ ruled on the record, granting in part and denying in part the Staff's motion to strike.

By the March 13, 2026 filing deadline, the Staff, ABATE, the Attorney General, CUB, MEC, FLO, the City of Ann Arbor, Detroit Thermal, and RESA filed direct testimony and exhibits.[4] By the April 3, 2026 filing deadline, DTE Gas, Staff, and ABATE filed rebuttal testimony.

Evidentiary hearings were held on April 17, 20, 21, and 22, 2026, at which seven witnesses appeared for cross-examination, while the testimony of the remaining fifty-one witnesses was bound into the record by agreement of the parties without the need for them to appear. The parties filed briefs and reply briefs in accordance with the established schedule. DTE Gas, the Staff, the Attorney General, FLO, MEC with CUB,[5] ABATE, Detroit Thermal, Ann Arbor, RESA filed initial briefs on May 14, 2026. On June 3, 2026, DTE Gas, the Staff, Ann Arbor, RESA, MEC with CUB, ABATE, and FLO filed reply briefs.

On July 9, 2026, the ALJ issued a Proposal for Decision (PFD) in this case.[6] On July 29, 2026, DTE Gas, the Staff, the Attorney General, ABATE, RESA, MEC with CUB, FLO, Ann

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[4] The Attorney General filed testimony and exhibits on her behalf only and also filed testimony and exhibits jointly with CUB. CUB also filed testimony and exhibits on its behalf only. Joint testimony attributed to the Attorney General and CUB appears at 5 Tr 3145, 3172-3193, and 3196-3224 for witnesses Richard Bunch, Moksha Menghaney, and Graham Wooley. Moksha Menghaney also testified on behalf of CUB only at 4 Tr 2065-2094.

[5] MEC and CUB filed a joint initial brief, reply brief, exceptions, and replies to exceptions. When referencing MEC and CUB's joint filings, the Commission refers to them as MEC's in this order.

[6] On July 15, 2026, the ALJ filed Appendices A through E to the PFD. *See*, Case No. U-21973, filing #U-21973-0354.

Arbor, and Detroit Thermal filed exceptions to the PFD. On August 10, 2026, DTE Gas, the Staff, the Attorney General, ABATE, MEC with CUB, FLO, and Ann Arbor filed replies to exceptions.[7]

The record consists of testimony from 57 witnesses contained within 3,413 pages of transcript (additional portions of the transcript are confidential), along with 687 exhibits, several of which also have a confidential version. The ALJ provided an overview of the parties' positions and provided an extensive summary of the record for each disputed issue throughout the PFD, which will not be repeated in this order.

II. LEGAL STANDARDS

In her reply brief, the Attorney General argues that DTE Gas in its initial brief confused the standard of proof that the Commission should apply in evaluating the record in this case with the standard of judicial review that is used by a reviewing court. The Attorney General recounts that DTE Gas claimed that other parties bear the burden of demonstrating that their positions are correct. Attorney General's reply brief, p. 2. The Attorney General emphasizes that regardless of the evidence intervenors present, the company carries the burden of proof to support its positions. *Id*. MEC, in its reply brief, similarly argued that the company's submission of evidence does not then shift the burden of proof from the utility to other parties and that the Commission has repeatedly rejected such a standard. MEC's reply brief, p. 3.

The ALJ affirmed that DTE Gas has the burden to prove its case by a preponderance of the evidence and quoted from the July 2, 2024 order in Case No. U-21461 (July 2 order) in which the Commission held that:

> Given these legal authorities that clearly support the Commission's position in this matter, the Commission finds that unless significant new evidence is presented, it is settled that a utility has the burden of proof to provide evidence to support each element of its rate case application and a preponderance of the evidence is the

[7] MEC and CUB filed a joint initial brief, reply brief, exceptions, and replies to exceptions.

> standard by which that evidence is evaluated. The submission of evidence by the utility does not shift the burden of proof to the other parties to the case to disprove the utility's evidence.

PFD, p. 19 (quoting July 2 order, p. 9). Recalling DTE Gas's statement that the Commission applies a preponderance of the evidence standard, the ALJ clarifies that, while true, this does not mean that the evidentiary burden is shifted to other parties and again quotes from the July 2 order. PFD, pp. 19-20 (citing July 2 order, pp. 7-8). The ALJ states that the Commission's position has been made clear and that the company bears the burden of proving its case by a preponderance of the evidence, and the burden is not shifted to the intervenors or the Staff to disprove the evidence presented by the utility. PFD, p. 20.

DTE Gas does not formally except to the ALJ's recitation of the legal standards to be applied in this case but notes that, because intervenors have accused the company through this case of confusing the applicable standard, the company clarifies that it carries the burden of proof for each element of its rate case application. DTE Gas adds, though, that the legal framework of a rate case also includes constitutional and statutory protections for the utility as well as the Commission's obligation to set rates that provide a reasonable opportunity for the company to recover prudently incurred costs and earn a fair return. DTE Gas's exceptions, p. 7. DTE Gas then recites the legal standards. *Id*., pp. 7-9.

In replies to exceptions, the Attorney General contends that DTE Gas again attempts to confuse the standards and burdens of proof that apply in this case and downplay the level of support the company is obligated to provide. The Attorney General points to DTE Gas's recitation of the standard of appellate review, which is not directly relevant to this case, and DTE Gas's statement that the ALJ adopted intervenor disallowances that are not supported by a preponderance of the evidence. Attorney General's replies to exceptions, pp. 4-5. The Attorney

General argues that this is an attempt by the company to shift the burden of proof to other parties when it is the company's obligation to meet its burden of proof and the Commission may reject even uncontradicted evidence. Attorney General's replies to exceptions, pp. 5-6 (citing *Woodin v Durfee*, 46 Mich 424, 427; 9 NW 457 (1881); *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)).

The Commission has addressed the issue of burden of proof in a number of cases, including, as noted by MEC and the ALJ, in the July 2 order:

> [t]he 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.

July 2 order, pp. 7-8; *see also*, 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." July 2 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); *Fed*

Power Comm v Hope Natural Gas Co, 320 US 591, 603; 64 S Ct 281; 88 L Ed 333 (1944); *Michigan Bell Tel Co v Mich Pub Serv Comm*, 332 Mich 7, 38; 50 NW2d 826 (1952).

III. TEST YEAR

In developing its rates for this case, DTE Gas relied on a projected test year from October 1, 2026, through September 30, 2027. DTE Gas explained that in determining test year amounts, it began with the 2024 historical test year (the 12-month period ended December 31, 2024), normalized and adjusted for inflation and other known and measurable changes. DTE Gas's initial brief, p. 13. The company also explained that the 21-month period between the end of the historical test year and the beginning of the projected test year—January 1, 2025, through September 30, 2026—is known as the projected bridge period. *Id*.

ABATE testified that DTE Gas has a history of significant test year revenue sufficiency because of the continued use of the projected test year but otherwise did not challenge the projected test year applied in this case.

The ALJ noted that no other party opposed the proposed test year and therefore recommended that the ALJ adopt the projected test year of October 1, 2026, through September 30, 2027. PFD, p. 21.

In its exceptions, DTE Gas provides an executive summary of the case and generally describes the PFD as adopting a level of rate relief that is insufficient to meet the company's capital investment and maintenance needs. DTE Gas's exceptions, pp. 1-2. DTE Gas then explains areas of the PFD it finds to be deficient, focusing on the ALJ's rejection of the company's forward-looking, project-specific evidence in favor of historical averages, which it argues turns the projected test year framework into a moving target. *Id*., pp. 2-7.

The Attorney General replies, arguing that the Commission should disregard the arguments DTE Gas makes in its executive summary because the company merely uses it to express

disagreement with the ALJ's reliance on actual historical expenditures adjusted for known and measurable changes instead of the company's "unreasonable *projections*[.]" Attorney General's replies to exceptions, p. 3 (emphasis in original). The Attorney General states that the whole rate case process is a moving target because of DTE Gas's use of a fully projected test year, its filing of rate cases one on top of the other, and for filing too early to allow the use of more recent data. *Id*., pp. 3-4. The Attorney General argues that DTE Gas outearns its authorized ROE that is inflated in comparison to the company's actual risk and that the Commission should adopt the majority of the PFD because it contains considerable analysis of the shortcomings of DTE Gas's projections. *Id*., p. 4.

Noting ABATE's testimony but finding that no party challenged the projected test year and that no party filed exceptions to the PFD regarding the projected test year, the Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. PFD, p. 21. Therefore, the Commission adopts the PFD regarding the projected test year.

IV. RATE BASE

Rate base is the value of the utility's property on which it is permitted to earn a specified rate of return and consists of the capital invested in utility plant, less accumulated depreciation, plus the utility's working capital requirements. Net plant is the primary component of rate base, and its key elements are total utility plant (plant in service, plant held for future use, and construction work in progress (CWIP)) less the depreciation reserve, which includes accumulated depreciation, amortization, and depletion.

DTE Gas projected a total rate base of $8,033,624,000 which was then adjusted to $8,020,754,000 in its initial brief. DTE Gas's initial brief, p. 13. The Staff projected a rate base of $7,974,029,000, due to a $52.667 million reduction in net plant and a $6.928 million reduction in working capital from the company's position. Staff's initial brief, p. 4.

The ALJ explained the Commission's standards in evaluating and deciding whether capital expenditures are reasonable and prudent for inclusion in rate base and noted that while the ALJ may adjust the company's projection for a particular expenditure, that does not equate to a permanent disallowance—the utility may, with sufficient evidence, request recovery in a future rate case.

A. Routine Capital Spending

The ALJ noted that the PFD addresses disputed aspects of the company's application and specifically identified routine transmission capital expenditures,[8] routine general plant capital expenditures for Physical Site Security and Communication and Control Equipment-Supervisory Control and Data Acquisition; as well as capital expenditures for the Kalkaska Renovation as not being in dispute. Therefore, the ALJ recommended approval of these expenditures. PFD, pp. 89, 99-100.

In its exceptions, DTE Gas addresses the Routine Capital Expenditures category as a whole before addressing the specific categories of expenditures included therein. The company contends that the ALJ's recommended disallowances reduce routine capital expenditures below the level necessary to safely operate and maintain the gas system. DTE Gas's exceptions, pp. 12-13. The company takes exception to three overarching errors that the company contends are present in each of the ALJ's recommendation in this category, namely: (1) the ALJ treats the absence of completed detailed design, competitive bidding, or construction as dispositive evidence that a project is premature for inclusion in rate base; (2) the ALJ's findings of prematurity do not account

[8] The ALJ noted that the Attorney General opposed the expenditures for two projects related to transmission but that these projects were addressed in the Large Capital Projects section of the PFD. PFD, p. 98, n. 75. The Commission similarly addresses these projects in the Part IV. Rate Base, Section B. Large Capital Projects of this order.

for the company's evidence showing that routine capital projects are developed and executed pursuant to a two-year cycle with engineering design being completed in year one and construction completed in year two; and (3) the ALJ adopted the Attorney General's 2023-2025 three-year historical average despite evidence that 2025 was an anomalously low year. The company adds that the ALJ's reasoning that the most recent data should be used effectively turns the projected test year into a moving target requiring the company to continually revise its filed case based on data available post-application filing. DTE Gas asks the Commission to reject such an approach and to give evidentiary weight to the company's forward-looking, project-level evidence regarding need, timing, scope, and cost. DTE Gas's exceptions, pp. 13-17.

The Commission notes the lack of dispute and that no party filed exceptions with respect to the transmission capital expenditures and routine general expenditures for the Physical Site Security and Communication and Control Equipment-Supervisory Control and Data Acquisition and the Kalkaska renovation. Further, finding the ALJ's recommendations to be well-reasoned and supported by the record, the Commission adopts the PFD with respect to the undisputed items discussed here. *See*, PFD, pp. 89, 99-100. DTE Gas's exceptions to specific routine capital expenditures are addressed below.

1. Distribution Plant

The ALJ noted that within Routine Distribution Plant expenditures, no party disputed the expenditures for Service Abandonments, Service Renewals, Transmission Fittings, advanced metering infrastructure (AMI), and Revenue Protection and therefore recommended approval for these expenditures. PFD, p. 23.

Noting that these listed expenditures were not disputed, exceptions were not filed with respect to those specific undisputed expenditures, and finding the ALJ's recommendation to be well-reasoned and supported by the record, the Commission adopts the PFD. *See*, *id*.

The routine distribution capital expenditures that remain in dispute are addressed below.

a. Unplanned Main Renewals

DTE Gas proposed approximately $20.619 million in Unplanned Main Renewal capital expenditures between January 1, 2025, and September 30, 2027, to address emergency conditions (i.e., leaks). 3 Tr 1485; Exhibit A-12, Schedule B5.1. Specifically, DTE Gas proposed capital expenditures of $10.777 million for 2025; $3.530 million for the nine months ending September 2026; and $6.313 million for the Projected Test Year. Exhibit A-12, Schedule B5.1. The company stated that the amount proposed is about $0.8 million more per year than the 2022-2024 historical average in this category, largely due to increased work planned for 2025 and offset by lower projected expenditures in 2026 and 2027. 3 Tr 1485-1486.

The Attorney General opposed DTE Gas's proposed expenditures, arguing that the expenditures significantly exceeded the historical level and that the actual 2025 spending totaled only $3.17 million for 16,769 feet of pipeline at a unit cost of $189 per foot, resulting in a $7.604 million difference between the company's projections and the actuals. 5 Tr 3243-3244. The Attorney General contended that the company failed to provide a basis for its projected footage and cost levels for 2026 and 2027 and thus, requested a disallowance of $7.604 million for the 2025 main renewals, $141,000 for the nine-month period in 2026, and $1.795 million in the projected test year. 5 Tr 3243; Exhibit AG-3.

DTE Gas disagreed with the Attorney General's recommended disallowances. The company explained that the 2025 actual expenditures were lower than projected because two projects were

delayed into 2026 and further argued that the company duly supported and explained its 2026 and 2027 projections and forecasting methodology. 3 Tr 1561-1564. However, the company conceded to some adjustment, arriving at $5.504 million for 2025. DTE Gas's initial brief, p. 17 (citing 3 Tr 1562-1563).

The ALJ agreed that for 2025, the capital expenditures for main renewals were $7.604 million lower than what the company projected but was still clearly included in capital expenditures for 2025. The ALJ thus recommended a disallowance of $7.604 million for 2025. The ALJ recalled DTE Gas's disagreement with the Attorney General's use of a three-year average (2023-2025) for her forecast inclusive of 2025, which DTE Gas contended was an anomalously low year. PFD, p. 26 (citing DTE Gas's initial brief, p. 17). The ALJ further recalled the Attorney General's rebuttal that the company should have known at the time of its rate case application filing that the two 2025 projects would be delayed and that her three-year average method captures the peaks and valleys of the company's expenditures in recent years. PFD, pp. 26-27 (citing Attorney General's initial brief, pp. 16-19). The ALJ explained his agreement with the Attorney General's adjustments:

> [b]oth DTE and the Attorney General used a three-year average to determine the forecasted spending amounts, however DTE used the years 2022-2024 where the Attorney General used the years 2023-2025. This PFD finds the years used by [Attorney General witness] Mr. Coppola to be reasonable despite the contention that 2025 is an anomalous year that should not be included. The years used by Mr. Coppola are recent and capture the peaks and valleys as asserted by the Attorney General.

PFD, p. 27. Therefore, the ALJ also recommended a further disallowance of $141,000 for the nine months ending September 30, 2026, and a disallowance of $1.795 million for the projected test year. *Id*.

In its exceptions, DTE Gas states its agreement part of the Attorney General's recommended $7.604 million disallowance in 2025, explaining that the company agrees to a $5.504 million reduction to reflect actual underspending. However, DTE Gas takes exception to the ALJ's adoption of the remaining $2.1 million of the Attorney General's $7.604 million reduction for 2025. DTE Gas's exceptions, pp. 18-19. The company argues that the $2.1 million is associated with two projects totaling 10,000 feet of main that were deferred to 2026 due to design complexities and easement procurement requirements. *Id*., p. 19. DTE Gas states that the ALJ accepted the Attorney General's argument that the company should have known at the time of filing that the two projects would be deferred but still included them in 2025. The company argues that the ALJ should not have disallowed the additional $2.1 million but should have instead considered them within the 2026 forecast. *Id*., pp. 19-20. In other words, DTE Gas contends that the ALJ did not analyze the treatment of the $2.1 million and points out that the Attorney General did not present, nor did the ALJ rely on, any evidence to show that the projects were unnecessary, imprudent, or unlikely to be completed in 2026. *Id*., p. 20.

The company additionally excepts to the adoption of the Attorney General's 2023-2025 three-year average for forecasting. Per DTE Gas, the ALJ disregards the anomalous nature of 2025 spending and gave insufficient weight to the company's evidence that these expenditures support a targeted effort to address recurring leak backlog and urgent condition mains. *Id*. (citing 3 Tr 1563-1564; Exhibit A-41, Schedule EE1, p. 2). The company argues that adopting the Attorney General's three-year average as an indicator of projected work artificially depresses projected expenditures and ignores the company's evidence regarding the reason for lower expenditures in 2025. DTE Gas refers to its testimony explaining the impact on 2025 of the deferral of 10,000 feet of main renewal work to 2026 and explains that its 2022-2024 forecast is a more appropriate range

that more accurately captures the peaks and valleys of emergency and unplanned work driven by leak occurrences and system conditions. DTE Gas's exceptions, p. 21. Therefore, the company asks the Commission to reject the ALJ's disallowance of $2.1 million for 2025 (i.e., the amount in excess of the agreed upon disallowance of $5.504 million) and to also reject the disallowances for the bridge and test periods in favor of the company's projected expenditures based on the 2022-2024 historical average. *Id*., p. 22.

In reply to DTE Gas's exceptions, ABATE disputes the company's claims of escalating project complexity and increasingly stringent municipal permitting and restoration requirements. ABATE argues that DTE Gas did not identify any new challenges that as a utility operating in dense urban areas with which it is not already familiar. ABATE's replies to exceptions, pp. 5-6. ABATE states that the lack of detail was acknowledged by the company when it stated that it had not done an analysis of the complexity cost drivers. *Id*., p. 6 (citing Exhibit AB-7). Per ABATE, the company's increased complexity claims are unsupported and its claim that the gas renewal program miles retired declined from approximately 224 miles in 2023, to 161 miles in 2025, while cost per installed mile increased over the same period are also insufficient to support expenditure request. *Id*. As to DTE Gas's claims of increase in contractor pricing and labor and material costs, ABATE repeats that this is mathematically inconsistent with the proposed increase. Per ABATE:

> [t]he Company's requested 5% annual spending level increase is significantly above its claimed labor cost increases of 2% to 3%. (Id.) Escalation on a subset of program inputs measured at the top of a stated range cannot justify escalating total program spending at that same rate, particularly where the Company has not reconciled these input assumptions to the aggregate spending level it requests. (Id.) This demonstrates DTE is requesting revenue in excess of that required to maintain its current pace of work[.]

ABATE's replies to exceptions, p. 6. ABATE adds that DTE Gas's claimed costs for these incremental investments are an unnecessary expansion of the program's scope and were not supported by a BCA or safety-based justification. ABATE asks the Commission to consider the company's requested revenue increases in the context of its current successes in limiting leaks and to limit its cost recovery. *Id*., pp. 6-7.

In her replies to exceptions, the Attorney General disagrees with DTE Gas that the ALJ failed to correctly analyze the parties differing testimonies regarding the $2.1 million that was deferred to 2026 and that the ALJ disregarded the anomalously low nature of spending in 2025. The Attorney General repeats that DTE Gas is attempting to shift the burden of proof to the intervenors regarding the $2.1 million and that the company is cherry picking dates to support its expenditure request. She further contends that the ALJ correctly observed that the Attorney General's historical average captures peaks and valleys and emphasizes the importance of actuals in evaluating rate case projections. Thus, the Attorney General asks the Commission to adopt the PFD. Attorney General's replies to exceptions, pp. 6-8.

Finding the ALJ's recommendation to be well-reasoned and supported by the record, the Commission adopts the PFD with respect to the main renewal expenditures. *See*, PFD, pp. 26-27. As noted above in the description of DTE Gas's exceptions to the overall category of Routine Capital Expenditures and described in the Main Renewals subsection, the company takes issue with the ALJ's adoption of the Attorney General's 2023-2025 historical average to arrive at the bridge and test year disallowances. The company states that at the time it filed its application the 2025 data was incomplete, requiring an update during the discovery process to provide the 2025 information to the parties to support the Attorney General's historical average and argues that such an approach would lead to "serial revision" of data. DTE Gas's exceptions, p. 16. The

Commission rejects the company's serial revision argument. During the compressed 10-month rate case timeframe, parties agree to a schedule with defined periods for discovery, direct testimony by intervenors, and rebuttal testimony on which a record is developed. Thus, there are clear stopping points where new evidence is no longer accepted into the record as a matter of course. The Commission finds that the revised data for 2025 was not the result of an improper approach but rather a preferred approach where the actual data is incorporated into the record and better informs the projections for the bridge period and test year expenditures.

The Commission also agrees with the Attorney General and the ALJ that $7.604 million should be disallowed for 2025. While the company agrees to the $5.504 million reduction, it argues in exceptions that the $2.1 million project should merely be shifted to recovery for 2026. The Commission disagrees. The onus is on the company to present an accurate and supported case–if the 2025 expenditure for the 10,000 feet of main renewals was being deferred to 2026, it should have revised its case or waited to file its application. It is the utility alone that decides when to file a rate case application.

b. Public Improvements

DTE Gas proposed $70.7 million in public improvement capital expenditures for January 1, 2025, through September 30, 2027, and explained that the work in this category was required under MCL 247.185 and nondiscretionary. 3 Tr 1487-1488; Exhibit A-12, Schedule B5.1. The Attorney General recommended a disallowance of $2.898 million from the company's 2025 capital expenditures, $1.275 million for the nine-months ending September 30, 2026, and $2.203 million for the projected test year, arguing that for 2025, the company's actual spending was below its projections and for 2026 and 2027, some of the expenditures were premature for inclusion in rate base. 5 Tr 3246-3248. DTE Gas conceded to the Attorney General's proposed

2025 disallowance but disagreed with any reduction to the 2026 and 2027 expenditures, asserting that further reduction would compromise the company's ability to meet its statutory obligations and impact public safety. 3 Tr 1566-1567.

Noting DTE Gas's agreement, the ALJ recommended that the Commission adopt the 2025 disallowance. The ALJ additionally agreed with the Attorney General's assertion that the two projects, the I-375 Russel Bridge and the Ford Road projects, making up the remainder of the disallowance are premature and that the company's attempt to argue that other projects may arise in replacement amounted to inappropriate placeholders. PFD, p. 31 (citing Attorney General's initial brief, pp. 21-22). The ALJ agreed that "funding those projects with an eye on using those funds for other projects that may arise amounts to having placeholder amounts in rate base" and, therefore, recommended that the Commission disallow $1.275 million for the bridge period and $2.203 million for the projected test year. PFD, p. 31.

In exceptions, DTE Gas recalls that it conceded to a $2.898 million disallowance to reflect actual spending for 2025 but excepts to the ALJ's recommended disallowance for the bridge period and test years, disagreeing that the I-375 Russel Bridge and Ford Road Relocate projects are premature for inclusion in rate base. DTE Gas's exceptions, pp. 22-23. DTE Gas asserts that the ALJ applied a standard of project-readiness that is inconsistent with the nature of public improvements work and the projected test year framework. *Id*., p. 23. The company explains that public improvement projects are "triggered by external governmental construction schedules and are legally mandated under MCL 247.185 once a governmental agency undertakes infrastructure work within the right-of-way" and that the record showed that Michigan Department of Transportation's (MDOT's) and municipalities' schedules regularly change without adequate notice. *Id*. For the I-375 Russel Bridge, the company states that detailed planning and scoping

will begin once MDOT provides its phased construction plan, and, for the Ford Road Relocate project, MDOT, not the company, shifted design to 2027 and construction to 2028. Per DTE Gas, the relevant issue is not whether these projects will adhere to their original timelines, but rather whether the company's overall level of public improvement expenditure is a reasonable projection. *Id*., pp. 23-24.

DTE Gas adds that the ALJ's characterization of these two projects as placeholders is unsupported in light of the company's evidence showing that these projects are not discretionary and subject to timelines beyond the company's control. The company asserts that additional reductions would reduce funding below a level that allows DTE Gas to meet its statutory relocation obligations and contends that its forecasts are based on historical experience with projects that routinely arise on short notice. *Id*., pp. 24-25. DTE Gas recalls the US-12 Michigan Avenue project provided in its testimony as an example of externally driven work that arises and for which the company must be prepared to fund. *Id*., p. 25. The company argues that the Attorney General's only evidence is that the two projects may not proceed on their original timelines and that such evidence is insufficient to support the ALJ's recommended disallowance. *Id*.

In replies, the Attorney General argues that DTE Gas merely repeated its previous positions in exceptions and offered nothing new to rebut the disallowance. The Attorney General observes that the company's exceptions show that the company does not yet have plans from MDOT and confirms that the schedule is already pushed back on these projects. The Attorney General repeats the inappropriateness of DTE Gas's attempt to use these projects as placeholders and asks the Commission to adopt the ALJ's recommendation. Attorney General's replies to exceptions, pp. 9-10.

Finding the ALJ's recommendation to be well-reasoned and supported by the record, the Commission adopts the PFD. *See*, PFD, p. 31. The Commission agrees that the I-375 Russell Bridge and Ford Road projects are in such early stages that they are premature for inclusion in rate base. *See*, 5 Tr 3247-3248; Exhibit AG-8. DTE Gas states in exceptions that the Ford Road project's construction has been delayed into 2028, beyond the test year in this case, and in testimony, acknowledges the scheduling delays occurring with the I-375 Russell Bridge and the Ford Road projects but that other projects may arise to utilize these expenditures. *See*, 3 Tr 1566. The Commission agrees that this amounts to a request for placeholder amounts or recovery for projects that are unidentified and unsupported. Further, the Commission rejects DTE Gas's argument that the issue is not whether the projects adhere to their original timelines, but whether the expenditures are overall reasonable and prudent. Whether or not the projected expenditures for these projects will take place during the projected test year is a central and dispositive question. The evidence on the record indicates that there is uncertainty that the projects will not only adhere to their original timelines but will occur at all within the test year.

c. Service Alterations

DTE Gas proposed $94.1 million in service alteration capital expenditures for 2025 through the end of the projected test year, explaining that increased yearly average in this category was driven by the complexity of service alteration requests, notably with service line upgrades as opposed to only manifold upgrades. 3 Tr 1490-1491; Exhibit A-12, Schedule B5.1. Arguing that the proposed expenditures were overstated and the company's claims of increased complexity were unsupported, the Attorney General proposed a disallowance of $4.629 million for 2025, $661,000 for 2026, and $4.355 million for the projected test year. 5 Tr 3250-3252; Exhibit AG-5 Confidential. DTE Gas agreed with the 2025 disallowance but disagreed with the reductions for

2026-2027, contending that the Attorney General's use of the 2023-2025 historical average was improper. 3 Tr 1569.

Noting the company's concession, the ALJ recommended that the Commission adopt the $4.629 million disallowance for 2025. The ALJ then agreed with the Attorney General's use of the 2023-2025 historical average which showed that the number of units for service alterations has been decreasing over the last three years, and that while the number of units in 2025 was 20% lower than in 2024, the number of units in 2024 was 10% lower than in 2023. Additionally, the Attorney General's three-year average number was 21% higher than the actual number of units for 2025. PFD, pp. 34-35 (citing Attorney General's initial brief, pp. 23-24). Thus, the ALJ was persuaded by the Attorney General's position and stated that the evidence indicates that despite the sharp decline in the number of units in 2025, the number of units has been steadily decreasing in this category over the last three years. Therefore, the ALJ recommended that the Commission adopt the Attorney General's disallowances of $661,000 for the 2026 bridge period, and $4.355 million for the projected test year disallowances as well. PFD, p. 35.

In its exceptions, DTE Gas recounts that it agreed to the Attorney General's $4.629 million disallowance for 2025 spending but excepts to the ALJ's adoption of the Attorney General's disallowances for the 2026 bridge period and 2027 test year based on the three-year (2023-2025) historical average. DTE Gas's exceptions, pp. 26-27. The company contends that the ALJ ignored its evidence that 2025 had anomalously low spending and by using the 2023-2025 averaging window, the ALJ "assign[ed] the anomalous 2025 data point a one-third weighting in the average, rather than the one-quarter weighting it would receive under the Company's four-year approach." *Id*., p. 27. DTE Gas argues that it is improper to exclude 2022 because that year

reflects unit counts that are consistent with the company's experience and that the ALJ's adopted method distorts the forecast for the bridge period and test year. *Id*.

The company also disputes the ALJ's finding that the number of units has been declining over the last three years. The company adds that the ALJ disregarded the fact that service alteration unit counts are inherently variable and driven by customer demand and that the company's 2022-2025 historical average captures that variability and includes 2025 as requested by the Attorney General. Per DTE Gas, "[a] three-year window beginning at the peak of a variable series may suggest a declining trend, but that appearance would be an artifact of the starting point, not evidence of a systemic shift in customer-driven demand." *Id*., pp. 28. Next, DTE Gas contends that the ALJ did not give proper weight to evidence that unit counts are customer-driven and "[s]pecifically, the proportion of service alterations requiring full-service line upgrades nearly doubled from 17% in 2023 to 32% in 2024, and cross-bore inspections performed in conjunction with service installations have increased." *Id*. (citing 3 Tr 1490-1491). Per DTE Gas, stable or modestly declining unit counts do not translate proportionally to lower capital expenditures, and the ALJ's recommendation ignores this shift in work complexity, resulting in a forecast disconnected from the company's actual capital requirements for 2026-2027. DTE Gas's exceptions, p. 28. DTE Gas asks the Commission to reject the ALJ's recommendation and approve the company's proposed expenditures for the bridge period and test years. *Id*., p. 29. Alternatively, the company asks that if the Commission adopts the PFD, it also correct a calculation error in Appendix E, line 6 to the PFD to ensure that the adjustment is not double counted with adjustments that DTE Gas has already conceded to ($23,000 for the bridge period and $3.505 million for the projected test year). *Id*.

In replies to exceptions, the Staff agrees that Appendix E reflects a calculation error and also asks the Commission to make the needed correction if it opts to adopt the PFD. Staff's replies to exceptions, p. 2.

In response, the Attorney General contends that the company is merely repeating arguments that were already rebutted and addressed by the ALJ. She states that the ALJ considered the entire record, found that the company's arguments rely heavily on forecast and projection whereas the Attorney General presented more reliable historical data and trends. The Attorney General repeats that the number of units has been declining over the last three years and asks the Commission to adopt the ALJ's recommendation. Attorney General's replies to exceptions, pp. 10-11.

Finding the ALJ's recommendation to be well-reasoned and supported by the PFD, the Commission adopts the PFD with respect to the service alteration capital expenditures. *See*, PFD, p. 35. The Commission agrees that the record indicates the decline in the number of units over the 2023-2025 period and that the company's amplified spending for 2026 and 2027 are not justified given that the 2026-2027 forecast for complex alterations closely tracked with previous years' average and cross-bore inspections were not substantively higher for 2026-2027. *See*, 5 Tr 3251-3252; Exhibit AG-5 Confidential. Further, the Commission agrees that including 2025 in the historical average is appropriate given its recency that better informs projections for the bridge period and test year. However, the Commission notes the error in Appendix E, line 6 as pointed out by the company in exceptions and the Staff in replies to exceptions. Therefore, considering DTE Gas's agreement to a $23,000 reduction in the bridge period and a $3.505 million reduction in the test year, the correct disallowance is $638,000 for the bridge period, and $850,000 for the test year.

d. System Reliability Projects

DTE Gas proposed $89.6 million in capital expenditures for 2025 through the end of the test year and explained that this category consists of work necessary to maintain safe and reliable gas service across four categories: compliance, obsolescence, system growth, and overpressure protection. 3 Tr 1492-1493; Exhibit A-12, Schedule B5.1. The Attorney General identified two projects, the Euclid 60 PSI Huiber Main project (Main project) and the McNichols & Greenfield project, as being premature for inclusion in rate base and recommended a disallowance of $89,000 from capital expenditures for the bridge period and $3.721 million from the projected test year. 5 Tr 3262-3263; Exhibit AG-9. DTE Gas disagreed with the Attorney General and attested that both projects would be in service within the test year. 3 Tr 1582.

The ALJ sided with the Attorney General, explaining that the McNichols & Greenfield project is in the design phase with detailed design to be completed by the end of 2026 and that the Main project cannot advance until the City of Detroit issues permits and a street moratorium is lifted. PFD, p. 39 (citing DTE Gas's initial brief, p. 23). Finding the projects to be premature for inclusion in rate base, the ALJ recommended a disallowance of $89,000 for the bridge period and a $3.721 million disallowance for the projected test year. PFD, p. 39.

DTE Gas takes exception to the ALJ's recommended disallowance for 2026 and 2027 based on his finding that the Main and McNichols & Greenfield projects are premature for inclusion in rate base. DTE Gas's exceptions, p. 30. DTE Gas argues that the ALJ's finding ignores the company's established two-year project lifecycle for routine capital projects where engineering design is completed in year one and construction in year two. DTE Gas asserts that the design portion for the Main project is complete, and the project is scheduled for construction in 2027 to coordinate with other System Reliability and Gas Renewal Program work and to comply with the

City of Detroit's road-cut restrictions on newly paved streets. *Id*. (citing 3 Tr 1581 and Exhibit AG-67).

As for the McNichols & Greenfield project, DTE Gas states that Exhibit AG-9 confirms that the project was in the engineering design phase in March 2026 and that the company's testimony shows that construction is expected to be completed by the end of the test year. DTE Gas's exceptions, pp. 30-31 (citing 3 Tr 1581). DTE Gas argues that recovery is consistent with the established two-year cycle and the use of a projected test year. The company contends that it is unreasonable to require completed construction, final bidding, or post-planning phase maturity as prerequisites for inclusion in rate base and would convert the projected test year into a historical test year contrary to the Legislature's express authorization for forward-looking ratemaking. DTE Gas's exceptions, p. 31. The company adds that the City of Detroit's road cut moratorium does not support a disallowance because the moratorium ends in early 2027, at which point the company will apply for and obtain the permits to allow construction to begin in June 2027. *Id*., pp. 31-32 (citing Exhibit AG-67). DTE Gas contends that the Attorney General provided no evidence that the moratorium would extend beyond 2027. Per DTE Gas, the ALJ's prematurity finding conflates the projects' current pre-construction status with an inability to advance according to the company's schedule, which is contradicted by the record. DTE Gas's exceptions, p. 32.

The Attorney General states that DTE Gas's exceptions essentially ask for the benefit of the doubt that these projects will occur in the test year because the Legislature authorized forward-looking ratemaking. Per the Attorney General, DTE Gas adds nothing new in exceptions and merely repeats previously rebutted arguments. The Attorney General states that DTE Gas's arguments of the ALJ's recommended disallowances being inconsistent with the projected test

year is another example of the company's abuse of the test year in which it attempts to include speculative amounts in rate base. The Attorney General argues that DTE Gas's discussion of the City of Detroit's moratorium only shows that the project is premature because the company's points are speculative and lay out an uncertain series of events. Thus, the Attorney General asks the Commission to adopt the PFD. Attorney General's replies to exceptions, pp. 12-13.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record and adopts the PFD. The Commission agrees that the McNichols & Greenfield project has not yet fully completed all design work and is premature for inclusion in rate base. *See*, 3 Tr 1581. DTE Gas's initial brief, p. 23. As to the Main project, the street moratorium imposed by the City of Detroit, which neither party can say with certainty when precisely will be lifted or how permitting will proceed thereafter, creates uncertainty as to whether this project will proceed such that it is in service within the test year. *See*, Exhibit AG-67. Therefore, the Commission adopts the disallowances of $89,000 for the nine months ending September 2026 and $3.721 million for the test year.

e. Communications and Control Meters

The company proposed $60.5 million in capital expenditures for 2025 through the end of the projected test year, an increase over historical levels. DTE Gas explained that the increase is due to the rollout of ultrasonic meters and bypass devices beginning in 2026, which requires accounting for aging diaphragm meters and AMI/automated meter reading (AMR) modules nearing end-of-life. 3 Tr 1500-1503; Exhibit A-12, Schedule B5.1. The Attorney General argued that the company's plan to transition from diaphragm meters with AMI/AMR modules to ultrasonic meters was premature and insufficiently justified and recommended a disallowance of

$2.936 million for the bridge period and $7.507 million for the projected test year. 5 Tr 3252-3259; Exhibit AG-6.

The Staff testified that AMI/AMR meters were approaching the end of their useful lives, diaphragm meters were also aging, manufacturers have shifted to producing ultrasonic models, and that current gas modules depended on DTE Electric Company's (DTE Electric's) AMI meters for communication. Noting the company's plan to install a limited number of ultrasonic meters, the Staff supported partial recovery of DTE Gas's expenditures in this area but expressed concerns about the company's projected costs. The Staff therefore recommended disallowances of $922,500 in 2026 and $1,322,500 in 2027 for ultrasonic meters, and additional disallowances of $487,500 and $887,500 for bypass devices in the same years, for total disallowances of $1.41 million in 2026 and $2.21 million in 2027. The Staff also recommended that prior to any future cost recovery beyond the expenditures in this case, the Commission require DTE Gas to submit a full program recommendation and benefit-cost analysis (BCA) inclusive of total program cost, deployment timeline, planned timing for safety-feature activation, consideration of alternatives, quantified benefits, and detailed meter installation counts from 2026 onward). 5 Tr 2469-2478; Exhibits S-11, S-11.1, and S-11.2.

DTE Gas disagreed with the Attorney General's proposed disallowances and her characterization of the company's support for the expenditures in this category. 3 Tr 1571-1577. DTE Gas also disputed the amount of the Staff's proposed disallowances for 2026 and 2027, arguing that the Staff omitted approximately 4,500 ultrasonic units and bypass devices that had been included in the company's direct testimony. The company also disagreed with the Staff's recommendation for a complete program recommendation and BCA. 3 Tr 1579-1580.

The ALJ found that the record supported the use of ultrasonic meters and bypass devices in the limited circumstances proposed by DTE Gas and cites to the company's evidence regarding the aging infrastructure, declining availability of diaphragm meters, and AMI system transitions. PFD, pp. 54-55. The ALJ stated that the record shows that these meters will only be installed when other meters need to be replaced through other routine work and in limited quantities within the company's Southeast Michigan service territory. However, the ALJ agreed with the Staff and the Attorney General that the company did not provide a BCA and that a BCA and program analysis should be performed. Per the ALJ, "[t]here appears to be uncertainty regarding the use of these meters, and the Company has stated that it intends to collect additional data as the meters are installed and put into use." *Id*., p. 55. Thus, the ALJ recommended that the Commission adopt the Staff's BCA and analysis recommendation. *Id*.

Turning to the bypass devices, the ALJ agreed with the company that it has shown that its proposed expenditures for these devices are a reasonable and prudent investment as they will allow work to be performed without disrupting service. The ALJ noted that he was not persuaded by the Attorney General's speculation that the bypass devices would result in safety and theft issues. *Id*. However, the ALJ did agree with the Staff's proposed disallowance reasoning as follows:

> [a]lthough DTE claims that Staff's calculations omitted information contained in a footnote in Table 7 of Ms. Jackson's direct testimony, Staff addresses this argument in its brief and disputes the Company's assertion. This PFD is persuaded that Staff did not omit or disregard the footnote as claimed by DTE.

Id. Thus, the ALJ recommended that the Commission adopt the Staff's proposed disallowance of $1.41 million in 2026, and $2.21 million in 2027. *Id*., pp. 55-56.

The Attorney General takes exception, noting first her appreciation for the ALJ's recommendation to direct DTE Gas to conduct a full BCA and program plan and analysis for the ultrasonic meters and bypass devices before excepting to the ALJ's recommendation to allow DTE

Gas's proposed capital expenditures. Attorney General's exceptions, pp. 3-4. The Attorney General argues that allowing recovery prior to a BCA puts "the cart before the horse[,]" allows DTE Gas to "scramble[] to design the program at the same time it is being implemented[,]" and grants recovery despite DTE Gas not showing that its current revenues are insufficient to cover meter replacements as needed. *Id*., p. 4. Recalling the ALJ's reliance on aging infrastructure, declining availability of diaphragm meters, and AMI system transitions, the Attorney General counters that despite some hardware obsolescence, the Commission should be mindful of the frequency with which the company attempts to overhaul its meter infrastructure. The Attorney General calls for the Commission to hold DTE Gas to a standard of objectivity and require a clear, written plan of such upgrades. *Id*., pp. 4-5.

Turning to the bypass devices, the Attorney General similarly argues that allowing cost recovery without a BCA ahead of these investments is in error. The Attorney General calls on the company to take a measured approach in the rollout of these devices and to present a plan prior to cost recovery requests. The Attorney General also argues that the company's attempt to include these costs in the IRM should signal to the Commission DTE Gas's intent to obtain significant cost recovery with limited oversight. *Id*., p. 5. The Attorney General argues that any cost recovery prior to a BCA and plan improperly shifts the burden of proof from DTE Gas to the Staff and intervenors and is thus in error. Therefore, the Attorney General asks the Commission to disallow $2.396 million for the bridge period and $7.507 million for the test year related to Communication and Control Meters. *Id*., p. 6.

DTE Gas excepts to the ALJ's adoption of the Staff's partial disallowance and conditioning any future cost recovery on a BCA and program analysis. DTE Gas's exceptions, p. 34. Beginning with the footnote to Table 7 in the company's direct testimony, DTE Gas repeats that

the footnote clarified that the company would need to purchase approximately 4,500 more ultrasonic meters and bypass devices in 2026 and 2027, and that the capital expenditures for those additional purchases was included in Table 5. *Id*., pp. 34-35 (citing 3 Tr 1578-1579). Next, DTE Gas argues that requiring a BCA and program analysis imposes an evidentiary standard that the Commission and Michigan law do not require for routine capital programs in place of the well-established reasonable and prudent standard based on engineering testimony, condition assessments, and alternative analyses. Thus, the company asks the Commission to adopt the company's proposed communications and control meters expenditures as filed.

In its replies to exceptions, the Staff disagrees with DTE Gas's assertions regarding the footnote to Table 7 and argues that the footnote does not state that the company needs to purchase 4,500 more meters than what is shown in the table. Rather, the Staff contends that the footnote states that, "'[e]stimated totals for 2026 and 2027 tie to table 5 capital expenditures and include ~4,500 additional purchases of meters and bypass devices in 2026 and 2027 to ensure delivery and material on hand for installations the following year.'" Staff's replies to exceptions, p. 3 (quoting 3 Tr 1507). The Staff argues that in pointing to the purchase quantities in Table 7, the footnote clearly indicates that it includes the 4,500 meters and devices and that Staff properly applied its unit-cost methodology to the additional 4,500 units for each year. Staff's replies to exceptions, p. 3. Per the Staff, "[t]he result is close, however, since Staff is arguing that the Company is requesting a higher recovery based on the number of units, if the number of units is increased, the result is closer to what the Company has requested." *Id*., pp. 3-4. The Staff does not find this to be sufficient support for the company's request and asks the Commission to adopt the ALJ's recommended disallowance of $1.41 million in 2026 and $2.21 million in 2027. *Id*., p. 4.

In replies to exceptions, DTE Gas responds to the Attorney General's exceptions and asks the Commission to affirm the ALJ's finding that the company supported the need for the ultrasonic meters and bypass devices. DTE Gas's replies to exceptions, pp. 5-6. The company argues that the Attorney General largely repeats her arguments that the ALJ rejected and that her position does not recognize the substantial safety, reliability, and operational benefits of ultrasonic meters and bypass devices. DTE Gas then repeats characteristics of the ultrasonic meters and bypass devices from its testimony and brief supporting its claims of safety, reliability, and operational benefits and argues that the transition to ultrasonic meters is occurring across the gas industry, contrary to the Attorney General's claims that they are experimental technology. *Id*., pp. 6-7.

The company states that the Attorney General's exceptions are unsupported and contradicted by the record in that, while the Attorney General claims that the Commission should be wary of the frequency with which DTE Gas overhauls its meter infrastructure, the company's rollout is a phased deployment to limited locations. *Id*., p. 7. DTE Gas then points to evidence directly refuting the Attorney General's claim that there is no evidence of how frequently the bypass devices would be used. *Id*., p. 8 (citing 3 Tr 1575-1576; 5 Tr 2476; DTE Gas's initial brief, pp. 25-26). The company also refutes the Attorney General's argument that the company is attempting to obtain huge cost recovery through the IRM with the ultrasonic meters and bypass devices. DTE Gas repeats that its request in this case is for incremental, material-only expenditures at sites where crews are already present. DTE Gas's replies to exceptions, p. 8.

The company also argues that the Attorney General applies an incorrect legal standard to the company's cost recovery request and states that the proper standard is whether the proposed expenditures are reasonable and prudent, not whether the utility has shown that its existing authorized revenues are insufficient to absorb the cost of a particular investment. *Id*., pp. 8-9.

Adopting the Attorney General's position would result in a preclusion of recovery of new or expanded capital programs unless the utility first proved a category-specific revenue shortfall, which would undermine the projected test year framework. DTE Gas's replies to exceptions, p. 9. Lastly, the company contends that the Attorney General's request for a comprehensive program analysis conflicts with the Staff's position that the incremental ultrasonic meter and bypass device costs should be recovered now, through the IRM. *Id*. Thus, DTE Gas asks the Commission to approve its expenditures for the ultrasonic meters and bypass devices as filed.

In its replies to exceptions, ABATE argues that the ultrasonic meters and bypass devices should be excluded from the IRM, which is addressed below in this order. ABATE's replies to exceptions, pp. 8-10. Responding to DTE Gas's opposition to a BCA and program analysis, ABATE argues that these will provide a modest and appropriate safeguard for the new technology and would cost the company nothing if the program performs as the company predicts. ABATE asks the Commission to adopt the ALJ's recommendation for a BCA and program analysis. *Id*., p. 10.

In her reply to exceptions, the Attorney General maintains her arguments that recovery for the ultrasonic meters and bypass devices is premature and responds to DTE Gas's exceptions regarding the partial disallowance and BCA. The Attorney Generals contends that the company merely repeats previously rebutted arguments and that the ALJ was correct to rely on the Staff's position in recommending a partial disallowance—although the Attorney General still advocates for a full disallowance. The Attorney General argues that DTE Gas is attempting to rush ahead with spending without having to show that it will benefit customers or examining the full costs of the program. Accordingly, the Attorney General agrees with the ALJ's recommendation for a BCA and program analysis. Attorney General's replies to exceptions, pp. 13-14.

The Commission finds the ALJ's recommendation to be reasonable and supported by the record as it pertains to adopting the Attorney General's and the Staff's recommendation for a BCA and long-term plan on the company's proposed roll out of the ultrasonic meters and bypass devices. The Commission understands DTE Gas's explanation that this is a limited rollout to replace aging meters and that it plans to gather performance data on the ultrasonic meters that would inform a future program proposal. However, the Commission agrees that the expenditures for the instant rollout and any future planned deployment should be supported by an explanation of the company's intended program rollout and thorough examination of costs and benefits, both known and projected, to better inform future decisions regarding future recovery of these expenditures.

The Commission further agrees with the Staff that the company's BCA should include the total costs of transitioning to ultrasonic meters; the timeline of transitioning to ultrasonic meters; a timeline for implementation of safety benefits (such as threshold alarms and auto shutoff); an analysis of alternative metering solutions considered; quantification of all quantifiable benefits including eliminating gas service interruption, remote shutoff, and improved accuracy. Additionally, the company shall also provide the number of ultrasonic meters installed, the number of AMI/AMR modules installed, and the number of diaphragm meters installed starting in 2026 until the filing of its next rate case, as suggested by the Staff. *See*, 5 Tr 2474-2475.

With respect to the Staff's disallowance, the Commission respectfully disagrees with the ALJ. The Commission agrees with the Staff and DTE Gas that the proposed expenditures are reasonable and prudent in that the company demonstrated the need to replace aging meters. However, the Commission does not find it reasonable to disallow portions of the company's proposed expenditures based on the company's error in the wording of the footnote to Table 7, when the

Staff did not otherwise dispute the support or substance of the expenditure. The correct amounts were included in Table 5 of DTE Gas witness Ms. Jackson, and the context in DTE Gas's rebuttal testimony and briefing clarified that the 4,500 additional meters were not included in Table 7. *See*, 3 Tr 1502, 1507, 1578-1579; DTE Gas's initial brief, p. 30.

Thus, the Commission finds that the company's proposed $2.2 million in 2026 and $6.1 million in 2027 ultrasonic meters and the $1.1 million in 2026 and $3.2 million in 2027 should be approved for inclusion in rate base. The Commission also directs DTE Gas to include in its next rate case a BCA and long-term plan and program analysis for the rollout of any future ultrasonic meters and bypass devices.

f. New Market Attachments

DTE Gas explained that the customer attachment program (CAP) allows natural gas system expansion without requiring existing customers to subsidize new attachments and provides financing options for customers seeking gas service. New market attachments include the costs of designing and installing new mains, service lines, and related facilities for both new customers and existing customers adding load. The company proposed $262 million in expenditures in this category from 2025 through the end of the projected test year with increased spending resulting from reduced 2024 costs from grant funding, contributions in aid of construction (CIAC) received in 2024, several large end-use-transportation (EUT) projects, and increased forecasted customer conversions from propane to gas. 2 Tr 254-255; Exhibit A-12, Schedule B5.1. Within this category, DTE Gas also requested recovery for a previously disallowed expenditure, namely the Peach Ridge area expansion project (AEP), on the basis that the project achieved approximately 96% of projected attachments through August 2025. 2 Tr 263-264.

The Attorney General argued that DTE Gas's forecasted expenditures were overstated compared to the recent numbers of attachments in 2023, 2024, and 2025; relied on statewide assumptions that do not reflect the company's specific service territory; and included duplicated customers that were already captured in the new-construction-based estimate. 5 Tr 3260-3261; Exhibit AG-7 Confidential. Using a historical three-year average (2023-2025), the Attorney General proposed a disallowance of $19.406 million from the company's forecasted capital expenditures for the nine-month bridge period and $13.870 million for the projected test year. 5 Tr 3262.

MEC claimed that DTE Gas declined to update its CAP model in response to the Commission's expressed concerns in the November 7 order, which resulted in existing customers subsidizing the CAP. 4 Tr 1977-1979; Exhibit MEC-7. MEC also contended that DTE Gas's forecasts were inflated and that its CIAC calculations relied on flawed and outdated assumptions. 4 Tr 1982-1989; Exhibits MEC-10C, MEC-11, and MEC-12. MEC further argued that the Commission should not restore the $912,000 for the Peach Ridge AEP because, while the company achieved 96% of attachments for the year 2025, it had only achieved 72% of its total potential attachments, again falling short of the 80% threshold that had formed the basis of the previous disallowance. 4 Tr 1997; Exhibit MEC-18. MEC proposed disallowances of $11.258 million for new market attachment capital spending above 2025 levels; $3.318 million for the Austin AEP and US-2 AEP; and the continued disallowance of the $912,000 associated with the Peach Ridge AEP. MEC's initial brief, pp. 24, 33-34.[9] MEC also recommended that the

[9] In its initial brief, MEC recommended that the Commission adopt the Attorney General's disallowance of $19.406 million for the 2026 bridge period. MEC's initial brief, pp. 3, 14, 35, 149. However, MEC does not include this recommendation for the bridge period in its testimony, reply brief, exceptions, or replies to exceptions.

company be required to revise its CAP model to reflect realistic customer-attachment rates, recent consumption trends, declining long-term usage, and accurate revenue forecasts. Additionally, MEC asked the Commission to reconsider DTE Gas's line-extension policies. 4 Tr 2002-2003.

Ann Arbor contended that a review of 74 CAP project models showed that existing customers were funding most of the expansion costs in contradiction to the intent of CAP to avoid subsidization by existing customers. 5 Tr 3117-3121; Exhibits AA-56 and AA-57. Ann Arbor also challenged the company's CAP model assumptions regarding constant customer consumption and its failure to perform sensitivity analyses on CAP forecasts. 5 Tr 3122-3126; Exhibits AA-19, AA-29, Schedule 1; AA-60; AA-62; and AA-63. Ann Arbor recommended that the Commission eliminate the residential line extension allowance completely and require new customers to pay the full costs of connection. 5 Tr 3129-3130. In the alternative, Ann Arbor suggested: (1) shortening the payback period from 20 years to 10 years, (2) requiring new customers to pay at least 75% of actual connection costs through CIACs, and (3) mandating annual CAP reports demonstrating whether revenues from new customer cohorts tracked modeled assumptions. 5 Tr 3130; Exhibit AA-65.

The Staff did not support DTE Gas's proposed capital expenditures for new market attachments, pointing out that the actual 2025 attachments were six percent below the company's projections and that only 1,629 of the 2,226 sign-ups for community expansion projects were achieved. 5 Tr 2544; Exhibit S-17.2. Additionally, while the Staff did not recommend specific adjustments to EUT, because of its recommendation for adjustments in CAP, EUT should be proportionally adjusted. The Staff ultimately recommended a disallowance of $9.471 million for the nine months ending September 30, 2026, and $11.216 million for the test year. Exhibit S-17.

Although it did not challenge a specific aspect of the CAP program, FLO noted that DTE Gas's projections for new connections were higher than they have been historically and rejected the explanation that the growth can be attributed to population growth. 5 Tr 2954-2956.

DTE Gas disagreed with the Staff's, the Attorney General's, Ann Arbor's, MEC's, and FLO's positions and defended its proposed expenditures as well as its projection methods. 2 Tr 346-379.

The ALJ agreed with the Staff's and intervenors' arguments that DTE Gas's forecasts are overstated and misaligned with historical trends. The ALJ found the Staff's forecast to be the most appropriate given the number of years used in the calculation and thus recommended the adoption of the Staff's forecast and the Staff's disallowances of $9.471 million for the nine months ending September 30, 2026, and $11.216 million for the test year. PFD, pp. 87-88. The ALJ then stated that he agreed with DTE Gas and the Staff that the record in this case does not support modification to the CAP program. However, he also agreed with MEC and Ann Arbor that the company had not complied with the Commission's directive in the November 7 order to justify its CAP methodology. Noting that DTE Gas disagreed that the Commission had directed it to redesign the CAP, the ALJ quoted the November 7 order:

> [t]herefore, in its next general rate case, DTE Gas shall provide a thorough justification for its CIAC and CAP methodology, including whether it is appropriate to revise its 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.

PFD, p. 88 (quoting November 7 order, p. 247). The ALJ found that the company had not justified the use of its unchanged CAP methodology in light of the changing customer usage landscape described by MEC. Thus, the ALJ recommended that the Commission direct DTE Gas to justify why the use of its CAP methodology is still appropriate. PFD, p. 88. As to the Peach Ridge AEP, the ALJ found MEC's position to be persuasive and recounted that the record shows that only 72%

of the potential attachments have been achieved, thus falling below the 80% threshold which formed the basis of the initial disallowance in the November 7 order. The ALJ did not see any change presented on this record that would warrant a deviation from the Commission's previous disallowance decision and therefore recommended that the Commission disallow $912,000 for the Peach Ridge AEP. PFD, pp. 88-89. Lastly, the ALJ agreed with MEC regarding the Austin and US-2 AEPs and that DTE Gas's forecast did not align with historical trends. Therefore, the ALJ recommended that the Commission adopt MEC's proposed disallowances of $3.064 million for the Austin AEP and $253,925 for the US-2 AEP, totaling $3.318 million for the test year. *Id*., p. 89.

Ann Arbor takes exception to the ALJ's failure to include a recommendation for consequences for DTE Gas's failure to comply with the Commission's directive in the November 7 order to justify its CIAC and CAP methodology. Ann Arbor's exceptions, pp. 1-2 (citing November 7 order, p. 247). Ann Arbor contends that a reasonable consequence would be to disallow the entire $262 million in new market attachments requested by DTE Gas. Ann Arbor recites the Commission's reasoning in the November 7 order to require further justification, emphasizing the Commission's concerns regarding potential shortfalls in recovery from CAP participants that the company explained would be covered by company's shareholders until it was included for recovery in a rate case. Ann Arbor's exceptions, pp. 2-3 (citing November 7 order, p. 246). Ann Arbor argues that in this case there is no reasonable basis on which to conclude that existing customers are not subsidizing DTE Gas's CIAC and CAP methodology. Ann Arbor then recalls its testimony that 94.4% of the cost of new service installations from 2021 through 2025 was added to rate base (i.e., not collected in CIAC from the newly connected customers), and that 68.6% of the cost of construction for 74 AEPs from 2024 to 2026 is included in rate base to be

recovered by all customers (i.e., not collected in CIAC from the new customers causing the costs). Ann Arbor's exceptions, p. 3 (citing 5 Tr 3119-3120). Ann Arbor contends that the company failed to meet its burden to prove that its new market attachment costs are reasonable and prudent and asks the Commission to disallow the full $262 million. *Id*., p. 3. Additionally, Ann Arbor asks the Commission to: (1) eliminate the line extension allowance so that new customers cover the full costs of connecting to the gas distribution system, and (2) require DTE Gas to file an annual report on the performance of the CAP, including actual versus projected consumption and revenue from CAP customers. *Id*., pp. 3-4.

In its exceptions, DTE Gas agrees with the ALJ's rejection of the disallowance proposed by Ann Arbor and the modifications to CAP but excepts to the ALJ's adoption of the Staff's proposed disallowance for 2026 and 2027 new market attachments, maintaining the disallowance for Peach Ridge, adoption of MEC's disallowances for the AEP projects, and finding that the company did not comply with the directive in Case No. U-21291. The company contends that the ALJ gave undue preference to backward-looking historical averages instead of crediting the company's detailed, forward-looking methodology; ignored the company's presentation of actual AEP performance data; and created an untenable distinction between explaining and justifying the CAP methodology. Taken together, DTE Gas argues that these findings undermine the Commission-approved CAP framework. DTE Gas's exceptions, pp. 36-37.

Beginning with new market attachments, DTE Gas repeats its proposed expenditures and support thereof, as well as the Staff's and intervenor's positions before stating that the ALJ erred by giving weight to the backward-looking historical average over the company's forward-looking forecast, which blends historical data with forward-looking customer sign-ups, housing starts, fuel prices, and community expansion construction timing. *Id*., pp. 38-39. The company argues that

its blended approach closely aligns with actual outcomes, whereas Global Insights' forecasts under predict actual new construction. Per DTE Gas, the ALJ did not address this or explain why a simple historical average is more reliable. *Id*., p. 39. Additionally, the company states that the ALJ's decision to cap attachments at 10,400 per year fails to account for the specific drivers identified in the company's 2026-2027 forecast. The company repeats its reasons for the increased expenditures for 2025-2027 for new market attachments as well as the AEP projects and insists that the Staff's three-year historical average ignores the existence of these projects and their customer demand. *Id*., p. 40. DTE Gas then argues that the Staff's reliance on 2025 as an indicator of 2026 and 2027 attachments is misplaced because lower 2025 attachments were the result of construction timing not a decline in customer demand. *Id*., pp. 40-41 (citing Exhibit S-17.2). Thus, DTE Gas maintains that its forecasts regarding customer demand are reliable and that the Staff's historical average "converts a temporary construction timing issue into a permanent reduction by failing to account for known project-specific circumstances affecting attachment timing." DTE Gas's exceptions, pp. 41-42. The company, therefore, asks the Commission to approve its capital expenditures of $81.977 million for the nine months ending September 30, 2026, and $97.298 million for the projected test year. DTE Gas's exceptions, pp. 41-42.

Turning to the CAP model, DTE Gas agrees with the ALJ's rejection of the modifications to CAP proposed by MEC and Ann Arbor as well as Ann Arbor's recommendation to eliminate the program entirely. However, the company excepts to the ALJ's finding that the company did not comply with the Commission's directive to justify its CAP methodology. DTE Gas's exceptions, p. 43. DTE Gas points out that in the November 7 order, the Commission did not direct the company to redesign CAP but required justification. DTE Gas insists it provided justification in this case and refers to its testimony regarding the underlying assumptions, the 20-year evaluation

period, consumption and adoption assumptions, how the company considers declining gas demand and the energy transition, customer adoption rates, and how subsidization by existing customers is avoided. *Id*., pp. 43-45 (citing 2 Tr 255, 259-267, 360-370, 373-377). The company explains that the lower number of completed customer attachments in 2025 were the result of delays in the projects, not a decline in customer demand and that the record in this case supports the company's use of project-specific forecasts coupled with sign-up data and forward-looking net-present-value (NPV) methodology to create a more accurate forecast. DTE Gas's exceptions, p. 45 (citing Exhibit S-17.2). DTE Gas contends that the ALJ did not address the company's evidence but merely found there was a need for further justification based on MEC's generalized claims of a changing customer landscape. The company contends that Exhibit S-17.2 shows that the actual customer commitments continue to support the company's attachment forecast. DTE Gas's exceptions, pp. 45-46.

DTE Gas then argues that in stating that the company explained its CAP methodology but did not justify it, the ALJ drew a distinction between explaining and justifying without identifying what additional evidence would have satisfied the justification requirement. DTE Gas's exceptions, p. 46. DTE Gas defends its explanation of why it used the assumptions that it did, why they remain appropriate, and why proposed alternatives would be inferior is sufficient and notes that the ALJ did not point to any specific deficit in the company's testimony. The company adds that the ALJ also ignored evidence that the current community expansion sign-ups exceeded the forecast which undercuts the assertion that changing customer conditions render the CAP methodology unjustified. Lastly, the company asserts that the ALJ's finding is inconsistent with his own conclusion that the record did not support modifying the established CAP. *Id*. Thus, the

company asks that the Commission find that DTE Gas complied with the directive in the November 7 order. *Id*.

As to the Austin, US-2 AEP, and Peach Ridge projects, the company excepts to the ALJ's recommended disallowances. For the Austin and US-2 AEPs, DTE Gas argues that the disallowance is based on MEC's selective, non-representative subset of historical data inclusive of ten AEP projects started in 2020 and exclusive of AEPs initiated after 2020. *Id*., p. 48 (citing 4 Tr 2039 and Exhibit A-49). The company states that it presented evidence of AEPs with higher levels of attachments, but MEC dismissed these as outliers, demonstrating its selective and arbitrary method. DTE Gas's exceptions, p. 49 (citing 4 Tr 2060). The company contends that its assumptions are supported by actual performance data, noting that for 2024, its actual performance represented 102% of its forecasted adoption target. DTE Gas's exceptions, p. 49 (citing 2 Tr 262). As to consumption, DTE Gas repeats that AEP customers are predominantly propane-to-gas conversions in older homes and therefore have higher usage than the system-wide residential average of 90 thousand cubic feet (Mcf). DTE Gas's exceptions, p. 49 (citing 2 Tr 255-256, 264-266).

DTE Gas adds that the disallowance is inconsistent with the record demonstrating that, for the Austin AEP, the project is exceeding its adoption targets, and, for the US-2 project, 220 customers signed up in the first year out of a potential of 266 customers. DTE Gas's exceptions, pp. 49-50. The company repeats that the disallowances are also inconsistent with the ALJ's finding that modifications to the CAP framework were not supported in that the company's proposed expenditures were supported by the Commission-approved CAP assumptions that the ALJ upheld. *Id*., p. 50. DTE Gas goes on to argue that there is no basis to treat MEC's assumptions for the Austin and US-2 AEPs on a project-specific basis while rejecting the CAP model generally. Per

DTE Gas, "[t]he inputs [MEC] uses to generate the Austin AEP and US-2 AEP disallowances are the same inputs that MEC and Ann Arbor urge the Commission to adopt system-wide for the CAP model, and that both the PFD and Staff reject." *Id*., p. 51.

As to the Peach Ridge disallowance, DTE Gas argues that the ALJ conflated two distinct metrics, namely the project's ultimate long-term subscription assumption and the interim adoption milestones that are used to assess whether the project is on track. *Id*. DTE Gas repeats its evidence that the Peach Ridge AEP reached approximately 97% of its year-two adoption forecast as of March 2026, with 357 customers having adopted service compared to a year-two target of 369. *Id*. (citing 2 Tr 263, 373). DTE Gas argues that the ALJ's focus on the 72% of total potential attachments is misleading because the project was approved with a multi-year adoption plan, meaning that performance should be evaluated against the applicable project-year adoption target, not the overall potential. DTE Gas's exceptions, p. 52. DTE Gas states that the 97% target in year two constitutes a change in circumstance warranting reversal of the prior $912,000 disallowance. *Id*.

Thus, the company asks the Commission to:

> (1) reject MEC-CUB's recommended disallowance of $3,063,821 for the Austin AEP and approve the Company's Austin AEP capital expenditures as filed;
> (2) reject MEC-CUB's recommended disallowance of $253,925 for the US[-]2 AEP and approve the Company's US-2 AEP capital expenditures as filed; and
> (3) reverse the prior $912,000 Peach Ridge AEP disallowance and approve the Company's Peach Ridge AEP capital expenditures as requested.

Id.

In replies to exceptions, Ann Arbor addresses DTE Gas's argument that the Commission's prior approval of the CAP methodology is evidence of the program's reasonableness and contends that for other areas of the PFD, the company makes the opposite argument. Ann Arbor's replies to exceptions, pp. 1-3. In response to DTE Gas's assertion that the ALJ did not explain what

additional evidence would constitute justification, Ann Arbor argues that the company's explanation of how the program is supposed to work is not a demonstration that it is working as intended and merely relies on conclusory statements without supporting evidence. *Id*., pp. 3-4. Next, Ann Arbor agrees with the company that the ALJ's finding that DTE Gas did not comply with the November 7 order is inconsistent with his finding that the program framework should not be altered but argues that the remedy should be modification to the CAP framework as Ann Arbor has proposed. *Id*., pp. 4-5.

In its replies to exceptions, the Staff asks the Commission to reject DTE Gas's arguments in exceptions. Responding to the company's statement that its projection methodology uses a forward-looking, more accurate approach and reference to its 2025 new construction attachments in support, the Staff contends this is misleading because construction attachments are only a portion of total attachments. The Staff repeats that company's total attachments for 2025 was approximately 6% less than its projection. Staff's replies to exceptions, p. 5 (citing 5 Tr 2544). The Staff also reemphasizes that it recognizes discrepancies may occur due to construction timing but that it is not persuaded that this differs from any other typical forecasted year where there would be some anticipated carryover of projects into the next year. Thus, the Staff asks the Commission to adopt the ALJ's recommended disallowance of $9.471 million for bridge year, and $11.216 million for the test year. Staff's replies to exceptions, p. 5.

In its replies to exceptions, FLO agrees with Ann Arbor's observation that the PFD does not include any consequence for DTE Gas's failure to comply with the November 7 order. Noting its previously stated concerns regarding the new markets attachment category, FLO requests that the Commission impose meaningful consequences as a result of the company's non-compliance. FLO's replies to exceptions, p. 9.

In its replies to exceptions, DTE Gas asks the Commission to reject Ann Arbor's arguments in exceptions that the ALJ's recommended disallowance was insufficient, the ALJ's recommendation for the company to justify its CAP methodology was not a meaningful consequence, and the Commission should eliminate the line extension allowance. DTE Gas calls Ann Arbor's position unprecedented and unsupported and contends that a full disallowance would prohibit the company from serving new customers. DTE Gas's replies to exceptions, pp. 12-13. DTE Gas states that Ann Arbor's objection to the ALJ's recommendation for justification of the CAP methodology is not a proper exception and that Ann Arbor's proposed remedy, a full disallowance, is untethered from the alleged deficiency and is inconsistent with ratemaking principles. *Id*., pp. 13-14. The company then argues that eliminating the line extension program would contradict longstanding Commission policy to support customer choice and access to natural gas service. *Id*., p. 14. Lastly, DTE Gas asks the Commission to reject Ann Arbor's reporting request because it is inconsistent with the CAP framework, would create a substantial administrative burden, and ignores the existing oversight over CAP performance provided through the Staff's annual review. Thus, the company asks the Commission to reject Ann Arbor's position and approve DTE Gas's $261.997 million in new market capital expenditures. *Id*., pp. 15-16.

In its replies to exceptions, MEC asks the Commission to adopt the ALJ's recommended disallowances for new market attachments because DTE Gas did not support its forecasted increase with substantial evidence. MEC recounts that the company did not substantively rebut the Staff's analysis of DTE Gas's projections and merely explained its forecast method and maintained it was appropriate. MEC's replies to exceptions, pp. 1-3. While DTE Gas argues in exceptions that credit should be given to its forward-looking methodology, MEC states that the Commission has recognized that a utility's historical experience (adjusted for inflation and known

and measurable changes) produces reliable estimations of test year expenditures. MEC recalls that projections have in the past been rejected in favor of historical amounts. *Id*., p. 4 (citing December 22, 2021 order in Case No. U-20963, pp. 9-10 and March 1, 2024 order in Case No. U-21389, pp. 5-6). Here, MEC contends that looking to historical averages is appropriate because the company's support for its projections fell short. Its discussion of housing starts, fuel prices, the data from Global Insight, and alignment of past forecasts with actual outcomes all relate to the new construction component, which is in decline, according to MEC. Further, MEC states that EUT attachments are not relevant to community expansion forecasts and DTE Gas's reliance on two AEP projects, which do not comprise enough attachments to justify the company's forecasted increase, also falls short. MEC's replies to exceptions, pp. 4-5.

Turning to CAP, MEC agrees with the ALJ that DTE Gas did not comply with the Commission's directive and repeats the parties' respective positions and the ALJ's findings. While DTE Gas argues in exceptions that it justified its methodology, MEC disagrees, stating that the company was not thorough in its justification of a business-as-usual approach and did not consider whether it was appropriate to revise any of its assumptions. MEC adds that DTE Gas asserted that its CAP customers live in older homes and have higher initial consumption than system-wide averages but that DTE Gas provided no data to support this. Noting that DTE Gas carries the burden of proof in this case, MEC asserts that the company failed to support its assumptions, did not evaluate the issues with its assumptions, and did not explain why it has not updated assumptions that are decades old. MEC's replies to exceptions, pp. 8-9. As to DTE Gas's claims that the ALJ was not specific in identifying what was lacking in the company's justification, MEC claims that the ALJ had provided pages of summary regarding the problems identified by MEC and Ann Arbor. *Id*., pp. 9-10. Lastly, while MEC agrees that the ALJ should

have recommended modifications to the CAP framework based on the deficiencies identified by MEC and Ann Arbor, it contends that contrary to DTE Gas's position in exceptions, the Commission should not consider the inconsistency in the ALJ's finding that the method is deficient but not recommending changes to be reason to find DTE Gas complied with the November 7 order. *Id*., p. 10.

With respect to the AEPs, MEC asks the Commission to adopt the ALJ's recommended disallowance. Responding to DTE Gas's assertion that MEC's 77% historical average was based on a select subset of 10 AEPs started in 2020, MEC counters that: (1) it also relied on 15 AEPs started in 2021, which had an even lower subscription level of 70%; (2) it also submitted data showing that 26 AEPs started from 2016 through 2019 (outside of the COVID-19 pandemic period) did not reach the 90% subscription level assumed in DTE Gas's model; (3) DTE Gas presented first year results of new AEPs that are not considered historical results and do not predict what subscription levels for those projects will be in five years; and (4) MEC did not dismiss new AEP data out of hand but instead reasoned that they are outliers because there were only a few of them and most AEP projects had smaller numbers of attachments. MEC's replies to exceptions, pp. 14-16.

MEC then refutes DTE Gas's reliance on AEPs started in 2024 where the company says it reached 102% of its forecasted adoption target and points out that the company's numbers reflect an interim target of 60% and the actual numbers represent only 61% of the total target. MEC then recounts that the Austin AEP is still only at 76% of its total potential, and while DTE Gas argues that the ALJ ignored the subscription levels for the Austin and US-2 AEPs, MEC points out that it reduced its proposed disallowance for US-2 to remove the component based on a 77% subscription level and retain only the component based on the 90 Mcf average usage assumption, which the

ALJ adopted. Thus, MEC finds it disconcerting that the company is arguing subscription numbers when the ALJ's disallowance is based on usage. *Id*., pp. 16-17. MEC again notes that DTE Gas claimed higher usage patterns for AEP customers without any evidentiary support. *Id*., p. 17. MEC also contends that DTE Gas mischaracterized MEC's testimony regarding usage of 121 Mcf for conversion customers and clarifies that it stated that this usage may be a defensible starting point, which does not equate to DTE Gas meeting its burden to prove its assumptions with evidence. *Id*., p. 18. MEC then repeats that it believes that its evidence supports modifying the CAP model in this case. *Id*.

Lastly, addressing the Peach Ridge AEP, MEC argues that it is unclear why DTE Gas believes that the Commission approved a multi-year adoption plan or a set of adoption targets when the Commission's only decision regarding the Peach Ridge targets was a disallowance in the November 7 order. *Id*., pp. 19-20. Further, MEC states that the record reflects that Peach Ridge subscriptions remained below the company's year-two interim attachment goal after two years and seven months and that its subscriptions have slowed to a crawl with only four customers signing up in the nine months between mid-2025 and late March 2026. *Id*., pp. 20-21 (citing 2 Tr 374). Thus, MEC asks the Commission to adopt the ALJ's disallowance. MEC's replies to exceptions, p. 21.

The Attorney General also responds to DTE Gas's exceptions, stating that the company merely repeated previously rebutted and addressed arguments and is abusing the projected test year framework with inflated projections. The Attorney General defends the ALJ's finding that DTE Gas's forecasts did not align with historical trends and maintains that her forecast was the most reasonable and accurate on the record. Stating that it was not clear why the ALJ recommended the Staff's disallowance when the Attorney General's used the same methodology

but with more recent data, the Attorney General asks the Commission to disallow $19.406 million for the bridge period and $13.870 million for the test year. Attorney General's replies to exceptions, pp. 15-16.

Having reviewed the record, the Commission finds that the ALJ's recommended disallowances for the two AEP projects, Austin and the US-2, for the bridge and test year as well as the $912,000 disallowance for the Peach Ridge AEP projects are well-reasoned and should be adopted. *See*, PFD, pp. 88-89. The Commission agrees with the ALJ's finding that the Austin and US-2 AEPs are unlikely to achieve the 90% enrollment claimed by the company and, based on historical attachments for other AEPs, are more likely to achieve the 77% amount. Further, the Commission agrees with the ALJ's finding that the usage purported by the company was unsupported and thus it is reasonable to adopt the disallowance proposed by MEC. *See*, 4 Tr 1995-1998; Exhibit MEC-17; MEC's initial brief, pp. 26-30.

As to the Peach Ridge project, while DTE gas claims that it has met 96% of its 2025 target, its total enrollment remains at 72% of the project's total potential with enrollments slowing to just 13 customers in the first half of 2025, and only 5 customers in the year previous. 4 Tr 1996-1998. Thus, the number of attachments and pace of enrollments has not advanced such that recovery of the previous disallowance is appropriate. The Commission maintains the $912,000 disallowance as recommended by the ALJ.

Turning to the new market attachments disallowance recommendation and the CAP specifically, the Commission agrees with the Staff and intervenors that DTE Gas has consistently overestimated the number of attachments in the CAP program and ongoing usage of the attached customers and finds that ALJ's disallowances of $9.471 million for the nine months ending September 30, 2026, and $11.216 million for the test year to be reasonable. *See*, PFD, pp. 87-88;

see also, 4 Tr 1981-1983; 5 Tr 2544-2546, 3119-3129, 3260; Exhibits S-17.2 and S-17.3; Exhibit MEC-9 Confidential; Exhibit AG-7 Confidential. The Commission continues to have concerns with the methodologies employed by DTE Gas for its new market attachments. As clearly demonstrated by the record in this case, the company has historically and repeatedly fallen short of the projected number of attachments it uses to calculate its CIAC and to recover the full costs of system expansion. While the company contends that its CAP methodology is designed to ensure that new attachments are funded by new customers and not subsidized by existing customers, the record demonstrates repeated instances of subsidization by existing customers. For example, Ann Arbor points out that 94.4% of the cost of new service installations from 2021 through 2025 was added to rate base (i.e., not collected in CIAC from the newly connected customers), and that 68.6% of the cost of construction for 74 AEPs from 2024 to 2026 is included in rate base to be recovered by all customers (i.e., not collected in CIAC from the new customers causing the costs). 5 Tr 3119-3120; Exhibit AA-59. While the company argues that the Staff and intervenors ignore its forward-looking evidence, DTE Gas fails to adequately support its forward-looking projections or rebut the evidence showing that for several years, the company has fallen short of the attachments it had previously projected with forward-looking evidence. Further, the company did not directly rebut the examples provided by Ann Arbor showing that existing customers funded over 68% of new expansion costs. *See*, 2 Tr 347-366.

The Commission also has doubts regarding the assumptions for gas usage and weather normalization used by the company in that there is wide disparity between the 100 Mcf (and 120 Mcf for the AEP projects) assumed by DTE Gas and the 80 Mcf shown to be the 2024 state average. The Commission does not see evidence that those consumption rates will remain at or above 100 Mcf for 20 years, particularly given trends in energy efficiency, electrification, and

warming weather which triggers a decline in heating degree days (HDDs). *See*, 4 Tr 1972, 1987-1989; 5 Tr 3122-3123; Exhibits AA-60, AA-61, and AA-62; Exhibit A-15. While DTE Gas states that CAP customers live in older homes with higher initial consumption usage and are unlikely to engage in further energy efficiency measures, the company provided no data to support this. As a result, there is no way to verify based on the evidence on the record in this case whether DTE Gas's assumptions are actually playing out.

Further, the Commission finds DTE Gas's use of consumption data last updated in 2010 and that is based on weather normalization data from 1995 to 2009, and the use of values for normal HDDs based on values from 1961 to 1990, is unjustified. Exhibits MEC-10 Confidential and MEC-11. DTE Gas does not rebut the criticisms of its use of such outdated data or attempt to justify it on this record—it merely states that the company does not have information regarding the reason for lack of updates since 2010. *See*, Exhibit MEC-10 Confidential. As such, the Commission agrees with the ALJ, that while DTE Gas provided an explanation of its methodology, it did not justify its continued reliance on outdated weather normalization data or adequately support its customer usage assumption data because it did not attempt to explain why decades old weather normalization data is more reliable than data from recent years or how the data for CAP customers supports its customer usage assumptions. The Commission agrees with the ALJ that there is a difference between an explanation and a justification. An explanation only shows how, while a justification shows that something is right, fair, or acceptable. When the Commission asked for justification in the November 7 order, it was asking for more than just the how, which is what DTE Gas supplied in this case.

In the November 7 order, the Commission similarly found that DTE Gas's projections in new customer attachments overstated the actuals and expressed similar concerns regarding DTE Gas's

assumptions, recognizing that these shortfalls in projections lead to shortfalls in recovery from CAP customers that is then recovered in rate base. November 7 order, p. 247. The Commission finds that further steps are warranted to ensure that DTE Gas, not existing ratepayers, bears responsibility for any amounts attributed to new attachments that are not recovered because of shortfalls resulting from DTE Gas's current methodology.

First, the Commission agrees with Ann Arbors's recommendation for DTE Gas to file an annual report regarding the new market attachment program. Specifically, the report shall include details regarding CAP performance going forward, including comparisons of actual versus projected usage and revenues. The report shall be filed in a new docket that may then be used for all future annual filings of the new market attachments report. The first report shall be due no later than October 1, 2027, and shall be filed on October 1 each year thereafter. Additionally, in any future rate case in which DTE Gas seeks to include new market attachment capital in rate base, it shall present the data of the actual amounts of attachments achieved for each year, the usage data for new attachments, the complete costs of all line extension and new attachment projects, and the revenues collected from those new customers. It is clear from this case (where the company's assumptions are again showing overstated attachments in comparison to what the company has historically achieved) that better, more accurate, information and data based on actual performance is required from the company to justify recovery in rate base. As the Commission pointed out, DTE Gas is making assumptions about customer usage without tracking usage data specific to CAP customers, thus making it impossible to verify the veracity of its assumptions. The purpose of collecting this data in the report described above and including it with any future cost recovery request is to enable the Commission to determine whether the company is on track to recover the full projected amount for the project under the applied CIAC charge and revenue from the

attachment. The company is in a unique position to be able to provide this information and shall do so in support of any further capital expenditure request.

While MEC and Ann Arbor make numerous compelling arguments for recommended changes to the CAP methodology, the Commission finds that the assumptions employed in DTE Gas's CAP methodology should be grounded in actual data from current DTE Gas customers when possible. While the Commission acknowledges that DTE Gas has utilized the same methodology for quite some time, the Commission finds merit in the arguments supporting revisions to the assumed usage per newly attaching customer in DTE Gas's CAP methodology. The Commission finds the assumed usage for attaching customers should be updated to be at or below the average of the last five years' DTE Gas actual usage per customer class as reported by DTE Gas to the Commission on its P-522 forms in order to support future requests for cost recovery for new market attachments. Natural gas usage per customer is expected to decrease over time as energy waste reduction (EWR) programs and higher efficiency ratings of new household appliances lead to efficiency improvements; therefore, a downward adjustment to the actual five-year average may be warranted for future projections of usage. Utilizing an average of actual per-customer use over the last five years should sufficiently capture weather variability, align with current weather and customer usage trends, and specifically align with the usage of customers in DTE Gas's service territory. Should DTE Gas choose to utilize alternative assumptions for customer usage in future cost recovery requests for new market attachments, DTE Gas is cautioned that it should provide a rigorous justification with evidence supporting any assumption that exceeds that of the average DTE Gas usage per customer over the last five years.

The Commission likewise finds merit in the arguments that a payback period of 20 years may be too long. Going forward, future requests for cost recovery should be supported by evidence

including the weighted average life of natural gas household appliances installed by newly attaching customers. The company is free to propose an alternative payback period with thorough justification supported by record evidence. The Commission finds that updating assumptions utilized in the CAP methodology to more closely align with recent data for customers in DTE Gas's service territory will help to ensure that newly attaching customers are paying appropriate costs to attach to the system.

2. Routine Storage

a. Columbus 23 Upgrade Project

DTE Gas projected $2.3 million in capital expenditures for the Columbus 23 facility upgrade project (Columbus 23 project) between January 1, 2025, and September 30, 2027, and explained that the project was necessary to replace aging processing equipment that lacked adequate liquid-handling capability and relied on unsealed atmospheric tanks, which had caused benzene, toluene, ethylbenzene, and xylene emissions and recurring odor complaints. Per the company, the upgrade would improve liquid containment, reduce odors, support environmental compliance, and maintain necessary pressure within the Columbus 23 reef and is necessary to maintain reservoir integrity in the Columbus 23 incipient reef. 3 Tr 1523-1525.

The Attorney General contended that the project is in the early stages of planning and is premature for inclusion in rate base and recommended a disallowance of $2.3 million for the projected test year. 5 Tr 3267-3268; Exhibit AG-12. DTE Gas disagreed with the Attorney General and argued that the project used a two-year cycle for the first phase, with engineering and design planned for the first year and construction in the second and was on schedule to be placed in service in the test year. 3 Tr 1582-1583.

The ALJ stated that the timing of this project was at issue, not the necessity, and pointed out that DTE Gas did not dispute that the design for the project had not been completed. The ALJ recalled the company's assertion in its reply brief that the project would be in service in the test year and the Attorney General's responsive argument that the Commission has previously found that projects must be advanced with clear timelines to be included in rate base. PFD, pp. 92-93 (citing DTE Gas's reply brief, pp. 23-24; Attorney General's reply brief, p. 12). The ALJ found the Attorney General's position to be persuasive and reasoned that because design had not been completed, the project is premature. The ALJ thus recommended a disallowance of $2.3 million for the test year. PFD, p. 93.

DTE Gas takes exception to all three of the ALJ's recommended disallowances in the Routine Gas Storage category and disagrees that any of the projects are premature for inclusion in rate base. DTE Gas's exceptions, p. 53. The company argues that the ALJ acknowledged that the need for any of the projects is not in dispute. *Id*., pp. 55-56. Addressing the Columbus 23 project, the company argues that the ALJ's finding of prematurity applies a standard that is inconsistent with the projected test year framework and the company's two-year project lifecycle for routine capital projects. DTE Gas repeats its position that the standard to be applied is whether the capital expenditures are reasonably expected to be incurred during the projected test year and whether the supporting scope and cost estimates are reasonably supported by the record, not whether every project has completed detailed design at the time of the rate case filing. *Id*., pp. 53-54. DTE Gas states that the Columbus 23 project will enter the engineering design phase in the second quarter of 2026 and begin construction in March 2027. Additionally, the company restates that it has ordered long-lead materials and has completed a compressor overhaul on this same engine, giving it a detailed understanding of the work required. *Id*., p. 54.

For each of the projects, the company argues that the ALJ erred by not giving adequate weight to the company's demonstration of the projects' need, timing, operational risk, in-service dates, cost support, and maturity with project-specific evidence showing that each is a targeted, risk-based storage investment. In contrast, the Attorney General did not consider equipment age, condition, failure history, or regulatory requirements associated with the three projects and did not apply quantitative or qualitative thresholds for engineering completion, bidding status, or cost definition, per DTE Gas. *Id*., pp. 56-57. DTE Gas asks the Commission to reject the ALJ's adoption of the Attorney General's categorical objection to all three routine gas storage projects.

In replies to exceptions, the Attorney General addresses all three routine gas storage projects together and argues that DTE Gas presented nothing new in its exceptions but merely repeated arguments that had been rebutted and addressed by the ALJ. The Attorney General then contends that DTE Gas's assertion that the ALJ did not identify any basis for finding that the projects are unnecessary or imprudent is misleading. Per the Attorney General:

> [b]y definition, DTE's use of a projected test year delves into speculation and the Company has not supported that these projects will be completed during the test year, so the notion that the AG or PFD suggest the projects should be deferred is erroneous and a red herring. Relatedly, neither the AG nor the ALJ made a full analysis of the reasonableness or prudence of the projects themselves; it is too early in the process to even do so, so contrary to DTE's assertion there was no conclusion put forth that the projects were unreasonable or imprudent.

Attorney General's replies to exceptions, p. 17. She adds that the ALJ properly considered the evidence and contends that DTE Gas continues to "push the envelope" of the projected test year to the detriment of its customers. *Id*. Pointing to DTE Gas's admission that the design is not complete and competitive bidding has not yet taken place, the Attorney General reasserts that these projects are premature and lack support and should be excluded from rate base. *Id*., pp. 17-18.

Finding the ALJ's recommendation to be well-reasoned and supported by the record, the Commission adopts the ALJ's recommended disallowance of $2.3 million for the projected test year. While the company depends on arguments that routine projects are subject to a two-year cycle in which projects are engineered and designed in the first year and then constructed in the next, the Commission agrees with the Attorney General that the Columbus 23 project is in such early stages that its certainty within the test year is reasonably called into question. Indeed, the company testified that the engineering design was expected to begin in the second quarter of 2026, not that it had already started or was already underway. *See*, 3 Tr 1583; Exhibit A-41, Schedule EE2. Thus, the Commission agrees that a disallowance is appropriate.

b. Belle River Mills Z5

Per the company, the Belle River Mills Z5 engine overhaul and compressor overhaul involves a full refurbishment of the Cooper Z330 Unit #5 at the Belle River Compressor Station and is required because the unit would exceed the manufacturer's 25,000-hour overhaul interval and because greenhouse gas regulations mandated rod-packing replacement every 26,000 hours or 36 months. 3 Tr 1529. DTE Gas projected $6.1 million in capital costs for the project from 2025 through the end of the projected test year. 3 Tr 1531; Exhibit A-12, Schedule B5.5. The Attorney General contended that the project is in the early planning and scoping phases and is premature for inclusion in rate base. The Attorney General thus proposed a full disallowance. 5 Tr 3268-3269; Exhibit AG-12.

DTE Gas disagreed with the Attorney General's characterization and proposed disallowance and argued that work was progressing on the project and that the project's timeline indicated that it would be complete in March 2027. 3 Tr 1584.

The ALJ agreed with the Attorney General's position and reasoned that, while DTE Gas stated that materials have already been ordered, the design of the project has not been completed and bidding for the projects has not been done. The ALJ acknowledged the company's assertion that the engine and compressor are approaching the hours of run time where the manufacturer recommends an overhaul but again noted that no design or bidding has been completed. Finding the project to be premature for inclusion in rate base, the ALJ recommended that the Commission adopt the Attorney General's proposed disallowance of $6.1 million for the projected test year. PFD, p. 96.

As noted above, DTE Gas addresses all three routine gas storage projects together in its exceptions, so the exceptions described above in the Columbus 23 facility upgrade subsection applying to all three projects are incorporated here. *See*, DTE Gas's exceptions, pp. 52-57. As it applies specifically to the Belle River Mills Z5 project, DTE Gas excepts to the ALJ's disallowance and argues that the project design will be completed early in 2027, construction will begin in March 2027, and the project will be in service in the test year. *Id*., p. 55. The company adds that it has ordered long-lead materials representing more than half the project's total cost and because of previous work on an engine and compressor overhaul, DTE Gas has a detailed understanding of the work required. *Id*. DTE Gas restates that the project is needed to perform a manufacturer recommended maintenance overhaul because the unit will exceed the recommended 25,000 hours of run time during the test year and operating beyond that number of hours increases the risk of mechanical failures and extended outages. Per the company, such outages would impair the company's ability to reliably provide gas to customers from storage, notably during peak demand. *Id*., p. 56 (citing 3 Tr 1530-1531, 1584). For these reasons and the ones described

above, the company asks the Commission to approve the company's proposed expenditures for the Belle River Mills Z5 project as filed. DTE Gas's exceptions, p. 57.

The Attorney General addresses the Belle River Mills Z5 project together with the two other routine gas storage projects in her replies to exceptions, as indicated above. *See*, Attorney General's replies to exceptions, pp. 16-18.

Finding the ALJ's recommendation to be well-reasoned and supported by the record, the Commission adopts the PFD regarding the Belle River Mills Z5 project. *See*, PFD, p. 96. Similar to the Columbus 23 project, the Commission agrees that the company has not shown that this project has advanced enough to demonstrate that including the project in rate base is reasonable at this time.

c. Belle River Mills #8

DTE Gas explained that the Belle River Unit #8 Turbine Engine Exchange project replaces the Solar Turbines Taurus 70 engine at the Belle River Compressor Station to preserve reliable injection and withdrawal operations, replaces aging control systems, and adds an electric seal boost pump to support safer turbine shutdowns. The company projected expenditures of $6 million for 2025 through the end of the test year. 3 Tr 1531-1534; Exhibit A-12, Schedule B5.5. Contending that the project is in the early stages of planning and scoping and premature for inclusion in rate base, the Attorney General recommended a full disallowance. 5 Tr 3269; Exhibit AG-12. DTE Gas rebutted that it had already completed detailed planning and scoping work, ordered long-lead materials, and that the project's timeline indicated completion in March 2027. 3 Tr 1584.

The ALJ found the Attorney General's arguments persuasive and noted that the record indicates that the project does not have design completed and is still in the planning and scoping

phase. Noting that the dispute centers on the timing of this project, not the necessity, the ALJ again agreed that the project is premature and recommended a disallowance of $6 million in the test year. PFD, p. 99.

As noted above, DTE Gas addresses all three routine gas storage projects together in its exceptions, so the exceptions described above in the Columbus 23 project subsection applying to all three projects are incorporated here. *See*, DTE Gas's exceptions, pp. 52-57. As it applies to Belle River Mills Unit #8 project only, DTE Gas explains that this project is necessary to perform a manufacturer-recommended turbine exchange for a turbine unit that is needed to move gas in and out of the company's Belle River, Columbus, and West Columbus fields. DTE Gas adds that the unit will exceed the recommended 30,000 hours of run-time during the test year, and operating beyond that threshold increases the risk of forced outages during peak injection or withdrawal seasons. Turbine failure before replacement would result in an additional 30% charge by the manufacturer to exchange the failed engine, per DTE Gas. *Id*., p. 56 (citing 3 Tr 1531-1533). For these reasons and the ones described above, the company asks the Commission to approve the company's expenditures for the Belle River Mills Unit #8 project as filed. DTE Gas's exceptions, p. 57.

The Attorney General addresses the Belle River Unit #8 project together with the two other routine gas storage projects in her replies to exceptions, as indicated above. *See*, Attorney General's replies to exceptions, pp. 16-18.

Finding the ALJ's recommendation to be well-reasoned and supported by the record, the Commission adopts the PFD regarding the Belle River Unit #8 project. *See*, PFD, p. 99. Similar to the Columbus 23 project and the Belle River Mills Z5 project, the Commission agrees that the

company has not shown that this project has advanced enough such that it is reasonable to include the expenditures for this project in rate base at this time.

3. General

a. Northern Operations Resource Center

DTE Gas explained that the Northern Operations Resource Center (NORC) expansion and renovation project is to address the inadequacy of facility's space, functionality, and infrastructure and involves modernizing and expanding the current building and constructing a separate facility on newly acquired land. 3 Tr 1540-1541. The company projected $4.9 million in capital expenditures for January 1, 2025, through September 30, 2027. 3 Tr 1542; Exhibit A-12, Schedule B5.5. The Attorney General recalled that DTE Gas explained that the NORC project was necessary because these inadequate facilities in Northern Michigan forced newer employees who need more training and new equipment to travel elsewhere for instruction. However, the Attorney General contended that those needs were not unique to Northern Michigan, the company had not completed a BCA for the project, and that the project was still in the planning and scoping phase. 5 Tr 3270-3271; Exhibit AG-13. Citing the lack of justification and a failure to explore alternatives as well as the prematurity of the project, the Attorney General recommended a disallowance of $1.125 million for the nine months ending September 2026 and $3.750 million for the projected test year. 5 Tr 3272.

DTE Gas disagreed with the Attorney General's disallowance and contended that the Attorney General had overlooked the practical realities of operating in Northern Michigan and that reliance on distant facilities would not reasonably meet the company's frequent and recurring training needs. DTE Gas also disputed the need for a BCA and explained that the project remained in the

planning and scoping phase and that, because the project would not be placed in service during the test year, it would not impact base rates until it entered service in 2028. 3 Tr 1587.

The ALJ found the Attorney General's position to be persuasive. While DTE Gas argued that a BCA would bias the company towards reactive rather than proactive infrastructure investment, the ALJ disagreed. Per the ALJ,

> [t]he timing of the request for funds and the timing of the start of a project are within the control of the Company. Requesting an economic justification such as a [BCA] after the Company has unilaterally decided to undertake a project does not bias the Company towards reactive infrastructure investment.

PFD, p. 103. The ALJ found merit in the Attorney General's points regarding some training already being conducted in Northern Michigan and the existence of other training facilities. The ALJ stated that while some training requires travel to different locations, there is no indication that the company's proposed NORC project would reduce the costs for such. Thus, the ALJ agreed with the Attorney General that the company had not justified the NORC project expenditure and recommended a disallowance of $1.125 million for the nine months ending September 2026 and $3.750 million for the projected test year. *Id*.

In exceptions, DTE Gas contends that the ALJ's conclusion that resources and facilities exist for some training does not address the evidence showing that the existing NORC facility is undersized, functionally constrained, and cannot cost-effectively meet the needs of the Northern Training and Northern Construction teams. DTE Gas's exceptions, pp. 60-61. The company contends that its proposed project addresses these operational deficiencies and points out that the Attorney General provided no evidence that the current facility can meet future training requirements without expansion, no analysis of the operational, and no cost implications of requiring frequent travel to downstate training facilities. Additionally, DTE Gas states that because the NORC project will not be in service until the end of 2028, the routine capital

expenditures for this project are not included in base rates and do not contribute to the revenue deficiency. *Id*., p. 61. The company asserts that the ALJ's disallowance makes an adverse prudence determination on a project, the costs for which will not be recovered until a future proceeding. Per DTE Gas, such a determination is not necessary to resolve the revenue requirement in this case and improperly constrains the company's ability to solve the operational constraints in Northern Michigan. *Id*., pp. 61-62. DTE Gas also excepts to any endorsement by the ALJ for a formal BCA as a prerequisite to future cost recovery as the company argues it would impose an unnecessary evidentiary burden beyond the reasonableness and prudence standard. *Id*., p. 62.

In her replies to exceptions, the Attorney General addresses the NORC and Michigan Avenue Service Center together. The Attorney General contends that DTE Gas's exceptions are a recitation of previously stated arguments that were rebutted and addressed by the ALJ. The Attorney General defends the ALJ's consideration of the record and argues that the company's opposition to a BCA demonstrates its resistance to transparency. The Attorney General repeats her position that the company's projections are speculative and inaccurate and that the projects are premature for inclusion in rate base. Thus, she requests that the Commission adopt the PFD. Attorney General's replies to exceptions, pp. 18-19.

Finding the ALJ's recommendation to be well-reasoned and supported by the record, the Commission adopts the ALJ's recommended disallowance of $1.125 million for the nine months ended September 2026 and $3.750 million for the projected test year. The Commission finds this disallowance to be appropriate given that the project is in the early stages of planning and scoping and is therefore premature for inclusion in rate base. *See*, Exhibit AG-13. While a disallowance is reasonable on that basis, the Commission also finds that the justification for the project is also

lacking. DTE Gas claims that completing NORC renovation and expansion will eliminate the need for employees to travel to Detroit to complete the required training but offered no explanation of why such travel has become so burdensome or costly in terms of the number of employees making these trips, the frequency of this travel, or the costs to the company. This indicates first that the Detroit location has facilities to fully meet the company's training needs and, second, that the company has not explored whether the costs of this travel are significant enough to justify the NORC renovation. The Commission understands the importance of having facilities that enable proper and thorough training. While not requiring a full, formal BCA, given this importance, the Commission expects that, in a future case seeking recovery, that the company will better support any request with quantified costs of maintaining the status quo as well as the quantified operational and efficiency benefits the company claims the NORC renovation and expansion will bring.

b. Michigan Avenue Service Center

DTE Gas explained that the Michigan Avenue Service Center consisted of a full renovation of the facility to modernize the facility, address hazardous materials, and reorganize the interior space to support operational workflows. The company contended that the project is necessary because the facility in its current state does not support efficient operations and poses potential safety risks. The company proposed $5.0 million in capital expenditures for the project from January 1, 2025, through September 30, 2027. 3 Tr 1543-1545; Exhibit A-12, Schedule B5.5. The Attorney General argued that DTE Gas had not justified the expenditures for the renovation project because, when asked to identify specific problems with the building necessitating a major renovation, the company pointed to HVAC and plumbing issues and a list of requested repairs that the Attorney General characterized as routine maintenance. The Attorney General disagreed that the

company's identified issues justified a full renovation, particularly since a BCA was not performed. 5 Tr 3272-3273; Exhibit AG-13. The Attorney General added that the project is in the planning and scoping phase, making it premature for inclusion in rate base, and thus, proposed a full disallowance of $200,000 for the nine months ending September 2026 and $4.8 million for the test year. 5 Tr 3274.

DTE Gas disagreed with the proposed disallowance and argued that the Attorney General misunderstood the condition of the facility and that the list of identified issues with the building indicated a broad deterioration rather than typical maintenance needs. The company argued that continued patch-work repairs were not cost effective or sustainable and also disputed the Attorney General's reliance on the Facilities Condition Index and Current Replacement Value, calling it misplaced. DTE Gas maintained that it had fully justified the renovation. 3 Tr 1588-1589.

The ALJ agreed with DTE Gas that the renovation project was necessary and that a full renovation would more cost-effectively address the identified building problems than continued piecemeal repairs. However, the ALJ agreed with the Attorney General regarding the timing of the project and found that the project, being in the planning and scoping phase, was premature for inclusion in rate base. Thus, the ALJ recommended a disallowance of $200,000 for the nine months ending September 2026 and $4.8 million for the test year. PFD, p. 108.

DTE Gas takes exception, arguing that the ALJ improperly gave dispositive weight to the project's developmental status while disregarding evidence regarding the project's timing and maturity showing that the project is not speculative. DTE Gas explains that the project is currently in the planning and scoping phase with the engineering design to be completed at the end of 2026, contractor bid pricing will be requested in the first quarter of 2027, and the project is expected to be completed at the end of September 2027. *Id*., pp. 62-63 (citing Exhibit AG-14). The company

argues that under the projected test year framework, projects are often in the planning, scoping, or engineering design phase at the time of filing but can still reasonably be expected to be in service in the test year. Further, DTE Gas notes that the ALJ's findings indicate that the Michigan Avenue Service Center project is necessary and more efficient than piecemeal repairs. The company asks that, given this necessity, the Commission approve the expenditure, even though the detailed design of the project was not complete at the time of filing. DTE Gas's exceptions, p. 63.

The Attorney General addresses the NORC and Michigan Avenue Service Center together in her replies to exceptions, as noted above. *See*, Attorney General's replies to exceptions, pp. 18-19.

The Commission finds the ALJ's recommendation for the Michigan Avenue Service Center to be well-reasoned and supported by the record. *See*, PFD, p. 108. The Commission agrees that the project is in such early stages that there is not a reasonable level of certainty as to what the actual costs will be. *See*, 5 Tr 3274. While the Commission agrees with DTE Gas that full engineering design completion is not necessary for cost recovery approval, the Commission needs sufficient evidence presented on the record to give it confidence that the project will be completed as requested. Thus, the Commission agrees with the ALJ's recommended disallowance as the project is premature for inclusion in rate base.

c. Fleet

DTE Gas included $37.1 million in projected Transportation Vehicle and Equipment capital expenditures in this case for the January 1, 2025 through September 30, 2027 period, for the replacement and purchase of vehicles used in day-to-day operations, including light-duty and heavy-duty vehicles, bore rigs, backhoes, and trailers used to transport equipment. 3 Tr 1548; Exhibit A-12, Schedule B5.1, p. 2, line 25. Taking issue with alleged unjustified early retirements not in alignment with the company's historical retirement practices, along with associated costs

and potential savings for the company to meaningfully explore, the Attorney General and MEC recommended: (1) a disallowance of $17.9 million in capital expenditures for the period of January 1, 2026 through September 30, 2027, and (2) that the company be required to perform a comprehensive waste idling analysis and a comprehensive, regularly updated fleet-electrification plan that includes a total cost of ownership analysis in its next rate case. 5 Tr 3200-3224; Exhibit AG-CUB-14; Attorney General's initial brief, pp. 166-173; Attorney General's reply brief, pp. 15-16; MEC's initial brief, pp. 48-59; MEC's reply brief, pp. 10-13. DTE Gas disagreed, arguing that the Attorney General and MEC's recommendations rely on generalized averages and policy preferences not reflecting real-world field conditions and extend beyond the scope of this case, as opposed to the established reasonableness and prudence standard of vehicle replacement that the company applied using vehicle-specific, condition-based planning evidence that the company asserted is not based on a systemic shortening of useful lives just for capital spending purposes. 3 Tr 1590-1594; DTE Gas's initial brief, pp. 40-42; DTE Gas's reply brief, pp. 29-32.

Persuaded that DTE Gas is retiring vehicles earlier than historical averages without sufficient justification and that the company has not shown that accelerating vehicle retirements is more cost effective than keeping those vehicles already in service (when considering depreciation costs compared to maintenance and repair costs), the ALJ recommended that the Commission adopt the Attorney General and MEC's proposed disallowance of $17.9 million for the period of January 1, 2026 through September 30, 2027. Finding the Attorney General and MEC's argument about reductions in idling translating into the potential for significant cost savings also well taken, the ALJ was further persuaded by their recommendation for DTE Gas to examine the company's idling practices to determine if cost savings are indeed available and thus recommended that the Commission order DTE Gas to conduct a comprehensive vehicle idling study and for the company

to present the results of that study to the Commission. The ALJ did not, however, recommend that the Commission require the company to conduct a fleet electrification study, finding that the company has already examined the use of EVs and found them impractical for daily utility work given range limitations in winter weather conditions. PFD, pp. 120-122.

Albeit agreeing with the ALJ's recommendations as to the capital expenditure disallowance and for the company to complete a comprehensive fleet idling study, the Attorney General nevertheless objects and asserts error with regard to the ALJ's reliance in recommending that her proposed formal fleet electrification study be rejected. Chiefly, the Attorney General argues that "the evidence of DTE's due diligence on this topic, which the ALJ relied upon to reach his conclusion, is insufficient to show that DTE has made a rigorous attempt at examining the use of electric vehicles within its fleet and the cost-benefit scenarios related to such a program." Attorney General's exceptions, p. 6. In this vein, the Attorney General contends that the company's testimony (that the company considered two types of EVs for its fleet but found winter weather limited range to a point that made them impractical for daily utility work) is "not reflective of a rigorous study that examines the state of the technology, different vehicle types, or potential benefits of integrating some level of electric vehicles into DTE's fleet on a consistent basis." *Id*., pp. 6-7. Further, the Attorney General argues that:

> [t]he fact that DTE may need to hire an external consultant to conduct such a study should not be disqualifying for the undertaking, as DTE has presented no evidence as to what such a consultant or firm might cost. In addition, DTE's stance that its fleet investment decisions must be grounded in prudency and operational reliability, not in prescribed study requirements that do not reflect real-world field conditions ignores the fact that any rigorous study would include and reflect real-world field conditions of DTE's service territory and different vehicle types. The ALJ's recommendation improperly relied upon anecdotal evidence from DTE, based upon only two vehicle types. Requiring DTE to put forward a more comprehensive analysis of fleet electrification would be illuminating for the Commission, [interested persons], and DTE's customers and provide a better framework for DTE to understand its own transportation fleet.

Id., p. 7 (footnotes omitted).

DTE Gas, on the other hand, objects to the ALJ's recommended disallowance and the recommendation for the company to conduct a comprehensive vehicle idling study, arguing that "[t]he PFD's adoption of [MEC] and the AG's disallowance rests on a fundamentally flawed methodology that the record does not support, and the idling study directive imposes a forward-looking policy obligation that is unrelated to a prudence determination within the current rate case." DTE Gas's exceptions, p. 65. In greater detail, DTE Gas asserts that MEC's proposed disallowance rests entirely on a fleet-wide statistical analysis that "treats the Company's heterogeneous fleet as a uniform group and relies on generalized assumptions about retirement timing rather than examining specific vehicles, vehicle classes, or conditions that would support extended service life." *Id*., pp. 65-66. To the contrary, DTE Gas states that its fleet encompasses several different types of assets and that replacements for these assets "are determined by each asset's duty cycle and remaining life, not by a homogenous fleet-wide target age." *Id*., p. 66. The company asserts that MEC "does not identify any specific vehicle or vehicle class where retirement occurs imprudently early . . . [n]or does [it] present any actual mileage data or evidence demonstrating that operating vehicles significantly beyond their assessed useful life is consistent with safe and reliable utility operations." *Id*. DTE Gas contends that the ALJ did not address these deficiencies in MEC's methodology and instead gave credit to MEC's assertion about replacement aligning with recent years. Per the company, however, "[t]his assertion . . . does not address [company] witness Jackson's unrebutted testimony that the fleet's heterogeneity, including differences in duty cycles, operating conditions, and remaining useful life across vehicle classes, requires a vehicle-specific, condition-based analysis rather than a statistical overlay applied to the fleet as a whole." *Id*. (citing 3 Tr 1591-1592).

On this, DTE Gas further argues that the ALJ erred in treating recent historical retirement timing (2022-2025 in this situation) as the presumptive prudence benchmark, thus applying a backward-looking statistical standard rather than a reasonable and prudence standard. Per the company, "[t]he prudence inquiry is not whether the Company's forecast precisely replicates recent historical averages—it is whether the Company's projected investments are reasonable in light of the operational requirements and asset conditions facing the Company during the Projected Test Period." DTE Gas's exceptions, p. 67. The company further contends that the ALJ's finding that DTE Gas is accelerating vehicle retirements is at odds with the uncontroverted evidence that its proposed capital expenditures here are approximately $2 million per year lower than the 2022-2024 three-year historical average of $15.7 million. DTE Gas states that:

> [i]f the Company were systematically accelerating fleet turnover to increase capital spending, as the AG suggests and the PFD credits (PFD, pp 120–21), one would expect projected spending to exceed, not fall below, historical levels. The PFD does not reconcile its finding of "accelerated" retirement with this undisputed downward spending trend, nor does it address the AG's unsupported and inflammatory accusation that "the logical conclusion is that [DTE] is capitalizing additional expenditures and gets to put those amounts into rate base" (PFD, pp 120–21, quoting AG Reply Brief at 15–16). The AG offers no evidence of improper motive, and the record evidence directly contradicts the premise of that assertion.

DTE Gas's exceptions, p. 67 (second alteration in exceptions).

DTE Gas further argues that the ALJ dismissed the company's vehicle-class-specific evidence without adequate engagement, notably as it relates to cargo vans being "the single largest vehicle class in the Company's fleet and that the average replacement for cargo vans will occur approximately 4.1 years past useful life for 2026/2027, well within the historical range of three to nearly six years past useful life that the Company has maintained for this class." *Id*. Per DTE Gas, MEC dismissed this evidence as not particularly informative and the ALJ did not explain why this data should be set aside in favor of aggregate data. In this vein, DTE Gas contends that, "[i]f

replacement timing for the Company's largest vehicle class is consistent with historical practice, then any observed fleet-wide acceleration must be concentrated in other classes, yet neither [MEC] witness Woolley nor [MEC] identifies which classes or vehicles are allegedly being retired imprudently early." *Id*., p. 68.

While DTE Gas acknowledges its burden to support its requested expenditures, it asserts that this burden does not allow the Commission to adopt a proposed intervenor disallowance that is "untethered to specific assets, vehicle classes, or record evidence showing that continued operation would be safe, reliable, and cost-effective." *Id*. The company argues that, in contrast to the insubstantial evidence provided by MEC that does not support the magnitude of MEC and the ALJ's recommended disallowance, DTE Gas presented detailed, unrebutted testimony regarding deployment of vehicles and resulting significant wear and tear that "accelerates mechanical degradation and shortens vehicles' practical service lives." *Id*. (citing 3 Tr 1590-1592 and DTE Gas's initial brief, p. 41).

Lastly, DTE Gas objects to the requirement to conduct a comprehensive vehicle idling study. Per the company:

> [t]he record demonstrates that DTE Gas already employs telematics tools that actively monitor idling behavior across its fleet, including which vehicles are idling, for how long, and at what locations, and that the Company uses this information to coach employees on reducing unnecessary idling (DTE Gas Reply Brief at 31–32; DTE Gas Initial Brief at 41–42; 3T 1592–93). The PFD's reliance on the 45-minute idling threshold (PFD, pp 121–22) presents an incomplete picture of the Company's monitoring practices and fails to account for the operational realities that require fleet vehicles to idle on job sites to power tools, equipment, and heaters or to remain positioned for rapid emergency response, limitations that cannot be eliminated through additional studies (DTE Gas Initial Brief at 42; 3T 1593).

DTE Gas's exceptions, pp. 68-69. DTE Gas further states that MEC's claimed idling savings are merely illustrative, arguing that "[a] generalized possibility of savings is not sufficient to impose a

comprehensive new study obligation in this rate case." *Id*., p. 69. Moreover, this idling study recommendation is "a forward-looking study and planning obligation on the Company that extends beyond the scope of this rate case," which "is not a simple reporting requirement" but rather "a broad operational, technology, emissions, and fleet-planning exercise" without an estimate of work or time or a BCA to do this exercise and despite the company already using telematics to monitor idling behavior and coaching employees. *Id*., pp. 69-70. If considered at all, DTE Gas contends that "such policy-oriented recommendations are more appropriately addressed in a generic or collaborative forum where [a] broad fleet, emissions, and transportation policy can be examined on a statewide or multi-utility basis." *Id*., p. 70. Ultimately, DTE Gas argues that the Commission should give greater weight to the company's evidence over that provided by intervenors and accordingly reject the ALJ's recommended disallowance and idling study.

In response to the Attorney General's exceptions, DTE Gas argues that the Commission should reject the Attorney General's objections and affirm the ALJ's finding that a mandatory fleet electrification study is unnecessary. The company asserts that the ALJ correctly found that DTE Gas had examined the use of EVs in its fleet, and the Attorney General's characterization of this evaluation "as merely 'anecdotal' and insufficiently 'rigorous' . . . misrepresents the record." DTE Gas's replies to exceptions, p. 17 (quoting Attorney General's exceptions, pp. 6-7). DTE Gas, in this regard, recaps and argues that:

> [a]s Company witness Jackson testifies, DTE Gas evaluated multiple electric vehicle models and conducted internal field testing under actual DTE Gas duty cycles and winter operating conditions (DTE Gas Initial Brief at 41–42; 3T 1593–94). That testing revealed that winter weather significantly reduced the driving range of the tested electric vehicles, rendering them impractical for daily utility field work that requires dependable performance across geographically dispersed service calls, emergency response, and all-weather conditions (DTE Reply Brief at 32; 3T 1592– 94). Based on those results, the Company made a data-driven decision to accept the F-150 Hybrid as a viable alternative while rejecting models whose winter performance was inadequate for the Company's

> operational needs (3T 1593–94). The AG's exception identifies no error in this analysis, cites no competing engineering or operational evidence, and presents no DTE Gas-specific data demonstrating that electric alternatives are currently suitable or cost-effective for the challenged vehicle categories. The AG is simply re-arguing a position the PFD considers and properly rejects on the merits.

DTE Gas's replies to exceptions, p. 17. The company further contends that the Attorney General's requested electrification study is "speculative and unsupported," as she "fails to quantify the cost, timeline, or incremental benefit of the consultant-led study [she] proposes" and "fails to establish why such a study is necessary in light of the Company's existing evaluation efforts." *Id*., pp. 17-18. With her claim that hiring an external consultant should not disqualify the proposal since the company provided no evidence as to what a consultant or firm might cost, DTE Gas asserts that this argument from the Attorney General improperly attempts to shift the burden of proof. Per the company:

> DTE Gas is not the proponent of the fleet electrification study; the AG is. As the proponent of the electrification study, it is the AG's burden to provide evidence demonstrating that the costs of the study are reasonable and prudent. As noted above, the AG has presented no testimony, exhibits, or other record evidence quantifying the expected cost of the study, identifying the scope of work it would entail, or demonstrating that the information produced would materially improve upon the Company's existing, field-tested evaluation of electric vehicle alternatives. The AG has done none of these things. As such, the Commission should not impose a potentially costly new obligation on the Company and its ratepayers without any record evidence demonstrating that the costs of such study are reasonable and prudent.

Id., p. 18. DTE Gas further maintains that the request for this fleet electrification study, like the idling study, "extends well beyond the scope of a rate case prudence determination and is not tied to any specific Projected Test Year capital adjustment" and rather "seeks to impose a forward-looking planning obligation on the Company" that is unnecessary as the company "already actively evaluates fleet technologies and makes data-driven decisions about electric vehicle adoption based on real-world field performance." *Id*. (citing 3 Tr 1593-1594; DTE Gas's

initial brief, p. 42; DTE Gas's reply brief, pp. 31-32). DTE Gas further maintains that a broad electrification policy, if at all, would be best examined in a generic, collaborative, or statewide forum as opposed to an individual utility rate case.

MEC responds to DTE Gas and asserts that the company mainly repeats many arguments made in rebuttal testimony and in briefing, which the ALJ appropriately dismissed. With this, MEC reiterates that the mix of vehicles proposed for retirement does not explain the accelerated turnover in this case as the distribution of vehicles set for retirement closely matches the distribution of those actually retired in recent years and maintains that DTE Gas has not demonstrated that the company's duty cycles, operating conditions, and remaining useful life across vehicle classes has materially changed from recent practice to doubt reliance on historical data. MEC asserts that, "'[a]s the party seeking to deviate from historic practice, the Company bears the burden of justifying why the condition of its vehicles warrants taking them out of service sooner,' and still, DTE did not identify any specific conditions that justify broadly accelerating vehicle retirement." MEC's replies to exceptions, p. 31 (quoting MEC's reply brief, p. 11, and citing PFD, p. 121). MEC reiterates evidence that historical data was used to show that the company's proposal is a departure from recent practices and maintains that it is the company's burden to justify why this departure is reasonable and prudent, which the ALJ found the company failed to do. MEC further rebuts the company's claim that accelerating retirement is irreconcilable with the downward trend in spend. Per MEC:

> the fact that overall fleet spending has decreased is not mutually exclusive—or irreconcilable—with the fact that the Company is increasing costs by accelerating vehicle turnover. Even though DTE proposes spending less than in some past years, [MEC] witness Woolley's analysis demonstrates that accelerating vehicle turnover will increase costs relative to what they would be otherwise. Because the Company did not justify the accelerated turnover, the PFD appropriately concluded that associated costs are imprudent and should be disallowed.

MEC's replies to exceptions, p. 32.

And, as far as a comprehensive idling study, MEC repeats that, to date, the company has not quantified how much idling is necessary, as opposed to waste, nor has the company studied how much idling time could be eliminated with EVs and other technologies. Moreover, per MEC, the company's claims about potential savings from reduced idling being illustrative and not quantifying actual avoidable idle hours or costs of reducing those hours "is the very point of recommending an idling study—until the Company studies it, parties will not know the actual avoidable idle hours nor the full extent of the Company's unrealized cost savings." *Id*., p. 33. MEC argues, in this regard, that its evidence "offers a best estimate of the potential savings if idling time is reduced across the Company's large fleet, and it provides a sufficient basis for ordering an idling study." *Id*. Lastly, as to the company's assertion that the idling study recommendation is not tied to any specific projected test year capital adjustment, MEC indicates that this assertion was raised and addressed during briefing, with MEC underscoring that its recommendations here "'fall squarely within the scope of this rate case because they relate to the reasonableness and prudence of O&M and capital spending that will impact customers' rates.'" *Id*. (quoting MEC's reply brief, pp. 12-13).

The Attorney General argues that DTE Gas provides nothing new in exceptions and asserts that the company's arguments were fully rebutted and addressed in briefing and in the PFD. The Attorney General contends that the company's claim that the ALJ erred by treating recent historical retirement timing as the presumptive prudence benchmark "is an irrelevant red herring," as the ALJ appropriately recognized the company's changing retirement practices and the concern raised demonstrating that the company's recent historical retirement timing practice is

unreasonable and imprudent. The Attorney General further argues that the company's assertion about lower projected spend is also misleading. Per the Attorney General:

> [o]bviously, the Intervenors and ALJ relied upon historical actuals that show a clear trend of DTE accelerating retirements. Overall spending is tied into that trend, but DTE's argument in exceptions only discusses capital expenditures, not the full retirement picture (i.e. age of vehicles when retired). In addition, its argument rests on its own *projected* capital expenditures, meaning that those amounts are inherently speculative to begin with, and DTE's projected 12-month test year shows that the Company's own projected spending is $100,000 *greater* than the historical average, continuing the accelerating trend in spending as well and directly undercutting DTE's own argument of an "undisputed downward spending trend."

Attorney General's replies to exceptions, p. 21 (footnotes omitted) (emphasis in replies to exceptions) (citing/quoting 5 Tr 3208; Exhibit A-12, Schedule B5.1, p. 2, line 25, column (g); and DTE Gas's exceptions, p. 67). The Attorney General argues that the ALJ correctly found that the preponderance of the evidence shows that DTE Gas is retiring vehicles earlier than the company has historically without justification and without showing that higher depreciation costs would be outweighed by potentially higher maintenance and repair costs for older vehicles. The Attorney General further asserts that the company's claims in opposition to the idling study should be "rejected out of hand." Attorney General's replies to exceptions, p. 22. Per the Attorney General:

> [t]his is a commonsense step the Company could take to explore why DTE's vehicles are idling so long; it could have positive benefits in the way of lower costs for customers, lower emissions, and decreased wear and tear on vehicles. It is directly germane to DTE's requests in this case and there is no burden on the AG, [MEC], the Commission, or other parties to present specific savings numbers, such that a study can be recommended and ordered.

Id., pp. 22-23.

The Commission agrees with the ALJ in part and finds the ALJ's recommendations as to the disallowance and idling study to be well-reasoned and supported by the record, as the company has not demonstrated that fleet usage patterns have materially changed from recent practice such that historical data cannot be relied upon to support a reduction in costs, and the Commission is

also not persuaded that the company's current idling policies and practices cannot be improved upon for the benefit of its customers. 5 Tr 3200-3224; Exhibits AG-CUB-24 through AG-CUB-28; Attorney General's initial brief, pp. 166-173; Attorney General's reply brief, pp. 15-16; MEC's initial brief, pp. 48-59; MEC's reply brief, pp. 10-13; PFD, pp. 108-122. With this, the Commission also finds the Attorney General and MEC's recommended electrification plan to likewise be reasonable and prudent considering the evidence presented in this case. Specifically, as fuel costs account for the company's single largest fleet expense category (excluding depreciation), the Commission finds the potential for any fuel reductions, including reducing fuel waste for excessive idling whether by way of additional EVs as part of the company's fleet and/or improved operational policies and driver training as a result of lessons learned from an idling study, to be worth exploring more meaningfully as a good step towards achieving savings on fleet operating costs. 5 Tr 3212. Accordingly, the Commission adopts the ALJ's findings and conclusions as to the disallowance and the idling study, along with the Attorney General and MEC's recommended electrification plan, and directs the company to:

> • . . . conduct and present in its next rate case a comprehensive idling analysis that: quantifies necessary versus waste idling by vehicle type; estimates fuel costs attributable to both necessary and waste idling by vehicle type; assesses wear-and-tear impacts expressed in equivalent miles driven; evaluates the idle reduction potential of electric power takeoff (ePTO) systems for appropriate vehicle classes in its fleet; and explicitly quantifies the idling advantage of EVs relative to conventional vehicles [and]
>
> • . . . develop and present in its next rate case a fleet electrification plan guided by a robust, regularly updated Total Cost of Ownership framework that evaluates electric alternatives for all vehicle types (but especially light-duty vehicles) and is applied on a rolling basis.

5 Tr 3223-3224. The fleet electrification plan should use updated data for locations and speed of fast charging facilities across the state, as well as realistic estimates based on data for daily

mileage driven and cold weather battery performance. The total cost of ownership framework should also include any idling savings identified in the aforementioned idling study.

B. Large Capital Projects

1. South Grand Rapids Distribution Line

To address integrity issues and to improve safety, reliability, and future capacity for the Grand Rapids natural gas distribution system, DTE Gas proposed $27.8 million in bridge period and test year capital expenditures to replace a 2.6-mile, 22-inch, 238 pounds per square in gauge (psig) transmission pipeline initially placed into service in 1949 with a new 3.1-mile, 24-inch, 300-psig distribution pipeline. 3 Tr 1637-1643; Exhibit A-12, Schedule B5.2, line 2. While the Staff supported the company's request, the Attorney General disputed the project as not adequately supported by direct evidence of deterioration or risk or an assessment to confirm that replacement of the current pipeline is needed and thus recommended a full disallowance. 5 Tr 3263-3266; Exhibit AG-10; Attorney General's initial brief, pp. 39-41; Attorney General's reply brief, pp. 19-21; Staff's initial brief, pp. 107-108. DTE Gas disagreed, defending the need for this project. 3 Tr 1697-1700; DTE Gas's initial brief, pp. 44-47; DTE Gas's reply brief, pp. 35-37.

The ALJ agreed that DTE Gas justified the need for this project and recommended that capital expenditures for the project be approved as reasonable and prudent. Per the ALJ:

> [a]lthough no direct assessment has been carried out, DTE notes historical problems with pipe of the same vintage and manufacturer and historical construction data (Exhibit A-38, Schedule BB3). This PFD agrees that it would be imprudent to wait for a catastrophic failure before addressing this line. [DTE Gas witness] Ms. Fedele credibly testified that the Company had evaluated several alternatives to the proposed replacement and found none of the alternatives to be suitable. Although [Attorney General witness] Mr. Coppola points out that this line is not due for an HCA [high consequence area] assessment until 2029, Ms. Fedele testified that the assessment could not realistically be performed using current ILI [in-line inspection] tools.

PFD, p. 128.

The Attorney General objects and argues that the ALJ's analysis and recommendation improperly shift the burden of proof from the company to the Staff and intervenors. The Attorney General contends that:

> [t]he ALJ gives uncharacteristically short shrift to the AG's argument on this topic, noting the AG's contentions that no direct assessment of this pipeline has been performed and that the line is not due for an assessment until 2029, but then dismissing those contentions with no discussion. The problem with the ALJ's reliance on DTE's contention that it would be imprudent to wait for a catastrophic failure before addressing the line is clear on its face. All utilities can make this argument, for virtually any part of their system – the notion that it is better to be proactive, lest a catastrophic accident or failure occur makes intuitive sense. However, by its very nature such argument is speculative and conclusory; it is impossible to harden any utility's system beyond the point of possible accident or equipment failure. Attempting to do so to all or even a part of a system will inevitably result in runaway costs for customers, record utility profits, and premature or altogether unnecessary spending.

Attorney General's exceptions, pp. 8-9. The Attorney General further highlights that the company admits that there have been no leaks or ruptures on this pipeline in the last five years, states that the company provides no evidence of actual or impending problems and deterioration, and notes that the pipeline has been in place for more than 75 years without any significant issues. The Attorney General argues that it is unclear why the company needs to rush to replace the pipeline before conducting an actual direct assessment of it and thus maintains her recommended full disallowance.

DTE Gas responds and asserts that the Commission should reject the Attorney General's exceptions and affirm the ALJ's finding that the project is reasonable and prudent. The company argues that the Attorney General merely asserts burden of proof shifting without explanation as to how and instead rehashes arguments previously made. Per DTE Gas:

> [t]o the extent that the AG asserts the PFD improperly shifts the burden of proof *because* the PFD purportedly fails to consider the AG's arguments, that assertion is a non sequitur (AG Exceptions at 9). The PFD does not shift the burden of proof simply because the AG disagrees with the outcome. Gesturing at a legal argument

> when the real issue is that the AG merely disagrees with the PFD does not constitute a proper exception.
>
> Even so, the AG's assertion that the PFD "dismiss[es] . . . with no discussion" its argument that the South Grand Rapids line is not due for direct assessment until 2029 is patently incorrect (AG Exceptions at 8–9). The PFD acknowledges the argument and in the same sentence explains that Company witness Fedele "testified that the assessment could not realistically be performed using current [in-line inspection] tools" (PFD, p 128). Far from dismissing the AG's argument with no discussion, the PFD directly weighs competing evidence and properly concludes that the Company presents sufficient evidence to explain why a future assessment schedule does not negate the need for and prudence of the project. Again, simply disagreeing with the PFD does not constitute a proper exception.

DTE Gas's replies to exceptions, pp. 23-24 (citing Attorney General's exceptions, p. 9) (emphasis and alterations in replies to exceptions). Moreover, according to DTE Gas, the Attorney General's assertion about utilities always having the ability to argue catastrophic failure fundamentally mischaracterizes the company's evidence. DTE Gas states that it "does not rely on generalized safety rhetoric to support the need for the project" but instead "identifies specific, documented defects of pipelines of the same vintage and manufacture—documented long seam defects, 'hard spot' defects that can lead to cracks in the line, and wrinkle bends, which are known to create potential high-stress areas on the pipeline," noting that "[e]ach of these defects increases the risk of rupture on the existing line." DTE Gas's replies to exceptions, p. 24 (citing 3 Tr 1637-1638; DTE Gas's initial brief, p. 45). Lastly, DTE Gas argues that the Attorney General's claims about no known leaks or ruptures or actual problems "is fully rebutted by the documented defects in pipelines of the same vintage and manufacture, as explained above, and misstates the standard for cost recovery." DTE Gas's replies to exceptions, p. 24. The company, in this regard, contends that "[t]he question is not whether there is an emergent safety concern or whether the need for a project is 'imminent,' but rather whether the expenditure is reasonable and prudent," arguing that

the ALJ properly weighed the evidence under the applicable prudence standard and found the project reasonable and prudent based on a preponderance of the evidence. *Id*.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. With this, the Commission disagrees that the ALJ improperly shifted the burden on this issue and/or gave the Attorney General's assertions short shrift. Rather, the Commission finds that the ALJ properly laid out the parties' positions over several pages in the PFD, weighed the evidence accordingly based on a preponderance of the evidence, and was persuaded by the company's rebuttal. Being likewise persuaded, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 128.

2. Van Born Project

To address flow, improve flexibility, address the potential of a major failure, and support outage risk and operational flexibility recommendations from the Commission's Statewide Energy Assessment (Recommendation G-6), DTE Gas proposed installing new regulation at the company's Rouge Station to allow gas from a 30-inch, 540-psig pipeline to flow into a 36-inch, 300-psig system; modifying three main line valves along the 36-inch pipeline to permit remote control operation; and installing two new main line valves with remote control capabilities along the 36-inch pipeline to further segment the pipeline into additional sections. The company reported total capital expenditures of $63.4 million for the entire project, inclusive of a $2.8 million increase in the project above the amount approved in Case No. U-21291 due to unforeseen foreign utility conflicts within the construction limits and $4.8 million in projected capital expenditures during the bridge period and test year of this case. The company also noted that this project was completed in 2025. 3 Tr 1659-1664; Exhibit A-12, Schedule B5.2, line 3. ABATE took issue with schedule delays and cost escalations because of conflicts with other

utilities and argued that the absence of a clear, itemized reconciliation to explain discrepancies prevents the Commission from assessing the prudency of the company's spend on the project. Given these concerns, ABATE thus recommended that the $4.8 million sought for the 2025-2027 period be disallowed. 5 Tr 2680-2683; ABATE's initial brief, pp. 15-16. DTE Gas disagreed, arguing that the company performed appropriate pre-construction investigations and the construction challenges only became apparent during the construction phase of the project. The company also noted that the non-pipeline alternative (NPA) approach with this project avoided approximately $122 million in costs compared to the company's originally proposed solution for the issues presented here. 3 Tr 1706-1708; DTE Gas's initial brief, pp. 54-56; DTE Gas's reply brief, pp. 41-42.

The ALJ stated that the crux of this issue is whether DTE Gas should have foreseen the conflicts with other utilities before the start of the project which have caused cost increases, noting the company's contention that these conflicts were only able to be discovered after construction began in comparison to ABATE's assertion that, with proper management, these conflicts should have been discovered beforehand. Finding testimony on behalf of DTE Gas to be credible that the company has an established process for engineering and project design that was followed for this project and that the conflicts with other utilities could not have been discovered before construction, the ALJ recommended that ABATE's proposed disallowance be rejected. PFD, p. 133.

ABATE objects and argues that the company's conflict claims are internally inconsistent as "the Company cannot represent that it 'appropriately surveyed and incorporated foreign utility locations into project documents to avoid conflicts' while also asserting that 'the specific construction challenges at the Middlebelt and Beverly Road main line valve site only became

apparent during the construction phase and thus could not have been anticipated during design.'" ABATE's exceptions, p. 8 (quoting PFD, p. 131). ABATE asserts that, "[i]f the Company 'appropriately incorporated foreign utility locations into project documents to avoid conflicts' it should have identified and anticipated conflicts with other utilities at that stage of the process," and "[t]he Company's failure to do so is directly related to poor project management and the associated cost increases are therefore unreasonable." ABATE's exceptions, p. 8. In other words, according to ABATE, "the PFD's assertion that '[company witness] Ms. Fedele credibly testified that DTE has an established process for engineering and design and that such process was followed for this project' does not mean these costs are reasonable, it means the Company's process is insufficient." *Id*., pp. 8-9 (quoting PFD, p. 133). Moreover, ABATE argues:

> [t]he Company's additional assertions regarding the reasonableness and prudence of the project itself are irrelevant; the cost increases related to late-stage conflict discovery should not fall on ratepayers when appropriate project management would have identified these issues and avoided the related costs earlier in the project. (See ABATE Initial Br at 15-17.)
>
> The PFD's analysis is also incomplete. While the PFD addressed its recommendation to whether the utility conflicts were foreseeable, it did not address the separate and independent issue of DTE attributing only $2.8 million of its projected increase to those conflicts, while the total escalation over the Company's prior filings was $6.1 million with no itemized reconciliation of the difference. (See PFD at 130, 132-33.) That unexplained gap is an independent basis to deny recovery of the $4.8 million sought even if the Commission accepts the PFD's conclusion regarding foreseeability.

ABATE's exceptions, p. 9. ABATE asserts that improper management of this project resulted in both a major schedule delay and a multi-million-dollar cost overrun and that DTE Gas's process was insufficient. On this basis, ABATE argues that the company's requested expenditures for this project should be denied.

DTE Gas responds and asserts that the Commission should reject ABATE's exceptions and affirm the ALJ's findings. The company argues that ABATE's objections largely repeat

ABATE's argument that the ALJ considered and properly rejected—the assertion that the company's failure to identify all foreign utility conflicts resulted from mismanagement. Specifically, DTE Gas argues that the ALJ properly credited company testimony that, although the company followed its established engineering and design process, the specific conflicts at issue could not have been discovered before construction and, thus, per DTE Gas:

> is not internally inconsistent, despite ABATE's unsupported assertion that all conflicts, regardless of the specifics, could and should have been identified earlier (ABATE Exceptions at 8). Contrary to ABATE's characterization, the record establishes that these conditions are often discovered and addressed in the normal course of project execution, not because of any deficiency in planning (DTE Gas Reply Brief at 42). Moreover, it is not the role of the Commission or Intervenors to make business or management decisions on behalf of the Company. ABATE does not identify any particular defect in the Company's planning processes, nor explain what the Company could or should have done differently (ABATE Exceptions at 8-9). As to ABATE's claim that the PFD fails to address ABATE's argument that DTE Gas failed to address cost increases from the prior rate case not directly attributable to discovery of foreign utility conflicts, the Company explains that it is only seeking recovery for costs necessary to complete the project, which were previously undefined in prior rate case filings (DTE Gas Reply Brief at 42; 3T 1628).

DTE Gas's replies to exceptions, p. 27 (footnote omitted).

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. Even with the best intentions, construction planning cannot be 100% foolproof, and the Commission is persuaded that the company's chosen approach and planning for this project was both prudent and economically beneficial for ratepayers. 3 Tr 1659-1664, 1706-1708; DTE Gas's initial brief, pp. 55-56. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 164.

3. Fort Street Main

DTE Gas included $71.8 million in capital expenditures in this case for its Fort Street Main Replacement Project, now in the final phase and scheduled to be fully in service by

September 2027. 3 Tr 1648-1653; Exhibit A-12, Schedule B5.2, line 4. Although agreeing with the overall need and justification for the project, Ann Arbor nevertheless took issue with the project's extraordinarily high costs presented in this case ($27 million for the 2025 phase of the project and $55 million for the 2026-2027 phase) absent the detailed accounting it requested and thus recommended that the Commission require the company to provide transparent cost breakdowns, including pipeline installation costs, so that reasonableness can be evaluated and only recovery of the portion of the $71.8 million requested in this case that is able to be evaluated for reasonableness and prudency is allowed. 5 Tr 3022-3025; Exhibit A-12, Schedule B5.5, pp. 4-5; Exhibits AA-13, AA-14; Ann Arbor's initial brief, pp. 2, 11-13; Ann Arbor's reply brief, pp. 1-2. DTE Gas countered Ann Arbor's concerns and contentions. 3 Tr 1700-1702; DTE Gas's initial brief, pp. 48-50; DTE Gas's reply brief, pp. 37-39.

The ALJ recommended that Ann Arbor's request regarding this project be denied. The ALJ reasoned that:

> DTE and Ann Arbor agree this project is necessary, and both acknowledge that costs for this project are higher than typical. This PFD finds that DTE has provided reasonable explanations for the costs, specifically the conditions noted by [company witness] Ms. Fedele in her testimony. Further, although DTE did not provide a breakdown of costs as requested by Ann Arbor, DTE persuasively argued that it tracks the costs of the project, but not in the manner requested by Ann Arbor. Additionally, this PFD notes that in a future rate case, DTE will be required to show how the funds approved for this project in the instant case have been spent.

PFD, p. 137.

No exceptions were filed on this issue.

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. 137.

4. Carlton Main Replacement Project

For the company's Carlton Main replacement project (already underway, expected to be built in 2026, and expected to be in service by August 2027), DTE Gas included $14.5 million in capital expenditures in this case for the 2025 to 2027 period. 3 Tr 1653-1657; Exhibit A-12, Schedule B5.2, line 5. Ann Arbor and MEC questioned the company's justification for the project and the company's lack of an adequate alternatives analysis, with Ann Arbor and MEC both providing alternative proposals and recommending disallowances for the project. 4 Tr 2026-2030; 5 Tr 3025-3031; Exhibits AA-15, AA-16, AA-17; Ann Arbor's initial brief, pp. 2, 8-11; Ann Arbor's reply brief, p. 2; MEC's initial brief, pp. 4, 36-37, 41-43; MEC's reply brief, p. 8. DTE Gas disagreed, arguing that the company did consider alternatives but that none of the alternatives address the system-level reliability, pressure integration, and operational limitations associated with the existing main. 3 Tr 1703-1706; DTE Gas's initial brief, pp. 50-54; DTE Gas's reply brief, pp. 39-41.

The ALJ agreed with DTE Gas and found that the company demonstrated that the project is reasonable and prudent and thus recommended that the proposed disallowances of MEC and Ann Arbor be rejected. The ALJ reasoned that:

> DTE notes the age and make up of the pipe in question, highlighting that the pipe was installed in 1940. Regarding the suggestion to downgrade the pressure of the line to reduce stress and lessen risk, DTE rejected that suggestion and stated that the existing infrastructure is designed to accommodate pressure of 274 psig. Additionally, DTE states that it has considered relining the pipe but that it found that relining would not alleviate the safety concerns and maintains that replacement is the most appropriate choice.
>
> In its brief, Ann Arbor states that some of the justifications for the project cited by DTE, including supply redundancy, operational flexibility, and reduction of unique pressure systems, are benefits that would be realized should the replacement take place. However, Ann Arbor asserts that DTE has not shown replacement to be necessary. This PFD disagrees and finds that DTE has shown that replacement of the Carlton Main is appropriate in light of the age and composition of the pipe, that

it has considered alternatives to replacement, and that replacement will provide benefits as mentioned above.

PFD, pp. 143-144.

No exceptions were filed on this issue.

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, pp. 143-144.

5. East Petoskey Pipeline Reinforcement

Although DTE Gas removed its request for cost recovery of $32.708 million out of $35.840 million in capital costs for its East Petoskey Pipeline Reinforcement project in this case as a result of the project no longer being planned to be constructed during the projected test year, the company nevertheless requested cost recovery of $3.132 million in Public Act 9 of 1929 (Act 9), MCL 483.101 *et seq*., filing costs associated with the project. 3 Tr 1631-1636, 1685-1697; Exhibit A-12, Schedule B5.2, line 6; Exhibit A-38, Schedule BB5; Exhibit S-12.1; DTE Gas's initial brief, pp. 43-44; DTE Gas's reply brief, pp. 33-34. While taking issue with the company's original request absent a Commission order approving the project, the Staff nevertheless supported the company's Act 9 filing costs for the project but recommended that associated CWIP and allowance for funds used during construction (AFUDC) costs (of $10.622 million and $1.079 million, respectively) also be removed in addition to the company's concessions. 5 Tr 2502-2503; Staff's initial brief, pp. 14-15; Staff's reply brief, pp. 2-4 (citing DTE Gas's initial brief, Attachment A, p. 2, line 3, column (c), and p. 3, line 19, column (c)). The Attorney General, Ann Arbor, and MEC recommended that all costs associated with the project be removed, with the Attorney General asserting that this issue is now concluded and uncontested; with Ann Arbor requesting that the Commission also put DTE Gas on notice that the costs the company is

incurring for the project are unreasonable and imprudent and, unless shown otherwise, these costs will not be recoverable in a future rate case; and with MEC asserting that the support for the project is now moot. Attorney General's initial brief, pp. 41-42; Attorney General's reply brief, pp. 17-19; Ann Arbor's initial brief, pp. 2, 4-8; MEC's initial brief, pp. 37-40. DTE Gas rebutted that this issue is concluded and uncontested or moot and further asserted that Ann Arbor's request for an advanced determination regarding the project's capital costs and future cost recovery request thereof is inappropriate and should be rejected. DTE Gas's reply brief, p. 34.

The ALJ found that, because the company is no longer requesting cost recovery of $32.708 million in project costs, this portion of the issue is moot and will not be addressed. As for the company's requested Act 9 filing costs, however, the ALJ agreed with the Staff and recommended that these costs, as detailed in Exhibit S-12.1, be approved but declined to adopt Ann Arbor's recommendation to put the company on notice regarding future cost recovery requests, noting that the Commission will assess the reasonableness and prudence of associated project costs if requested by the company in a future rate case. The ALJ also recommended that associated project costs in AFUDC and CWIP be disallowed. PFD, pp. 153-154.

The Attorney General objects to the ALJ's recommendation to approve the company's Act 9 filing costs. The Attorney General argues that the ALJ's brief discussion and analysis on this topic "fails to grapple with or even mention the AG's lengthy discussion on this topic in her reply brief." Attorney General's exceptions, p. 11 (citing Attorney General's reply brief, pp. 17-19). Per the Attorney General:

> [t]he ALJ's remark that it "is unclear why the information in Exhibit S-12.1 does not provide the Attorney General with the information necessary to vet DTE's request for $3,132,000 for Act 9 filing" is belied by the record and wholly ignores the AG's reply brief. First, DTE's initial brief states that it seeks "recovery of $3,132,000 in Act 9 filing costs, as identified in Exhibit S-12.2." The PFD, however, makes reference to Exhibit S-12.1, creating an immediate disconnect

> which the PFD does not address. Second, the exhibit that the ALJ relies upon for support for DTE's cost recovery (S-12.1) is not even found in the Company's case or materials – instead it is a *Staff* exhibit, which was not filed until Staff's own testimony filing. At no point in either its direct or rebuttal testimony did DTE make any mention of these costs, how this amount was developed, or how accurate it is likely to be, considering that the Company just determined in the middle of this case that it needed the certificate to proceed with the project. And again, while Staff mentioned in testimony that it would be supportive of Act 9 Application Filing Expenses in this proceeding, there was no amount proposed or identified by [Staff witness] Mr. Spence, and no reference or citation to anything in DTE's materials.

Attorney General's exceptions, p. 11 (footnote omitted; emphasis in exceptions). Against this context, the Attorney General reminds that the burden of proof to support its rate case requests rests with the company at all times and asserts that "[i]t should be axiomatic that an expense amount that DTE never included anywhere in its application, testimony, exhibits, or materials should not be granted recovery." *Id*. Moreover, and importantly, per the Attorney General:

> Staff appears to be going on nothing more than DTE's internal projection for what these filing costs will amount to. There is no evidence of internal approval of the project by Company management and as of briefing in this case, no Act 9 application filed by the Company and no assurance that it will be filed, given the Company's previous decision changes. There is no Commission approval of the application and no discussion by DTE anywhere in its materials for how it arrived at the $3,132,000 amount. In a circumstance like this, it is inappropriate for the ALJ to rely upon a Staff exhibit (and not even the exhibit that DTE cites to for its own support) to find that DTE has met its burden, when DTE never discussed this in its own materials.

Id., p. 12. Accordingly, the Attorney General argues that the ALJ's failure to consider all of this was in error and his recommendation should thus be disregarded, as the company's costs are too speculative and were raised too late in the proceeding (in briefing) to be considered by the Commission. The Attorney General notes, however, that the company can include an actual request for such costs in a future rate case if the project proceeds.

DTE Gas objects to the PFD to clarify AFUDC and CWIP costs associated with this project considering the concessions the company made during the case. Per DTE Gas:

> [t]o be clear, the Company conceded recovery of all East Petosky-related costs outside of the recovery of $3,132,000 in Act 9 filing costs for the project as identified in Exhibit S-12.2, issuing a correction to the Company's Initial Brief Attachments via the Reply Brief Attachments in alignment with Staff's recommendation (DTE Gas Reply Brief, Attachment A, page 2 of 4, footnotes 1 through 3, and page 3 of 4, footnotes 1 through 3). The PFD's appendices do not reflect any East Petosky-related disallowance, which is proper considering the Company's concession. Accordingly, if the appendices accurately reflect the PFD's intended recommendation, no East Petoskey-related adjustment has been adopted. If, however, the PFD intended to disallow an additional $1,079,000 of AFUDC and $10,622,000 of CWIP associated with the East Petoskey Pipeline Reinforcement project that is not currently reflected in its appendices, DTE Gas takes exception and requests that the Commission reject that recommendation.

DTE Gas's exceptions, p. 71.

In response to the Attorney General's exceptions, DTE Gas asserts that the Commission should reject the Attorney General's objections and affirm the ALJ's recommendation to approve the Act 9 filing costs for this project. DTE Gas argues that the Attorney General's objection on this issue:

> merely disagrees with the PFD's weighing of the evidence and re-argues positions the PFD already rejects. The PFD acknowledges the AG's arguments for disallowance and in response explains that DTE Gas did provide a breakdown of its Act 9 filing costs in discovery (PFD, p 153). Contrary to the AG's assertion, Staff did not accept this cost breakdown uncritically and on its face, as the breakdown provided the basis for Staff's proposed disallowance of $540,000 for the nine months ending September 30, 2026 (PFD, p 153; 5T 2503). Moreover, the AG fails to cite any specific purported defect or inaccuracy in the Company's Act 9 filing costs, instead only making vague claims about potential issues (AG Exceptions at 11). The PFD does not make a legal or factual error by crediting one party's arguments and evidence over another's.

DTE Gas's replies to exceptions, pp. 20-21. DTE Gas further asserts that the Attorney General's claims that the project has not yet received company or Commission approval "are similarly unavailing." *Id*., p. 21. Per DTE Gas:

> [t]he question is not whether the project will receive all required approvals or certificates in the future but whether the Company's costs to make the Act 9 filing are reasonable and prudent. And again, the AG does not provide evidence of any specific defect in the Company's Act 9 filing costs breakdown. Finally, the AG's

> argument that DTE Gas's Act 9 filing costs should not be approved for recovery merely because the Company provided a breakdown of such costs in response to discovery requests is incorrect and should be disregarded. Staff properly included the relevant discovery responses as attachments to Staff witness Spence's testimony, and those responses are part of the record in this case. The PFD did not err by basing its conclusion on credible record evidence.

Id.

Responding to DTE Gas, the Attorney General maintains that the company's projected Act 9 filing costs are "untimely and inappropriate." Attorney General's replies to exceptions, p. 23. The Attorney General states that:

> [t]o all appearances, DTE was uncertain of this project when it filed the rate case, put in a speculative, placeholder amount, and then rescinded that request when it became clear that recovery related to the project was premature. However, it is now taking the opportunity, based upon a *Staff* exhibit, to try to obtain some level of recovery related to the project, despite the speculative nature of the amount necessary for any filing costs and the fact that anticipated work on the project is well outside the test year and the scope of this case.
>
> In support of these costs, DTE relies upon a *correction* to its initial brief, which was filed as "Reply Brief, Attachment A, page 2 of 4, footnotes 1 through 3, and page 3 of 4, footnotes 1 through 3." These costs were not mentioned in DTE's testimony filing, rebuttal, and apparently erroneously discussed in its initial brief. Looking at "Reply Brief, Attachment A, page 2 of 4, footnotes 1 through 3, and page 3 of 4, footnotes 1 through 3" now, the AG still does not see specific mention of Act 9 filing costs and struggles to understand the full import of the difficult to track footnotes. Allowing DTE to recover these costs at this point in the proceeding – i.e. based on support which the Company openly admits was not presented until a *correction in numerous footnotes in an exhibit in its reply brief*, based on a speculative projection buried in a Staff exhibit, which DTE mis-identified, would not be reasonable or prudent.

Attorney General's replies to exceptions, pp. 23-24 (emphasis in replies to exceptions).

The Commission agrees with the Attorney General and finds that the company's requested Act 9 filing costs were introduced too late in the process to be properly considered in this case. While DTE Gas points, in briefing, to page 29 of the December 9, 2021 order in Case No. U-20940 (December 9 order) as precedent in the Commission allowing recovery of this type

of cost in a prior rate case, a review of the record in Case No. U-20940 shows that the Act 9 filing costs in that case were clearly supported in the company's direct case. *See*, DTE Gas's reply brief, p. 34, n. 15, and 5 Tr 1221-1222 in Case No. U-20940, filing #U-20940-0255. In the instant case, however, there is no support for DTE Gas's Act 9 filing costs for this project in the company's direct case. Indeed, the company's direct testimony shows the company's initial position that no Act 9 certificate of public convenience and necessity was even needed for the project. 3 Tr 1635; Exhibits S-12.1 and S-12.2; Attorney General's reply brief, p. 17; Attorney General's exceptions, p. 12. Also worth noting, as highlighted by the Attorney General, "the project has not yet received internal approval and is in the initial phase of engineering design." 5 Tr 3267; Attorney General's initial brief, p. 42. Accordingly, the Commission finds that the company's Act 9 filing costs should be denied in this case but with noted opportunity for the company to renew its request in its next rate case with proper support or, should the project ultimately not go forward, to provide greater detail supporting the costs incurred and greater justification for why such costs should be recovered. Finally, for clarity, this decision thus results in a full disallowance of $35.840 million for this project in this case.

6. Oakland Resilience

DTE Gas included $5.926 million in capital costs in this case for its Oakland Resilience Interconnect Project, a joint project between DTE Gas and Consumers Energy Company in response to Recommendation G-5 from the Commission's Statewide Energy Assessment. 3 Tr 1643-1647; DTE Gas's initial brief, pp. 47-48.

The ALJ noted no opposition and thus recommended that the company's requested cost recovery for the project be approved. PFD, p. 154.

No exceptions were filed on this issue.

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. 154.

7. Taggart Compressor Station Replacement Project

To address equipment obsolescence, the advanced age of the current Taggart facility, the facility's increased random outage rate, decreased horsepower, and resulting risks, DTE Gas proposed $284.1 million in capital expenditures for the period of 2025 through 2027 in this case for a new Taggart Compressor Station expected to be in service in September 2027. With its proposal, the company also discussed the change in scope of this project as compared to that presented in Case No. U-21291, explaining why it asserts a full compressor station replacement is now the most prudent and cost-effective solution. 3 Tr 1667-1681; Exhibit A-12, Schedule B5.2, line 8; Exhibit A-12, Schedule B5.5, p. 3. ABATE objected to any cost recovery in this case over increased scope concerns that the project will likely not be in service before the end of the projected test year. 5 Tr 2677-2680; ABATE's initial brief, pp. 13-15; ABATE's reply brief, pp. 6-7. MEC raised similar concerns, noting that DTE Gas previously proposed spending a total of $100 million to replace a compressor but is now proposing to spend $289.9 million to replace an entire compressor station in this case. Questioning the reasonableness and prudency of this proposal absent consideration of alternatives and a robust quantitative analysis comparing the proposed solutions with a reasonable set of alternatives, MEC recommended that the company's cost recovery request for this project be denied in this case. 4 Tr 2031-2032; MEC's initial brief, pp. 36-37, 43-47; MEC's reply brief, pp. 8-9. DTE Gas disagreed, arguing that the project's schedule is not unrealistic and that the company provided support for the costs and evaluation of

alternatives, consistent with its other large capital projects. 3 Tr 1708-1712; DTE Gas's initial brief, pp. 56-61; DTE Gas's reply brief, pp. 42-45.

The ALJ recommended that DTE Gas's projected capital expenditures be approved. The ALJ reasoned that:

> DTE's clarification of timeline events addresses ABATE's concerns that the project will not be placed in service before the end of the test year and notes that in Case No. U-21291, ABATE also expressed concerns about unexpected delays impacting proposed timelines and the Commission commented that "it is not inclined to disallow projected capital expenditures because an unforeseen and unsupported delay may occur" (Case No. U-21291, Order, Nov. 7, 2024, p. 55).
>
> As for MEC's concerns about alternatives and [a] cost-benefit analysis, this PFD finds that while the cost of the project is significant, the project is necessitated by the condition of the Taggart Compression Station as described by DTE, which includes a facility over 75 years old, outdated and obsolete equipment, a cooling system fraught with zebra mussels, and an archaic dehydration unit. This PFD finds that DTE adequately supported the necessity of the project for safety and reliability and agrees with DTE that a cost-benefit analysis is not required as the project is differentiated from discretionary projects that may be new or optional. Importantly, it appears that DTE also explored alternative engineering plans, timing and constructability, and lifecycle costs to achieve cost savings where possible.

PFD, pp. 163-164.

MEC objects and asserts that the Commission should reject the ALJ's recommendation and instead disallow DTE Gas's requested capital expenditures because the company produced no evidence to support the need for a $290 million expansion of the scope of this project. Following a recap of the Commission's decision in Case No. U-21291, wherein the Commission disallowed the company's projected capital expenditures for this project and with MEC highlighting the "ballooned" project "from $100 million to $390 million" proposed in this case, MEC asserts that the company "claims that the expansion of project scope and cost resulted from a detailed engineering review but repeatedly failed or refused to provide any documentation of that review." MEC's exceptions, p. 3. Thus, without documentation of the decision to expand the project's

scope and costs, MEC argues that the company's projected expenditures are not supported by substantial evidence and should therefore be rejected in this case, with MEC noting that DTE Gas is free to return in the company's next rate case with evidence to support its decision. MEC's exceptions, p. 3.

In further support, MEC contends that:

> "[a] utility has the burden of proof to provide evidence to support each element of its rate case application and a preponderance of the evidence is the standard by which that evidence is evaluated." The Commission has held that such evidence needs to take the form of supporting documentation showing that alternatives were considered, what the costs were, and that the selected project is reasonable and prudent. In Case No. U-21297, the Commission stated that it "cannot approve cost recovery for projects which are not adequately supported and fail to include analysis of the severity of the actual risk or how the project will alleviate or reduce the risk, and a sufficient benefit/cost analysis (BCA)." The Commission has held that even routine projects require supporting documentation to show that they are reasonable and prudent.

MEC's exceptions, p. 5 (footnotes omitted). Continuing, MEC clarifies that:

> [t]he issue in this case is not whether DTE needs to invest in the Taggart station because it is old and has operational problems. The issue is whether adequate evidentiary support exists for expanding the scope of the project from replacing the compressors to replacing the entire station at a different site, for almost $300 million more than the original plan. DTE claims that the change in scope and cost was essential and was determined after an extensive review process. But when asked repeatedly for any documentation of that review process, DTE refused to provide a single page of evidence. Given DTE's failure to provide any documentation whatsoever of its engineering review, the PFD's finding that DTE explored alternative engineering plans and options to achieve cost savings is not supported by substantial evidence. DTE failed to meet its burden to prove that the change and the huge resulting increase in cost are reasonable and prudent and therefore the Commission should disallow the expenditures in this case. DTE can always return in a future case and seek recovery again with better evidence to support its request.

Id., pp. 5-6.

ABATE also objects to the PFD and asserts that, because DTE Gas failed to demonstrate that the company's cost projections were reasonable, the Commission should decline to adopt the

ALJ's recommendation. While acknowledging the Commission's decision and rationale in Case No. U-21291 and the company's claim that project activities can and do typically occur in parallel, ABATE argues that "this claim significantly understates the fact that the proposed project has expanded from that set forth in [the company's] last rate case to now encompass complete replacement of the entire Compressor Station," meaning that DTE Gas "has proposed undertaking an additional estimated $198.5 million worth of additional work without any adjustment to the overall project completion date and despite Engineering Design not yet being completed." ABATE's exceptions, pp. 5-6. This, ABATE argues, significantly increases the likelihood of delays for this project, and "[i]t is simply not reasonable to expect the Company to meet the same schedule for significantly more work based on an assertion regarding parallel project activities." *Id*., p. 6. ABATE further takes issue with the company's lack of documentation as support for the project, agreeing with MEC that the evidentiary support provided for the project by way of testimony is "limited and lacking" and by itself does not demonstrate that the project's projected costs are reasonable or prudent. ABATE's exceptions, p. 7 (citing MEC's initial brief, pp. 43-47; MEC's reply brief, pp. 9-10). Referencing the Commission's expectations for the support needed to demonstrate that a project is reasonable and prudent from the January 31, 2017 order in Case No. U-18014 (January 31 order) and the May 8, 2020 order in Case No. U-20561 (May 8 order), ABATE asserts that DTE Gas has not met this burden here. ABATE's exceptions, p. 7 (citing January 31 order, pp. 6-9; May 8 order, p. 13). In sum, per ABATE:

> [t]he Company's own project milestone schedule indicates the facility will not be in-service until the very *final day* of the projected test period and DTE acknowledged that commissioning will be intricate, involving testing multiple modes between two matching plants. (Fedele 3 Tr 1675). Considering the significant increase in scope this timeline is simply not realistic or reasonable. As such the Commission should reject cost recovery at this time.

ABATE's exceptions, p. 7 (emphasis in exceptions).

DTE Gas responds and asserts that the Commission should reject ABATE's and MEC's objections and affirm the ALJ's recommendation for approval of the project's capital expenditures. The company contends that the ALJ's recommendation is supported by the evidence and argues that the ALJ gave proper credit to DTE Gas for clarifying the project's timeline and for addressing ABATE's concerns. DTE Gas maintains that ABATE does not specify or provide any support for any expected delays, and while the scope of the project has changed since the company's last rate case based on its sound engineering and business judgment, DTE Gas contends that this fact alone does not demonstrate that delays will inevitably occur. DTE Gas, in this regard, asserts that the ALJ correctly cited to the Commission's prior "admonition that 'it is not inclined to disallow projected capital expenditures because an unforeseen and unsupported delay may occur.'" DTE Gas's replies to exceptions, p. 30 (quoting PFD, p. 163); *see also*, November 7 order, p. 55. DTE Gas also asserts that the ALJ properly addressed MEC's arguments regarding a BCA and project alternatives and reiterates the support the company provided in the record, consistent with that provided for the company's other large capital projects, along with project alternatives extensively reviewed. DTE Gas, in this regard, contends that:

> [t]he record supports the conclusion that replacing the full Taggart Compressor Station is the most prudent approach, as it prioritizes the safety of infrastructure and Company and contractor personnel, maintains deliverability through new construction, and allows the facility to be placed in service sooner, thus more efficiently meeting the Company's objectives of long-term system reliability, operational efficiency, and system resilience (DTE Gas Initial Brief at 60; 3T 1709).

DTE Gas's replies to exceptions, p. 31. Lastly, the company argues that MEC entirely misstates the legal standard for cost recovery and avers that "[t]he legal standard is not whether the Company has shown a 'change in circumstances' warranting departure from a determination in a previous rate case with an entirely different record." *Id*. Rather, per DTE Gas, "[e]ach decision

must instead be supported by record evidence in the current proceeding," which the ALJ properly concluded occurred in this case, and just because "a project has evolved to better align with DTE Gas's mandate to provide safe and reliable service to its customers does not alone bar recovery of costs." *Id*. (citing PFD, p. 163).

The Commission respectfully disagrees with the ALJ and, in agreement with MEC, finds that the company's requested capital expenditures of $284.1 million for this project should be denied in this case. In DTE Gas's prior rate case, the company's cost recovery request to replace a single compressor was denied as premature for inclusion in rate base in that case. *See*, November 7 order, pp. 53-55. DTE Gas now seeks to substantially expand this project to replace a full compressor station with very limited explanation of the change from request for the single compressor to a full-scale station replacement, very little support for the need to build the full compression station itself, and almost no discussion of alternatives. 4 Tr 2031-2032; Exhibits MEC-27 and MEC-28. For a project forecasted to cost several hundred million dollars, the Commission expects to see far greater justification and evidentiary support. DTE Gas may propose this project again in a future case but will need to provide significantly stronger support for the project and the reasonableness of the project's associated costs.

8. Belle River Dehydration Unit

DTE Gas included $2.4 million in this case for its Belle River Dehydration Unit project. 3 Tr 1623-1624; Exhibit A-12, Schedule B5.5, line 9; DTE Gas's initial brief, pp. 42-43.

The ALJ noted no opposition and thus recommended that the company's requested cost recovery for the project be approved. PFD, p. 164.

No exceptions were filed on this issue.

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. 164.

C. Infrastructure Recovery Mechanism[10]

Regarding pipeline safety, DTE Gas explained that:

> [a]ll safety related oversight is conducted by the MPSC and PHMSA [Pipeline and Hazardous Materials Safety Administration] . . . . Natural gas safety performance is assessed through a combination of regulatory oversight, incident reporting and operational inspections. PHMSA and the MPSC establish criteria for incident reporting, which are used to monitor safety trends and identify infrastructure risks. The MPSC conducts annual inspections of DTE Gas to evaluate compliance with both federal regulations and the Michigan Gas Safety Standards. These inspections include reviewing records documenting required work and outcomes; field inspections to verify that work is performed in accordance with standards; and program level evaluations, such as the integrity management reviews, to ensure adherence to requirements. The data that is collected through these processes helps to guide future rulemaking, support infrastructure investment planning, and reinforces regulatory compliance and public safety initiatives such as the Gas Renewal Program.

4 Tr 1764-1765. DTE Gas added that, in recent years, PHMSA has been focused on the need to replace cast iron pipelines; and, as of 2024, Michigan ranked fifth in the nation for the most remaining cast iron gas distribution main mileage. 4 Tr 1765-1767. DTE Gas stated that the IRM began as a way to address the need to replace cast iron and unprotected steel gas main (also known as legacy main). 4 Tr 1770.

Regarding how the IRM operates, DTE Gas stated that:

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[10] Throughout the years, IRMs have been defined by various persons as infrastructure recovery mechanisms, infrastructure renewal mechanisms, and investment recovery mechanisms. However coined, the Commission considers them interchangeable and meaning the same thing—a regulatory tool designed to track specified, ring-fenced investments.

> [t]he Company recovers a predetermined incremental revenue requirement for its annual IRM capital investments through a monthly IRM surcharge. The IRM surcharge is calculated on a calendar-year basis for each year of the five-year investment period and is based on the predetermined cumulative incremental revenue requirement associated with the incremental capital investment. The Company files an annual reconciliation in the first quarter of each year for the capital invested in the prior year for Commission review. If the amount invested does not meet the required minimum, the IRM surcharge is adjusted downward in July of the year in which the reconciliation is completed.

4 Tr 1772. Thus, DTE Gas explained that the IRM is a method of cost recovery via a billing surcharge covering predetermined incremental capital expenditures for specific long-term infrastructure projects which are intended to improve public and customer safety and to assist the company in providing reliable service, and the approved amount is subject to annual reconciliation. The new IRM surcharge is proposed to begin on January 1, 2027, and run on a calendar year basis until reset in a new rate case. 2 Tr 51. Because the IRM surcharge is separate from base rates, the requested amounts related to the surcharge are not included in the revenue deficiency; however, amounts requested for the historical year, bridge period, and the first three months of the test year are proposed for inclusion in base rates (the last three months of 2026), and thus in the revenue deficiency. 2 Tr 51. This is the sixth rate case subsequent to the initial approval of the IRM surcharge (in Case No. U-16999) in which DTE Gas has sought approval of an IRM. 4 Tr 1771-1773. DTE Gas noted that the programs that are included in the IRM have changed over time; and that the company, until 2025, consistently spent in excess of the amounts approved in the relevant rate case. 4 Tr 1773-1774; Exhibit A-12, Schedule B6.1.

For the instant rate case, DTE Gas proposed to continue the inclusion of the two programs that are currently included in the IRM. The currently included programs are:

> 1. The GRP [gas renewal program] (which includes the legacy MRP [main renewal program] and legacy MMO [meter move out]); and

> 2. The Pipeline Integrity program [PIP], which consists of five subcomponents: (1) pipeline integrity assessments, (2) in-line-inspections (ILI), (3) remote control valves (RCV), (4) maximum allowable operating pressure (MAOP) records review, and (5) records management system development.

4 Tr 1775. In addition, DTE Gas proposed to include two new programs: the Regulator Station Replacement Program (RSRP) and the Corrosion and Cathodic Protection Program (CCPP). 4 Tr 1775-1776. Projected total annual capital expenditures for the 5-year period of the IRM covering 2027 through 2031 range from $377.8 million in 2027 to $455.1 million in 2031. 4 Tr 1776; Exhibit A-12, Schedule B5.3. Referring to the RSRP and CCPP, DTE Gas stated that:

> [i]f these expenditures, or any other IRM expenditures through the projected test period, are not included in the final calculation of the IRM surcharge in this rate case, these costs must be included in Routine Distribution capital expenditures (Exhibit A-12, B5, line 2) and the Company's revenue requirement when final base rates are calculated and approved.

2 Tr 51. Thus, the company requests that any proposed cost category not approved for inclusion in the surcharge that begins on January 1, 2027, be moved to base rates.

DTE Gas explained that an accelerated replacement program will improve safety and regulatory compliance and will achieve greater methane emission reductions, and that 30% of distribution mains installed before 1970 continue to pose safety risks. The company stated that replacement progress slowed after issuance of the November 7 order because the Commission approved reduced funding in that order, and that the increasing complexity of the projects has led to increasing costs. 4 Tr 1785-1796. DTE Gas asserted that the GRP disproportionately benefits vulnerable communities and advances environmental justice (EJ) goals. 4 Tr 1784-1785.

Several parties objected to the IRM as proposed and recommended disallowances.

The Attorney General argued that the company's IRM has expanded and continues to expand without sufficient evidence of the need for this growth. She argued that there was little evidence on the record of complex projects or of the accelerated deterioration of legacy mains and she

opposed inclusion of the ultrasonic meter replacement program in the IRM. 5 Tr 3371-3378. The Attorney General recommended the adoption of a cap on the IRM of $255 million annually due to the consistent history of overspending, a reduced ROE for IRM investments of 7.12% due to lower risk, and termination of the IRM in 2027 or adoption of a three-year cycle. 5 Tr 3374-3379. She opposed the inclusion of the RSRP and CCPP in the IRM, and she recommended a disallowance of $18.4 million for 2025 based on insufficient evidence in support of the requested amount. Based on DTE Gas's rebuttal updating actual 2025 capital expenditures, the Attorney General revised the proposed disallowance for 2025 to $10.4 million. Attorney General's initial brief, p. 150.

MEC made similar arguments and objected to DTE Gas's failure to consider NPAs and repairs rather than replacements. 4 Tr 2006-2007. Noting that a BCA has never been conducted for any IRM program, MEC argued that the IRM creates an incentive to inflate budgets and to shift routine capital work to the IRM. MEC recommended a cap on IRM spending of approximately $300 million annually based on the 2024-2025 spending level. 4 Tr 2022. MEC also opposed the inclusion of the RSRP and CCPP in the IRM.

ABATE noted the Commission's reduction to GRP capital expenditures in the November 7 order and opposed the expansion of the IRM to activities that are more appropriate for recovery through base rates. 5 Tr 2672-2675. ABATE pointed to evidence showing a decline in service-related gas leaks between 2020 and 2024, and argued that this shows that the company's current practices are adequately addressing the risk posed by legacy main. ABATE proposed a $667.5 million reduction over the full IRM period, or $118.8 million annually from 2026 through 2031. 5 Tr 2677; *see*, Exhibit A-12, Schedules B6.3 and B6.5.

Ann Arbor questioned DTE Gas's methane emission reduction calculations and argued that these large proposed capital investments in the GRP could become stranded costs if gas demand declines. 5 Tr 3094-3095.

The Staff initially opposed the company's IRM proposal; however, after DTE Gas's rebuttal was filed (revising the company's position), the Staff supported recovery, at a minimum, of the expenditure level approved in the November 7 order for the MRP for 2026. Staff's reply brief, pp. 4-5. The Staff supported continued inclusion of the GRP in the IRM but opposed the proposed increases for inflation. 5 Tr 2551. The Staff supported GRP capital expenditures of $334 million per year for 2027 through 2031. 5 Tr 2551; Exhibit S-17.1. The Staff supported the inclusion of ultrasonic meters and bypass devices in the GRP and the company's proposed 2037 completion date for the MRP. 5 Tr 2551-2557. The Staff opposed the proposals for reductions made by MEC, ABATE, and the Attorney General and supported the company's 2025 capital expenditures as reasonable and prudent.

The ALJ made recommendations on the following nine IRM issues: (1) the IRM extension period; (2) the Attorney General's recommended disallowance for 2025; (3) the approved annual spending level for calculating the surcharge; (4) the ROE applicable to the IRM; (5) the proposed inclusion of legacy services; (6) the proposed inclusion of ultrasonic meter deployment; (7) the proposed capital expenditures for the PIP; (8) the proposed inclusion of the RSRP; and (9) the proposed inclusion of the CCPP. These issues are addressed sequentially below in the same order in which they occur in the PFD with the exception of the approved annual spending levels for calculating the surcharge, which are addressed last.

The ALJ found that the IRM should not be terminated or limited to three years rather than five years. PFD, p. 188. He found that the Commission has consistently supported the continuation

and expansion of DTE Gas's IRM and noted the Staff's support for the extension of the IRM through 2037 and for the inclusion of legacy services. Thus, he recommended that the Commission approve the extension of the IRM through 2037. *Id*.

In exceptions, the Attorney General argues that the ALJ provided little analysis of this issue and misread the company's request, which was only for a new surcharge from January 2027 through 2031 but did not extend to 2037 (which is simply the targeted completion date). Attorney General's exceptions, pp. 13-14. Assuming that the ALJ approved the extension through 2031, the Attorney General also argues that there was little analysis and that simply because the Commission has extended a program in the past does not mean that all future extensions should be granted. The Attorney General argues that it is clear that the IRM is not cost effective for customers and it should end after 2027 or be limited to three years. *Id*., p. 15.

In reply, DTE Gas agrees with the Attorney General that it is not requesting the IRM to be extended through 2037 but rather through 2031, and that 2037 is the current estimated completion time for the GRP. DTE Gas's replies to exceptions, p. 33. DTE Gas does, however, disagree with the Attorney General that the IRM should end after 2027 or be limited to three years.

After review of the record and arguments by the parties, the Commission finds the ALJ's recommendation on this issue to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on the issue of extending the IRM. *See*, PFD, p. 188. As the Attorney General notes, 2037 is simply the currently targeted completion date. The surcharge approvals granted in the instant order do not apply beyond 2031 and will likely be revisited before even that term expires. Thus, the Commission finds that extension of the IRM is reasonable in order to allow the company to complete the program.

The ALJ recommended rejection of the Attorney General's proposed $18.4 million (later changed to $10.4 million) disallowance for 2025, finding that the Attorney General failed to identify any specific 2025 IRM project that was imprudent and noting the Staff's support for these expenditures as reasonable and prudent. PFD, p. 188. The ALJ found that the "Attorney General did not identify specific projects and corresponding amounts that should be disallowed, instead making a general recommendation that the 2025 capital expenditures be disallowed." *Id*., pp. 188-189. He found that the proposed capital expenditures were reasonably and prudently incurred.

In exceptions, the Attorney General argues that the Commission set a limit of $240 million in the November 7 order without a specification of actual projects. She argues that DTE Gas's evidence is typically light on the details of specific projects and, in any case, lacks quantitative evidence supporting the company's arguments. Attorney General's exceptions, p. 16 (citing Exhibits A-12, Schedules B6 through B6.5). The Attorney General characterizes the company's evidence as "primarily a high level overview of spending for the MMO, MRP, and GRP programs[.]" Attorney General's exceptions, p. 16. She contends that the cost overruns are well documented since 2016 and the $10.4 million disallowance is reasonable.

In reply, DTE Gas argues that:

> the AG identifies no specific IRM expenditure that was imprudently incurred and no less costly means of accomplishing the same safety-driven replacement work. To the contrary, the IRM reduces costs to customers by avoiding the delay, inefficiency, and rate volatility inherent in funding the same safety-critical work through successive general rate cases (DTE Gas Initial Brief at 62–63; 4T 1768–69).

DTE Gas's replies to exceptions, p. 34.

After review of the record and arguments by the parties, the Commission finds the ALJ's recommendation on this issue to be well-reasoned and supported by the record. Accordingly, the

Commission adopts the ALJ's findings and conclusions on the Attorney General's proposed 2025 disallowance. *See*, PFD, p. 188.

The ALJ recommended that the Commission reject the Attorney General's proposal for attaching a lower ROE to the IRM. *Id*. The ALJ found that the Attorney General failed to show that the IRM creates a lower risk of recovery or that the IRM expenditures are not used and useful until the reconciliation. The ALJ stated that "the timing of the surcharge has no bearing on whether the asset in question is used and useful. Further, this PFD finds that applying a ROE specific to the IRM would require a restructuring of the mechanism that the Commission has stated it is not inclined to undertake[.]" PFD, pp. 189-190 (citing the November 7 order, p. 76).

In exceptions, the Attorney General argues that the Commission has routinely allowed projected and claimed IRM costs in rate cases, thus incentivizing the expansion of the program. In response to the ALJ, she states that she:

> is not arguing that some IRM projects included in rate base are not used and useful, but it [sic] is pointing out that until the proper review is made in a rate case, the Company continues to recover costs through the IRM for projects that later may be found not to be used and useful. This feature of the IRM makes the recovery of costs through the IRM less risky and potentially results in over-recovery of costs if those costs are disallowed upon transfer to rate base.

Attorney General's exceptions, pp. 19-20. The Attorney General notes that the timing of the IRM allows the company to collect the surcharge long before the costs are actually reviewed in a rate case and capitalized to rate base, which is the reverse of the treatment of typical capital expenditures that are included in rate base after approval in a rate case. The Attorney General argues that this structure clearly lowers the risk associated with the investments and that lowered risk should be recognized via a lower cost of capital because, otherwise, the return to investors is inflated. She contends that the ROE should be lower just during the time that the capital

expenditures are in the IRM and subject to the automatic surcharge. *Id*., p. 21. With regard to restructuring the mechanism, the Attorney General argues that:

> [t]he customers and ratepayers who pay for everything DTE does deserve a Commission that is thorough and thoughtful. The job is not an easy one, but rejecting valid approaches and correct decisions because it would be inconvenient or otherwise difficult works a disservice to those who pay the utility bills and is not a standard upon which relief can be denied.

Id., pp. 22-23. The Attorney General contends that the Commission has previously recognized the concept of lower risk for a short duration. She concludes that:

> the Company's plan is clear – put as many programs and dollars into the IRM as possible, ensuring guaranteed recovery, the ability to capitalize more and more costs, and distancing DTE further and further from any semblance of the regulatory lag principles that can provide incentive for DTE to keep costs down. Failing to adequately grapple with these truths inappropriately shifts the burden of support from DTE to intervenors and will continue to drive up ratepayer costs. It is worth reiterating that what began as a $17.4 million program to replace cast iron mains has morphed into a $450 million request.

Id., p. 24 (emphasis in original).

In reply, DTE Gas argues that IRM-related investments carry no lower risk than capital investments recovered through base rates, and that "IRM-funded plant is the same type of long-lived utility infrastructure as other distribution and transmission plant, financed with the same mix of long-term debt and equity." DTE Gas's replies to exceptions, p. 45. The company further argues that IRM expenditures are subject to the same oversight framework that is applied to capital expenditures recovered through base rates.

After review of the record and arguments by the parties, the Commission finds the ALJ's recommendation on this issue to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on the Attorney General's proposal to lower the ROE applicable to IRM-related investments. *See*, PFD, pp. 189-190. Further, the Commission finds that an equivalent ROR between base rates and the IRM is appropriate.

The ALJ agreed with the intervenors that legacy services should be excluded from the IRM. *Id*., p. 190. He found that DTE Gas's:

> testimony does not articulate why legacy services need to be included in the IRM. This PFD is not convinced that the method of cost recovery should affect the ability to replace high-risk infrastructure when needed. Further this PFD finds [ABATE's] argument that declining service-related gas leaks from 2020 through 2024 shows the adequacy of current maintenance and replacement practices to be persuasive and indicative of the progress being made to replace legacy materials. This PFD finds that DTE has not shown why this program should be included in the IRM and why the costs of such should not remain in base rates.

Id.

In exceptions, DTE Gas explains that "Legacy Services (aging cast iron, wrought iron, copper, bare steel, and coated steel services) are prone to leaks but are not currently in the scope of the Company's Gas Renewal Program because they are not tied to a legacy main or an inside meter (DTE Gas Initial Brief at 90; 4T 1803)." DTE Gas's exceptions, p. 76. DTE Gas argues that including legacy services in the GRP "allows the Company to leverage the same construction crews and planning processes already mobilized in surrounding grids, thereby achieving efficiencies that would not be available if Legacy Service renewals were treated as standalone capital projects subject to regulatory lag (4T 1789, 1803, 1871)." *Id*., p. 78. DTE Gas contends that the choice of cost recovery mechanism actually does directly affect the pace of the work.

In its reply, ABATE argues that this request is neither necessary nor reasonable but rather illustrates the company's preference for accelerated cost recovery and aversion to regulatory lag. ABATE's replies to exceptions, pp. 7-8. ABATE again notes that leak rates continue to improve, including corrosion related leaks.

In her reply, the Attorney General argues that the ALJ was correct and points to the "perverse incentives that exist within the IRM framework – namely ever-escalating expenditures with little to no oversight of costs. Both of DTE's arguments regarding the inclusion of legacy services

come back to its stance that without all of this recovery, right now, the system's reliability and safety will be in danger." Attorney General's replies to exceptions, p. 28. She asks the Commission to reject this stance and to remain vigilant.

In its reply, MEC argues that DTE Gas failed to show why these activities require IRM treatment rather than remaining in rate base. MEC's replies to exceptions, p. 24.

After review of the record and arguments by the parties, the Commission finds the ALJ's recommendation on this issue to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on the exclusion of legacy services from the IRM. *See*, PFD, p. 190. The Commission notes that, while excluded from the IRM, this cost category is not excluded from rate base and this treatment should not result in any delay to any necessary work.

The ALJ also recommended exclusion of costs associated with the deployment of ultrasonic meters and bypass devices from the IRM. *Id*. The ALJ noted that this is a new program with associated uncertainties and found that:

> it would be premature to include it in the IRM. DTE states that it will be studying the use of these devices and the effectiveness of their use during their roll-out. As there is no cost-benefit analysis or comprehensive plan yet in place for these devices, this PFD finds that recovery for this program should remain in base rates and that DTE has not shown why this program should be included in the IRM.

Id., pp. 190-191.

In exceptions, the Staff argues that ultrasonic meters and bypass devices should be added to the IRM because the company is simply asking "for the material cost where meter replacement activities are already occurring as part of gas renewal program activities under the IRM" and that delaying their installation at this time "would result in duplication of both labor and material costs in future rate cases." Staff's exceptions, p. 2.

DTE Gas did not address this issue in exceptions.

In its reply, ABATE rejects the Staff's position, arguing that the company already indicated that it would only perform these installations where crews are already performing upgrades, and thus "there is no labor duplication to avoid." ABATE's replies to exceptions, p. 9. ABATE notes that the ALJ did not prohibit the installation of these devices but simply found that recovery should remain in base rates. ABATE contends that the Staff does not answer that point.

In her reply, the Attorney General notes that DTE Gas did not file an exception on this issue and thus has waived its request that these costs be included in the IRM, and she contends that any argument raised in replies to exceptions by the company must be rejected as untimely. Attorney General's replies to exceptions, p. 27, n. 92.

In its reply, MEC notes that DTE Gas failed to file an exception on this issue and thus has waived this request. MEC's replies to exceptions, p. 25.

After review of the record and arguments by the parties, the Commission finds the ALJ's recommendation on this issue to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on the exclusion of ultrasonic meters and bypass devices from the IRM. *See*, PFD, pp. 190-191. The Commission notes that, while excluded from the IRM, this cost category is not excluded from rate base and this treatment should not result in any delay to necessary work.

Turning specifically to the PIP, the ALJ noted that DTE Gas reported/projected total capital expenditures through September 2027 of $51.9 million and projected annual capital expenditures of $6 million for 2027 through 2031. *Id*., p. 192 (citing 4 Tr 1815-1819). The ALJ stated that, "[o]ther than as recommended otherwise[,]" the Commission should approve the requested amounts. PFD, p. 192.

No exceptions were filed on this issue. *See*, DTE Gas's exceptions, p. 72, n. 39.

After review of the record and arguments by the parties, the Commission finds the ALJ's recommendation on this issue to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on approval of the requested PIP amounts for inclusion in the IRM. *See*, PFD, p. 192.

Turning specifically to the RSRP, the ALJ agreed with the Attorney General and MEC that DTE Gas failed to show why this program cannot remain in base rates. *Id*., p. 196. The ALJ noted the concerns expressed by the Commission in the November 7 order, pp. 76-78, regarding the expansion of the IRM and the consistent cost overruns. The ALJ recommended that the IRM not be expanded to include the RSRP. PFD, p. 196.

In exceptions, DTE Gas argues that the RSRP meets the criteria that have been applied to determine IRM inclusion, and that the current pace of the program is insufficient to address the amount of aging and outdated regulator stations that need to be addressed. DTE Gas's exceptions, p. 81. DTE Gas also refers to the Staff's support for inclusion. *Id*., p. 82 (citing 5 Tr 2558). The company acknowledges the Commission's warnings regarding further expansion of the IRM in the November 7 order but argues that this expansion is justified.

In reply, the Attorney General argues that DTE Gas again threatens that system safety and reliability will be at risk without this expansion of the IRM but argues that the company provides nothing new in its exceptions. Attorney General's replies to exceptions, p. 29.

In reply, MEC argues that DTE Gas failed to show why it cannot continue its current rate base approach, particularly since "the company is not even tracking its current replacement activity within routine capital." MEC's replies to exceptions, p. 26. Instead, MEC argues, these

investments '"are part and parcel of a gas utility's business and do not reasonably warrant special treatment."' *Id*., p. 27 (quoting 4 Tr 2017-2018).

After reviewing the record and arguments by the parties, the Commission finds the ALJ's recommendation on this issue to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on the exclusion of the RSRP from the IRM. *See*, PFD, p. 196.

Turning specifically to the CCPP, the ALJ noted the Commission's decision in the November 7 order, p. 64, to exclude the CCPP from the IRM, and agreed with the Attorney General and MEC that it should again be excluded. PFD, p. 200. The ALJ found that:

> [d]espite references to the new PHMSA rule, this PFD does not find that there has been a change that would warrant including this program in the IRM. This PFD finds that DTE has not shown why this program cannot remain in base rates and has not shown a change that would warrant a reversal of the Commission's previous decision regarding this same request.

Id.

In exceptions, DTE Gas argues that the new PHMSA rule regarding cathodic protection significantly expanded protection requirements, and that this area has also seen a recent increase in remediation costs. DTE Gas's exceptions, pp. 83-84 (citing 4 Tr 1857-1858, 1830-1831). The company contends that the ALJ failed to address the evidence presented by the company, and objects to the notion that the utility must show "proof of impossibility of base rate recovery" as a legal standard, arguing that "the PFD conflates the availability of a cost recovery mechanism with its appropriateness." DTE Gas's exceptions, p. 84 (emphasis in original). DTE Gas contends that the CCPP meets the criteria applicable for IRM inclusion.

In reply, the Attorney General argues that DTE Gas again threatens that system safety and reliability will be at risk without this expansion of the IRM but the company provides nothing new

in its exceptions. Attorney General's replies to exceptions, pp. 30-31. She contends that the company failed to show why recovery of these costs may not occur through the normal rate case process.

In its reply, MEC contends that the company "has not demonstrated that it cannot meet its safety and reliability requirements – including those for the PHMSA rule for pipelines in overhead power line corridors – by continuing to include them in normal capital expenditures." MEC's replies to exceptions, p. 28.

After reviewing the record and arguments by the parties, the Commission finds the ALJ's recommendation on this issue to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on the exclusion of the CCPP from the IRM. *See*, PFD, p. 200.

Finally, turning to the spending level, the ALJ noted the Commission's decision in the November 7 order, p. 77, wherein the Commission rejected the concept of a cap but approved the setting of a per year spending level for calculating the IRM surcharge. The ALJ recommended adoption of the Staff's proposed use of $334 million per year as the spending level for 2027 through 2031 (apparently for the full IRM), finding that this would account for increased costs while also limiting growth. PFD, p. 189. (The ALJ implicitly rejected the Attorney General's proposed $255 million cap.)

In exceptions, ABATE argues that approval of the $334 million amount for the GRP is unreasonable and inconsistent with the ALJ's other findings. ABATE maintains that the Commission should limit the GRP to $158.9-$239 million per year during the 2026-2031 period. ABATE's exceptions, pp. 1-2 (citing 5 Tr 2677). ABATE contends that DTE Gas did not support its increased cost projections, and the approved amount is almost $100 million more than the

amount the Commission approved for the MRP in the November 7 order, pp. 76-77. ABATE contends that DTE Gas has not addressed the Commission's concerns about overperformance, noting that the number of leaks across mains and services is declining and arguing that the cost drivers are overstated. ABATE's exceptions, pp. 3-4.

Further, ABATE notes that the ALJ drew his approved amount from the Staff's recommendation, but the Staff's amount assumed the inclusion of the legacy services and the ultrasonic meters and bypass devices, both of which were excluded by the ALJ. *See*, PFD, pp. 179-181; 5 Tr 2547-2548. ABATE contends that the approved amount "must be reduced to reflect the amounts the PFD excluded, including the $7,666,000 in 2027 and $11,450,000 annually from 2028 through 2031 for ultrasonic meters and bypass devices, and $7.3 million beginning in 2027 for the corresponding legacy-service renewal amounts." ABATE's exceptions, p. 4.

In exceptions, MEC argues that DTE Gas has ignored the Commission's cautions in the November 7 order and has, instead, proposed to significantly increase IRM spending. MEC also notes confusion associated with the PFD, stating that the Staff recommended $334 million for the MRP only for 2027 through 2031, not for the total IRM. MEC's exceptions, p. 18. MEC argues that this is an unreasonable amount for the MRP alone and also for the total IRM, noting that the $6 million projection for the PIP is not in dispute and thus most of the spending will be on the MRP. MEC argues that DTE Gas did not present substantial evidence in support of this amount, and the amount disregards the concerns about affordability, accountability, and rapid expansion expressed by the Commission in the November 7 order wherein $240 million was approved for the MRP. MEC argues that total IRM spending should be limited to $300 million. *Id*., p. 19.

MEC states that "[t]he GRP is by far the largest component of the IRM and the MRP is by far the largest component of the GRP." *Id*. MEC contends that the Commission should keep the

MRP spending level at $240 million per year. MEC notes that the structure of the IRM means that the company can exceed the increasing spending level each year and "then recover[] these overruns when they are rolled into base rates in subsequent rate cases, leaving little incentive for the Company to control these costs." *Id*., p. 20 (citing 4 Tr 2013-2014; Exhibit A-12, Schedule B6.1). MEC argues that DTE Gas's assertions of project complexity, contract rate increases, inflation, permits, etc. were supported by only a single-page workpaper. *See*, Exhibit MEC-19. MEC avers that it is undisputed that many of these concerns were overstated and some projected increases had not occurred. MEC further argues that, while the company provided inconsistent numbers regarding MRP spending in 2025, all of the numbers were above $240 million. MEC's exceptions, p. 23. MEC recommends that the Commission again adopt $240 million for the MRP and a total limit of $300 million per year for the IRM. *Id*., p. 26.

In exceptions, the Attorney General also argues that the ALJ erred. She notes that the ALJ failed to mention her proposal for a limit of $255 million per year. Attorney General's exceptions, p. 17. The Attorney General contends that the Staff arrived at the $334 million figure based on the company's requested recovery for 2027 for the MRP, but she also points to the history of cost overruns and the lack of evidence showing the need for the escalation. The Attorney General argues that her recommended $255 million figure represents a 3% annual increase over two years over the $240 million approved in 2024. She adds that requiring the company to recover costs above this amount through base rates (instead of the IRM) will incentivize DTE Gas to control spending. *Id*., p. 18.

In exceptions, DTE Gas objects to the ALJ's $334 million annual limit for 2027 through 2031, arguing that the Staff actually supported the company's proposed $377.77 million capital expenditure level for 2027. DTE Gas's exceptions, p. 74. DTE Gas argues that the Staff arrived at

the $334 million figure for 2027 through 2031 by holding the MRP component of the GRP constant through that period rather than supporting the needed escalations for later years. DTE Gas contends that the ALJ incorrectly applied the Staff's recommended amount for the MRP to the entire IRM, which was not the Staff's intent. The company argues that this amount needs to be increased by the amounts for the PIP, RSRP, and CCPP for the full time period and, at a minimum, the $6 million for the PIP. *Id*., p. 75. However, DTE Gas contends that the Commission should adopt the company's proposed amounts based on its showing of increased costs and the increased complexity of projects:

> including escalating project complexity as Gas Renewal Program work moves into increasingly congested, urban corridors; 2–5% annual increases in contractor pricing; 3% annual increases in internal labor and material costs; increasingly stringent municipal permitting and restoration requirements; and incremental investments in electronic as-builting technologies and ultrasonic meters (4T 1789–95). These cost pressures are not speculative—they are reflected in the empirical trend showing that Gas Renewal Program miles retired declined from approximately 224 miles in 2023 to 161 miles in 2025, while cost per installed mile increased over the same period (4T 1786, Table 3; 4T 1848–49).

Id., pp. 75-76.

In its reply, ABATE argues that the company's claims about increasing complexity and permitting requirements were not adequately supported in the evidence and adds that DTE Gas is accustomed to operating in dense urban environments. ABATE's replies to exceptions, p. 5. ABATE also notes that the company admitted that it had not completed a detailed analysis of the complexity cost drivers. *Id*., p. 6 (citing Exhibit AB-7). ABATE contends that DTE Gas's "5% annual spending level increase is significantly above its claimed labor cost increases of 2% to 3%." ABATE's replies to exceptions, p. 6. ABATE also notes the lack of an adequate BCA.

In her reply, the Attorney General contends that, whether the amount is $340 million or $334 million, they are both too high. She argues that the "Commission should reject scare tactics

and recognize the IRM for what it is – a program with out of control spending, that DTE is attempting to put more and more programs into. DTE should focus on being more efficient and strategic with the funding the Commission has granted[.]" Attorney General's replies to exceptions, pp. 26-27.

In its reply, MEC contends that the ALJ's decision is not supported by substantial evidence and "undoes the check on spending instituted in [Case No.] U-21291." MEC's replies to exceptions, p. 22. MEC maintains that DTE Gas failed to support its alleged cost drivers, and adds that the Commission should maintain "the $240 million spending threshold for main renewal – perhaps adjusted by DTE's approved inflation rate – and should limit total IRM spending to $300 million per year . . . If the Commission does not adopt those recommendations, at the very least it should adopt the PFD's modest limit of $344 million total per year." *Id*., p. 23.

In its reply, DTE Gas contends that there is a need for the IRM because it is "the most cost-effective mechanism to fund and recover legally required safety and integrity improvements." DTE Gas's replies to exceptions, p. 32. The company argues that a mechanism "subject to prospective Commission approval, annual reporting, annual reconciliation, and retrospective prudence review in contested rate cases is not 'guaranteed recovery' (AG Exceptions at 24) by any reasonable definition." DTE Gas's replies to exceptions, p. 37. DTE Gas argues that its proposed capital expenditure levels should be adopted.

DTE Gas states that the Commission must address the confusion caused by the PFD and argues that the Staff did not recommend capping the entire IRM at $334 million. *Id*., p. 39. The company urges the Commission to reject the intervenors' proposed disallowances. DTE Gas contends that the Attorney General's figure is simply the level adopted in the November 7 order with inflation added, which treats that amount as a permanent ceiling. *Id*., p. 40. The company

asserts that the $255 million proposal "bears no relationship to the Company's actual safety-driven capital requirements, the evolving scope of federal and state pipeline safety regulation, or the documented cost drivers" affecting the GRP program, and the Attorney General "does not identify any specific IRM project or program component that should be deferred, scaled back, or eliminated to fit within a $255,000,000 envelope." *Id*., p. 41.

Turning to MEC, DTE Gas argues that the proposed $300 million cap is not based on an engineering-based safety threshold and MEC offered no specific IRM programs that should be deferred in order to ensure that spending remains at that level. *Id*. Regarding ABATE's proposed $667 million reduction, DTE Gas contends that it also ignores the safety-driven nature of the company's planned investments and fails to identify any specific GRP program that is unnecessary. DTE Gas maintains that neither the Attorney General nor MEC "identifies any specific 2025 IRM project that was imprudent, not in service, or not used and useful. A generalized history of spending above target levels is not a substitute for a project-specific prudence analysis and cannot support a disallowance under the applicable legal standard." *Id*., p. 43.

The Commission partially agrees with the ALJ and adopts the Staff's proposed $334 million annual amount for the GRP, along with the uncontested $6 million annual amount for the PIP, for a total annual IRM amount of $340 million to be used for the calculation of the surcharge for the 2027 through 2028 period, $311.02 million for 2029, $310.13 million for 2030, and $309.04 million for 2031. *See*, Exhibit S-17.1. These amounts reflect the removal of the ultrasonic metering technology and the legacy services from the GRP, along with the removal of the RSRP and CCPP from the IRM, consistent with the decisions made above. *Id*. The Commission recognizes that this is a significant increase over the amount approved in the

November 7 order for the GRP and PIP but continues to believe in the importance of this work and finds that the company and the Staff presented sufficient evidence illustrating the increased costs and complexity associated with the more advanced stages of this effort.

Finally, as the Commission's overall decision shows, expansion of the IRM to additional programs is likely to be limited in the future, unless a substantially more compelling case to expand is presented. The Commission has found the IRM to be successful in focusing on and accelerating the pace of undeniably necessary infrastructure investments crucial for public safety, but does not find that just any program, even if shown to be reasonable and prudent, is suitable for inclusion in an IRM. Turning to future rate cases, the Commission finds merit in some of MEC's recommendations for greater transparency and increased consideration of NPAs. Specifically, the Commission encourages DTE Gas, in its evidentiary presentation regarding the IRM, to target risk mitigation and to provide a full justification for any overspending on the record, applying risk-per-dollar metrics. This will assist the Commission in determining the necessity of the spending. The Commission retains the concerns expressed in the November 7 order regarding overspending and expansion of the IRM and encourages the company to avoid the overspending that has characterized most years of the IRM since its inception. The Commission encourages DTE Gas to also focus its evidentiary presentation on the benefits of the program and the outcomes rather than simply the spending (prioritizing risk over dollars), and to actively consider NPAs and discuss its evaluation on the record.[11]

[11] The Commission also notes that DTE Gas requests a correction of the inclusion of a $51,000 property tax adjustment associated with IRM capital expenditure disallowances in the appendices to the PFD. DTE Gas's exceptions, p. 96. The Staff agrees. Staff's replies to exceptions, pp. 10-11. The Commission also agrees and the correction has been made.

D. Gas Information Technology

DTE Gas projected a total of $69.93 million in information technology (IT) capital expenditures, consisting of $9.33 million for the historical year, $29.08 million for 2025, $18.39 million for the 2026 bridge period, and $13.14 million for the test year. 3 Tr 763; Exhibit A-12, Schedule B5.4. DTE Gas indicated that the primary drivers for these investments are cybersecurity, the need for reliability of the grid and the IT assets, and cost effectiveness. 3 Tr 761. The Staff and the Attorney General proposed certain disallowances, discussed below. Some of the proposed disallowances include O&M expenses.

1. Projects with Level 3 Cost Estimates

The Staff recommended that the Commission disallow 10% of capital expenditures, which amounts to $4.73 million in the bridge period ($2.896 million for 2025 and $1.84 million for the 2026 bridge period) and $1.2 million in the test year, for projects with Level 3 cost estimates, based on the uncertainty associated with these cost estimates. 5 Tr 2456. The Staff also recommended an associated 10% disallowance of O&M costs of $85,147 associated with these Level 3 projects. 5 Tr 2456. The Staff noted that these projects receive this Level 3 estimate a year or more prior to implementation of the project, and many aspects of the timeline, scope, and even necessity change during that year. 5 Tr 2456-2457. The Staff identified previous overestimates and recommended the 10% disallowance because that is the lower boundary of the accuracy range for a Level 3 cost estimate, which is -10% to +15%. 5 Tr 2458-2459. The Staff noted that DTE Gas may seek recovery of any underestimated amounts in a future rate case, whereas overestimated amounts that are approved cannot be refunded to customers. The Staff argued that a forward-looking test year requires adequate substantiation that projections are accurate.

The ALJ recommended that the Commission adopt the Staff's proposed disallowances (including the O&M disallowance), finding them to be reasonable and supported by both record evidence and Commission precedent. PFD, p. 208. The ALJ found that "[e]ven the Company's own data from 2025 shows over-collection on approximately half the projects, demonstrating that Level 3 projections can be imprecise." *Id*. The ALJ also noted that the Commission recently adopted a 10% disallowance for projects with Level 3 cost estimates in the February 19, 2026 order in Case No. U-21860 (February 19 order) (DTE Electric Company's most recent rate case), p. 248. PFD, p. 209.

In exceptions, DTE Gas argues that the ALJ failed to give adequate weight to the company's showing regarding actual 2025 expenditures, which resulted in a 0.7% underrecovery for the year as a whole. DTE Gas's exceptions, p. 90 (citing 3 Tr 813; Exhibit A-34, Schedule X1). The company argues that there is no regulatory requirement that cost estimates be conservative but rather that they be reasonable and prudent, and states that the ALJ fails to identify any specific Level 3 project with unreasonable costs.

In reply, the Staff argues that "the regulatory standard is for cost estimates to be reasonable and prudent for each specific project." Staff's replies to exceptions, p. 7. The Staff notes that six of the thirteen specific projects for 2025 had a percent change that was outside of the accuracy range. *Id*.

After review of the record and arguments by the parties, the Commission finds the ALJ's recommendation on this issue to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on the Staff's proposed 10% disallowance for Level 3 costs in this cost category and corresponding O&M disallowance. *See*, PFD, pp. 208-209.

2. Industrial and Financial Systems Mobile Work Management Enhancement Project

DTE Gas intends to replace its current field service management (FSM) platform with the Industrial and Financial Systems (IFS) FSM platform, which will be followed by implementation of the mobile work management (MWM) enhancement project, which is intended to address gaps in functionality and provide enhancements to the IFS platform. The company projected capital expenditures of $1.13 million and O&M expenses of $113,341 for the test year for the MWM enhancement project. 3 Tr 796.

The Staff and the Attorney General recommended a total disallowance of both the capital and O&M requests for the MWM enhancement project for 2027, arguing that DTE Gas failed to show that the enhancements will be used and useful in the test year. 5 Tr 2461, 3278. The Staff noted that the IFS project itself (excluding the enhancements) is not scheduled for implementation until the fourth quarter of 2026 and may be delayed. The Staff and the Attorney General contended that the projection is premature for inclusion in rate base considering that the enhancements are for an application that is not yet in service. 5 Tr 2461, 3278. They noted that any capital expenditures that actually occur during the test year may be included in a future rate case.

The ALJ recommended that the Commission adopt the disallowances, finding that the Staff "correctly note[s] that the necessity and scope of the enhancements are uncertain until IFS is in service, used and useful. Even if implementation of IFS is not delayed the Company has not supported the need for any specific enhancements to a project that is not in service." PFD, p. 213. The ALJ recommended disallowance of both the capital and O&M amounts.

In exceptions, DTE Gas argues that it is unreasonable for the ALJ to assume that delay will occur and that neither the Staff nor the Attorney General actually showed a specific risk factor or obstacle that will result in delay. DTE Gas's exceptions, p. 91. The company states that ClickSoft

is being retired by Salesforce in 2026 and thus the IFS MWM enhancements are not speculative but are instead necessary "to fully realize the operational and customer benefits of the IFS platform (DTE Gas Initial Brief at 113; 3T 820)." DTE Gas's exceptions, p. 92.

In its reply, the Staff argues that at this stage of development, this project is premature and uncertain. Staff's replies to exceptions, p. 9.

In her reply, the Attorney General states that "DTE's argument that the PFD is inconsistent with Commission precedent is ironic, given DTE's preamble arguing that relying on Commission precedent is not a solid reason to reach a specific conclusion." Attorney General's replies to exceptions, p. 32. The Attorney General maintains that the company failed to show that these investments will be used and useful in the test year or that there is a need for them.

After review of the record and arguments by the parties, the Commission finds the ALJ's recommendation on this issue to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on the proposed capital expenditure and O&M disallowances for the IFS MWM enhancements. *See*, PFD, p. 213.

3. Gas Utility Network Model

DTE Gas intends to replace its current gas system mapping software with the gas utility network model (GUNM) to improve performance and ensure support for the software. DTE Gas seeks $451,000 for the historical test year, $3.29 million for the 2026 bridge period, and $3.66 million for the test year for this project. 3 Tr 787-788.

The Attorney General advocated for a total disallowance of the requested amounts for the GUNM project of $451,000 for 2024, $3.29 million for the 2026 bridge period, and $3.66 million for the test year (noting that DTE Gas did not report any spending on the project in 2025), on

grounds that the project is premature. 5 Tr 3278-3279; Exhibit AG-17. DTE Gas countered that an argument based on prematurity does not undercut the historical costs. 3 Tr 815.

The ALJ recommended that the Commission adopt the Attorney General's proposed disallowances. PFD, p. 216. Noting that the GUNM project is targeted for implementation in March of 2029 but has already been delayed, the ALJ found the project to be too preliminary and uncertain for inclusion in rate base at this time. The ALJ also found that the historical costs of $451,000 should be disallowed because they too were premature given the current timeline for the project, and because, "other than testimony that the current program is nearing its end of life, there is no support on the record to establish the imminent need for the [GUNM]." *Id*.

In exceptions, DTE Gas argues that the ALJ ignored the Proof of Concept included in the company's evidence at 3 Tr 816 and seems to have imposed a new ratemaking standard based on imminence. DTE Gas's exceptions, p. 93. DTE Gas contends that this is a "necessary, nondiscretionary replacement of aging, soon-to-be-unsupported core geographic information system functionality that is critical to the Company's transmission and distribution operations (DTE Gas Initial Brief at 113; 3T 787, 817)." DTE Gas's exceptions, p. 93. The company argues that the ALJ did not find any imprudent expenditures.

In reply, the Attorney General argues that DTE Gas offers nothing new in its exceptions, and that the ALJ fully addressed the record. Attorney General's replies to exceptions, p. 33.

After review of the record and arguments by the parties, the Commission agrees with the ALJ that the company has not sufficiently supported its projections for the bridge period and the test year and finds that they should be disallowed. PFD, p. 216. However, the Commission agrees with DTE Gas that the historical spend should be included in rate base and thus the Commission

approves the $451,000 in capital expenditures for 2024 for the GUNM for rate base treatment. 3 Tr 815-816.

4. Home Protection Plus Self-Service Portal and Enhancements Project

DTE Gas's Home Protection Plus (HPP) appliance service program (ASP) is a value-added program (VAP) that offers appliance repair to residential customers and involves the charge of a monthly fee. 2 Tr 267-269. As a VAP, the HPP ASP is not regulated by the Commission; however, revenues from the program that exceed costs flow back to ratepayers to reduce rates. 2 Tr 272; *see*, MCL 460.10ee(12); Mich Admin Code, R 460.10102(1)(g); R 460.10112(1)(c)-(f). DTE Gas projected capital expenditures for two IT projects intended to enhance the experience for HPP program customers: the HPP Self-Service Portal (SSP) project and the HPP Product Enhancements (PE) project. 2 Tr 269-272. DTE Gas argued that the SSP project is necessary to allow HPP customers to interact with the company digitally, and the PE project would allow this interaction with respect to billing. 2 Tr 272. For the SSP, DTE Gas reported/projected capital expenditures of $1.2 million for 2024, $1.4 million for the 2026 bridge period, and $0.5 million for the test year. 2 Tr 270; Exhibit A-12, Schedule B5.4.2. For the PE, DTE Gas reported/projected capital expenditures of $0.8 million for 2024, $1.7 million for the bridge period, and $0.5 million for the test year. 2 Tr 272-273; Exhibit A-12, Schedule B5.4.2. DTE Gas contended that these enhancements might lead to increased enrollment, and thus to increased revenues from the HPP ASP available to offset rates.

The Attorney General recommended a total disallowance of capital expenditures for both HPP projects (including the historical year), for a total of $2.01 million for 2024, $1.86 million for 2025, $1.31 million for the 2026 bridge period, and $963,000 for the test year. 5 Tr 3274-3275; Exhibit A-12, Schedule B5.4.2. Beginning with the SSP, the Attorney General contended that

DTE Gas failed to demonstrate the need for the project, arguing that the only supporting evidence is a 2022 survey of customers in western Michigan showing that certain age groups recommended modernization of the customer experience. 5 Tr 3276; Exhibit AG-15. The Attorney General noted that no BCA was performed and no other supporting evidence or data was provided by the company. Turning to the PE, the Attorney General again noted the lack of a BCA and she argued that the enhancements would increase customer convenience but are not essential. 5 Tr 3277; Exhibit AG-16. The Attorney General asserted that DTE Gas provided no evidence showing that the projects would increase customer enrollment, and she argued that gas service affordability is a great concern at this time. 5 Tr 3278. DTE Gas countered that, because the HPP ASP is a VAP, the capital costs for the program are not subject to a reasonableness and prudence review by the Commission. DTE Gas's initial brief, pp. 112-113.

The ALJ recommended adoption of the Attorney General's disallowance, finding that:

> the Attorney General's proposed disallowance is reasonable and supported by the record evidence in this case. The Company is requesting over $6 million dollars in capital expenditures be included for the two IT projects related to the HPP. Then the Company asserts that the proposed projects are beyond the Commission's review because the HPP program is a value-add[ed] program. The Attorney General correctly notes this is misleading, at best. Because the Company is seeking to include the capital costs associated with the two programs in base rates, the revenue requirement is part of Commission's scope of review.

PFD, p. 223. The ALJ found that the 2022 survey introduced to support the SSP request provided very little specific information about the need for the SSP; and he noted that, with respect to the PE, the company is currently operating with assistance from the IT department and the need for the PE was not demonstrated. The ALJ further found that DTE Gas failed to show that the projects will increase HPP participation. *Id*. The ALJ concluded that:

> [w]hile a digital interface and enhanced access may become necessary in the future, the Attorney General appropriately argues that affordability is of great concern to rate payers and these projects are non-essential to operate the underlying HPP

> program. Accordingly, this PFD recommends the Commission disallow the capital costs for both the HPP Self Service Portal and the HPP Product Enhancements.

Id., p. 224.

In exceptions, DTE Gas argues that the ALJ "conflates two distinct arguments." DTE Gas's exceptions, p. 93. The company agrees with the ALJ that "the appropriate ratemaking treatment of HPP revenues and costs . . . is within the Commission's jurisdiction" and adds that:

> [t]o be clear, the Company's position is not that HPP costs are immune from any review; rather, it is that the HPP program is a value-added service that generates revenue, and that the relatively modest IT investments are reasonable business decisions to maintain program competitiveness, enhance customer experience, and protect a revenue source that benefits all customers (DTE Gas Initial Brief at 114; 2T 331).

Id. DTE Gas contends that the ALJ failed to engage with the evidence regarding the purpose and the benefits of the HPP investments. The company argues that modernization is necessary to address high call volumes and complaints from customers. *Id*. (citing 2 Tr 334-335). DTE Gas notes that HPP revenues exceed costs and thus argues that strengthening the program can preserve a revenue stream that offsets rates. The company adds that the issue is not whether these investments are essential but rather whether they are reasonable and prudent. DTE Gas's exceptions, p. 95. DTE Gas concludes that:

> [g]iven that the HPP program generates substantial net revenue that reduces the overall cost of service resulting in lower bills for all customers, and that the proposed IT investments are designed to sustain and potentially grow that revenue stream, the Company has met its burden of demonstrating that these expenditures are reasonable and prudent (2T 268). DTE Gas also agrees as a general matter that affordability "is of great concern to rate payers" (PFD, p 224), but the Company emphasizes that the HPP program itself supports affordability by lowering the overall cost of service (DTE Gas Initial Brief at 114; 2T 331).

Id.[12]

In reply, the Attorney General argues that DTE Gas's exceptions offer nothing new and that the ALJ fully addressed the record. Attorney General's replies to exceptions, pp. 34-35.

After review of the record and arguments by the parties, the Commission finds the ALJ's recommendation on this issue to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on the proposed disallowances for the HPP SSP and the PE. *See*, PFD, pp. 223-224. As DTE Gas notes, the question is whether the proposed capital expenditures are reasonable and prudent, and the Commission agrees with the ALJ's analysis finding the evidence to be lacking. *See*, Exhibit A-12, Schedule B5.15.1; Exhibit A-12, Schedule B5.19; 2 Tr 268-275, 330-335.

Further, the Commission notes that DTE Gas provided testimony indicating that "DTE Gas's pricing structure for the HPP program's services results in revenue that exceeds the fully allocated embedded costs of the programs, thus reducing the overall cost of service and resulting in lower bills for all DTE Gas customers. Details of the cost breakdown are outlined in the 2024 HPP program annual filing, Case No. U-20676." 2 Tr 268-269. DTE Gas reports gross revenues of $108.5 million in the test year. Exhibit A-13, Schedule C3; 2 Tr 269. This is useful information (which appears to be based on 2024 gross revenues), but the Commission finds that future rate case filings addressing HPP should include testimony stating the HPP net margin flowing back to benefit ratepayers in the projected test year, supported by an exhibit showing all revenue,

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[12] Additionally, DTE Gas states that the appendices to the PFD require a correction regarding a $755,000 HPP revenue adjustment and asks that the Commission "clarify that the $755,000 HPP revenue adjustment is recognized only once in the final revenue requirement and revise the appendices as necessary to eliminate any duplicate adjustment." *Id*., p. 96. The Staff agrees. Staff's replies to exceptions, p. 10. The Commission also agrees and has made the requisite correction.

expenses, and the net margin. On the record in the instant case, DTE Gas appears to have relied largely on costs and revenues associated with the historic test year, but the company did not tie these amounts to the relevant annual reports, making the audit of the company's information piecemeal and challenging.[13]

MCL 460.10ee(6)(c) provides that a utility with a VAP shall:

> [m]aintain separate books and records for the program or service and provide an annual report to the commission showing how all of the utility's costs associated with the unregulated value-added program or service were allocated to the unregulated program or service. The annual report shall show to what extent the utility's rates were affected by the allocations. The utility may include this report as part of a request for rate relief.

Additionally, MCL 460.10ee(12) provides that:

> [e]xcept as otherwise provided in this subsection, the commission shall include only the revenues received by a utility to recover costs directly attributable to a value-based program or service under subsection (8) in determining a utility's base rates. The utility shall file with the commission the percentage of additional revenues over those that are allocated to recover costs directly attributable to a value-added program or service under subsection (8) that the utility wishes to include as an offset to the utility's base rates. Following a notice and hearing, the commission shall approve or modify the amount to be included as an offset to the utility's base rates.

The Commission finds that, in future rate case filings, it would be useful for DTE Gas to include any relevant annual reports as part of its request for rate relief and tie those reports to the request,

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[13] Mich Admin Code, R 460.10112(1)(e) provides that the annual report shall include:

> A balance sheet, where available, and income statement for each value-added program and service offered by an affiliate or other entity within the corporate structure, including revenues, less direct and indirect expenses broken out separately. Direct and indirect revenues and expenses shall be separated by category and then aggregated at the direct and indirect levels, and the report shall include gross income, amounts flowed back to ratepayers to reduce rates, and net income. Each category of indirect cost should be accompanied by formulas/calculations/allocations showing how they have been derived.

and the company should indicate the relevant percentage of additional revenues over those that are allocated to recover costs that the company wishes to include as an offset to base rates in rate case filings.

E. Working Capital

DTE Gas projected a working capital requirement of $837.17 million for the test year. Exhibit A-12, Schedule B4; 3 Tr 932-933.

The Staff projected test year working capital of $830.24 million, which is a reduction of $6.93 million from the company's projection in its initial filing. 5 Tr 2384; Exhibit S-2, Schedule B4. The reduction is the result of three adjustments made by the Staff: (1) Cash and Special Deposits was reduced by $6.7 million; (2) Other Accounts Receivable was reduced by $44,000; and (3) I/C Accounts Payable was increased by $186,000. 3 Tr 2384. The first adjustment was made due to timing differences in clearing temporary balances for March and November 2024, based on a recalculated 13-month average. 3 Tr 2385; Exhibits S-8 and S-8.3. The second adjustment resulted from the company's indication that $43,630 of the Other Accounts Receivable balance was considered non-utility. 3 Tr 2385-2386; Exhibit S-8.1. The third adjustment resulted from DTE Gas's agreement regarding how certain core utility services should be netted. 3 Tr 2386; Exhibit S-8.2.

The Attorney General also proposed two adjustments to the company's projections for Taxes Payable and prepaid property taxes which result in a reduction of $18 million to the working capital requirement. 5 Tr 3281. First, the Attorney General argued that DTE Gas's projected test year balance for Taxes Payable of minus $2.7 million was $12.2 million lower than the actual historical 2024 balance of $9.5 million. 5 Tr 3281. She asserted that the company included all the higher expenses proposed in the projected test year but projected no additional revenue, which

results in an unrealistic tax loss. 5 Tr 3282. The Attorney General argued that the company's calculation was flawed and that the Commission should adopt the 2024 balance of $9.5 million as a proxy for the test year. 5 Tr 3282. This reduces working capital by $12.2 million.

Second, the Attorney General argued that the company failed to provide sufficient justification for a projected $14 million increase to property tax prepayments. 5 Tr 3283. The Attorney General argued that the company saw an annual increase in this cost category of 8.4% from 2020 to 2024 and, applying that percentage, she asserted that the prepaid property tax balance should be $8.2 million rather than $14 million, resulting in a disallowance of $5.8 million to working capital. 5 Tr 3283.

The ALJ recommended adoption of the Staff's three proposed adjustments resulting in a $6.93 million reduction to working capital and projected test year working capital of $830.24 million. PFD, p. 230. The ALJ found that the company made no objection to the Staff's adjustments in rebuttal and that the record supports the reduction. *Id*., p. 231.

The ALJ recommended rejection of the Attorney General's proposed adjustments to Taxes Payable and property tax prepayments. Regarding the latter, the ALJ noted that the charge for prepayments in the November 7 order was approximately $12.59 million, and he found that it was not significantly different from the charge in the instant case of $14 million. *Id*. (citing Case No. U-21291, Exhibit A-12, Schedule B4.2; and Case No. U-21973, Exhibit A-12, Schedule B4.2). Regarding the calculation of Taxes Payable, the ALJ found that precedent supports DTE Gas's position, and that the company's position is also consistent with generally accepted accounting principles (GAAP). PFD, p. 231. The ALJ noted that the Commission rejected a similar argument from the Attorney General in the February 19 order, pp. 268-269. The ALJ further found that, "[i]n the absence of support demonstrating that the use of GAAP when

calculating taxes is unreasonable, this PFD finds that the Company's GAAP-consistent calculation should be accepted." PFD, p. 231.

In exceptions, the Attorney General argues that the ALJ erred in rejecting her proposed adjustments that will reduce working capital by $18 million. Attorney General's exceptions, pp. 24-28. Regarding forecasted prepayments, she contends that the ALJ erred in simply comparing the instant case to the November 7 order because projections will naturally be similar in consecutive rate cases. However, she notes, the actual amounts show an annualized increase of 8.4% over 2020 to 2024 and, applying that rate of increase to the 33-month period between the historic test year and the projected test year, she argues that the forecasted increase in the prepaid property tax balance should be $8.2 million rather than the $14 million claimed by the company. *Id*., p. 26 (citing 5 Tr 3283). Thus, the Attorney General continues to recommend that forecasted prepayments be reduced by $5.8 million.

Turning to taxes payable, she argues that the company is including all of its projected higher expenses for the test year in this calculation but is excluding "any new rate relief from this case, which results in a tax loss." Attorney General's exceptions, p. 28. The Attorney General contends that this is unrealistic and unreasonable.

In reply, DTE Gas argues that, regarding the prepayments, the Attorney General fails to identify any input to the company's methodology that is wrong. DTE Gas's replies to exceptions, p. 49. The company argues that the ALJ did not treat the prior approval as dispositive, but instead used the amount approved for comparison to the amount sought here. Regarding taxes payable, DTE Gas contends that the Attorney General did not change any of the inputs or mechanics and "does not contend that the Company misstates or misapplies federal, state, or municipal income tax expense, misapplies an accrual, or departs from generally accepted accounting principles (3T

1341–42)." DTE Gas's replies to exceptions, p. 50. The company maintains that its calculation applies "the test year consistently to expenses and reflects only those revenues actually authorized" and is consistent with GAAP and prior rate cases. *Id*.

After review of the record and arguments by the parties, the Commission finds the ALJ's recommendation on these issues to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on the Staff's uncontested reductions to working capital as well as the ALJ's findings and conclusions on the Attorney General's two proposed reductions to working capital. *See*, PFD, pp. 230-231. The Commission finds that, based on the determinations in the instant order, the working capital balance is $830,241,000.

F. Depreciation

The ALJ found that "depreciation expense should be recalculated based upon the Commission's determinations in the final order because differences in the proposed depreciation reserves provided by the parties arise from differing capital expenditure amounts." PFD, p. 232. The Commission finds that, based on the determinations in the instant order, the depreciation and amortization expense balance is $243,125,000.

G. Property Tax Expense

The ALJ found that "property tax expense should be recalculated based upon the Commission's determinations in the final order because differences in the proposed depreciation reserves provided by the parties arise from differing capital expenditure amounts." PFD, p. 232. The Commission finds that, based on the determinations in the instant order, the property tax expense balance is $131,041,000.

H. Depreciation Reserve

The ALJ found that "the depreciation reserve should be recalculated based upon the Commission's determinations in the final order because differences in the proposed depreciation reserves provided by the parties arise from differing capital expenditure amounts." PFD, p. 232. The Commission finds that, based on the determinations in the instant order, the depreciation reserve balance is $2,912,601,000.

I. Rate Base Summary

In the PFD, the ALJ indicated that the recommended approved rate base would be reflected in Attachment B to the PFD, which would be filed within seven business days of the issuance of the PFD. PFD, p. 232. Attachment B to the PFD reflects a rate base of $7,944,438,000. PFD, Attachment B.

Based on the determinations in the instant order, the Commission finds that rate base is $7,768,974,000.

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 Waterworks & Improvement Co v Pub Serv Comm of West Virginia*, 262 US 679; 43 S Ct 675; 67 L Ed 1176 (1923) and *Fed Power Comm v Hope Natural Gas Co*, 320 US 591; 64 S Ct 281; 88 L Ed 333 (1944). 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:

> [b]y that standard 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

1. Capital Structure

DTE Gas proposed a capital structure with a debt layer of 49.25% and an equity layer of 50.75%. 3 Tr 1114; *see also*, Exhibit A-14, Schedule D1. The Staff, the Attorney General, ABATE, and CUB all recommended continuing the balanced capital structure of 50% equity to 50% debt as previously approved by the Commission. 4 Tr 2154, 5 Tr 2407, 2696, 3285.

The ALJ thoroughly reviewed the positions of the parties, including testimony and briefing, regarding capital structure and analyzed the arguments at pages 233 through 250 of the PFD, which will not be extensively repeated here. After this review, the ALJ noted agreement with the Staff and intervenors that the Commission has established a clear preference for a balanced capital structure. With regard to credit downgrades, the ALJ indicated that the Commission previously addressed this argument in Case No. U-21291 and was not convinced, in that case, that a balanced capital structure would degrade the company's credit metrics. PFD, p. 250 (citing November 7 order, pp. 93-94). The ALJ highlighted that the record demonstrates DTE Gas has maintained strong credit metrics since the Commission's prior adoption of a 50/50 balanced capital structure. PFD, p. 251. Further, the ALJ concluded that the company has not demonstrated a change in circumstances to warrant a deviation from the previously approved capital structure. In sum, the ALJ held that:

> the preponderance of the credible evidence presented does not show evidence of changed circumstances that would justify abandoning the Commission's long-established preference for a balanced capital structure and adopting the Company's proposed structure. Accordingly, this PFD recommends the Commission approve a capital structure consisting of 50% equity and 50% long-term debt.

PFD, p. 251.

In exceptions, DTE Gas notes disagreement with the ALJ's recommendation and states that "mechanical reliance on prior Commission orders is not the legal standard, is not a substitute for evaluating the record evidence in this case and does not constitute reasoned decision-making." DTE Gas's exceptions, pp. 98-99. In that regard, the company claims that the ALJ relied too heavily upon prior decisions and did not weigh the company's evidence in this case, which the company claims supports a higher equity ratio. *Id*. (citing DTE Gas's reply brief pp. 57-60; DTE Gas's initial brief, pp. 118-121; 3 Tr 1115-1130). DTE Gas further contends that the ALJ's

agreement with the Staff and the Attorney General regarding the company's credit metrics and risk profile fails to engage with the material evidence submitted by the company. Specifically, the company claims that the ALJ overlooked the forward-looking risks associated with the significant capital program which "increases the Company's business and financial risk because it heightens the risk of under-recovery or delayed recovery of invested capital and creates downward pressure on key credit metrics if the authorized return proves inadequate." DTE Gas's exceptions, p. 9 (citing DTE Gas's initial brief, pp. 119-120; 3 Tr 1116-1117). Continuing, DTE Gas argues that the record demonstrates that it is more capital intensive than its peers and that its peers have higher equity ratios than the 50.75% it requests in this case. DTE Gas's exceptions, p. 100. The company also contends that the ALJ did not address that the Attorney General's peer equity ratio utilized holding company data and not the operating company data that DTE Gas appropriately relied upon in its analysis. *Id*. DTE Gas also states that "the PFD also omits Staff's reference to a Commission Order in Case No. U-21291, in which Staff noted that '[a]n equity ratio of 50.00%-51.00% is more appropriate.'" *Id*. (alteration in exceptions) (quoting 5 Tr 2410 and DTE Gas's initial brief, p. 119). Therefore, the company argues that the Commission should reject the ALJ's recommendation and adopt a capital structure of 50.75% equity to 49.25% long-term debt.

The Attorney General replies that it is reasonable for the ALJ to rely upon the Commission's clear stated preference for a balanced capital structure when there have been numerous years of back and forth on the issue of capital structure. Further, the Attorney General states that DTE Gas's claims that the ALJ did not sufficiently engage with the record is unsupported. Specifically, the Attorney General states that a review of the PFD contradicts this claim and argues that "the ALJ fully weighed the entire record and both Staff and AG showed that DTE's risk profile is not significantly changed from [the company's] last rate case." Attorney General's replies to

exceptions, p. 36 (footnote omitted). The Attorney General further indicates that the Commission has reviewed this for years and it has been demonstrated "that an unbalanced capital structure is more costly to ratepayers, unnecessary for DTE's business and financial risk profile, and that DTE Energy is able to construct DTE Gas's capital structure as it sees fit." *Id*. Therefore, the Attorney General requests that the Commission adopt the ALJ's recommendation.

In replies, MEC-CUB argues that DTE Gas's request to increase its equity layer is unsupported and should be rejected. MEC avers that the Commission has noted some flexibility in the application of prior Commission orders but with regard to capital structure, found that a balanced capital structure reflects the most appropriate balance of interests. MEC's replies to exceptions, p. 35. MEC further disputes the claim that the ALJ did not engage with the record. Specifically, MEC indicates that the ALJ discussed the company's position on its risk profile, peer equity ratios, and DTE Gas's smaller size at pages 234 through 236 of the PFD, and "simply did not find DTE's evidence and arguments more persuasive than those of other parties demonstrating that peer equity ratios were lower than DTE; that DTE's size did not warrant a larger equity layer; and that a 50% equity layer would not impair DTE's ability to access capital." MEC's replies to exceptions, p. 36 (footnotes omitted). MEC further indicates that the positions DTE Gas claims the ALJ "omitted" were expressly noted at page 244 of the PFD. Overall, MEC argues that "DTE has not demonstrated that the PFD failed to consider the Company's evidence or arguments – only that the PFD did not give them the weight the Company would have liked" – and that the ALJ's "findings and recommendation to maintain DTE's balanced capital structure are reasonable and supported by substantial evidence on the whole record, and the Commission should adopt them." MEC's replies to exceptions, pp. 36-37.

ABATE also replies that the company "improperly minimizes the ALJ's rationale regarding the capital structure as 'mechanical reliance on prior Commission orders.'" ABATE's replies to exceptions, p. 10 (quoting DTE Gas's exceptions, pp. 98-99). ABATE further explains that the ALJ engaged with the record and responded to the company's claims through the review of prior Commission orders. ABATE states that the company was unable to demonstrate a decrease in its credit worthiness since the Commission approved a 50% equity ratio in DTE Gas's last rate case. ABATE's replies to exceptions, p. 11 (citing PFD, p. 251). Further, ABATE contends that the company has failed to demonstrate that a deviation from the 50/50 balanced structure would be appropriate as the company "has failed to demonstrate that its financial condition is at risk, has somehow deteriorated, or that it is at risk of a credit downgrade." ABATE's replies to exceptions, p. 11. ABATE contends that DTE Gas's argument regarding the omission of evidence does not support the position that an increase in equity layer is warranted. Overall, ABATE argues that the company failed to carry its burden of proof to demonstrate that a deviation from a balanced capital structure, which was supported by every intervenor, was reasonable.

The Commission finds that the ALJ's determination is well-reasoned and fully supported on the record. The Commission has consistently indicated that its duty is to balance investor and customer interests. In this case, the ALJ thoroughly reviewed the parties' positions and arguments pertaining to capital structure. *See*, PFD, pp. 233-250. The Commission disagrees with the company's exception that the ALJ "mechanically" relied upon prior Commission orders. More specifically, the ALJ addressed the company's concerns regarding its credit metrics and found that the Staff and the Attorney General reliably demonstrated that the company maintained strong credit metrics and that DTE Gas did not demonstrate financial or market changes that justify a

deviation from the currently authorized 50/50 capital structure. PFD, p. 251; *see also*, 5 Tr 2408-2409.

With regard to DTE Gas's contention regarding peer companies with higher authorized equity layers, the Commission acknowledges the company's presentation; however, the Attorney General's analysis reflects an average peer group equity layer of 46.8%, which is much lower than that requested by DTE Gas. 5 Tr 3291; *see also*, Exhibit AG-24. Overall, the company's exceptions do not demonstrate the ALJ erred in considering the entirety of the record and affording appropriate weight to the evidence in making the recommendation for the Commission to approve a balanced capital structure of 50% equity to 50% debt.

Therefore, the Commission adopts the ALJ's findings and recommendations with respect to the proposed capital structure. PFD, p. 251.

B. Cost Rates

1. Long-Term Debt Cost Rate

DTE Gas proposed a weighted long-term debt rate, including the September 2027 planned long-term debt issuance, of 4.65%. 3 Tr 1126; Exhibit A-14, Schedule D2. The Staff made adjustments to the company's projections and recommended a long-term debt rate of 4.57%. 5 Tr 2412; Exhibit S-4, Schedule D-2. Similarly, the Attorney General adjusted the company's proposal for the planned September 2027 debt-issuance and recommended a long-term debt rate of 4.59%. 5 Tr 3296; Exhibit AG-21.

The ALJ described the positions of the parties at pages 251 through 255 of the PFD. The ALJ noted that he was "persuaded by the argument of the Attorney General and Staff that DTE should not be extending the projected interest costs beyond the end of the projected test year." PFD, p. 255. The ALJ found the Attorney General's adjustment to be the most accurate, and, therefore,

recommended that the Commission adopt the Attorney General's proposed long-term debt rate of 4.59%.

In exceptions, DTE Gas argues that the ALJ mischaracterized its position and failed to address its evidence disputing the reasonableness of the weighting for its forecasted issuance. The company contends that it:

> is not including costs from beyond the Projected Test Year. Instead, the Company is ensuring that the cost of a bond that will be issued during the Projected Test Year will be recovered through the rates established in this proceeding, since those rates will be in place during the time period in which the Company will pay interest on the full amount of the planned debt issuance.

DTE Gas's exceptions, p. 101 (citing 3 Tr 1135-1136). DTE Gas further argues that the ALJ did not address its evidence or its position that the weighting "would create a persistent mismatch between the interest expense DTE Gas actually incurs on that bond and the interest expense recovered in base rates, essentially resulting in under-recovery for the entire duration of the rate period." DTE Gas's exceptions, p. 102. Therefore, the company requests that the Commission reject the ALJ's recommendation and adopt its weighted average of 4.65% for long-term debt.

The Staff replies that, while it "maintains its position that a 4.57% Long-Term Debt rate is more fitting, it also acknowledges that the position of the AG is in alignment with Staff's adjustments and simply excludes Staff's updated projected interest rate revision." Staff's replies to exceptions, p. 11 (citing Staff's initial brief, p. 32). In reply to DTE Gas's exceptions, the Staff states that the company's:

> argument ignores two important facts that simply cannot be overlooked; first, the use of a projected test year in ratemaking is meant to recover costs based on a specific time period. Second, and more importantly, there is no reason to believe that the Company will elect to allow the rates determined in this case to extend beyond the test year. The Company has a track record of regularly filing cases, and thus, the risk of "under-recovery" is very low. The use of a higher long-term debt rate, in a vacuum, would result in excess burden on ratepayers during the test year.

Staff's replies to exceptions, pp. 11-12. Therefore, the Staff avers that the ALJ's recommendation to adopt the Attorney General's methodology and long-term debt rate is reasonable. However, the Staff requests that the Commission find that its 4.57% long-term debt rate is the most appropriate and should be adopted. *Id*., p. 12.

The Attorney General also replies and argues that DTE Gas does not provide anything new in exceptions on the issue of long-term debt. She further contends that the company's "arguments were fully rebutted by the [Attorney General] and Staff in testimony and briefing and fully addressed by the ALJ in the PFD. As recognized by the ALJ, DTE should not be extending the projected interest costs beyond the end of the projected test year." Attorney General's replies to exceptions, p. 37 (citing PFD, p. 256). Therefore, the Attorney General requests that the Commission reject the company's exception and adopt the recommendation of the ALJ.

In replies, ABATE argues that the Commission should reject the company's exceptions and adopt the Attorney General's proposal. ABATE contends that the adjustment should be applied because "[t]reating the Company's forecasted September 2027 issuance as outstanding for one month of the twelve-month projected test year matches the cost recovered in rates to the cost actually incurred during the test year, which is the same test-year alignment principle that supports Staff's short-term debt recommendation." ABATE's replies to exceptions, p. 13.

The Commission finds the company's explanation reviewing updated rates to be reasonable and is persuaded that the rates at the time of rebuttal provide support for the company's originally calculated rate. In rebuttal, DTE Gas explained that the Staff:

> used a different forecasted Treasury rate than the Company to arrive at a lower forecasted rate for the projected 2026 and 2027 debt issuances, which results in a lower total cost of long-term debt. Since the end of February 2026, the 30-year Treasury rate has increased approximately 30 basis points (the closing 30-year Treasury rate as of March 20, 2026 was approximately 4.95%). Due to this recent

> sharp increase, the Company feels it is prudent to maintain its originally calculated cost of long-term debt rate of 4.65%.

3 Tr 1136.

DTE Gas also indicates that the 1/12 adjustment applied to the September 2027 debt issuance by both the Staff and the Attorney General would be a deviation from "the Company's longstanding approach of calculating the embedded cost of debt at the end of the test year" and would create "a mismatch between interest expense that the Company pays and revenue received in rates will occur, and will persist until the rates from DTE Gas's next base rate case go into effect." 3 Tr 1135-1136. At this time, the Commission is unconvinced that the application of the 1/12 adjustment to the September 2027 debt issuance is the most reasonable approach. Therefore, the Commission respectfully rejects the ALJ's recommendation and adopts the company's proposed long-term debt rate of 4.65%. *See*, PFD, p. 256; Exhibit A-14, Schedule D2.

2. Short-Term Debt Cost Rate

DTE Gas proposed a short-term debt cost rate of 5.06%. 3 Tr 1127; Exhibit A-14, Schedule D3. The Attorney General utilized the company's short-term debt rate in her proposed capital structure calculations. 5 Tr 3296. The Staff, however, utilized a projected short-term overnight financing rate and recommended a rate of 4.06%. 5 Tr 2413; Exhibit S-4, Schedule D-3.

The ALJ provided a summary of the parties' positions at pages 256 through 257 of the PFD. The ALJ found the company's position persuasive and noted that the Attorney General recommended the same short-term debt rate as DTE Gas. Therefore, the ALJ recommended that "the Commission adopt a long-term[14] debt rate of 5.06%." PFD, p. 258.

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[14] As further discussed in exceptions and the Commission's decision below, it is noted that the ALJ erroneously used the term "long-term" when discussing his decision regarding short-term debt.

In exceptions, DTE Gas states that, at page 258 of the PFD, the ALJ noted the recommendation to adopt a long-term debt rate of 5.06%. DTE Gas states that "the reference to a 'long-term' debt rate of 5.06% appears to be an error and respectfully requests that the Commission correct this reference so that the final order reflects a short-term debt rate of 5.06%." DTE Gas's exceptions, p. 102.

The Staff also takes exception, arguing that the company's 5.06% short-term debt rate "is based on current interest rates that do not align with the test year," whereas the "Staff's recommendation uses a projected base interest rate that aligns with the test year of 3.15% and adds the same 20 and 71 basis point additions." Staff's exceptions, p. 3 (citing 3 Tr 1127; 5 Tr 2413). The Staff avers that its projections are more closely aligned conceptually with the test year, would be less costly to ratepayers, and would reaffirm the common practice of using projections for debt rate development. The Staff continues arguing that:

> [i]n this case, the Company has chosen to use a historical rate only for the Short-Term Debt rate calculation while using projected rates as a basis for [the] Long-Term Debt rate calculation. If the Company's rate were approved, this would set precedent that would open the door for witnesses from any party to choose between projected and current rates for each rate as serves its immediate agenda.

Staff's exceptions, p. 3. The Staff further states that, while the Attorney General adopted the company's short-term debt rate, she did not provide any commentary relating to the rate. The Staff contends that its proposal is the only one on record that aligns with the test year and that the company's proposed rate, which is "incompatible with the projected test year," should be rejected. Staff's replies to exceptions, p. 3.

In reply, DTE Gas indicates that the company's proposed rate is "firmly supported by the record evidence" and contends that the Staff presented no new evidence or legal authority not considered by the ALJ. DTE Gas also claims that the Staff's assertion that there is a standard

practice of utilizing projected rates for the calculation of debt rates is not supported. Specifically, DTE Gas states that "the Commission and the PFD adopted DTE Gas's average actual short-term debt rate in the most recent rate case." DTE Gas's replies to exceptions, p. 52. Therefore, the company requests that the Commission adopt the ALJ's recommendation to adopt its short-term debt rate of 5.06%.

ABATE also replies that it supports the Staff's exception on the issue of short-term debt. ABATE indicates that the Staff's recommendation of 4.06% was "derived from a projected base interest rate aligned with the test year" versus DTE Gas's being built upon the company's borrowing index as of its initial filing. ABATE's replies to exceptions, p. 12. ABATE agrees with the Staff's concern regarding allowing the utilities to choose between projected and current rates to serve their own agenda. *Id*. (citing Staff's exceptions, p. 3). Therefore, ABATE requests that the Commission adopt the Staff's proposed 4.06% short-term debt rate. Notwithstanding this, ABATE agrees with DTE Gas and the Staff that a correction is necessary with regard to the ALJ's erroneous reference to a 5.06% long-term debt rate. ABATE explains that the "reference is plainly erroneous, and correcting it requires the Commission to resolve the short-term debt cost rate on the merits." ABATE's replies to exceptions, p. 13.

The Commission finds that the ALJ's recommendation to adopt DTE Gas's short-term debt rate is well-reasoned and supported on this record. The Commission further notes appreciation for the Staff's analysis and concerns regarding consistency. However, the Commission declines, at this time, to make a bright line rule requiring that debt rates be based upon projections. As noted by the company, the Commission has previously used an average of actual debt cost rates. On this record, the Commission finds that the most appropriate short-term debt cost rate is DTE Gas's proposed 5.06%, as recommended by the ALJ. Notwithstanding this, the Commission finds that

the ALJ mistakenly referenced adoption of a "long-term debt rate of 5.06%" within the short-term debt discussion. PFD, p. 58. To clarify, the Commission adopts the company's short-term debt rate of 5.06%. *See*, Exhibit A-14, Schedule D3.

3. Return on Common Equity

DTE Gas, the Staff, the Attorney General, ABATE, and CUB offered analyses and recommendations for the appropriate ROE in this proceeding. DTE Gas requested an ROE of 10.25%, the Staff recommended an ROE of 9.80%, the Attorney General set forth an ROE recommendation of 9.80%, ABATE suggests an ROE of 9.50%, and CUB recommended an ROE of 8.82%.

DTE Gas contended that its request is on the low end of its range and the company provided the following methodologies to support its proposed ROE of 10.25%: (1) the constant growth and quarterly growth forms of the discounted cash flow (DCF) model, (2) the traditional capital asset pricing model (CAPM), (3) the empirical CAPM (ECAPM), and (4) a bond yield plus risk premium analysis. 3 Tr 1144. From these quantitative models and other considerations, the company determined its recommended range of 10.00% to 11.35%. 3 Tr 1144. The company further indicated that its ROE recommendation considers many additional factors such as capital investment needs, the regulatory environment, financial risk, and the current capital market. 3 Tr 1145.

The Staff described its selection of a proxy group, which it indicated is identical to DTE Gas's even through utilizing a different approach. 5 Tr 2415. The Staff further described its various analyses including the DCF (single step and two-step), CAPM, and risk premium (utility bond and treasury bond). 5 Tr 2416-2425. The Staff set forth a recommended cost of equity range of 9.30% to 10.30%. 5 Tr 2426. The Staff further looked at average authorized ROEs for 2024 and 2025.

5 Tr 2413. As a result, the Staff recommended an ROE of 9.80%, "which is near the midpoint of the Staff's . . . reasonable ROE range." 5 Tr 2413.

The Attorney General provided the: (1) DCF method, (2) CAPM, and (3) utility risk premium approach. 5 Tr 3298. The Attorney General indicated that this analysis indicated a range of 9.40% from the utility risk premium approach to 9.96% using the DCF approach. 5 Tr 3319; *see also*, Exhibit AG-22. In weighing these approaches, the Attorney General concluded a weighted average cost of equity is 9.80%. 5 Tr 3319.

ABATE stated that, after correction of flaws in the company's models to estimate the appropriate ROE, "the reasonable range indicated by proper application of the financial models is 9.20% to 9.80%." 5 Tr 2722. In that regard, ABATE argued that the midpoint of this corrected analysis is 9.50%. which it stated would be a reasonable ROE for both the company's shareholders and its customers. 5 Tr 2722.

CUB utilized the CAPM and the DCF methods to support a recommended ROE of 8.82%. 4 Tr 2133. CUB explained that its recommendation "represents the midpoint between the 7.86% average result reached by [its witness's] application of the DCF and CAPM models and the 9.8% ROE currently authorized for the Company." 4 Tr 2133.

The ALJ reviewed and summarized the evidence and positions of the parties with respect to ROE at pages 258 to 305 of the PFD, which will not be exhaustively repeated here. The ALJ noted that all parties, excluding the Attorney General, utilized the same proxy group. The ALJ further explained that he "does not recommend any adjustments to the proxy groups used and does not consider the proxy group a determinative factor in the ROE analysis." PFD, p. 305.

The ALJ indicated that DTE Gas presented the highest recommended ROE while CUB presented the lowest recommended ROE in this case. The ALJ noted that the parties' evidence set forth the following ROE recommendations and ranges:

Party	Recommendation	Overall Range
DTE Gas	10.25%	10.25% – 11.35%
CUB	9.24%	6.26% – 8.58%
ABATE	9.45%	8.25% – 9.51%
Attorney General	9.80%	9.40% – 9.88%
Staff	9.80%	9.53% – 10.92%

See, PFD, pp. 306-307.

After this summary of the parties' analyses, the ALJ stated that, "[w]hen examining the results of the multiple analyses used by all the parties, the results reached by ABATE, the Attorney General, and Staff are the least divergent, while the analyses of DTE and CUB are the outliers." PFD, p. 307. In sum, he indicated that the company requests an increased ROE, the Staff and the Attorney General recommend continuation of the current ROE, and ABATE and CUB each recommend a reduction to the ROE. The ALJ concluded that, when looking at the range of recommendations and analyses, "the preponderance of the evidence shows that [9.80%] is an appropriate recommendation and addresses the principals outlined in *Bluefield* and *Hope*." PFD, p. 307.

In addition, the ALJ indicated that DTE Gas's currently authorized ROE is 9.8% and that he found:

> that neither the Company nor the intervenors have demonstrated that there has been a change in circumstances since the current ROE was authorized, less than one year ago, that would justify an upward or downward departure from the current ROE. Therefore, this PFD recommends the Commission authorize a ROE of 9.8%

PFD, p. 308.

In exceptions, DTE Gas notes its disagreement with the ALJ's ROE recommendation. Specifically, DTE Gas contends that the ALJ's analysis "mischaracterizes the record and [makes] factual errors that, individually and collectively, preclude the Commission from adopting the PFD's recommendation." DTE Gas's exceptions, p. 104. Continuing, the company indicates that the PFD contains numerous errors including misstatements of parties' positions, incorrect transcript citations, references to witnesses who did not provide testimony in this case, and that the errors contained in this section cannot satisfy MCL 24.285.

The company contends that the ALJ did not consider the fact that the Staff's modeling results have increased in this proceeding, which DTE Gas claims is inconsistent with the Staff's recommendation to maintain the same ROE as the prior case. DTE Gas's exceptions, p. 104 (citing 3 Tr 1228). Further, DTE Gas avers that it demonstrated the Staff's recommended range includes values below the Staff's lowest modeling and the Staff's modeling averages 9.89%. Based upon these factors, the company claims the Staff's recommendation of 9.80% is inappropriately low. DTE Gas's exceptions, pp. 104-105 (citing 3 Tr 1228-1229).

DTE Gas further claims that the ALJ did not consider its "observation that the last time that 30-year Treasury bond yields were at current levels, in 2007, the annual average authorized ROE was 10.22 percent (3T 1281), which is a scant 3 basis points lower than the Company's 10.25 percent ROE recommendation." DTE Gas's exceptions, p. 105. Continuing, the company indicates that its witness "explain[ed] that investors expect higher returns when investing in assets becomes riskier than government-issued bonds (such as utility stocks); therefore, the cost of equity for utilities has increased along with the rise in interest rates, though not on a one-to-one basis." *Id*. (citing 3 Tr 1148). In that regard, the company avers that the ALJ's conclusion that the record did not reflect a change in circumstances sufficient to support an upward or downward

modification is not supported. In addition to the consideration of its position, the company contends that its "current ROE was authorized in November 2024, more than one year ago," which is contradictory to the ALJ's claim that it was authorized "less than one year ago." DTE Gas's exceptions, p. 105 (quoting PFD, p. 308). DTE Gas further argues that the ALJ's reliance upon only a "'change in circumstances'" must be rejected because:

> [t]he appropriate standard does not require a utility to demonstrate that circumstances have changed by some undefined degree since the last general rate case before a different ROE may be authorized. Such threshold level of change is a requirement found nowhere in the applicable legal standard.

DTE Gas's exceptions, pp. 105-106.

DTE Gas takes further exception to the ALJ's statement that he reviewed the "'extensive testimony regarding the different [ROE] models and their respective analyses of such,'" arguing that the ALJ did not specifically discuss the methodologies and "it is not clear what methodology, if any, underlies the PFD's recommendation." *Id*., p. 106 (quoting PFD, p. 305). The company states that it appears the ALJ merely adopted the Staff and the Attorney General's positions, discarded DTE Gas's and MEC-CUB's analyses as the highest and lowest, and further disputes the classification of the company's recommendation as an "outlier." DTE Gas's exceptions, p. 106.

The company claims that the ALJ:

> name checks the United States Supreme Court's *Hope* and *Bluefield* decisions articulating the constitutional standards for establishing a minimally sufficient ROE but does not actually explain how its recommended 9.80% ROE conforms to such standards or how the Company's recommended 10.25% ROE does not conform to the *Hope* and *Bluefield* standards.

DTE Gas's exceptions, p. 107 (citing PFD, p. 307). The company claims that, absent an analysis or weighing of evidence, the ALJ did not explain how his recommendation meets the constitutional standards.

Overall, DTE Gas argues that:

> [t]he Commission's reasoned decision-making obligation under MCL 24.285 requires that its findings be supported by competent, material, and substantial evidence on the record in this case, and a PFD replete with material factual errors and recommendation without any discernible reasoning or methodology supporting it does not clear that bar. Therefore, the Commission should reject the PFD's recommendation and adopt the Company's proposed ROE of 10.25%.

DTE Gas's exceptions, p. 107.

The Attorney General replies, noting that the company's primary contention in exceptions is that the PFD contains numerous errors. The Attorney General argues, however, that:

> none of this bears on the ALJ's ability to fully analyze the positions of the parties or to develop a reasonable and prudent ROE recommendation. DTE's argument is mostly that the PFD omitted certain evidence from analysis – but the Company's exceptions do not provide support for that contention. Just because the PFD does not discuss a certain piece of evidence does not mean it was not fully considered and then not mentioned, due to irrelevancy or trying to limit the number of pages in an already huge PFD.

Attorney General's replies to exceptions, p. 38. The Attorney General further states that the company's testimony is self-serving in claims of what "other parties should have recommended. *Id*. She further notes appreciation for the ALJ and states that DTE Gas's objections to the recommendation are not consistent with:

> the 50 pages of review, analysis, and confirmation by the ALJ that the PFD examined the "totality of the evidence." While the PFD could have provided more information on the thought process and methodology relied upon by the ALJ, the ALJ's explanation that circumstances have not changed significantly enough since DTE's last gas rate case to warrant a large change in ROE is sufficient and supported by the record.

Id., pp. 38-39.

The Attorney General argues that there is nothing new within DTE Gas's exceptions only that they confirm that the company dislikes the ALJ's conclusions. The Attorney General further states that DTE Gas has not brought any evidence to demonstrate that a 9.8% ROE "has impaired

its ability to attract capital or otherwise lowered its business profile and outlook." *Id*., p. 39. Therefore, the Attorney General requests that the Commission affirm the PFD.

ABATE also replies, stating that the company spent much of its exceptions "cataloguing errors" within the PFD and, while ABATE agrees that the ALJ misstated its recommendation, "[t]he corrections the Company identifies, however, do not support the relief the Company seeks." ABATE's replies to exceptions, p. 14. Specifically, ABATE contends that the corrections requested demonstrate ABATE's position of 9.5%, the Staff and the Attorney General at 9.8%, and MEC-CUB at 8.82%, and the corrections leave the 9.8% recommendation "at the ceiling of any range recommended by any party other than the Company" and "[n]ot one of them supports an ROE above 9.80%." ABATE's replies to exceptions, p. 14.

ABATE further argues that the company's citation to MCL 24.285 does not have the intended effect. ABATE claims that, even assuming that the ALJ's decision is unsupported, the remedy is not to merely adopt the company's position. Rather, ABATE argues, it would simply require further Commission review. ABATE states that "[t]he Commission is not bound by the PFD; it reviews the record de novo and makes its own findings, and a deficiency in the PFD's exposition cannot substitute for record evidence the Company did not supply." ABATE's replies to exceptions, p. 14. Additionally, ABATE states, while the company is again correct that the PFD erroneously stated the current ROE was authorized less than a year ago, "[t]hat correction cuts against the Company. The longer the Company has operated at an authorized ROE of 9.80% while consistently over-earning, the weaker its case that 9.80% is inadequate." *Id*., pp. 14-15. In general, ABATE states that the company's claims that the ALJ did not engage with the record are unsupported. Quoting briefing and testimony from the parties, ABATE contends that DTE Gas operates under reduced risks, its share prices have increased this year, and that the company

continues to operate safely with a strong credit profile. Overall, ABATE indicates that the Commission should adopt the ALJ's recommendation as supported by the evidence on record.

MEC also filed replies to the company's exceptions. MEC contends that DTE Gas overstates the significance of the drafting errors contained in the PFD. MEC opines that the drafting errors are dramatized. For example, with respect to the Attorney General's position, MEC concedes that the ALJ incorrectly listed a 9.75% ROE recommendation on page 260 of the PFD; however, MEC contends that the PFD contained accurate descriptions of the:

> Attorney General witness Coppola's testimony on pages 263 (proxy group development), 267-68 (DCF analysis), 278-79 (CAPM analysis), 290-92 (risk premium analysis); and accurately states on page 307 that both the Attorney General and Staff recommended an ROE of 9.8% as support for its conclusion that the preponderance of the evidence indicates that a 9.8% ROE is appropriate.

MEC's replies to exceptions, p. 38. Thus, MEC opines that the drafting errors do not outweigh the majority of the accurate descriptions and "the Commission should decline DTE's invitation to disregard the PFD's ROE recommendation because of [the PFD's] drafting errors." *Id*., p. 39.

MEC also argues that DTE Gas's exception regarding the omission of evidence should be rejected. MEC states that a PFD is required to include findings of fact, conclusions of law, and rationale for conclusions—not an exhaustive recitation of every argument. In addition, MEC states that the fact that the "Staff's model results may have been higher in this case does not compel the conclusion that [the Staff's] recommended ROE should have also been higher, nor do changes in the 30-year Treasury bond yields compel any particular result." *Id*., p. 40. MEC also states that DTE Gas's claim that the Commission should not adopt the PFD relying solely upon a change in circumstances is not supported because the ALJ did not rely solely upon a change in circumstances standard. *Id*. The lack of change in circumstances was only noted by the ALJ:

> in addition to and after reaching that conclusion, that 9.80% is DTE's current authorized ROE and that "neither the Company nor the intervenors have

> demonstrated that there has been a change in circumstances since the current ROE was authorized, less than one year ago, that would justify an upward or downward departure from the current ROE."

Id., p. 40 (quoting PFD, pp. 307-308).

MEC disputes the company's claims that the ALJ's recommendation should be rejected for a failure to more fully discuss individual methodologies of the parties and states that "the results reached are more important than the methodologies." MEC's replies to exceptions, p. 41. MEC avers that DTE Gas is essentially requesting the Commission ignore the PFD and the portions of the record supporting, maintaining, or reducing the authorized ROE and to only consider select portions of the company's testimony and exhibits to support an increase in the ROE. MEC posits that the Commission should instead review the whole record, reject the company's proposal to increase the ROE, "and either maintain the Company's authorized ROE of 9.80% as recommended by the PFD, Staff, and the Attorney General, or reduce it as recommended by ABATE and MEC-CUB." *Id*., pp. 41-42.

As noted above, DTE Gas contends that the ALJ made several errors in the summary of the parties' testimony and positions. *See*, DTE Gas's exceptions, p. 104, nn. 48-51. The Commission appreciates the thoroughness of the company's review and finds that, despite the noted errors, the ALJ's review and conclusion as a whole are supported by the extensive record on this issue. *See generally*, PFD, pp. 258-308. Nevertheless, the Commission has independently reviewed the extensive record on this issue including testimony, exhibits, briefing, exceptions and replies, and further discusses this review and its findings below.

DTE Gas specifically objects to the Staff's analysis and recommendations. DTE Gas's exceptions, pp. 104-105. The Commission disagrees. The Staff's recommendation to maintain the 9.80% ROE is well supported by the range of its analyses presented. *See*, 5 Tr 2416-2425. The

assertion that the Staff should have recommended a higher ROE based on an average of its methodologies, is unsupported. As quoted above, the Court in *Meridian Twp*, held that a reasonable rate of return is not a simple mathematical computation. Rather, the Commission must consider all factors involved, which in this case includes the Staff's review of the authorized ROEs from other states reflecting that "[t]he average authorized ROE decisions for 2024 was 9.72%, and the average in 2025 has been 9.73%." 5 Tr 2426. Thus, the Commission agrees with the Staff, that in reviewing the range of ROEs from the Staff's DCF, CAPM, and risk premium analyses (9.30%-10.30%) *and* review of other authorized ROEs (9.72%-9.73%), the company's currently authorized ROE of 9.80% is supported by the entirety of the Staff's analysis. *See*, 5 Tr 2416-2427.

Regarding DTE Gas's position that the current 30-year treasury bond yields levels support its request for a higher authorized ROE, the Commission is unconvinced. Specifically, DTE Gas states that "the last time that 30-year Treasury bond yields were at current levels, in 2007, the annual average authorized ROE was 10.22 percent[], which is a scant 3 basis points lower than the Company's 10.25 percent ROE recommendation." DTE Gas's exceptions, p. 105. The company presents no evidence to support a correlation of the 30-year treasury bond yield level in 2007 with a corresponding increase to the authorized ROE in this proceeding. Further, the Commission finds that the ALJ did not exclusively rely upon "a change in circumstances" in recommending that the Commission continue to approve the company's currently authorized ROE of 9.80%. More specifically, the ALJ reviewed the range of the parties' evidence and found that the Staff's and the Attorney General's evidentiary presentations, each recommending the 9.80% ROE, were reliable. The ALJ also indicated that these modeling approaches fell within the range of the other parties' evidentiary presentations and recommendations, including the company's recommended 10.25% on the high side and CUB's 9.24% recommendation on the low side. *See*, PFD, pp. 306-307.

Moreover, the Commission finds that, in general, it is not an error to look at potential change in circumstances (or lack thereof) in reviewing whether it is appropriate to modify an authorized ROE. Indeed, while DTE Gas argues that the Commission should adopt the company's proposed ROE based on a declining premium over Treasury bond yields, the Staff's evidence shows that, when compared against a different metric (averaged authorized ROE decisions), there has been virtually no change between 2024 and 2025, a finding that supports maintaining the company's current ROE.

As summarized above, the parties presented a range of proposed ROE recommendations from 8.82% through 10.25%. Further, the parties presented exhaustive testimony and briefing relating to ROE. The Commission further finds that after its own weighing of the various methods and range of the parties' evidence, the company's currently approved ROE of 9.80% falls within this reasonable range of evidence. Indeed, as ABATE notes in its replies to exceptions, the ALJ's recommended 9.80% ROE is "at the ceiling of any range recommended by any party other than the Company," and "[n]ot one of them supports an ROE above 9.80%." ABATE's replies to exceptions, p. 14.

Further, the Commission has considered DTE Gas's stable credit metrics and finds nothing on the record to demonstrate that its risk profile has significantly declined from the last rate case. *See*, 5 Tr 2408-2409; Exhibit S-9. Overall, the Commission finds that the record supports the continued approval of the company's currently authorized ROE. Therefore, the Commission adopts an authorized ROE of 9.80%.

C. Overall Rate of Return

Based upon the foregoing analysis, the Commission adopts a 50% equity layer, a long-term debt cost rate of 4.65%, a short-term debt cost rate of 5.06%, an ROE of 9.80%, and an overall weighted cost of capital of 5.96%, as shown on the table below:

Description	Amount ($000)	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	$3,279,326	40.82%	4.65%	1.90%
Common Equity	$3,279,326	40.82%	9.80%	4.00%
Short-Term Debt	$91,581	1.14%	5.06%	0.06%
Acc. Def. Fed. Income Tax	$1,383,391	17.22%	0%	0%
Acc. Def. Inv. Tax Credit	$0	0%	0%	0%
Total	**$8,033,623**	**100%**		**5.96%**

VI. ADJUSTED NET OPERATING INCOME

DTE Gas projected an adjusted net operating income (ANOI) of $320.846 million for the projected test year. *See*, Exhibit A-13, Schedule C1. Upon briefing, the company set forth a revised ANOI of $321.442 million. DTE Gas's reply brief, Attachment A. In its reply brief, the Staff recommended an ANOI of $348.355 million. *See*, Staff's reply brief, Appendix C.

The Commission finds that the ALJ reviewed issues that were not contested on the record and were, therefore, recommended for approval. The Commission agrees with the ALJ's analysis and determinations and adopts the recommendation for approval in the PFD regarding: (1) Rent Expense (PFD, pp. 421-423), (2) Manufactured Gas Plant Remediation Expenses (PFD, p. 463), and (3) Lost and Unaccounted-For (LAUF) and Company-Use Gas, Gas-in-Kind (GIK) (PFD, p. 474). In addition, several issues that were previously contested by the 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 from the PFD on the following issues: (1) Exelon Energy Company (PFD, pp. 325-326); (2) Cost of Gas (PFD, p. 326); (3) Midstream Revenue – Test-Year Park and Loan and Exchange Services Revenue (PFD, p. 332); (4) Other Operating Revenue (Other than HPP Appliance Service Revenue) (PFD, p. 339); (5) Storage O&M Expenses (PFD, p. 355); (6) Labor Negotiations (PFD, p. 374); (7) MISS DIG Ticket Volume (PFD, p. 376); (8) Leak Detection and Repair Regulatory Deferral Mechanism (PFD, p. 397); and (9) Other Employee Benefits (PFD, pp. 440-445). The remaining contested issues are addressed ad seriatim.

A. Throughput

1. Sales Forecast

DTE Gas projected a total sales revenue of $1.346 billion in the projected test year, while the Staff projected sales revenue of $1.356 billion. *See*, DTE Gas's reply brief, Attachment A; Staff's reply brief, Appendix C. With respect to the projected test year Rate A, the company supported a sales forecast of 109,843,294 Mcf using an average customer count of 1,266,741. Exhibit A-15, Schedule E-1, p. 1. The Staff, however, recommended a Rate A forecast of 111,923,870 Mcf and used a customer count forecast of 1,266,602 customers. Staff's initial brief, pp. 102-105. The Staff initially proposed revisions to Rate 2A II; however, upon briefing the Staff indicated that, since it "did not provide an alternative model including a trend variable for Rate 2A II, Staff is willing to accept the Company's Rate 2A II forecast of 3,407 MMcf [million cubic feet] and customer count of 4,557." *Id*., p. 104.

The ALJ reviewed the positions of the parties including testimony and briefing at pages 309 through 320 of the PFD, which will not be extensively repeated here. After this review, the ALJ recommended the adoption of the Staff's Rate A sales forecast. The ALJ found that the use of 15 years of historical data was "reasonable, consistent with other Michigan utilities, and more

balanced than the Company's reliance on only 24 months of data." PFD, pp. 320-321. The ALJ further held that the Staff's third model addresses the company's concerns regarding affording equal weight to all 15 years of data and concluded that it was the strongest statistical model provided by the Staff. He also held that the "Staff's forecast is not deficient for declining to separately model the Company's seven demand regions" and the "Staff relied on weighted weather data to account for regional temperature differences." *Id*., p. 321. The ALJ further concluded that an EWR adjustment was not necessary for the Staff's model because the modeling already accounts for changes in customer usage which included the effects of EWR.

In addition, the ALJ held that the Staff's recommended 88.4 Mcf per customer reasonably reflected the recent usage trends. The ALJ indicated that he was not persuaded by DTE Gas's argument that the Staff's cost-of-gas adjustment was in error. Instead, he found that the Staff's analysis and the resulting increase to the cost of gas expense was supported on the record. Therefore, the ALJ recommended that the Staff's cost-of-gas adjustment should be adopted and revenue should be increased by $7,626,768. The ALJ further recommended that the Commission "adopt Staff's Rate A test-year forecast of 111,923,870 Mcf and a customer count of 1,266,602." *Id*. The ALJ further found that the company's "test-year delivery forecasts for Rates GS-1, GS-2, S, 2A I, and 2A II" were uncontested and should be adopted. *Id*.

DTE Gas takes exception to the ALJ's recommendation to adopt the Staff's Rate A sales forecast. Specifically, DTE Gas contends that the ALJ's:

> adoption of Staff's forecast rests on a series of analytical errors that, individually and collectively, overstate Projected Test Year demand by embedding inflated usage-per-customer assumptions that are inconsistent with recent normalized experience, the Company's Commission-approved EWR program, and the Company's well-established, Commission-endorsed regional forecasting methodology.

DTE Gas's exceptions, p. 110. DTE Gas reiterates its testimony that the Staff's forecast exceeds the company's recent normalized usage experience. *Id*. (citing 3 Tr 988-989). The company continues, arguing that the ALJ's determination that review of the 15-year historical data "fails to engage with the Company's substantial record evidence demonstrating why a shorter, more recent window produces a more reliable forecast." DTE Gas's exceptions, p. 111. DTE Gas argues that, even though the Staff's third model includes a trend variable, the use of 15-year historical data inappropriately weights the older and higher use data more than more recent and normalized data. The company avers that the Staff and the ALJ fail to cite to evidence as to why customer usage higher than recent actual usage is more reliable than "the Company's twenty-four-month approach that the Commission has approved in its last five rate case orders." *Id*., p. 112 (citing 3 Tr 975).

With regard to the ALJ's finding about an EWR adjustment, the company counters that it is contradictory to the record evidence. DTE Gas states that the Staff's third model removes the 1% EWR adjustment, arguing that the company's trend variable accounts for the adjustment without an empirical demonstration showing the same. DTE Gas's exceptions, p. 112. DTE Gas argues that, upon cross examination, the Staff conceded that the Staff's variable only captures a fraction of the known 1% EWR adjustment. Thus, the company argues that the PFD does not consider this concession or reconcile that the Staff abandoned its explicit 1% EWR adjustment within its third model. The company also argues that the ALJ's conclusion that the Staff's failure to separately model by demand regions is not supported and "does not engage with the record evidence demonstrating that regional differences in weather and customer usage patterns are material." *Id*., p. 113. DTE Gas states that, on the other hand, it provided evidence demonstrating that there is significant discrepancy between its regions which must be accounted for. *Id*., pp, 113-114 (citing 3 Tr 999-1001).

Finally, the company argues that the ALJ's "recommendation to increase cost of gas expense by $7,627,999 is unsupported because it conflates the sales forecast issue with the separate ratemaking treatment of commodity gas costs." DTE Gas's exceptions, p. 114. Specifically, the company states that the "[c]ost of gas expense is the cost the Company incurs to purchase gas for resale to its sales service customers and is recovered through the Gas Cost Recovery (GCR) mechanism—not through base rates" —and thus the ALJ's recommendation to increase the cost of gas expense to $7,627,999 should be rejected. In sum, the company states that the Commission should reject the ALJ's "recommendation to adopt Staff's Rate A sales forecast, reject the associated $7,627,999 cost of gas expense increase and $7,626,768 revenue increase, and instead approve the Company's as-filed Rate A sales forecast of 109,843,294 Mcf and 1,266,741 customers." DTE Gas's exceptions, p. 114.

In reply, the Staff reiterates that it did not only rely on recent years of data but also utilized 15 years of historical data which "is more consistent with what other Michigan gas utilities use and helps to prevent outlier data from skewing the results." Staff's replies to exceptions, p. 12 (citing Staff's initial brief, p. 101). The Staff states that the figure utilized by the company is not relevant because it utilizes the Staff's initial forecast which is not what the ALJ utilized for his recommendation and that the Staff's revised "proposed usage of 88.4 Mcf per customer is not unreasonable compared to the Company's historical usage in recent years." Staff's replies to exceptions, p. 13. With respect to EWR, the Staff reiterates that its trend variable appropriately captures "the effects of EWR but also the effects of other drivers impacting customer usage," and, thus, "the trend variable coefficient would not be expected to match the EWR reduction exactly." *Id*. Regarding modeling for each of DTE Gas's demand regions, the Staff indicates the ALJ correctly stated that regional differences in weather were accounted for in the Staff's modeling "by

using a weighted combination of Heating Degree Days from the different regions." *Id.*, p. 14 (citing PFD, p. 321).

Notwithstanding this, the Staff also replies that it agrees with the company's exceptions regarding the cost of gas expense increase. Specifically, the Staff states that it "erred in making this adjustment, and by extension it overestimated the amount of revenue needed for the revenue requirement by $7,627,999. Excluding this adjustment fixes this issue in full." Staff's replies to exceptions, p. 14.

The Commission agrees with the ALJ that the Staff's Rate A sales forecast is supported on the record and should be adopted. The Commission notes that it must review the record in each case and the utility carries the burden to justify its methodology and results to support the revenue outlook. In that regard, the Commission finds that, on this record, DTE Gas has not sufficiently met its burden to demonstrate that its Rate A sales forecast supports its revenue outlook. While the Commission acknowledges the arguments made by DTE Gas on the value of "a shorter, more recent window," the Commission ultimately agrees with the ALJ's finding that the use of 15 years of historical data was "reasonable, consistent with other Michigan utilities, and more balanced than the Company's reliance on only 24 months of data." DTE Gas's exceptions, p. 111; PFD, pp. 320-321. Going forward, the Commission will continue to review the record in each rate case and is open to consider varying modeling. Specifically, in future rate cases, the Commission would like to see DTE Gas incorporate both historical and more recent trends.

The Commission further finds that the ALJ's reasoning and recommendation to adopt the Staff's Rate A with a test-year forecast of 111,923,870 Mcf and a customer count of 1,266,602 is reasonable and is, therefore, adopted by the Commission. Further, the Commission adopts the

company's test-year delivery forecasts for Rates GS-1, GS-2, S, 2A I, and 2A II, as recommended by the ALJ. *See*, PFD, p. 321.

Notwithstanding this, the Commission finds that the company and the Staff have demonstrated that the Staff's proposed adjustment of $7,627,999 related to a cost of gas expense increase was in error. *See*, DTE Gas's exceptions, p. 114; Staff's replies to exceptions, p. 14. In that regard, the Commission declines to adopt the ALJ's recommendation to increase revenue based upon the calculation error.

2. Weather Normalization

DTE Gas explained that it normalizes historical gas consumption using a 15-year average of HDDs to adjust for variations in temperature to forecast customer rates. 3 Tr 960-961; *see also*, Exhibit A-15, Schedule E5. According to DTE Gas, HDDs are one of the primary drivers of natural gas demand, and the Commission has consistently approved its use of a 15-year average methodology. 3 Tr 961; *see also*, DTE Gas's initial brief, p. 153.

The Staff stated two objections to DTE Gas's weather normalization methodology. First, the Staff observed an error in the underlying data supporting the company's calculated actual and normal HDDs, whereby DTE Gas failed to use a formula to weight a portion of HDDs to the company's seven demand regions. 4 Tr 2185. As a result, the Staff recommended that DTE Gas fix this error and use weighted HDDs when calculating its weather normalization adjustment. 4 Tr 2185-2186.

Next, the Staff took issue with DTE Gas's use of a yearly heating load factor in its weather normalization methodology. Acknowledging that the use of a yearly heating load factor may create an appropriate adjustment for normal HDDs when looking at the year as a whole, the Staff voiced its concern that the distribution of this yearly heating load factor to individual months

within a given year could produce inconsistent results. 4 Tr 2186. Specifically, the Staff noted that the use of a yearly heating load factor caused instances where a small decrease between actual and normal HDDs resulted in a large increase in associated load. 4 Tr 2186; *see also*, Exhibit S-18.5. Consequently, the Staff proposed that the Commission require DTE Gas to find an alternative methodology for calculating its weather normalization adjustment that better aligns with monthly differences between actual and normal HDDs. Moreover, the Staff suggested that the company could calculate the heating load factor monthly instead of yearly to produce more accurate results and indicated that it was open to working with DTE Gas to find an alternative methodology. 4 Tr 2186; *see also*, Staff's initial brief, p. 104.

In rebuttal, DTE Gas recognized the errors in the underlying documents supporting its calculations but explained that failure to weight HDDs only affected those documents and not any of the calculations and forecasts presented in this case, which the company asserted correctly used system-weighted HDD data. 3 Tr 1010; *see also*, DTE Gas's initial brief, pp. 153-154. Further, DTE Gas disagreed with the Staff's recommendation to modify its weather normalization methodology and argued that the Staff had not demonstrated that the current methodology produced unreasonable or imprudent results. 3 Tr 1011; *see also*, DTE Gas's initial brief, pp. 154-155. The company explained that "[a] system average heating value directly impacts customer usage since, all else equal, higher heating value gas correlates to fewer volumes consumed, with the inverse also being true," and that "[t]he current use in the forecast is appropriate because it appropriately adjusts for the heating value in the historical period versus the heating value that is expected in the forecast period." DTE Gas's initial brief, p. 154. As such, the company advocated for the Commission to reject the Staff's proposal. *Id*., p. 155.

Regarding HDDs, the ALJ found that the Staff's observed errors in DTE Gas's supporting documents did not affect the company's forecasts and analyses and, therefore, that no further adjustments were required. PFD, p. 325. Additionally, the ALJ agreed with DTE Gas and found that that the Staff had not demonstrated that the company's use of a yearly heating load factor resulted in an inaccurate forecast. The ALJ noted DTE Gas's explanation that heating value influences customer usage and that the current forecast properly adjusted for differences between historical and forecasted heating values. Accordingly, the ALJ found that DTE Gas's normalization methodology was reasonable and declined to recommend any modifications to the current methodology. *Id*.

No party filed exceptions on this issue.

The Commission agrees with the ALJ that DTE Gas adequately explained that the HDD data errors in pre-filed documents supporting the company's calculations did not impact the forecasts and analyses presented in this case. *See*, 3 Tr 1010. As a result, the Commission adopts the ALJ's findings and recommendations on this issue. *See*, PFD, p. 325.

The Commission, however, respectfully declines to adopt the ALJ's recommendation concerning DTE Gas's weather normalization methodology. The Commission agrees with the Staff and finds that DTE Gas's use of a yearly heating load factor in its weather normalization methodology produces inconsistent results. As correctly noted by the Staff, the record demonstrates that the company's use of a yearly heating load factor results in instances where small decreases between actual and normal HDDs result in significant increases in load. *See*, 4 Tr 2186; *see also*, Exhibit S-18.5. The Commission, therefore, directs DTE Gas, by its next gas rate case, to work with the Staff to develop a more accurate method for calculating the company's

weather normalization adjustment that better aligns with monthly differences between actual and normal HDDs.

3. End-Use Transportation

DTE Gas stated that it had 538 EUT customers and 151.6 billion cubic feet (Bcf) of transported volume in 2024 and projected 537 customers and 140.8 Bcf for the test year. 2 Tr 230; *see also*, Exhibit A-15, Schedule E6. As DTE Gas explained, the company's forecast was based upon actual volumes for the 12 months ending in August 2025, which were adjusted for known and measurable changes. 2 Tr 231. The company incorporated a five-year average of 61.9 Bcf for power-generation volumes to account for weather, outage, and price volatility, which in turn was used to project an increase in EUT revenue to $125.8 million for the projected test year, a $5.3 million increase from the historical period. 2 Tr 236-238.

The Attorney General asserted that DTE Gas materially understated its projected EUT revenue and that its forecasted 61.9 Bcf power-generation volume was not based upon the most recent data available. When accounting for data updated through the end of 2025 as opposed to August 2025, the Attorney General calculated a five-year average of 63.3 Bcf, which correspondingly results in incremental EUT revenue of $0.206 million to for the projected test year. 5 Tr 3320-3321; *see also*, Attorney General's initial brief, pp. 78-79. The Attorney General argued that DTE Gas had a history of underestimating its test-year volumes and, as such, advocated for the Commission to increase the company's projected EUT revenue based on her updated calculations. 5 Tr 3321; *see also*, Attorney General's initial brief, p. 79.

Additionally, the Attorney General urged the Commission to remove DTE Gas's assumed reduction of 769 MMcf in volumes for small transportation (ST) and large transportation (LT) customers. 5 Tr 3321. According to the Attorney General, the assumed reduction was based on

the company's application of a 1% annual energy-optimization reduction that was unsupported by evidence and was not based in reality. 5 Tr 3322. As a result, she urged the Commission to increase EUT revenue by an additional $0.914 million for the projected test year. 5 Tr 3322; *see also*, Attorney General's initial brief, pp. 79-81.

In rebuttal, DTE Gas rejected the Attorney General's updated five-year average and argued that she had "cherry-picked" data that undermined the stability of the company's established forecasting methodology. 2 Tr 308-309. The company further defended its assumed energy-efficiency reduction and noted that such a reduction aligned with approved energy reduction program goals and recent Commission precedent. 2 Tr 309-310; *see also*, DTE Gas's initial brief, p. 159. As a result, DTE Gas maintained its original revenue and volume forecasts and argued that they should remain unchanged. DTE Gas's initial brief, p. 160.

The ALJ was persuaded by the Attorney General's evidence demonstrating that DTE Gas repeatedly underestimated power-generation volumes and therefore recommended adopting an EUT revenue increase of $0.206 million based upon the Attorney General's updated five-year average, which incorporated more recent data. PFD, pp. 330-331. The ALJ, however, declined to adopt the Attorney General's recommended adjustment based on EWR sales, finding that the EWR review and audit proceeding remained the appropriate forum for evaluating EWR plans and energy-savings results. *Id*., p. 331.

In exceptions, DTE Gas objects to the ALJ's recommendation to adopt an increase in projected EUT revenue based upon the Attorney General's updated five-year power-generation average. DTE Gas first contends that recent variances in power-generation volumes are largely attributable to unpredictable usage swings and do not demonstrate a systematic bias or flaw in the company's forecasting methodology. DTE Gas's exceptions, pp. 116-117 (citing

Exhibit AG-36, p. 4). Further, DTE Gas argues that the ALJ's reliance on Case No. U-20940 is misplaced because the alleged underprediction pattern for power-generation volumes did not continue into the test year at issue in that case. DTE Gas's exceptions, pp. 117-118. Finally, DTE Gas asserts that adopting the Attorney General's updated average undermines the fixed test year framework and substitutes established filing-date methodologies with mid-litigation data, which creates a moving target that invites selective "cherry-picking." *Id*., pp. 118-119. Accordingly, DTE Gas advocates for the Commission to reject the ALJ's proposed adjustment to EUT revenue. *Id*.

The Attorney General excepts to the ALJ's rejection of her proposal to remove the company's assumed EWR sales reduction. Specifically, the Attorney General contends that it was error for the ALJ to reject the proposal without providing more rationale or considering her counterarguments in briefing. Attorney General's exceptions, p. 29. Moreover, the Attorney General argues that, in this case, DTE Gas failed to "substantiate its projections that show volume reductions have actually occurred for EUT customers in recent years," and that "[a]pplying a target reduction rate to historical volumes without supporting data showing that those reductions can actually be achieved is not adequate evidence to support projected revenue reductions in a rate case." *Id*., p. 30. Accordingly, the Attorney General urges the Commission to adopt her proposed addition of $0.914 million in EUT revenue for the projected test year. *Id*.

In replies to exceptions, DTE Gas advocates for the Commission to reject the Attorney General's exception and to affirm the ALJ's recommendation. DTE Gas's replies to exceptions, p. 53. DTE Gas notes that the company has consistently applied the same 1% annual EWR reduction to ST and LT EUT volumes and that the Commission has already held that the EWR docket, and not rate cases, is the appropriate forum for evaluating the reasonableness of EWR

plans and associated savings. *Id*., pp. 53-54. The company further asserts that the Attorney General misunderstands the applicable standards for EWR savings, which it contends is based upon the reasonableness and prudence of EUT forecasts based on approved EWR savings targets. As a result, DTE Gas urges the Commission to reject the Attorney General's proposed adjustment to the company's projected EUT revenue. *Id*., p. 54.

In her replies to exceptions, the Attorney General discredits DTE Gas's explanation for why the company has underestimated power-generation in past cases and posits that, regardless of the reasoning, the company has consistently underestimated its power-generation volumes. Attorney General's replies to exceptions, p. 40. The Attorney General further contends that, contrary to DTE Gas's assertion about her cherry-picking more favorable data, the Attorney General has been consistent in her preference to use the most recently available data to produce accurate forecasts. As the Attorney General explains, her "approach is not to selectively rely on recent data that is atypical – but to use updated actuals where available unless there is a compelling reason not to," and she further avers that "[t]he Company's and the Commission's focus, when using a fully projected test year, should be to be as accurate as possible, not to rigidly rely on whatever DTE had available at one moment in time – as of the filing date." *Id*., p. 41. Accordingly, the Attorney General advocates for the Commission to reject DTE Gas's exception and to adopt the ALJ's recommendation on this issue.

The Commission agrees with the ALJ and finds persuasive the Attorney General's evidence demonstrating that DTE Gas has consistently underestimated its power-generation volumes. *See*, 5 Tr 3321; *see also*, Exhibit AG-46, p. 4. As in past rate cases, the Commission further finds that using updated data is appropriate and should be permitted to develop more accurate forecasts, regardless of whether that updated data ultimately supports or hurts a given party's position.

Accordingly, the Commission finds that the Attorney General's revised five-year average for power-generation, which is based on the most recent data presented in the record, is reasonable and represents the more appropriate method for achieving an accurate power-generation forecast. The Commission, therefore, adopts the ALJ's findings on this issue and his recommendation to increase DTE Gas's EUT revenue by $0.206 million for the projected test year. *See*, PFD, pp. 330-331.

Regarding the Attorney General's proposed adjustment concerning EWR savings, the Commission acknowledges that DTE Gas's application of an assumed 1% EWR savings reduction aligns with historical practice. However, as DTE Gas concedes, the company lacks comprehensive data demonstrating that it has achieved actual EWR volume reductions for EUT customers. *See*, Exhibit AG-46, p. 5. Consequently, the Commission finds that DTE Gas has failed to provide sufficient evidence to substantiate the assumed EWR reductions incorporated into its EUT revenue forecast. Accordingly, the Commission respectfully declines the ALJ's recommendation on this matter and adopts the Attorney General's proposed $0.914 million increase to projected EUT revenue for the test year.[15] Furthermore, the Commission directs DTE Gas to submit, in its next gas rate case, a refined EWR methodology that precisely demonstrates the correlation between actual EWR savings and the corresponding EUT revenue reductions and EUT revenue forecasts.

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[15] In implementing the Attorney General's EUT sales volume adjustments of 1.4 Bcf and 769,000 Mcf into the rate design model consistent with the decisions in this order, the corrected EUT power generation revenue adjustment is $895,811, and the corrected EUT EWR adjustment is $939,211, with the corrected combined amount being $1.835 million. The Commission adopts the corrected EUT revenue adjustments in this order.

B. Midstream Revenue

1. Contract Storage

DTE Gas originally projected $51.1 million in contract storage revenue for the test year, which included $47.1 million in revenue from long-term contracts and an additional $4.0 million forecasted from the sale of 21.7 Bcf of uncontracted capacity. 2 Tr 246-247; *see also*, Exhibit A-13, Schedule C3.3. The Attorney General proposed a $14.5 million increase in projected revenue, which she calculated by applying a higher rate from a newly executed contract to all remaining capacity. 5 Tr 3323-3324. In rebuttal, DTE Gas noted a calculation error in the Attorney General's proposal and explained that the company's uncontracted capacity is only available for six months of the test period, thereby making a full-year revenue expansion inaccurate. 2 Tr 320-322. However, acknowledging improved market conditions and a new one Bcf contract, DTE Gas agreed to update its forecast and proposed increasing the total test-year contract storage revenue by $1.33 million to approximately $52.4 million. 2 Tr 324.

In briefing, the Attorney General agreed with the company that its available capacity was limited to six months but inconsistently maintained her full $14.5 million adjustment. She further argued that the company's recent contract rate better reflected market conditions and that the company's attempt to introduce a different rate in rebuttal was inappropriate. Attorney General's initial brief, pp. 83-85. In reply, DTE Gas contended that the Attorney General's position was contradictory and speculative. The company further defended its updated $52.4 million projection as a proper methodology based on recent market data. DTE Gas's reply brief, pp. 90-92.

The ALJ recommended adopting DTE Gas's revised test year contract storage revenue projection of $52.4 million, which incorporated a $1.33 million increase over the company's initial estimate. The ALJ noted that the Attorney General appeared to concede her initial $14.5 million

adjustment once the company's six-month capacity limit was applied. Additionally, the ALJ rejected the Attorney General's claim of improper rebuttal testimony from DTE Gas, finding that it was reasonable for the company to update its forecast with post-filing market data to rebut the Attorney General's arguments and to achieve the most accurate forecast. PFD, p. 325.

In exceptions, the Attorney General acknowledges that it was inconsistent for her to carry through her proposed $14.5 million adjustment after her recognition of her witness's calculation error. Attorney General's exceptions, p. 31. As a result, the Attorney General states that she agrees with the ALJ's disposition of this issue in the PFD. *Id*.

In replies to exceptions, DTE Gas notes that the Attorney General did not except to the ALJ's adoption of the company's revised contract storage revenue forecast. DTE Gas's replies to exceptions, p. 55, n. 30.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. Moreover, the Commission finds, as expressly stated in her exceptions, that the Attorney General has conceded her proposed adjustment and agrees with the ALJ's disposition of this issue. *See*, Attorney General's exceptions, p. 31. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 325.

2. Off-System Transportation

DTE Gas projected $61.4 million in off-system transportation revenue for the test year, $59.4 million of which was already under contract and $2 million of which the company anticipated from renewing several expiring contracts. 2 Tr 250-251; *see also*, Exhibit A-13, Schedule C3.3.

The Attorney General argued that DTE Gas severely understated the rate it used to forecast revenue for the renewal of the company's expiring contracts, which was $0.11 per Mcf. The

Attorney General contended that she requested detailed components of the off-system transportation service and discovered that DTE Gas signed 48,796,801 Mcf at an average rate of $0.20 per Mcf for off-system customers, well above the company's proposed rate. 5 Tr 3325-3326. Using this higher rate, the Attorney General calculated an increase in off-system transportation revenue of $1.849 million, which she proposed be adopted for the projected test year. 5 Tr 3326; *see also*, Attorney General's initial brief, pp. 85-86.

In rebuttal, DTE Gas asserted that the Attorney General's proposed increase contained a fundamental error by calculating rates using utilized gas volumes instead of a contract's maximum daily quantity (MDQ), which incorrectly inflated revenues. 2 Tr 325-326. The company stated that correcting for this error reduced average rates from $0.20 to $0.08 per dekatherm (Dth), which actually lowered projected revenue. 2 Tr 326-327. DTE Gas further argued that off-system contracts are highly individualized, which makes an aggregated average rate inappropriate for valuing expiring contracts. 2 Tr 327-328.

The ALJ found that DTE Gas had adequately refuted the Attorney General's method for calculating her proposed revenue increase and that any concerns the Attorney General had regarding information supplied by the company through discovery did not overcome DTE Gas's demonstration that the Attorney General's methodology did not reflect how off-system transportation services are structured or billed. PFD, p. 338. As a result, because the ALJ found DTE Gas's MDQ approach to be better supported by the record, the ALJ recommended that the Commission reject the Attorney General's proposed adjustment. *Id*., pp. 338-339.

In exceptions, the Attorney General argues that the ALJ's recommendation improperly shifts the burden from DTE Gas to intervenors and that any insufficiency in obtaining information that substantiated the company's projections in discovery should be held against the company, and not

the Attorney General. Attorney General's exceptions, p. 32. Further, the Attorney General contends that any finding that DTE Gas's method for projecting off-system transportation service revenue as more accurate is undercut by the reality that little to no actual volumes have been recorded as of April 2026, thereby making the company's calculations speculative. *Id*. As a result, the Attorney General maintains her position that the Commission should increase projected revenue for the test year by $1.849 million. *Id*., p. 33.

In replies to exceptions, DTE Gas maintains its position that the Attorney General's methodology for determining forecasted revenue is flawed because it "derives an implied per-Dth rate by dividing total revenues by utilized volumes rather than by contracted [MDQs], which is the billing determinant that actually governs how Off-System Transportation service is priced." DTE Gas's replies to exceptions, pp. 55-56. Additionally, the company asserts that the Attorney General's arguments regarding the ALJ's purported shifting of burdens are unconvincing and that the Attorney General's reliance on discovery timing does not remedy the flaws in her methodology. As such, DTE Gas advocates for the Commission to reject the Attorney General's proposed revenue adjustment. *Id*., p. 56.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. The Commission agrees with the ALJ and finds that DTE Gas adequately refuted the Attorney General's methodology, and that the Attorney General's concerns related to discovery do not negate the reality that her methodology does not accurately reflect how off-system services are structured and billed. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, pp. 338-339.

C. Other Operating Revenue

1. Home Protection Plus Appliance Service Revenue

DTE Gas explained that the HPP appliance service program helps customers manage unexpected repair costs while maintaining a skilled workforce capable of responding to gas leak emergencies. 2 Tr 267-268. The company stated that revenues from this service program exceed its costs, allowing the program to lower overall customer rates. 2 Tr 268-269. DTE Gas asserted that customer enrollment and revenue in the projected test year were expected to remain consistent with the historical test period. 2 Tr 269; *see also*, Exhibit A-13, Schedule C3.

The Attorney General argued that DTE Gas's forecast for revenue for the projected test year was flawed because it simply carried forward 2024 historical figures while ignoring growth trends, which she noted had steadily risen to $116.8 million in 2025 (an $8.3 million increase from 2024). 5 Tr 3327. She further observed that the program's growth margin had increased approximately 8% annually between 2022 and 2025. 5 Tr 3328. Noting that DTE Gas has consistently underestimated actual results in its previous four rate cases, the Attorney General proposed that the Commission apply her calculated 8% average annual gross-margin growth rate to projected revenues. 5 Tr 3328; *see also*, Attorney General's initial brief, p. 87. Accordingly, applying this growth rate to the company's 2025 results, the Attorney General advocated for the Commission to increase the HPP appliance service program's test year net revenue to $47.105 million, a $6.776 million increase from DTE Gas's forecasted revenue. Alternatively, the Attorney General urged the Commission to adopt the company's actual 2025 gross margin of $41.147 million, which reflected a $0.755 million increase in the company's forecasted revenue. 5 Tr 3329; *see also*, Attorney General's initial brief, p. 89.

In rebuttal, DTE Gas asserted that the Attorney General's methodology was flawed because it selected only the lowest and highest margin years, 2022 and 2025, respectively, to artificially inflate the growth trend while ignoring minimal growth in the 2023 and 2024 historical years. 2 Tr 329. The company argued that year-to-year growth was highly volatile and, therefore, that the Attorney General's use of a three-year growth rate average was inappropriate. 2 Tr 329-330; *see also*, DTE Gas's initial brief, pp. 168-169. DTE Gas, however, agreed with the Attorney General's alternative proposal to adopt the company's actual 2025 growth margin and to increase projected net revenue for the program in the test year by $0.755 million. 2 Tr 330; *see also*, DTE Gas's initial brief, p. 170.

The ALJ recommended adopting the Attorney General's alternative proposal to increase projected revenue for the program by $0.755 million, which the ALJ noted DTE Gas supported. While acknowledging the Attorney General's argument that DTE Gas has historically underestimated revenue for the HPP appliance service program, the ALJ found that the evidence demonstrated that historical gross margin growth was variable and did not substantiate the Attorney General's proposal. Accordingly, the ALJ found, based on the evidence, that the actual 2025 gross margin of $41.147 million, and its resulting adjustment, was the more reasonable forecast. PFD, p. 342.

In exceptions, the Attorney General reiterates her argument that the HPP appliance service program revenue should be increased by $6.776 million. Attorney General's exceptions, p. 33. She argues that the ALJ erred by rejecting the full adjustment and asserts that her testimony on the issue "documents a clear inclination by DTE to understate the forecasted revenue and operating income of the appliance service program." *Id*., p. 34. The Attorney General, therefore, maintains that the calculation she used is an objective method that contains more data points than the

company's one-year method, which she contends better balances yearly variability. As a result, the Attorney General advocates for the Commission to increase DTE Gas's forecasted net revenue by $6.776 million of the projected test year for this program. *Id*.

In replies to exceptions, DTE Gas argues that the ALJ properly found that the Attorney General's methodology ignored slower growth rates in 2024 and 2025 and that her selective approach produced an overstated projection unsupported by recent data. DTE Gas's replies to exceptions, pp. 57-58. Further, DTE Gas avers that the Attorney General's argument that the ALJ recognized the company's forecasting history but failed to impose a corrective growth trend "would improperly convert past-period variances into a permanent upward bias in rates, irrespective of current market conditions, enrollment trends, or experience," and that such an approach "is inconsistent with the projected test year framework and should be rejected." *Id*., p. 58. In turn, DTE Gas urges the Commission to affirm the ALJ's decision.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. The Commission agrees with the ALJ that the evidentiary record demonstrates that the HPP appliance service program's gross margin was variable between 2022 and 2025, with growth slowing to $41.392 million and $41.147 million in 2024 and 2025, respectively, despite faster increases in prior years. *See*, Exhibit AG-40. Therefore, the Commission agrees with the ALJ and finds that using the actual 2025 gross margin is more reasonable. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 342.

D. Residential Income Assistance Credit

For the Residential Income Assistance (RIA) credit, DTE Gas forecasted an average monthly customer enrollment of 70,000, totaling $12.9 million, for the projected test year and proposed increasing the RIA credit from $14.50 to $15.40 per month. 3 Tr 1056. The Staff noted that DTE

Gas's forecast merely carried forward the company's 2024 historical average customer count without supporting evidence. 5 Tr 2933. For this reason, the Staff instead proposed an average monthly enrollment level of 66,979, which it based on a three-year historical average of monthly RIA recipients from 2022 through 2024. The Staff contended that its use of a three-year average was consistent with the methodology used in Case No. U-21806 and should remain appropriate absent broader decisions by the Commission on energy assistance reforms. As a result, the Staff recommended an associated increase to the company's distribution revenue by $0.526 million. 5 Tr 2393-2394; *see also*, Staff's initial brief, p. 45.

In briefing, DTE Gas continued to maintain its support for the recovery of $12.9 million in RIA credits based on its projected monthly average customer count and an increased monthly credit of $15.40. *See*, DTE Gas's initial brief, pp. 308-309.

The ALJ recommended adopting the Staff's proposed revenue increase based on the Staff's analysis. PFD, p. 343.

In exceptions, DTE Gas opposes the ALJ's recommendation and contends that it provided direct support for its customer forecast. DTE Gas's exceptions, pp. 119-120. Moreover, according to DTE Gas, the "Staff's forecast relies on a multi-year averaging approach that gives weight to lower participation levels from prior years despite evidence that enrollment has increased more recently." *Id*., p. 120. Further, alleging that the Staff's lower forecast lacks evidentiary support, DTE Gas advocates for the Commission to reject the ALJ's proposed adjustment and to approve the company's forecasted monthly average customer count of 70,000. *Id*.

The Commission agrees with the Staff that DTE Gas failed to adequately justify a projected enrollment of 70,000 customers per month for the projected test year. The Commission is

persuaded by the Staff's argument that its use of a three-year average to forecast monthly RIA customers is more appropriate, as demonstrated by the Commission's prior acceptance of this methodology in Case No. U-21806. Accordingly, the Commission adopts the ALJ's recommendation on this issue to adopt the Staff's proposed increase to distribution revenue for the test year totaling $525,654. *See*, PFD, p. 343.

E. Operation and Maintenance Expenses

1. Inflation

DTE Gas proposed composite inflation rates of 3.0% for 2025, 2.9% for 2026, and a prorated nine-month rate of 2.2% for 2027 based on distinct labor and non-labor factors. 3 Tr 876; *see also*, Exhibit A-13, Schedule C12. DTE Gas stated that it applied a uniform 3.0% annual cost increase across union, non-union, and contract labor, tying union rates to contract requirements and market competitiveness. 3 Tr 715. Additionally, the company explained that non-labor inflation was derived from the Consumer Price Index-Urban (CPI-U) forecast for July 2025. 3 Tr 876.

The Staff rejected DTE Gas's inflation methodology and proposed lower inflation rates that it derived from averaged S&P Global, Federal Reserve, and Congressional Budget Office (CBO) projections. 5 Tr 2428, 2529; *see also*, Exhibit S-4, Schedule D-3.1. The Staff explained that combining DTE Gas's self-controlled labor rates with general inflation creates a self-reinforcing cycle that double counts labor costs and argued that the Commission has consistently rejected this approach. 5 Tr 2529. In turn, the Staff proposed that the Commission adopt its proposed inflation rates and reduce the company's projected O&M inflation increase by $3.126 million, excluding two O&M categories for mains & services and customer service. 5 Tr 2529-2930; *see also*, Exhibit S-14.1.

The Attorney General criticized DTE Gas's blended inflation method and cited recent Commission precedent that rejected the approach. 5 Tr 3330. Applying CPI-U forecasted rates to the company's 2024 O&M expense base, the Attorney General calculated a total inflation adjustment of $22.97 million; the Attorney General, in turn, proposed that the Commission reduce DTE Gas's O&M expense by an associated $4.48 million. 5 Tr 3330-3331; *see also*, Exhibit AG-50.

MEC proposed rejecting DTE Gas's blended inflation method based on Commission precedent and highlighted that historical trends showed that the company achieves efficiency gains, with O&M growth consistently lagging inflation. 4 Tr 2070-2072. MEC thus urged the Commission to adopt a productivity-adjusted inflation (PAI) benchmark that would pair standard inflation with a 10-year rolling average productivity offset. 4 Tr 2084-2086. Applying this framework, MEC proposed a disallowance of $1.924 million for the company's marketing O&M and a $6.002 million disallowance for administrative and general O&M. 4 Tr 2087, 2089. Separately, MEC proposed a complete disallowance of DTE Gas's proposed inflation adjustments for gas storage, transmission, and distribution and argued that because historical spending in these categories declined from 2020 to 2024, the Commission would be justified in freezing expense at 2024 levels. 4 Tr 2101-2104, 2107-2108.

In rebuttal, DTE Gas defended its use of a composite inflation rate and argued that the rate accurately accounted for distinct labor costs driven by binding contracts and market adjustments. 2 Tr 73. DTE Gas further rejected the Staff's, Attorney General's, and MEC's proposal, and argued that the use of a PAI offset would be inappropriate because traditional regulation already captures cost savings in the historical test period, making an additional offset a form of double-

counting. DTE Gas also criticized MEC's methodology and asserted that CPI already inherently reflects productivity gains. 2 Tr 74-76.

The ALJ noted that the Commission rejected DTE Gas's proposed blended inflation rate in its last rate case, Case No. U-21291, and instead adopted a CPI-U approach, which is similar to other rulings that rejected the use of a blended inflation rate. PFD, p. 353 (citing November 7 order, p. 139; May 8 order, p. 86; and December 9 order, p. 121). The ALJ further noted that the Commission rejected DTE Electric's proposed blended inflation rate in Case No. U-21860 and instead adopted the Staff's proposed inflation rates, which were based on averaged forecasts from S&P Global, the Federal Reserve, and the CBO, along with historical actual data. PFD, p. 353 (citing February 19 order, p. 78). With this precedent in mind, the ALJ found that DTE Gas had provided no compelling reason to depart from recent precedent and that the company's proposed blended rate contained the same flaws as its previously rejected proposals. Specifically, the ALJ found that DTE Gas "had not shown that incorporating a company-specific labor component produces a more accurate inflation measure, nor has it addressed Staff's concern that this approach creates a 'self-reinforcing cycle' that ultimately inflates those same costs." PFD, p. 354. Accordingly, the ALJ recommended that the Commission decline the company's proposed blended inflation rate methodology.

Additionally, the ALJ recommended adopting the Staff's proposed inflation rate methodology, finding that the Staff's approach aligned with the approach approved in Case No. U-21860, relied on publicly available data, and provided a more accurate basis for forecasting inflation. *Id*. Further, while acknowledging MEC's concerns about productivity offsets, the ALJ declined to adopt their proposed PAI factor, finding that DTE Gas's concern about potential double counting of efficiency gains was legitimate. *Id*., pp. 354-355. However, the ALJ found that DTE Gas had

failed to sufficiently identify and quantify its efficiency gains; as a result, the ALJ recommended that DTE Gas be required to provide detailed evidence showing how the company offsets inflation through productivity gains in future rate cases. *Id*., p. 355.

Finally, the ALJ found that MEC did not pursue their proposal to fully disallow inflation adjustments for gas storage, transmission, and distribution, and as such, found the issue to be abandoned. The ALJ, therefore, declined to recommend adoption of the proposal. *Id*.

In exceptions, DTE Gas disagrees with the ALJ's rejection of its proposed inflation rates, as well as the ALJ's recommendation to require the company to provide evidence of productivity offsets in future rate cases. DTE Gas's exceptions, pp. 124-128. DTE Gas first argues that the ALJ incorrectly adopted the Staff's claim that the company's labor inflation methodology created a "self-reinforcing cycle" by double-counting wage increases. The company reiterates that it uses a separately weighted composite rate that isolates non-labor costs from distinct labor costs, including 3% annual wage increases for represented and non-union employees. *Id*., p. 124. As DTE Gas contends, because these labor costs reflect binding obligations uncaptured by general consumer inflation metrics, the Staff's compounding concern is unfounded. *Id*., p. 125.

DTE Gas next asserts that the ALJ improperly gave dispositive weight to Commission precedent without engaging with the evidentiary record in this case. Specifically, the company contends that the ALJ failed to identify what additional evidence would provide a "compelling reason" to deviate from past Commission rulings and merely relied on Commission precedent to reject the company's blended inflation rate. *Id*., pp. 125-126. Moreover, DTE Gas contends that it justified departing from CPI-U in this case by demonstrating that consumer inflation metrics understate known, contractually binding labor increases. Accordingly, DTE Gas avers that the ALJ's use of Commission precedent to categorically reject the company's inflation methodology

runs afoul of the evidence-based examination that is required of the Commission by law. *Id*., p. 126.

Finally, DTE Gas excepts to the ALJ's directive requiring the company to prove productivity gains to offset inflation in future rate cases. DTE Gas asserts that the ALJ misunderstood the company's O&M projection process, which the company contends does not simply involve the application of an inflation factor, but rather, is based on a category-specific process whereby known savings and efficiencies are incorporated alongside inflation adjustments. *Id*., p. 127. As such, DTE Gas argues that the ALJ's directive to require a standalone demonstration is an oversimplification of the company's multilayered process. Further, the company contends that it has already demonstrated in this case that productivity offsets are embedded throughout its forecasts. *Id*. By way of example, DTE Gas states that productivity reductions of $1.3 million and $6.9 million were already included in Contact Center and Voluntary Separation Incentive Plan O&M expense forecasts, respectively, in this case. *Id*., pp. 127-128. Accordingly, the company maintains that the ALJ's directive is unwarranted and should therefore be rejected by the Commission. *Id*.

MEC excepts to the ALJ's recommendation to reject its proposed productivity adjustment for inflation rates. *See*, MEC's exceptions, pp. 6-14. MEC reiterates that DTE Gas's historical O&M expenses demonstrate little to no growth, with expenses declining by 0.4% per year for the period from 2020 to 2024 despite increasing CPI-U inflation. *Id*., p. 7. As a result, MEC contends that it is reasonable to assume that efficiency gains partially offset price inflation, making a productivity-adjusted benchmark better than an unadjusted CPI-U index. *Id*., pp. 7-8. Further, MEC asserts that DTE Gas failed to provide precedent or adequate evidentiary support to show that the

company is entitled to pass inflation savings to customers or that productivity gains were already embedded in O&M costs to avoid double-counting. *Id*., p. 9.

Additionally, MEC explains that, although the ALJ acknowledged that MEC's concerns regarding productivity offsets were valid, he ultimately failed to recommend an offset. However, MEC argues that, unlike Case No. U-21870, DTE Gas failed to substantiate its claim that efficiency improvements had been embedded in O&M expenses, whereas the current record includes strong evidence demonstrating that applying a productivity adjustment across multiple O&M categories aligns far more closely with actual historical spending than unadjusted CPI-U increases. MEC's exceptions, pp. 10-13. Highlighting DTE Gas's lack of proof and the broader affordability concerns documented in the record, MEC urges the Commission to adopt its productivity-adjusted inflation rates as the most accurate methodology available. *Id*., pp. 13-14.

In replies to exceptions, DTE Gas advocates for the Commission to reject MEC's exception regarding productivity-adjusted inflation methodology and argues that MEC merely rehashes rejected arguments without presenting any new evidence. DTE Gas's replies to exceptions, p. 60. DTE Gas maintains that the ALJ properly recognized that applying a standalone productivity offset risks double counting efficiency gains, especially in light of the fact that CPI-U already incorporates productivity gains and the company's forecasts already embed cost savings. *Id*. Additionally, DTE Gas contends that MEC improperly conflates the need for clear documentation of embedded efficiencies with the immediate application of a disallowance in this case, a methodology the company contends the Commission has previously rejected. *Id*., p. 61. Accordingly, DTE Gas urges the Commission to affirm the ALJ's recommendation to reject MEC's productivity-adjusted inflation methodology. *Id*., p. 62.

MEC replies to DTE Gas's exceptions and argues that it is not the ALJ's responsibility to inform the company how to successfully argue for a departure from prior Commission precedent, further arguing that DTE Gas cited no new circumstances or evidence to warrant revisiting an issue that the Commission has rejected numerous times. MEC's replies to exceptions, p. 43. MEC further reiterates that the record does not support DTE Gas's claim that productivity gains are already embedded in the company's projections and that, when asked to support its claim, DTE Gas merely cited two unconvincing examples of cost savings. *Id*., pp. 44-45. As such, MEC contends that "[t]he lack of meaningful instances of productivity gains being realized in the O&M exhibits undercuts DTE's argument that adjusting for productivity double-counts efficiency gains," and that the ALJ's similar finding is well-supported by the record. *Id*., p. 45.

The Attorney General argues that DTE Gas's exceptions "provide nothing new," and that the company's "arguments were fully rebutted by the [Attorney General] and other parties in testimony and briefing and fully addressed by the ALJ in the PFD." Attorney General's replies to exceptions, p. 42. The Attorney General reiterates that the Commission has repeatedly rejected the use of a blended inflation rate and that DTE Gas has not demonstrated that incorporating a company-specific labor component produces a more accurate inflation measure. *Id*. Accordingly, the Attorney General asserts that the Commission should reject DTE Gas's exceptions and adopt her proposed inflation rates or, alternatively, adopt the ALJ's recommendation. *Id*., p. 43.

The Commission finds the ALJ's recommendation to reject the use of a blended inflation rate and to adopt the Staff's proposed inflation rates well-reasoned and supported by the record. The Commission finds that it has consistently rejected the use of a blended inflation rate methodology. *See*, *e.g.*, November 7 order, p. 139; February 19 order, pp. 78-79. Moreover, the ALJ's recommendation is amply supported by the record in this case. The Commission has reviewed the

parties' arguments and agrees with the ALJ that DTE Gas has not demonstrated that incorporating a company-specific labor component produces a more accurate inflation measure. To the contrary, the Commission agrees with the Staff's arguments that blending a utility's internal labor escalation projections with general inflation indexes creates an improper, self-reinforcing cycle that double counts labor costs already embedded in broader economic measures. Further, the Commission agrees with the ALJ and finds that the Staff's proposed methodology is a more reasonable and accurate basis for forecasting inflation. The Commission determines that it is reasonable to adopt an inflation rate methodology that utilizes publicly available data calculated using simple averages rather than subjective weighting. The Commission, therefore, adopts the ALJ's findings and recommendations on this issue and adopts inflation rates of 2.61% for 2025, 2.58% for 2026, and 2.31% for 2027, prorated to 1.73%. *See*, PFD, pp. 353-354.

The Commission similarly agrees with the PFD and declines to adopt MEC's proposed PAI offset at this time. The Commission agrees with the ALJ's concern that incorporating a separate productivity adjustment risks double counting efficiency gains already reflected in DTE Gas's forecasts. However, based on the record, the Commission agrees with the ALJ that DTE Gas has not sufficiently identified or quantified its claimed efficiency gains in the evidence presented in this case. Accordingly, the Commission directs DTE Gas in future rate cases to provide transparent and detailed evidence showing how the company offsets inflation through productivity gains.

Finally, the Commission finds the ALJ's findings and recommendations on MEC's proposed disallowances for gas storage, transmission, and distribution to be well-reasoned and supported by the record and therefore adopts the PFD on this issue. *See*, PFD, p. 355.

2. Transmission Operation and Maintenance Expenses

a. Pipeline Integrity

DTE Gas projected $39 million in O&M expenses for pipeline integrity for the test year, which represents a $23.3 million increase over the historical period. 3 Tr 1369. DTE Gas contended that the increase in expense over historical costs stemmed from conducting more total assessments, transitioning to costlier in-line inspection (ILI) methods, and addressing expanded remediation mandates under PHMSA's updated Mega Rule. 3 Tr 1371.

The Attorney General argued that DTE Gas's forecasted pipeline integrity expense surged 168% over a three-year period and was not linked to specific historical costs for the number of digs for each project, thereby making validation of projected costs nearly impossible. 5 Tr 3331-3332; *see also*, Exhibit AG-42. She further noted that between 2023 and 2025, the company averaged eight ILI and direct assessments (DA) per year at an inflation-adjusted cost of $2.491 million each, which was well below DTE Gas's per-project cost of $5 million. 5 Tr 3332-3333. Using this lower average cost, the Attorney General calculated projected pipeline integrity expense at $34.313 million and proposed disallowing the projected test year expense by $4.687 million. 5 Tr 3333; *see also*, Attorney General's initial brief, p. 93.

MEC contended that DTE Gas planned 16 inspections for the test year but failed to show that federal requirements mandated this number. Instead, MEC argued that maintaining a steady pace of nine inspections per year, the recent average, would be more appropriate. 4 Tr 2089-2090. MEC further asserted that DTE Gas's expanded use of ILI appeared discretionary and that the company's proposal to expand these assessments would create an unacceptable spike in expense. Accordingly, MEC proposed the adoption of a pipeline integrity expense level of $18.7 million,

which reflected the average 2022-2025 expense level, and the disallowance of $20.3 million from projected expenses. 4 Tr 2090; *see also*, MEC's initial brief, p. 91.

In rebuttal, DTE Gas asserted that it provided detailed project data, contrary to the Attorney General's assertion, and further argued that that historical averaging of project costs ignores project-specific variables, regulatory schedules, and legal mandates. 3 Tr 1449-1450. DTE Gas further contended that capping expenses at historical averages would require the company to fall out of compliance with mandated seven-year assessment cycles and that reverting to DA would be imprudent and heighten the risk of pipeline failures. 3 Tr 1451-1453.

The ALJ found that although DTE Gas had explained the need for higher program costs, the company had failed to justify its projected test year spending. The ALJ pointed to evidence provided by the Attorney General that demonstrated that pipeline integrity costs had risen substantially since 2024 and that the company's per-project cost of $5 million greatly exceeded the inflation-adjusted three-year average cost per project. The ALJ, therefore, recommended adopting the Attorney General's proposed disallowance of $4.687 million in test year expense for the program. PFD, p. 361. The ALJ further rejected MEC's proposed larger disallowance, finding that DTE Gas had sufficiently demonstrated the prudence of increased spending to conduct more effective ILIs to comply with safety requirements. *Id*., pp. 361-362.

In exceptions, DTE Gas disagrees with the ALJ's recommendation to adopt the Attorney General's proposed disallowance and asserts that her use of a three-year average is fundamentally at odds with the drivers of pipeline integrity expenses. DTE Gas argues that the Attorney General's methodology ignores the reality that pipeline integrity expenses encompass more than assessments and vary significantly based on the line assessed, the ILI tool deployed, and the number and complexity of required remediation digs. Additionally, DTE Gas contends that the

Attorney General's methodology disregards governing frameworks by treating mandatory assessment schedules, increased remediation obligations, and documented variable costs as interchangeable year over year. DTE Gas's exception, p. 134. Consequently, the company urges the Commission to find its "project-specific, regulation-driven forecast" as a more credible methodology. *Id*., pp. 134-135.

DTE Gas also argues that adoption of the Attorney General's methodology is inconsistent with the company's projected workload in the test year, which the company asserts contains more ILIs than the historical annual average that forms the basis of the Attorney General's proposed disallowance. *Id*., p. 135. Moreover, DTE Gas avers that it fully justified its projected test year expense with detailed, project-level evidence, thereby refuting the Attorney General's claim that the company provided insufficient information to assess the requested expense. In turn, DTE Gas advocates for the Commission to reject the ALJ's recommendation and to approve the full amount of the company's projected expenses for the test year. *Id*., p. 136.

In replies to exceptions, the Attorney General argues that DTE Gas provides no new information in its exception and that its arguments on the issue have been thoroughly refuted and addressed by the ALJ. The Attorney General contends that the company's arguments in exceptions rely on self-serving projections instead of more appropriate historical averages. Accordingly, the Attorney General urges the Commission to reject the company's exceptions on this issue and to adopt the ALJ's recommendation. Attorney General's replies to exceptions, p. 44.

In its replies, MEC asserts that both ILI and DA are acceptable methods of testing and notes that DTE Gas invokes federal and state regulations "but stops short of directly saying that the increased use of the more expensive ILI method that is driving the spending increase is required by

regulation." MEC's replies to exceptions, p. 51. Therefore, as MEC argues, the Commission should, at a minimum, adopt the Attorney General's disallowance based on her analysis of historical costs and the lack of justification for the company's proposed increase in expenses. *Id*.

The Commission respectfully declines to adopt the ALJ's recommendation on this issue. The Commission finds that the record supports DTE Gas's requested expenses and includes a detailed breakdown of the company's planned inspections during the test year. *See*, Exhibit AG-42. The Commission further finds that the record demonstrates that the company's planned inspections for the test year are more complex, contain more planned remediation digs, and have a greater proportion of assessments that will utilize ILI than in previous years. Consequently, the Commission is unpersuaded by the Attorney General's argument that DTE Gas's per-project projected average cost of $5 million, which is above historical averages, provides a basis for disallowing these projected costs. *See*, 5 Tr 3332-3333. Accordingly, the Commission declines to adopt the ALJ's recommendation on this issue and rejects the Attorney General's and MEC's proposed disallowances to the company's projected expense for pipeline integrity. *See*, PFD, pp. 361-362.

b. Right of Way Maintenance

DTE Gas projected $6 million in expense for right-of-way (ROW) maintenance for the test year, which reflects a $5 million increase over the historical period. 3 Tr 1394. DTE Gas explained that the increased expense was a result of the company's expanding vegetation management, which seeks to cover more miles of ROW each year, establish a five-year maintenance cycle, and support safer access for required activities. 3 Tr 1395-1396.

The Attorney General concluded that DTE Gas's historical ROW spending was erratic and criticized the company's sudden jump in forecasted costs from $7,500 per mile in 2025 to $20,000

per mile in 2026 and 2027. 5 Tr 3334-3335; *see also*, Exhibit AG-43. The Attorney General contended that DTE Gas failed to justify the increase in per mile cost and thus proposed a $4 million disallowance, which she based on clearing 200 miles per year at a cost of $10,000 per mile. 5 Tr 3335.

MEC recommended completely disallowing DTE Gas's projected test year expense and argued that ROW maintenance requirements and operating conditions have remain unchanged. MEC, therefore, asserted that ROW maintenance activities should be met with the company's existing cost recovery. 4 Tr 2105.

In rebuttal, DTE Gas defended its funding request and explained that costs vary based on terrain and vegetation and that accelerating the ROW maintenance program was necessary to establish a continuous maintenance cycle. 3 Tr 1454-1455. DTE Gas also contended that disallowing costs would require the company to reduce maintenance mileage or skip heavily impacted areas, thus compromising safe access for regulatory compliance and delaying emergency responses. 3 Tr 1455-1456.

The ALJ agreed with the Attorney General and MEC and found that DTE Gas failed to demonstrate that the sharp increase in its projected ROW costs and mileage was necessary or beneficial to customers. PFD, p. 364. The ALJ further found that a lower level of spending would still provide reasonable funding for expanded ROW work, as noted by the Attorney General. Consequently, the ALJ recommended disallowing $4 million from test year expenses, which the ALJ noted was still double the spending level relative to the historical period. *Id*., p. 365.

In exceptions, DTE Gas disagrees with the ALJ's recommended disallowance and argues that the company is intentionally prioritizing areas with heavy brush and canopy where tree removal is more expensive, which DTE Gas contends increases costs per mile. DTE Gas's exceptions,

p. 137. DTE Gas further criticizes the ALJ's approved expense as failing to account for intensive near-term work that is needed to address decades of deferred maintenance and asserts that funding only 200 miles of ROW per year at a lower unit cost significantly extends the time needed to complete this work. *Id*., pp. 137-138. The company also argues that evidence explaining increased costs per mile were unrebutted and that its customers benefit from ROW maintenance through the continued ability to perform safety-critical work. *Id*., pp. 138-137. Accordingly, DTE Gas urges the Commission to reject the ALJ's recommended $4 million disallowance. *Id*., p. 138.

In replies to exceptions, the Attorney General reiterates that the ALJ correctly found that DTE Gas failed to justify the sharp increase in projected ROW miles and expenses or to demonstrate that such an increase was necessary for customer benefit. She therefore advocates for the Commission to reject DTE Gas's exception and to adopt the ALJ's recommendation. Attorney General's replies to exceptions, p. 45.

MEC replies and argues that "[w]hile a more reasonable funding increase of double historical expense may indeed slow the rate of clearing compared with DTE's aspirational goal, the company's claims about possible risks are speculative." MEC's replies to exceptions, p. 53. As such, MEC argues that the Commission should adopt the ALJ's recommendation. *Id*.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. The Commission finds persuasive the Attorney General's argument that DTE Gas's projected expense is based on a per mile ROW cost that greatly exceeds historical averages. Moreover, the Commission finds that DTE Gas's explanation for the ROW maintenance program's increased cost per mile is insufficient absent evidence of how and why the specific areas targeted for maintenance differ from other maintenance conducted in previous years. The Commission further finds that Attorney General's projected expense to be reasonable and agrees with the ALJ that this

expense level still enables DTE Gas to perform expanded ROW maintenance. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, pp. 364-365.

c. Pipeline Markers

DTE Gas projected $1.5 million in test year expense for pipeline markers, which reflects a $1.5 million increase over the historical period. 3 Tr 1399. DTE Gas explained that the increase was associated with repairing and replacing pipeline markers across roughly 250 miles of transmission pipeline annually. 3 Tr 1400. DTE Gas further stated that the markers are vital to public safety and are needed to meet federal regulations by clearly identifying buried pipelines and providing emergency contact information. 3 Tr 1400.

MEC opposed DTE Gas's projected test year expense and argued that backlogs should be prevented during pipeline surveys and construction, making existing funding sufficient for ongoing marker replacement. MEC noted that regulatory marking requirements have not changed and that the company should be able to meet its safety needs within its baseline cost recovery. 4 Tr 2105-2106.

In rebuttal, DTE Gas asserted that proactively replacing damaged or missing markers is necessary to comply with state identification rules. DTE Gas also cautioned that relying on a purely reactionary approach to replace damaged or missing markers increased reliability risks and decreased safety. 3 Tr 1471.

The ALJ found that DTE Gas's proactive program to replace markers was reasonable, prudent, and necessary to comply with state safety standards to reduce risks. Further, the ALJ rejected MEC's proposed disallowance and found that the company's incremental costs for the program could not be covered by inflation alone. Accordingly, the ALJ recommended that the Commission approve $1.5 million in test year expense for the program. PFD, p. 366.

No party filed exceptions on this issue.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. The Commission agrees with the ALJ and finds that DTE Gas's proactive replacement of markers is reasonable and prudent given the company's need to comply with federal and state requirements, as well as the safety benefits associated with replacing damaged and missing markers. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 366.

d. Painting

DTE Gas projected $4 million in test year expense for transmission system maintenance painting, which reflects a $4 million increase over the historical period. 3 Tr 1401-1402. As DTE Gas explained, the increased expense will be used to contract labor to complete painting and maintenance across dozens of facilities, stations, and valve sites. 3 Tr 1402. According to DTE Gas, establishing this routine annual painting program is vital to combat corrosion, prevent safety and reliability risks, and lower long-term infrastructure risks. 3 Tr 1402-1403.

MEC challenged DTE Gas's projected expense and argued that the company receives sufficient maintenance funding, while noting that the company's past neglect does not justify raising rates for customers absent new regulatory requirements. 4 Tr 2106. MEC noted that DTE Gas provided no financial analysis or evidence to show that painting extends asset life or reduces risk. In turn, MEC proposed a full disallowance of test year expense associated with the company's painting program. 4 Tr 2106; *see also*, MEC's initial brief, pp. 94-95.

In rebuttal, DTE Gas argued that it would be prudent for the company to transition from reactive repairs to a systematic, annual maintenance program. DTE Gas emphasized that

proactively completing this painting work prevents costly future infrastructure repairs and mitigates safety risks like gas leaks or pipeline ruptures. 3 Tr 1475.

The ALJ agreed with MEC that DTE Gas had failed to provide sufficient analysis to justify the proposed incremental increase in projected painting O&M expenses. While acknowledging that corrosion prevention is beneficial, the ALJ determined that DTE Gas had not proffered sufficient evidence, including a cost-benefit analysis, to demonstrate the need for such a significant increase in spending. Accordingly, the ALJ found that the projected expense was not reasonable and prudent and recommended that the Commission adopt MEC's proposed $4 million disallowance to test year expense for the program. PFD, p. 368.

In exceptions, DTE Gas contends that the ALJ misapplied the prudence standard by requiring the company to prepare a formal BCA before the projected expense for the painting program could be recovered. DTE Gas's exceptions, p. 140. DTE Gas, in turn, argues that the record provides substantial and uncontroverted evidence demonstrating the need for the program and again notes that delaying implementation of the project will lead to higher remediation costs and increased safety risks. *Id*., p. 141. As such, DTE Gas avers that the ALJ overlooked the "concrete record evidence of the scope, scale, and incremental nature of the work and supports the reasonableness of moving from reactive, incidental painting to a planned annual maintenance program for corrosion-exposed transmission facilities." *Id*. For these reasons, DTE Gas advocates for the Commission to reject the ALJ's recommended disallowance and to fully approve the company's requested test year expense for the painting program.

In replies to exceptions, MEC asserts that DTE Gas mischaracterizes the ALJ's findings and notes that the ALJ found that the company had failed to provide any compelling evidence, and not just a BCA, to demonstrate the need for the proactive painting program. MEC's replies to

exceptions, p. 54. Consequently, MEC maintains its argument that there is no need for the program, and it urges the Commission to adopt the ALJ's reasonable recommendation. *Id*.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. Contrary to DTE Gas's assertions, the Commission finds that the ALJ did not require the company to conduct a formal BCA as a prerequisite for cost recovery, but rather, found that the company had not provided sufficient evidence supporting the need for the substantially increased expense and associated work that it projected. The Commission agrees and, therefore, finds that while painting to prevent corrosion is a vital part of a maintenance program, DTE Gas's increase in expense for painting has not been shown to be reasonable and prudent. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 368.

3. Distribution Operation and Maintenance Expenses

a. Regulator Station Replacement Program

DTE Gas projected $3.6 million in test year expense for its Regulator Station Replacement Program (RSRP), which represents a $3.1 million increase from the historical period. 3 Tr 1415. DTE Gas explained that the forecasted increase in test year expense was the result of the company's planned enhanced preventative maintenance, which seeks to meet industry best practices by targeting 1,000 inspections and 282 soft good replacements on a yearly basis. 3 Tr 1417.

The Attorney General opposed DTE Gas's forecasted increase in expense and noted that in 2025, the company only spent $1.6 million to complete 1,065 service and regulator inspections and 241 soft good replacements. She therefore argued that DTE Gas's proposed $2 million spending increase for 2026 and 2027 was unjustified given that the company planned fewer inspections and only a 17% increase in soft good replacements compared to 2025. 5 Tr 3343.

Using 2025 actual expenses as a baseline and adjusting for a 17% increase, the Attorney General proposed a disallowance of $1.728 million in test year expense for the program. 5 Tr 3344.

MEC proposed a $3.1 million disallowance for the RSRP and argued that, as a major utility, DTE Gas should have already been following industry best practices and recovering these routine costs in existing rates. 4 Tr 2109.

In rebuttal, DTE Gas disputed the Attorney General's proposed disallowance and explained that regulator station costs vary widely by type, condition, and required labor, thereby making unit-cost averages inappropriate. 3 Tr 1467. Responding to MEC, DTE Gas clarified that the RSRP establishes a new, proactive inspection and soft good replacements schedule for stations not covered under prior programs, thereby making the projected expense incremental. 3 Tr 1468.

The ALJ found that DTE Gas failed to justify the scale of its projected increase in test year expense for the RSRP. The ALJ noted that DTE Gas failed to supply project-specific evidence or data to support the company's claim that 2025 replacement costs were unusually low. Accordingly, the ALJ recommended that the Commission adopt the Attorney General's proposed disallowance of $1.728 million in test year expense for the RSRP. PFD, p. 372.

In exceptions, DTE Gas opposes the ALJ's recommendation to adopt the Attorney General's proposed disallowance. DTE Gas's exceptions, pp. 142-145. DTE Gas asserts that the ALJ's finding that the company failed to identify the specific projects or data showing that 2025 replacement costs were unusually low demonstrates a misunderstanding of how RSRP expenses are developed. The company explains that RSRP is not a collection of discrete projects, but rather, is a systemwide program centered around defined inspection frequencies. As DTE Gas explains:

> the program's O&M expenses are therefore developed on a programmatic basis: the Company identifies the number of inspections and soft goods replacements to be performed during the forecast period, applies an average cost per replacement that accounts for the known variability in regulator make, model, location, and

> physical condition, and derives the total projected expense from those programmatic inputs.

Id., p. 143. In turn, DTE Gas argues that the program, by its nature, cannot identify site-specific data and that the ALJ's requirement for such evidence mischaracterizes how the program was planned. *Id*., pp. 143-144.

DTE Gas further contends that the ALJ overlooked the company's explanation that 2025 expenses were unusually low because replacements were performed on small regulators that are not reflective of regulators targeted in the test year. *Id*., p. 144 (citing DTE Gas's reply brief, p. 112; Exhibit AG-69). The company asserts that its explanation of the variance of costs between historical and projected expenses was unrebutted by the Attorney General and that the ALJ failed to explain why the Attorney General's proportional scaling from an unusually low-cost year was more reliable than the company's programmatic methodology. DTE Gas's exceptions, pp. 144-145. Accordingly, DTE Gas advocates for the Commission to reject the ALJ's recommendation and to approve $3.6 million in test year expense for the program. *Id*., p. 145.

In replies to exceptions, the Attorney General argues that DTE Gas's exceptions fail to provide anything new and that the company's arguments were fully rebutted and addressed by the ALJ. The Attorney General maintains that the ALJ "provided thorough discussion in the PFD, and DTE's argument is again self-serving and relies on its use of projection, rather than the more appropriate look at historical average cost, adjusted with a more modest cost increase." Attorney General's replies to exceptions, p. 46. As such, the Attorney General urges the Commission to reject DTE Gas's exception and adopt the ALJ's recommendation in full. *Id*.

MEC notes that DTE Gas argues that it does not need to identify specific projects or data to support its claim that 2025 replacement costs were unusually low due to work on smaller regulators because RSRP numbers are developed on a programmatic basis. However, MEC points

out that if DTE Gas's assertion is true, it begs the question of why the company determined that such a large increase from historical spending is needed. In turn, MEC asserts that the ALJ's recommendation was reasonable and should be adopted. MEC's replies to exceptions, p. 55.

The Commission has reviewed the record and the parties' arguments and finds that DTE Gas did not adequately support its requested expense increase for the RSRP. While DTE Gas explained that the company developed its projected expense programmatically, the Commission finds that the company failed to provide sufficient detail regarding why the specific funding was necessary, particularly given the lack of project-level data. Furthermore, the Commission finds unconvincing DTE Gas's unsupported statement that 2025 soft good replacement expenses were lower than average due to replacements occurring on small regulators. Accordingly, the Commission agrees with the ALJ and finds that, based on the record, the justification for DTE Gas's expense increase is insufficient. The Commission, therefore, adopts the ALJ's recommended disallowance of $1.728 million in test year expense for the program. *See*, PFD, p. 372.

b. Employee Refresher Training

DTE Gas projected $1.9 million in test year expense to establish a regular cycle of refresher training for its distribution field employees. 3 Tr 1425. DTE Gas explained that while employees are already being evaluated every three years, this ongoing training would continually reinforce best practices and improve skills to maintain safe and reliable service to customers. 3 Tr 1426.

The Attorney General proposed a full disallowance for DTE Gas's proposed employee and instructor training costs and argued that because both groups are already on the company's payroll, the requested expense was reflected in baseline costs and therefore are not incremental costs. 5 Tr 3344-3345; *see also*, Exhibit AG-48.

Similarly, MEC proposed a full disallowance and asserted that Operator Qualification (OQ) training costs are routine expenses already covered under existing rates. MEC argued that because federal qualification requirements have not changed, the company's additional requested expense for normal employee training was unjustified. 4 Tr 2111.

In rebuttal, DTE Gas argued that the training expense was truly incremental because the hours needed for the training are in addition to normal field duties. DTE Gas further contended that establishing a set refresher cycle goes beyond basic OQ requirements and reduces errors and turnover while also enhancing customer safety and service quality. 3 Tr 1469-1470.

The ALJ did not question the necessity of the employee refresher training but agreed with the Attorney General and MEC that DTE Gas had not demonstrated that the associated expense, which consists of internal expenses for employees and trainers already on the company's payroll, was incremental to the historical period. As such, the ALJ recommended that the Commission fully disallowing the requested expense. PFD, p. 378.

In exceptions, DTE Gas argues that the ALJ fundamentally misunderstood the nature of the incremental expense associated with the company's proposed refresher training. The company reiterates that "gas refresher training is not a duplication of OQ training, but a safety-driven supplement designed to ensure that employees maintain competency in critical tasks and remain current with evolving procedures and lessons learned," and further, that "[t]his training is conducted in addition to normal, customer-driven or regulatory field work, and the related hours and costs are therefore incremental to the Historical Test Year." DTE Gas's exceptions, pp. 146-147. DTE Gas also contends that the Attorney General's argument incorrectly assumes that the company has excess staff that can be diverted to training without affecting normal operations and that the Attorney General has not shown that the company's forecasted expense

level is excessive. As such, DTE Gas advocates for the Commission to reject the ALJ's recommended disallowance. *Id*., p. 147.

In replies to exceptions, the Attorney General argues that the Commission should reject DTE Gas's exception because it merely repeats the company's previously rebutted arguments and attempts to improperly shift the evidentiary burden. The Attorney General further asserts that DTE Gas continues to rely on unsupported projections rather than proving that its expenses are incremental. Attorney General's replies to exceptions, p. 47.

In its replies, MEC argues that DTE Gas's exception merely makes claims that are general in nature and that "do not resolve the concern that customers are already paying for these activities[,] and that DTE has not demonstrated that they constitute a known and measurable change." MEC's replies to exceptions, p. 58. Therefore, MEC requests the Commission to adopt the ALJ's recommendation. *Id*.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. The Commission agrees with the ALJ and finds that DTE Gas has not sufficiently demonstrated that the costs associated with the program are truly incremental, especially considering that the requested expense consists of internal expenses for employees and instructors who are already employed at the company. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 378.

c. Gas Leak and Work Management Systems Training

DTE Gas projected $3.3 million in test year expense for vendor training materials, instructor labor, and employer labor time to implement new leak survey and mobile workforce management technologies. 3 Tr 1426. DTE Gas explained that this training is necessary to ensure that the

company's staff can effectively use the new systems to maintain safe and reliable gas service. 3 Tr 1427-1428.

The Attorney General supported DTE Gas's request for $1.8 million in test year expense for external vendor costs for training but proposed a disallowance of $1.5 million allocated for seven internal employee trainers. The Attorney General argued that the company's internal staff salaries are already covered in historical baseline expense without any corresponding cost offsets, and as such, these costs should not be recovered. 5 Tr 3339-3340.

MEC proposed a complete disallowance of the test year expense for the training and argued that DTE Gas's existing training programs are already sufficient to meet OQ requirements. 4 Tr 2112.

In rebuttal, DTE Gas argued that the internal training costs are fully incremental because the hours are worked in addition to standard field duties rather than replacing normal workload. 3 Tr 1460. DTE Gas further explained that the training covers new technology rollouts rather than routine OQ sessions and warned that delaying or disallowing the training would leave field staff unable to perform essential work like leak repairs and emergency responses. 3 Tr 1461-1462.

Like the costs for the employee refresher training program, the ALJ recommended a disallowance of $1.5 million for internal training costs and found that DTE Gas had failed to prove that the expense was incremental. While agreeing that the new technology training was necessary, the ALJ found that DTE Gas's internal employees were already accounted for in the company's budget and, as such, shifting their time from one budget category to another did not increase overall O&M spending. PFD, p. 381.

In exceptions, DTE Gas argues that the ALJ incorrectly concluded that the company's internal labor costs are not incremental. DTE Gas emphasizes that regular field duties like leak response

cannot be paused during training, meaning training hours represent an additive labor demand on top of standard workloads as opposed to a simple shift of existing budget hours. DTE Gas's exceptions, pp. 148-149. Furthermore, DTE Gas asserts a legal inconsistency in the ALJ's approval of $1.8 million in expense for external vendors, while simultaneously disallowing the internal labor needed to deliver the training, neither of which existed during the historical period. *Id*., p. 149. Consequently, DTE Gas urges the Commission to reject the ALJ's recommended disallowance and to approve the full expense for training. *Id*.

In replies to exceptions, the Attorney General urges the Commission to reject DTE Gas's exception because, as the Attorney General asserts, the company's arguments rely on unsupported projections rather than providing that its requested expense is incremental to historical expense. Attorney General's replies to exceptions, p. 48.

MEC replies and argues that DTE Gas failed to provide proof that its internal costs were genuinely incremental rather than simply a part of general O&M expense subject to inflationary increases. As such, MEC urges the Commission to adopt the ALJ's well-supported recommendation on this issue. MEC's replies to exceptions, p. 59.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. The Commission again agrees with the ALJ and finds that DTE Gas has not sufficiently demonstrated that the costs associated with the training are incremental, especially considering that the requested expense consists of internal expenses for employees and instructors who are already employed at the company. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 381.

d. Damage Prevention

DTE Gas projected $4.2 million in expense for damage prevention for the test year, a $2.6 million increase over the historical period. 3 Tr 1431-1432; *see also*, Exhibit A-13, Schedule C5.3. DTE Gas stated that the increase in expense was needed to support expanded staffing and resources to handle rising MISS DIG ticket volumes and to extend pre-construction site visits to northern Michigan. 3 Tr 1432-1433.

The Attorney General proposed fully disallowing $2.678 million in increased spending for the program and argued that DTE Gas's proposed addition of ten new employees, which more than doubles current staffing levels, was unjustified. 5 Tr 3339-3340. Specifically, she argued that projected MISS DIG ticket volume growth from 2024 to 2027 was only 7.5%, which did not justify such a large staffing increase, especially when considering that the company did not provide evidence that its current employees were meaningfully reducing facility damage. 3 Tr 3340; *see also*, Attorney General's initial brief, pp. 101-102.

Similarly, MEC proposed fully disallowing DTE Gas's requested increase given that the company had a good incident prevention record, had not shown that damage rates have increased, and because regulatory requirements have remained unchanged. 4 Tr 2111; *see also*, MEC's initial brief, pp. 96-97.

In rebuttal, DTE Gas defended its proposed increase and asserted that strained staff needed additional resources to adequately cover regions like northern Michigan and to mitigate severe infrastructure and safety risks. 3 Tr 1462-1463. DTE Gas countered the Attorney General's claim of staff ineffectiveness by highlighting that adding liaisons in Grand Rapids and Muskegon successfully reduced damage rates from 5.3 to 3.8 per 1,000 tickets, preventing roughly 312 instances of damage in 2025 alone. 3 Tr 1463; *see also*, DTE Gas's initial brief, pp. 201-202.

The ALJ found that DTE Gas had not supported its request to increase damage prevention expense from the historical period and that, although the company's forecasted increase in MISS DIG ticket volumes was reasonable, that forecast did not support such a drastic increase in spending. PFD, p. 384. The ALJ agreed with the Attorney General that DTE Gas's rebuttal testimony regarding the program's effectiveness was insufficient and untimely and that the stated benefits of the program did not justify such a sweeping increase over the historical period. *Id*., pp. 384-385. As a result, the ALJ recommended that the Commission disallow $2.678 million in test year expense for the program. *Id*., p. 385.

In exceptions, DTE Gas argues that the ALJ's recommendation is internally inconsistent with his prior finding that the company's forecasted increase in MISS DIG ticket volume was reasonable, which DTE Gas asserts supports the requested increase in damage prevention expense. DTE Gas's exceptions, p. 151. DTE Gas maintains that additional damage prevention staff are needed because MISS DIG ticket volumes have increased significantly, rising by 37.6% from 2018 to 2025. *Id*. (citing 3 Tr 1463). Viewed in this context, the company contends the requested increase is not "drastic," but rather, a targeted and reasonable response. DTE Gas's exceptions, pp. 151-152. Moreover, DTE Gas further argues that its rebuttal evidence outlining the effectiveness of its damage prevention resources was proper and directly responsive to arguments raised by the Attorney General. Accordingly, DTE Gas urges the Commission to reject the ALJ's recommended disallowance. *Id*., p. 152.

In replies to exceptions, the Attorney General asserts that DTE Gas provides nothing new in its exception and that there is no inconsistency between the ALJ's findings on a nominal increase in MISS DIG ticket volumes and denial of the company's request to significantly increase damage prevention expense. The Attorney General again reiterates that the company failed to support its

requested cost recovery and further argues that DTE Gas's contention that the Attorney General did not offer an alternative explanation for evidence concerning the efficacy of the program is irrelevant to the company's own burden. Attorney General's replies to exceptions, p. 49. As such, the Attorney General advocates for the Commission to reject DTE Gas's exception and adopt the ALJ's recommendation. *Id*., p. 50.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. The Commission disagrees with DTE Gas that the ALJ's prior determination regarding the reasonableness of the company's forecasted increase in MISS DIG ticket volumes is inconsistent with the ALJ's recommendation to disallow the company's requested increase in expense for the damage prevention program. Based on the record, the Commission agrees with the ALJ and finds that increases in MISS DIG ticket volumes of only 7.5% from 2024 to 2027 do not warrant an increase in spending of over 160% from the historical to the test year. *See*, 5 Tr 3340. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue and adopts the Attorney General's proposed disallowance of $2.678 million in test year expense for the program. *See*, PFD, pp. 384-385.

e. Staking Leadership

DTE Gas projected $0.7 million in new O&M expense to support a staking leadership program created in 2025 to boost work quality, efficiency, and workload management. 3 Tr 1435. The company explained that the requested expense would maintain six existing lead field technicians in Southeast Michigan and would enable the program to expand into greater Michigan with four additional hires. 3 Tr 1434.

The Attorney General proposed completely disallowing the requested expense and argued that DTE Gas failed to justify its existing six leader roles, let alone the four additional hires proposed

by the company. 5 Tr 3341. The Attorney General emphasized that DTE Gas did not track the volume of difficult locates, which is a core task of the roles, thereby making a 67% expansion of the program premature. 5 Tr 3341-3342; *see also*, Attorney General's initial brief, p. 103.

MEC similarly advocated for a complete disallowance of the expense and challenged DTE Gas's claim of rising ticket volumes. MEC argued that the company failed to prove that the leadership roles represented a genuine net addition to staffing or that the company faced increased workloads in the test year. 4 Tr 2112-2113; *see also*, MEC's initial brief, pp. 99-100.

In rebuttal, DTE Gas clarified that the ten positions slated for the program were new expenses that were not reflected in the historical test period and cautioned that disallowing the increased expense would effectively end the program and heighten the risk of staking errors, delays, and facility damage. 3 Tr 1465-1466. The company maintained that expanding the program into greater Michigan was necessary to support quality, compliance, and performance amid growing construction activities. 3 Tr 1466.

The ALJ recommended rejecting DTE Gas's requested $0.7 million expense, finding that the company failed to prove that the spending was necessary or beneficial to customers. The ALJ found that DTE Gas failed to separate difficult locate tickets from general MISS DIG requests, despite difficult locates being a key component of the staking leadership program. PFD, p. 387. As an alternative to a full disallowance, the ALJ recommended cutting the company's request by 40%, or $0.266 million, which represents the amount associated with expanding the program with four additional hires. *Id.*, p. 388.

In exceptions, DTE Energy opposes the ALJ's recommended disallowance and argues that the ALJ's finding that the company failed to support its request is inconsistent with the record. Specifically, DTE Gas asserts that, to the contrary, the company identified quantified,

workload-justified staffing decisions to respond to increasing MISS DIG ticket volumes, which demonstrate that the requested expense is necessary and reasonable. DTE Gas's exceptions, p. 154. Further, with respect to the company's purported failure to separate the number of difficult locate tickets, DTE Gas avers that staking leaders do not solely handle difficult locates and that their responsibilities also include quality audits, training support, workload balancing, and liaison functions for all ticket types. Consequently, DTE Gas contends that its failure to separate difficult locate tickets does not undermine the overall program. *Id*. Finally, DTE Gas contends that:

> [t]he prudence standard does not require a utility to prove, in hindsight, that a newly implemented operational program has already been shown to be "necessary or beneficial" before recovery may be allowed. Rather, the question is whether the utility's decision was reasonable and made in good faith based on the circumstances known at the time.

Id., p. 155 (internal citation omitted). In turn, DTE Gas contends the record meets this standard and that disallowing the program's expense would reduce support for staking staff and increase the risk of mislocates, delays, and damages. DTE Gas's exceptions, pp. 155-156. Accordingly, DTE urges the Commission to approve the full $0.7 million expense or, at minimum, adopt the ALJ's alternative recommended disallowance of $0.266 million in order to preserve the program's existing six employees. *Id*., p. 156.

In replies to exceptions, the Attorney General disputes DTE Gas's contention that the Commission utilizes a "good faith" standard. Attorney General's replies to exceptions, p. 50. On the contrary, the Attorney General argues that DTE Gas's failure to demonstrate that its program was necessary or beneficial raises the question of how the program could be considered reasonable and prudent. *Id*., pp. 50-51. In turn, the Attorney General opines that the ALJ correctly noted that the company provided little evidence besides its assertions that the program was necessary, and she advocates for the Commission to adopt the ALJ's recommendation. *Id*., p. 51.

Similarly, MEC replies and argues that DTE Gas failed to demonstrate how the new staking leadership program was necessary or beneficial for customers and, like the Attorney General, contends that such a showing is relevant to whether the requested expense is reasonable and prudent. MEC thus urges the Commission to adopt the ALJ's recommendation on this issue. MEC's replies to exceptions, p. 61.

The Commission agrees with the ALJ and finds that DTE Gas has failed to adequately demonstrate that the projected expense for the staking leadership program is justified. While DTE Gas asserts the program's importance, it has provided little evidence to prove the program is either necessary or beneficial to customers. For example, although DTE Gas claims that a primary responsibility of the program is handling difficult locates, the company admitted that it does not track difficult locates separately from overall MISS DIG tickets. *See*, Exhibit AG-46, p. 3. Consequently, the Commission agrees with the ALJ that DTE Gas must establish the program's necessity and customer benefit before seeking cost recovery from ratepayers. Accordingly, the Commission adopts the ALJ's findings on this issue and adopts the Attorney General's and MEC's proposed disallowance of $0.7 million in test year expenses for the program. *See*, PFD, p. 387.

f. Advanced Leak Detection

DTE Gas projected $24 million in advanced leak detection (ALD) expense for the test year, which represents a $9 million increase over the historical period. 3 Tr 1435. DTE Gas explained that the increased test year expense is needed to deploy ALD technology to identify and repair system gas leaks. DTE Gas further stated that ALD technology detects more leaks than traditional methods, which increases costs as the company finds and repairs more leaks. 3 Tr 1436-1437. Further, DTE Gas stated that it anticipated PHMSA regulations will be passed that will mandate

ALD technologies and that adopting this technology proactively enhances safety and reliability for customers. 3 Tr 1438.

The Attorney General proposed rejecting DTE Gas's incremental increase in ALD expense and argued that the company's spending is premature and unjustified given that PHMSA has not issued a final rule mandating expanded detection. 5 Tr 3336-3337. The Attorney General further argued that DTE Gas failed to demonstrate any clear benefits beyond its existing annual program. 5 Tr 3336.

ABATE also proposed disallowing the increased expense and noted that the ALD program is not mandated by PHMSA, and further that recent capital investments have already stabilized or reduced the company's leak rates and backlog. 5 Tr 2684-2686.

MEC advocated for a full disallowance of the company's increased ALD expense and argued that funding unmandated regulatory requirements would be premature and imprudent. MEC further cautioned the Commission that it should avoid adding program costs that further burden customer bills. 4 Tr 2113.

The Staff challenged DTE Gas's baseline historical spending for ALD and recommended instead to use an average of 2023-2025 actual expenses, as opposed to relying solely on the higher 2024 level. This in turn resulted in a downward adjustment of $1.39 million to the historical period baseline expense level. 5 Tr 2443; *see also*, Exhibit S-7. Additionally, the Staff explained that changing the historical period expense level impacted the company's inflation adjustment by eliminating the need for 2025 inflation. Applying the Staff's inflation rates to the updated historical expense level resulted in the Staff proposing an additional $0.63 million disallowance. 5 Tr 2443-2444; *see also*, Exhibit S-7.1.

The Staff also stated that it supported the company's request for $4.4 million in expense to identify, investigate, and monitor leaks with higher sensitivity equipment; however, the Staff challenged the company's $4.6 million projected expense to remediate leaks. 5 Tr 2444. The Staff noted that DTE Gas failed to justify its high projected unit cost of $7,667 per leak for 600 additional leaks. Using an adjusted historical average remediation cost of $3,750 per leak, the Staff recalculated the company's remediation expense and consequently proposed a $2.35 million disallowance. 5 Tr 2444-2446. Combining this disallowance with base period and inflation adjustments, the Staff proposed a total disallowance of $4.36 million in expense for the test year. 5 Tr 2446.

In rebuttal, DTE Gas rejected the intervenors' proposed disallowances and argued that ALD offers clear safety and reliability benefits by proactively identifying leaks earlier, thereby making its immediate adoption prudent regardless of pending PHMSA rules. 3 Tr 1457-1458. DTE Gas further opposed the Staff's proposed historical averaging and explained that the company uses leak data from a different geographic survey area than planned for the test year. Finally, DTE Gas cautions that disallowing funding would restrict the company's ability to proactively address non-hazardous leaks in its system. 3 Tr 1459.

The ALJ recommended rejecting the Attorney General's, ABATE's, and MEC's proposed $9 million disallowance and found that ALD provides clear customer safety and reliability benefits. PFD, p. 393. The ALJ further rejected the Staff's proposed historical test year adjustment and concluded that the Staff failed to prove that its methodology was superior to DTE Gas's. Additionally, while acknowledging the Staff's concerns regarding higher remediation costs, the ALJ found that the Staff's historical unit-cost calculation was unproven and therefore recommended rejecting the Staff's proposed $4.36 million disallowance. *Id*., pp. 393-394.

In exceptions, the Attorney General argues that the ALJ failed to address timing issues raised by the Attorney General relating to the passage of new PHMSA rules, as well as the fact that DTE Gas's projected expense is 60% greater than existing levels. Attorney General's exceptions, p. 35. Additionally, the Attorney General asserts that DTE Gas relied on the notion that future risks could be worse than past risks and that "[i]t was error for the ALJ to rely on such conclusory statements to support such a significant increase in spending," and further that DTE Gas "has not provided sufficient quantitative evidence to support its ask." *Id.* Accordingly, the Attorney General urges the commission to disallow DTE Gas's incremental expense increase. *Id*., p. 36.

ABATE excepts to the ALJ's recommendation and contends that the company's requested expense increase is inconsistent with any clear spending trend. ABATE's exceptions, pp. 23-24. Moreover, ABATE asserts that despite the company's claim of benefits from ALD, the "benefits do not overcome the fact that federal requirements for this approach are pending, the Company's planned work is overly optimistic and unreasonable, and leaks and backlogs are stable or declining. In short, additional revenue is simply unnecessary." *Id*., p. 24. As a result, ABATE maintains its position that the Commission should disallow $9 million in test year expense. *Id*., p. 25.

MEC excepts and argues that "the Commission should separate the question of whether DTE should spend any money on ALD from the question of whether a 60% increase in such spending is warranted – despite there being no regulatory requirement in place and no evidence of any significant incremental benefit from such an increase." MEC's exceptions, p. 15. In turn, MEC advocates for the Commission to reject the ALJ's recommendation and disallow the company's incremental expense. *Id*.

In replies to exceptions, DTE Gas avers that the ALJ correctly credited the company's unrebutted evidence regarding the benefits of ALD technology for detecting leaks earlier than traditional methods, thereby benefiting customer safety and reliability. DTE Gas's replies to exceptions, p. 63. DTE Gas further explains that it is not seeking incremental expense for the program to comply with PHMSA requirements, but rather that the company has used its independent judgment to improve its ability to detect leaks for safety, regardless of any federal requirement to do so. *Id*., p. 64. Additionally, DTE Gas contends that the intervenors' reliance on stable or declining leak counts as evidence that ALD technology is unnecessary is misguided, and in fact, demonstrates that the company's proactive efforts are working. *Id*., pp. 64-65. Finally, DTE Gas argues that the intervenors' contention that program costs are increasing by 60% is misleading. *Id*., pp. 65-66.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. The Commission agrees with DTE Gas and finds that the incremental expense for the ALD program benefits customer safety and reliability and enables the company to detect more leaks earlier than traditional methods. As a result, the Commission finds that the requested test year expense for the program is reasonable and prudent. Additionally, the Commission agrees with the ALJ and finds that DTE Gas sufficiently rebutted the Staff's proposed adjustments to historical expense levels and historical unit-cost calculation, and notes that the Staff did not file exceptions to the PFD on this issue. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, pp. 393-394.

4. Leak Backlog and Repair Operation and Maintenance Expenses

DTE Gas provided data on the company's leak backlog, incoming leaks, remediations, and related expenditures pursuant to the Commission's directives in prior cases. 3 Tr 1442-1444; *see also*, Exhibit A-20, Schedule J1.

The Attorney General argued that DTE Gas failed to address related O&M expenses for leak repairs, noting that through discovery the evidence demonstrated that forecasted expenses dropped by $4 million between 2024 and 2026. 5 Tr 3337; *see also*, Exhibit AG-44. Because DTE Gas only provided forecasts through 2026, the Attorney General recommended reducing test year expense by $4 million under the assumption that the company's 2027 O&M expense would match 2026 levels. 5 Tr 3337.

In rebuttal, DTE Gas opposed the Attorney General's proposed disallowance and explained that the company operates on a three-year leak survey cycle whereby the company conducts surveys in a unique geographical area annually. The company noted that the 2027 survey area aligns with surveys conducted in 2024, and therefore, that the 2024 historical expense of $11.1 million is the appropriate baseline for forecasted test year expense. DTE Gas further cautioned that adopting the Attorney General's proposed disallowance would hinder the company's ability to proactively repair leaks, increasing risks and gas loss. 3 Tr 1458.

The ALJ found that DTE Gas adequately explained why projected test year expense should be based upon 2024 historical expense, and not the lower expense total from 2026. The ALJ, therefore, declined to adopt the Attorney General's proposed disallowance. PFD, p. 396.

In exceptions, the Attorney General maintains her call for the Commission to disallow $4 million in test year expense for the company's leak backlog and repair program. Attorney General's exceptions, pp. 36-37. The Attorney General claims that the ALJ failed to acknowledge

that DTE Gas did not provide a forecasted O&M expense for the test year. *Id*., p. 36. She argues that her assumption that 2027 would be similar to 2026 spending levels is reasonable and further asserts that DTE Gas has provided no specific evidentiary support to demonstrate why the 2026 geographical survey area differs drastically from the 2027 geographical survey area so as to warrant an increase in O&M expense. As a result, the Attorney General urges the Commission to adopt her proposed disallowance. *Id*., p. 37.

In replies to exceptions, DTE Gas argues that the Attorney General's exception provides the same arguments raised in the case, which the ALJ considered and rejected. DTE Gas reiterates that the company's explanation of the distinct geographical areas of surveys is itself a sufficient explanation for why projected test year expenses are based on 2024 historical costs. Further, the company notes that its explanation was unrefuted and, therefore, does not require additional evidentiary demonstrations. DTE Gas's replies to exceptions, pp. 67-69.

The Commission finds that the ALJ's recommendation is well-reasoned and supported by the record. The Commission agrees with the ALJ and finds that DTE Gas has sufficiently demonstrated why forecasted expense for the projected test year should be more closely aligned with 2024 historical spending levels, as opposed to 2026 spending levels. *See*, 3 Tr 1458. As a result, the Commission finds that the Attorney General's proposed disallowance, which is based upon reduced spending levels for a different geographical survey area, is not appropriate. Accordingly, the Commission declines to adopt the Attorney General's proposed disallowance and adopts the ALJ's findings and conclusions on this issue. *See*, PFD, p. 396.

5. Customer Service Operation and Maintenance Expense

DTE Gas provided testimony to substantiate its request "of $50.4 million for the 2027 projected test year" which "is calculated using the 2024 actual historical test period expense

adjusted for rate case eliminations, normalization adjustments, inflation, and other known and measurable adjustments." 3 Tr 1024. The Staff recommended a disallowance of $4.25 million "to bring those costs in line with the actual 2024 historical costs[,]" opining that DTE Gas's request was not reasonable and that it "tried on numerous occasions, through eight rounds of audit questions, to ascertain how the Company determined the estimated O&M costs for 2025-2027 for the Customer Service area" in good faith, yet DTE Gas's "lack of detail provided regarding those expenditures made it impossible for Staff to analyze and determine whether the requested expenditures are, indeed, reasonable and prudent." 5 Tr 2514, 2523; *see also*, Staff's initial brief, p. 56. The Staff's total recommended disallowance consisted of $3.86 million for six customer service O&M line items, and $393,364 that was allocated to contact center operations. 5 Tr 2522-2523.

The ALJ found that "[a]lthough DTE could have more clearly connected its descriptions, costs, and customer benefits, it provided sufficient support" to reject $3.86 million of the Staff's proposed reduction, also stating that the "Staff did not demonstrate that the Company's forecasted costs were unreasonable, imprudent, or insulated from" inflation. PFD, pp. 399, 403 (citing 3 Tr 1070). However, as DTE Gas did not object to the Staff's $393,364 O&M disallowance for a labor line item, the ALJ found that "the Company did not support its increase in contact center staffing levels given a forecasted drop in call volumes" and as such, recommended adopting the Staff's disallowance. PFD, p. 403.

DTE Gas excepts in general to the ALJ's recommendations, arguing that the ALJ's "reductions span virtually every contested O&M category." DTE Gas's exceptions, p. 120.

While the Staff acknowledges that the ALJ "noted that Staff did not demonstrate that the requested Customer Service O&M expenditures were 'unreasonable, imprudent, or insulated from

inflation[,]'" the Staff also reminds the Commission that it is DTE Gas's burden of proof to show that "those expenditures *were* reasonable, prudent, and subject to inflationary pressures." Staff's exceptions, p. 4 (citing PFD, p. 403) (emphasis in original). The Staff notes that both it and DTE Gas acknowledged that the "Staff sought additional information regarding the Customer Service O&M through eight rounds of audit questions, yet continued to receive basic, general responses to its inquiries, which did not allow Staff to truly analyze the requested costs for their reasonableness and prudence." Staff's exceptions, p. 5 (citing PFD, p. 399); *see also*, Staff's exceptions, p. 5 (citing PFD, p. 402). The Staff acknowledges that the company claimed it provided sufficiently detailed responses when asked for such; however, "what the Company neglects to also acknowledge is that [the] follow-up response from the Company contained the same information as the previous audit request with the addition of just one-line descriptions to *some* of the line items." Staff's exceptions, p. 6 (citing DTE Gas's reply brief, p. 125; Staff's initial brief, p. 55) (emphasis in original). The Staff avers that DTE Gas "should be prepared to fully explain and defend those expenditures for which it seeks cost recovery." Staff's exceptions, p. 6. The Staff also disagrees with the ALJ's adoption of DTE Gas's position that the Staff did not sufficiently "'articulate what further information or data would be sufficient to satisfy its request[,]'" arguing that "the mere fact that the Company responded to Staff's audit request should not excuse the company from its statutory obligation to support its own case." *Id*., pp. 6-7 (quoting PFD, pp. 401-402).

In its replies, DTE Gas affirms that the Commission should reject the Staff's exception and adopt the ALJ's recommendation because the "Staff itself identifies this dispute as one about the adequacy of discovery responses rather than the reasonableness or prudence of any cost." DTE Gas's replies to exceptions, pp. 69-70. DTE Gas asserts that the Staff's disagreement is "a critique

of granularity, not of substance" regarding DTE Gas's discovery responses such that the Staff is not arguing "that any dollar of Customer Service O&M is unreasonable, imprudent, or overstated, nor is it a contention that the Company fails to provide any response to its discovery requests." *Id*., p. 70. While the company admits that it bears the burden of supporting its request and also responding "fully and in good faith" to inquiries, it avers that it "cannot reasonably be expected to anticipate every level of detail that Staff may prefer" and that even the ALJ noted that the Staff did not explain "what further information or data would be sufficient." *Id*., p. 71 (citing PFD, pp. 401-402). Lastly, the company asserts that the ALJ "simply recommended" that DTE Gas "provide more thorough, detailed information in the next case;" such was not ordered and that such is "not a determination that the present record [presented by the company] failed." DTE Gas's replies to exceptions, pp. 71-72 (citing PFD, p. 403).

In its replies, ABATE states that it supports the Staff's exception on this matter, asserting that the ALJ erred in rejecting the Staff's disallowance as "invert[ing] the burden of proof" as it is the company itself that "bears the burden of demonstrating that its projected costs are reasonable and prudent; the failure of Staff or an intervenor to prove the negative is not a substitute for the Company's affirmative showing." ABATE's replies to exceptions, p. 18 (citing PFD, p. 403). ABATE further argues that the ALJ's direction that DTE Gas "provide 'more thorough, detailed, and useful information in support of its next request' confirms that the showing in this case was inadequate" and as such, the Staff's $3.86 million disallowance should be adopted. ABATE's replies to exceptions, p. 18.

The Commission finds the ALJ's recommendation to be well-reasoned based on the evidence on the record and therefore, adopts the recommendation in full, including the Staff's $393,364 O&M adjustment for a labor line item. *See*, PFD, p. 403. Additionally, per the ALJ's

recommendation, the Commission reminds DTE Gas that it bears the burden to show that its requests are reasonable and prudent, and therefore, it must "provide more thorough, detailed, and useful information" in its next rate case. *See*, *id*.

6. Marketing Operations and Maintenance Expenses

DTE Gas projected spending $59.1 million of O&M expense for marketing during the projected test year, which is an increase from the actual 2024 annual expense of $52.9 million. 2 Tr 290 (citing Exhibit A-13, Schedule C5.5). There are two issues in dispute which will be discussed below.

a. Public Awareness Program

DTE Gas currently allocates approximately $130,000 specifically for public awareness, but justified its proposed increase by stating that "[w]hile the Company's current Public Awareness Program meets the American Petroleum Institute Recommended Practice 1162 and PHMSA's public awareness statutory requirements (49 CFR 192.616)," in 2025, there were three explosions that occurred "after residents smelled gas but did not call" to report the smell to the company. DTE Gas's initial brief, pp. 212-213; *see also*, 2 Tr 302.

The Attorney General argued that "[a]lthough some additional public awareness may be useful, the increase in spending of $2.0 million in one year is excessive" and recommended disallowing $1 million from DTE Gas's request. 5 Tr 3346-3347; *see also*, Attorney General's initial brief, p. 109.

DTE Gas argued that the Attorney General "mischaracterizes the Company's Public Awareness Program expenses" and that the proposed $1 million "cap would require deep cuts to safety messaging and school outreach, significantly undermining the program's ability to reduce incidents, injuries, and fatalities." DTE Gas's reply brief, p. 127 (citing 2 Tr 381-382).

Meanwhile, the Attorney General contended that, "[l]ike many other areas in its case, DTE supports its request with vague references to 'safety,' averring that its requested increase is 'safety driven and calibrated to support a meaningful reduction in catastrophic incidents, not a discretionary marketing expansion.'" Attorney General's reply brief, pp. 40-41 (citing DTE Gas's initial brief, p. 214).

The ALJ found that DTE Gas "has established the necessity of increased funding for this important program" and that "the record shows that a more immediate and comprehensive expansion of safety communications . . . is needed to address gaps in leak recognition and response." PFD, p. 406. Therefore, the ALJ recommended rejecting the Attorney General's proposed $1 million disallowance.

The Attorney General excepts to the ALJ's recommendation, arguing that the ALJ's findings actually support her own "position that a more gradual approach be taken to implementing the changes DTE wants to see" instead of "*tripling* current program spending." Attorney General's exceptions, p. 38 (citing Attorney General's initial brief, pp. 109, 111) (emphasis in original). She asserts that increasing the company's spending does not mean that DTE Gas will overcome its "[f]ailure to understand how to best reach customers and the general public" because the company has not designed programs to address "the root causes of the underlying problems." Attorney General's exceptions, p. 38.

In its replies, DTE Gas argues that the Commission should affirm the ALJ's recommendation, rejecting the Attorney General's exception as the Attorney General "does not dispute the fundamental rationale for the Company's request." DTE Gas's replies to exceptions, p. 73. DTE Gas avers that the issue is not whether the public awareness program is necessary or prudent, "but how much expense should be allowed" and that the Attorney General has conceded that the

program is necessary, thus "a partial disallowance should require a reasoned based for the specific line drawn[;]" however, the Attorney General's proposed disallowance "is not tied to any specific program component such as a channel, an audience, a campaign, or specific research finding." *Id*. (citing Attorney General's exceptions, pp. 38-39). The company further argues that partially funding the program lessens its "reach and coherence rather than proportionally reducing its output" with the Attorney General's exception focusing on "how the program should be executed and evaluated rather than whether the forecasted expense is reasonable and prudent." DTE Gas's replies to exceptions, p. 74 (citing 2 Tr 381-382).

The Commission finds the ALJ's recommendation to be well-reasoned based on the evidence on the record and therefore, adopts such. *See*, PFD, p. 406. As DTE Gas highlighted in its direct case, in 2025, there were three explosions that occurred because residents smelled gas but did not report it to the company, and as such, the Commission finds the increase in expense will aid the company in assisting its customers while addressing leak recognition. *See*, DTE Gas's initial brief, pp. 212-213; *see also*, 2 Tr 302; PFD, p. 406. The Commission sees value in expanding education and outreach associated with safety communications around leak detection reporting to help prevent future incidents and acknowledges that DTE Gas is currently working with the Staff to review and revise its communications and develop more targeted safety messaging. *See*, PFD, p. 404 (citing 2 Tr 301).

b. Forestry Program

DTE Gas requested $1 million for its forestry program, also known as the Natural Gas Balance (NGB) Program. *See*, Exhibit A-13, Schedule C5.5. MEC outlined DTE Gas's history with its voluntary NGB pilot program, which started in 2020, criticizing DTE Gas for its $1 million request "to 'retire' 78,000 of these offsets that DTE already purchased." MEC's initial

brief, pp. 84-86 (citing October 29, 2020 order in Case No. U-20839, p. 1; 2 Tr 178-81). Furthermore, MEC testified that this expense should be disallowed because "there is no statutory requirement for the program; it is not necessary to provide safe and reliable gas service;" and DTE Gas has not conducted a "cost-benefit analysis to justify the program or its benefits to ratepayers." MEC's initial brief, p. 87 (citing 4 Tr 2088).

In rebuttal, DTE Gas asserted that MEC mischaracterized the company's expenses and that the company's testimony that "managed forestry is among the most cost-effective strategies for reducing emissions and can lower the overall cost of meeting state emissions-reduction goals for customers" "directly contradicts MEC's unsupported assertion that these programs do not reduce emissions or provide value." DTE Gas's reply brief, p. 128 (citing 23 Tr 142; MEC's initial brief, p. 87).

The ALJ agreed with MEC that DTE Gas was requesting that the Commission "shift onto ratepayers $1 million for the retirement of offsets the Company purchased, but was unable to sell, through its voluntary NGB program, after obtaining approval of the pilot with the express representation that costs would be shouldered entirely by shareholders" and as such, recommended disallowing $1 million of O&M forestry expense. PFD, p. 409.

In exceptions, DTE Gas disagrees with the ALJ, stating that he "conflate[d] two distinct issues." DTE Gas's exceptions, p. 157. The company avers that it "is not seeking recovery of a shortfall of a prior voluntary program[,]" but that its forestry request "relates to a separate program developed as part of DTE Gas's broader emissions-reduction strategy" and as such, the ALJ's adoption of MEC's position should be rejected. *Id*.

The Commission finds the ALJ's recommendation to be well-reasoned based on the evidence on the record and, therefore, adopts such. *See*, PFD, p. 409. The Commission understands the

company's position that its forestry expenses can lower the overall cost of meeting state emissions-reduction goals. However, it agrees with MEC's reasoning that in the absence of a sufficient showing of ratepayer benefit and sufficient enrollment in DTE Gas's voluntary NGB program, it is DTE Gas's shareholders, and not its non-participating customers, that should pay for the voluntary pilot program established in Case No. U-20839. *See*, DTE Gas's reply brief, p. 128; *see also*, MEC's initial brief, pp. 84-87.

7. Information Technology Operations and Maintenance Expenses

DTE Gas proposed $22.82 million for IT O&M costs for the projected test year. DTE Gas's initial brief, p. 215; *see also*, Exhibit S-10.4, p. 6; DTE Gas's reply brief, p. 128. The Staff argued that the company "did not provide justification for the full IT O&M requested expense" and as such, recommended a $2.13 million disallowance "to make [IT O&M] consistent with the average IT O&M actual costs from the previous [five] years." 5 Tr 2461-2463; *see also*, Staff's initial brief, p. 50.

In rebuttal, DTE Gas asserted that its projected $22.82 million request is reasonable and prudent because it "is grounded in the specific capital projects and associated Cost-to-Achieve expenses reflected in Company Exhibit A-12, Schedule B.15" and that the "Staff's use of a five-year historical average to set the projected test year IT O&M expense is not an appropriate methodology for this category of cost" as "there is 'no trend' in the historical IT O&M data." 3 Tr 822-823; *see also*, DTE Gas's initial brief, p. 216; DTE Gas's reply brief, p. 129.

The ALJ stated that "the Company has not fully supported its proposed $22.82 million in IT O&M expenses" as "the record contains no testimony or exhibit that breaks out the remaining non-project IT O&M costs" and as such, he recommended approving the Staff's $2.13 million disallowance. PFD, pp. 411-412.

DTE Gas disagrees with the ALJ's recommendation to disallow $2.13 million, arguing that the ALJ "overlooks the nature of IT O&M costs" as those costs "are not uniform, recurring costs amenable to simple historical averaging; they are driven by project-specific costs tied to capital investments, cybersecurity requirements, software licensing and renewal cycles, and other discrete, event-driven obligations" that vary yearly. DTE Gas's exceptions, p. 159 (citing DTE Gas's reply brief, p. 129; DTE Gas's initial brief, pp. 215-216; 3 Tr 822). The company concludes by arguing that the Commission should approve its "as-filed IT O&M expense" because the Staff's proposed five-year average methodology conceals DTE Gas's "project-specific drivers and disconnects the forecast from the actual activities required during the Projected Test Year." DTE Gas's exceptions, p. 159 (citing DTE Gas's reply brief, p. 129).

The Staff filed replies to DTE Gas's exceptions, arguing that in Exhibit A-12, Schedule B5.15, DTE Gas showed only $0.964 million attributable to the test year in IT O&M costs, and arguing that the company "did not provide any further breakdown or justification for the remaining forecasted expenses" which is "in direct conflict with DTE's assertion that O&M expenses are project specific." Staff's replies to exceptions, p. 15. The Staff contends that without further detail, it "is unable to review the total expense for reasonableness and prudency and as such, the five-year average "of actual IT O&M spend is the best method to project the test year IT O&M in this case." *Id*., pp. 15-16.

The Commission finds the ALJ's recommendation to be well-reasoned based on the evidence on the record and, therefore, adopts such. *See*, PFD, pp. 411-412. As the Staff notes, without sufficient detail, the Commission is unable to review DTE Gas's total IT O&M expense for reasonableness and prudency and as such, the Commission adopts the Staff's five-year average

and corresponding $2.13 million disallowance, as recommended by the ALJ. *See*, Staff's replies to exceptions, pp. 15-16; *see also*, PFD, pp. 411-412.

10. Rate Case Operations and Maintenance Expenses

DTE Gas proposed $418,000 for external consultant costs in its rate case expenses for the projected test year, although the Attorney General proposed a $209,000 (50%) disallowance and a requirement for the company to keep track of all costs. *See*, 2 Tr 62, 66; *see also*, DTE Gas's initial brief, p. 218; DTE Gas's reply brief, p. 130; Attorney General's initial brief, pp. 135-136, 141; Attorney General's reply brief, p. 43.

The ALJ noted Case No. U-21860, in which "the Commission directed DTE Electric 'to provide a detailed and robust description and justification for expenditures on external consultants in the next rate case'" and in which the Commission did not agree to the Attorney General's proposed 50% disallowance. PFD, pp. 417-418. The ALJ found no compelling reason to deviate from the Commission's prior decision but commented that "directing the Company to provide detailed rate-case information in the future will enable a more robust and effective review of the reasonableness and prudency of those [O&M] costs." *Id*., p. 418.

While DTE Gas agrees with the ALJ's finding rejecting the Attorney General's proposed disallowance, the company disagrees with the proposed directive that it establish a cost-tracking mechanism to track internal costs along with its already-tracked external costs. DTE Gas's exceptions, p. 161. DTE Gas further argues that it already manages "over 400 filings and submittals annually" with the Commission and the Federal Energy Regulatory Commission and that the Attorney General did not identify any Commission filing requirement DTE Gas failed to provide. *Id*., pp. 162-163. The company concludes that because its "internal witnesses are salaried employees whose compensation is fixed regardless of rate case activity, there is no

meaningful internal 'cost' to track, and imposing a tracking requirement for such costs would generate an administrative burden without producing useful information for the Commission's review." *Id*., p. 161 (citing DTE Gas's reply brief, pp. 132-133; DTE Gas's initial brief, p. 220; 2 Tr 68-69).

In exceptions, the Attorney General agrees with the ALJ's conclusion that the company should establish a tracking mechanism, reporting those costs in each new rate case. Attorney General's exceptions, p. 39. However, she excepts to the ALJ's conclusion that she did not sufficiently support her proposed disallowance, noting that "DTE's testimony is merely an argument about why its customers benefit from its repeated rate case filings and why DTE's employees do not have the expertise or capabilities of outside consultants." *Id*., p. 40 (internal citations omitted). The Attorney General avers that DTE Gas has provided no explanation as to why it does not have the appropriate internal resources and why, after "years of doing these cases," the company has not developed sufficient internal resources. Attorney General's exceptions, pp. 40-41. She also notes that while the Commission has previously instructed the company to establish an appropriate mechanism to track all rate case costs and provide such to the Commission, the company is clearly "not taking this directive seriously." *Id*., p. 41. The Attorney General concludes that the company's "entire rate case approach relies upon Company forecasts, projections, and speculation about future amounts in a *projected* test year" with DTE Gas having a "myriad [of] opportunities . . . to present and substantiate its own calculations." *Id*., p. 42 (emphasis in original).

In replies, DTE Gas contends that the Attorney General's exception should be rejected as the ALJ was correct in finding "that the AG's proposed disallowances are unsupported by sufficient record evidence (PFD, pp 417-418) and the AG's exception identifies no new evidence or legal authority" that the ALJ did not already consider. DTE Gas's replies to exceptions, p. 76. The

company avers that "[t]he Commission has twice before rejected" the Attorney General's 50% proposed disallowance "on precisely this basis, finding in each instance that the AG offered no evidence that the specific expenses were unreasonably or imprudently incurred." *Id*. (citing February 19 order, pp. 371-372; June 7, 2012 order in Case No. U-16794 (June 7 order), pp. 90-91). DTE Gas also rejects the Attorney General's methodology as discredited, "arbitrary, speculative," and yielding "implausible results." DTE Gas's replies to exceptions, p. 77 (citing DTE Gas's initial brief, p. 220). The company contends that the Commission should not agree with the Attorney General based on whether DTE Electric complied with a tracking directive in Case No. U-22046, because "the proper venue to raise [concerns is] in the docket where that compliance is actually at issue." DTE Gas's replies to exceptions, pp. 77-78. Lastly, DTE Gas rejects the Attorney General's allegation that the company "'refused' to provide rate case cost information," stating that, in actuality, Exhibit AG-71 demonstrates "that the Company responded substantively and in good faith" when it replied "that it does not track internal employee time dedicated to rate case work and therefore 'cannot speculate on an estimate.'" *Id*., p. 78 (citing Exhibit AG-71, pp. 1, 3; 2 Tr 68). Accordingly, the company argues that "[a] utility's inability to provide an estimate of a cost it does not incur or maintain records on is not a 'refusal' to cooperate with discovery; it is an accurate and forthright response." DTE Gas's replies to exceptions, p. 78.

In her replies, the Attorney General "vehemently disagrees" with DTE Gas's exceptions because the company "was repeatedly asked for information, internal calculations, or other support" while it "either ignored those requests or simply refused to provide any calculations or other substantive support." Attorney General's replies to exceptions, p. 52 (citing Attorney General's initial brief, pp. 134-141; Attorney General's reply brief, pp. 41-44). She concludes that due to the frenzied pace of rate case filings and the increasing amounts requested, it is clear that

"more utility resources, both internal and external" are required, and that "ratepayers deserve to know a complete picture of what they are paying" for while DTE Gas requests rate increases with each rate case it files. Attorney General's replies to exceptions, p. 52.

The Commission finds the ALJ's recommendation to be well-reasoned based on the evidence on the record, and therefore, adopts such. *See*, PFD, pp. 417-418. As noted, the Commission has previously rejected the Attorney General's proposed 50% disallowance and finds the evidence in this case supports the same conclusion; however, the Commission finds merit in again directing DTE Gas to provide detailed information and justification for the cost of rate case consultants to assist the Commission in finding the company's full request in its next rate case to be reasonable and prudent. *See*, DTE Gas's replies to exceptions, p. 76 (citing February 19 order, pp. 371-372; June 7, 2012 order, pp. 90-91); *see also*, PFD, p. 418. Additionally, as the Attorney General has mentioned, the preparation and litigation of rate cases consume substantial resources both internally and externally, and the Commission believes that DTE Gas's customers should have transparency into those associated costs. *See*, Attorney General's exceptions, pp. 39-42. Therefore, the Commission directs DTE Gas to establish a mechanism to track all costs to complete future rate cases and provide those costs with each new rate case filing.

11. Administrative and General Expenses

a. Corporate Memberships

At issue is $819,886 in membership costs for the American Gas Association (AGA), which DTE Gas outlined in Exhibit A-23, Schedule M as having the benefits of benchmarking, best practices, networking, and research. *See*, DTE Gas's initial brief, p. 223-225. FLO objected to this expense, arguing that DTE Gas did not provide sufficient information for including its AGA membership per the Commission's direction in Case No. U-21291, while lamenting that "DTE

failed to provide any substantive, specific information regarding tangible benefits to customers." FLO's initial brief, pp. 117-118; *see also*, 5 Tr 2796-2797.

The ALJ found that "ratepayers should not fund advocacy adverse to their interests" and as such, recommended disallowing $105,151 of AGA-related membership costs. PFD, p. 421. Furthermore, the ALJ agreed with FLO and found "that DTE did not sufficiently demonstrate how memberships specifically benefit ratepayers, as required by [Case Nos.] U-21291 and U-21860." *Id*.

DTE Gas excepts to the ALJ's agreement with FLO for several reasons. First, the company argues that FLO's "recommended AGA disallowance is not tied to the ratemaking record concerning the actual services and customer benefits DTE Gas receives from AGA membership." DTE Gas's exceptions, p. 164. The company then highlights core utility function benefits that DTE Gas receives from its AGA membership such as "'strategic intelligence, technical committees, peer reviews, pipeline safety resources, and learning opportunities' (PFD, pp 418-419), as well as safety, leak detection, mutual assistance coordination, and industry standards (PFD, p 420)." DTE Gas's exceptions, p. 164. DTE Gas asserts that the ALJ did not reconcile the evidence of the company's AGA benefits with his "recommendation to disallow a portion of those expenses." *Id*., p. 165.

Next, DTE Gas asserts that the ALJ did not meaningfully consider that the company "complied with the Commission's directive in Case No. U-21291 regarding corporate memberships" in providing the company's Exhibit A-23, Schedule M1. DTE Gas's exceptions, p. 165. The company also reminds the Commission that it excluded lobbying-related membership dues such that the ALJ's "recommended disallowance is difficult to reconcile with the Company's compliance" as the ALJ "does not distinguish between industry engagement that supports

customer-beneficial utility operations and advocacy that is political or lobbying-related." *Id*., pp. 165-166. The company ends its exceptions noting that because it already removes lobbying-related costs, the ALJ's recommended 12.3% disallowance is not sound as it does not represent "lobbying costs, political advocacy costs, or costs that DTE Gas seeks to recover despite already being excluded from the Company's revenue requirement[,]" with the 12.3% failing to correspond "to activities that provide no customer benefit to DTE Gas." *Id*., p. 166 (citing PFD, p. 419). DTE Gas asserts that it has shown that the remaining costs after "lobbying and political advocacy" costs have been removed are reasonable and prudent utility costs and as such, its AGA membership expense "as filed" should be approved. DTE Gas's exceptions, p. 167.

FLO filed exceptions on two issues regarding corporate memberships. First, FLO argues that the ALJ "fails to recommend the proper remedy for [First Amendment] violations—the full disallowance of DTE's requested corporate membership fees that are unsupported and those that support advocacy." FLO's exceptions, p. 8. FLO also asserts that the ALJ erred in distinguishing *Janus v Am Fed'n of State, Co, & Muni Emps., Council 31*, 585 US 878, 894-895; 138 S Ct 2448 (2018), in which unions included agency fees within dues from non-member public employees, from the current matter as "this is an instance of the state compelling citizens to pay for the advocacy of private organizations from which they cannot effectively exit. This is prohibited by the First Amendment, whether it is a union, like in *Janus*, or a utility exercising a state-sanctioned monopoly, like here." *Id*. (citing PFD, p. 421; FLO's initial brief, pp. 121-124) (internal citations omitted). FLO avers that it is not that ratepayers should not fund advocacy against their interests, but that "ratepayers *cannot* be forced to fund advocacy that is adverse to their interests." FLO's initial brief, pp. 8-9 (citing PFD, p. 421) (emphasis in original). Thus, FLO asserts that as "ratepayers cannot be forced to fund this advocacy, the [ALJ] should have gone further than

disallowing only 12.3% of the Company's AGA membership fee." FLO's exceptions, p. 9 (citing PFD, p. 421).

Second, FLO asserts that as the ALJ recognized, the company "failed to justify any of its memberships by demonstrating how they *specifically benefit ratepayers*" and that in Case No. U-21291, DTE Gas was required to identify and explain in detail why corporate membership dues were justified and how the costs benefitted customers but that "DTE Gas failed to do that—as FLO detailed in its briefing and as the [ALJ] accepted." FLO's exceptions, p. 10 (citing November 7 order, p. 155; FLO's initial brief, pp. 118-120; FLO's reply brief, p. 10; and PFD, p. 421) (emphasis in original). FLO argues that as DTE Gas was already ordered to provide detailed reasons why corporate memberships were in its customers' interests, ordering such again "has little effect if the Company continues to refuse to provide that information. Requiring that the Company do what it was already legally required and ordered to do is not a remedy." FLO's exceptions, pp. 10-11. Thus, "[u]ntil the Company provides sufficient information to justify these costs, the Commission should disallow these corporate membership fees in their entirety" as to do otherwise "would be arbitrary and capricious, and would not be supported by substantial evidence on the whole record." *Id*., p. 11 (quoting MCL 24.306(1)). FLO concedes that if the Commission is unwilling to disallow all of DTE Gas's membership fees, it "should uphold the ALJ's decision and disapprove the AGA's reported 12.3% of advocacy-related spending, worth $105,151.00." FLO's exceptions, p. 12 (citing PFD, p. 421).

DTE Gas asserts that FLO did not proffer any "new evidence, no new methodology, and no new legal authority" in its exceptions, and that the ALJ considered and rejected FLO's First Amendment argument and FLO's argument that DTE Gas failed to justify its memberships. DTE Gas's replies to exceptions, p. 80. The company notes that in Exhibit A-23, Schedule M1, it

identified each "organization, the sponsoring business unit, projected dues, and the associated customer benefits, and is 'more than a mere listing.'" *Id*. (citing DTE Gas's reply brief, p. 135). The company also notes that both the ALJ and FLO acknowledge the company's exclusion of lobbying and political advocacy costs, thus making FLO's First Amendment argument via *Janus* moot. DTE Gas's replies to exceptions, p. 81. DTE Gas asserts that, despite FLO's argument otherwise, the company complied with the directive in Case No. U-21291, as shown in its Exhibit A-23, Schedule M1, and its testimony at 2 Tr 388-389. The company states that FLO's attempt to disallow more than 12.3% of the ALJ's suggested AGA disallowance by arguing that "the figure is 'likely far higher,'" is speculative, and also notes that the ALJ "never specifically finds that the 12.3% figure represents lobbying costs, political advocacy costs, costs DTE Gas seeks to recover notwithstanding its exclusions, or activities lacking customer benefits." DTE Gas's replies to exceptions, pp. 82-83 (citing FLO's exceptions, p. 9; PFD, pp. 419-421). Thus, DTE Gas requests that the Commission reject both FLO's exception and the ALJ's recommended AGA-related disallowance, approving its "$2,046,587 in corporate membership dues . . . as reasonable and prudent." DTE Gas's replies to exceptions, p. 84 (citing DTE Gas's initial brief, p. 225; DTE Gas's exceptions, p. 167; Exhibit A-23, Schedule M1; 2 Tr 293-297, 388-389).

FLO continues to argue that "captive consumers" such as monopoly utility customers, "cannot be compelled to fund advocacy" and that the company's assertions that it already withholds political and lobby-related expenses "do not cure the First Amendment concerns." FLO's replies to exceptions, p. 5 (citing PFD, p. 421; DTE Gas's exceptions, pp. 166-167). FLO argues that, as it is the utility's burden to prove the benefits to its customers regarding its AGA membership, a mere showing "that an organization provides *some* benefit does not make *limitless* corporate membership fees reasonable and prudent." FLO's replies to exceptions, pp. 6-7 (emphasis in

original). In sum, FLO contends that even if DTE Gas rebutted FLO's First Amendment concerns, the company still "failed to meet its burden of demonstrating benefit to customers" regarding its AGA-related corporate membership costs. FLO's replies to exceptions, p. 7.

The Commission respectfully disagrees with the ALJ's recommendation regarding corporate membership dues. The Commission finds that DTE Gas properly excluded those portions of its AGA membership which were associated with lobbying or were political in nature. *See*, Exhibit A-23, Schedule M1; *see also*, DTE Gas's exceptions, pp. 165-166. The Commission finds the company's existing AGA membership cost to be reasonable and prudent given the core utility function benefits DTE Gas receives, which the ALJ noted. *See*, PFD, pp. 418-420. As such, neither FLO's nor the ALJ's recommended disallowance is warranted as the Commission finds that DTE Gas complied with the Commission's directive in Case No. U-21291. However, the Commission continues to direct DTE Gas to file in its future gas rate cases direct testimony and exhibits containing an itemized list of projected costs associated with corporate membership fees and justification for why these costs are truly required and in ratepayers' interests.

b. Rent Expense

DTE Gas projected $52.2 million in rent expense for shared assets with DTE Electric. DTE Gas's initial brief, p. 226; *see also*, Exhibit A-13, Schedule C5.6; 3 Tr 879-880.

The Attorney General suggested a total disallowance of $4.445 million, which included a rent reduction of $4.277 million; however, she withdrew the $4.227 million disallowance "[b]ased on the information provided by [DTE Gas] resulting from the Commission ruling on shared asset expenses in Case No. U-21860." Attorney General's initial brief, pp. 130-131; *see also*, Attorney General's reply brief, p. 44. With the shared asset rent expenses being moot, the Attorney General only suggested a $167,000 reduction in amortization, with which the company agreed. Attorney

General's initial brief, pp. 130-131; Attorney General's reply brief, p. 44; 3 Tr 899; *see also*, DTE Gas's initial brief, p. 226; DTE Gas's reply brief, p. 135.

The ALJ noted the parties' agreement and also that the company "asks to continue its shared-asset expense deferral mechanism, resetting the base amount to $52.2 million to align with DTE Electric's rate case (Case No. U-21860)" and that as there were no objections to such, he recommended approving the company's request. PFD, p. 423 (internal citations omitted).

As the parties are in agreement on this matter, the Commission adopts the ALJ's findings and approves the company's $52.2 million base amount request. *See*, PFD, p. 423.

12. Employee Benefits Expenses

a. New Hire Retiree Voluntary Employees' Beneficiary Association

DTE Gas projected $3.198 million in New Hire Voluntary Employees' Beneficiary Association (VEBA) expense, an increase from the adjusted 2024 expense of $2.548 million. Exhibit A-13, Schedule C5.9; *see also*, 3 Tr 661, 663.

The Staff recommended a $264,000 VEBA reduction and a "five-year actual average annual growth rate of 5.4%" as it "is a multiyear growth rate based on the actual expense the Company incurred[,]" rejecting the company's 8.5% increase due to lag hiring "as the program was at the Company's discretion and should not be borne by the rate payer." Staff's initial brief, pp. 63-64 (internal citations omitted); *see also*, 5 Tr 2530.

The Attorney General recommended an $880,000 VEBA reduction by using "[t]he 2025 actual expense" as it "is the most recent and reliable base to forecast the expense for the projected test year" after calculating "the average annual increase in the number of participants from 2018 to 2025" given that there has been a decline in participants. Attorney General's initial brief, pp. 112-113; *see also*, Exhibit AG-51; Attorney General's reply brief, p. 44; 5 Tr 3347-49.

The ALJ recommended adopting the Attorney General's $880,000 disallowance, finding her calculation was "the most reasonable." PFD, p. 429. The ALJ reasoned that DTE Gas "excluded the 2024 historical test year which is inconsistent with calculating the historical average upon which projected test-year expenses are typically based. This resulted in a significantly higher average annual increase" that overstated the company's forecasted expense. *Id*.

DTE Gas excepts to the ALJ's recommendation, stating that its VEBA costs "in 2023 were unusually high compared to the actual funding requirement for that year, resulting in an unusually high true-up of over $680,000" which should increase the VEBA costs for 2024 by $312,000 "to remove this anomaly." DTE Gas's exceptions, pp. 167-168 (citing 3 Tr 662-663). The company avers that its "normalized, participant-driven approach provides the most reliable estimate of test-year VEBA expense because it reflects the design of the program and expected participation rather than a simple extension of recent historical averages." DTE Gas's exceptions, p. 168 (citing 3 Tr 685-686). DTE Gas argues that the Commission should reject the ALJ's recommendation "or, at minimum, should reject the AG's $880,000 disallowance as unsupported." DTE Gas's exceptions, pp. 169-170. The company then explains what it feels is the errors in the ALJ's reasoning.

First, DTE Gas argues that the ALJ treated "the Company's forecast as though DTE Gas simply discarded inconvenient historical years" while the company asserts that it merely "used its Historical Test Year as the starting point for its forecast but normalized that base to remove a known anomaly." *Id*., p. 170 (citing 3 Tr 662). Next, the company contends that the ALJ did not "grapple with the program mechanics of" VEBA as VEBA provides benefits "to employees generally hired after 2012 in lieu of the traditional retiree healthcare plan, which is closed to new

participants" such that "the costs for this program are *participant-driven costs*." DTE Gas's exceptions, p. 170 (citing 3 Tr 661) (emphasis in original).

Thirdly, DTE Gas asserts that the ALJ "gives no meaningful weight to the instability of VEBA true-ups." DTE Gas's exceptions, p. 171. The company argues that the Attorney General's calculation, which the ALJ adopted, is less accurate as it "relies on actual 2025 expense" whereas the company shows that "VEBA true-ups do not show a stable trend, making it more reasonable to use a multi-year average true-up amount than to build the largest recent negative true-up into the Projected Test Year." *Id*. (citing 3 Tr 662-663). The company states that when it corrects the Attorney General's methodology to exclude "abnormal 2024-2025 headcount reductions[,]" the resulting projected VEBA expense "is $513,000 higher than the Attorney General's recommendation." DTE Gas's exceptions, p. 171 (citing 3 Tr 687-688).

Next, DTE Gas disagrees with the ALJ that the company overstated its VEBA expense because including "new participants in 2024 and 2025 is clearly improper because of the non-recurring impact of reductions in the number of new participants in those years" whereas the inclusion of 2024 and 2025's additional participants would distort the Attorney General's average. DTE Gas's exceptions, p. 171. Lastly, DTE Gas concludes that the Attorney General's claim that the company overstated its VEBA expense in Case No. U-21291 is incorrect because "the difference between forecasted and actual New Hire VEBA, Employee Savings Plan [(ESP)], and Active Healthcare expenses for the period ending September 30, 2025, was largely explained by the 2024 [(Voluntary Separation Incentive Plan)] VSIP, which reduced employees allocable to DTE Gas by about 5%[,]" generating "nearly $2 million of savings across those benefit categories." DTE Gas's exceptions, pp. 171-172. The company avers that "[a] variance from the prior case, driven by non-recurring workforce reductions that have occurred since that case, does

not establish that the Company's current, participant-driven VEBA forecast is unreasonable." *Id*., p. 172.

The Attorney General argues that DTE Gas's exceptions provide "no proof that the ALJ overlooked or ignored" any evidence; the company merely reasserts "its arguments about why its 'normalization[s]' of historical actuals should be accepted." Attorney General's replies to exceptions, pp. 52-53 (citing DTE Gas's exceptions, pp. 167-172). The Attorney General asserts that DTE Gas is "simply . . . attempting to abuse the use of a fully projected test year by incorporating projections more favorable to a higher return from its customers" which, as shown by the ALJ's acceptance of her own approach, "is neither reasonable nor prudent." Attorney General's replies to exceptions, p. 53 (citing PFD, p. 429; Attorney General's initial brief, pp. 111-112).

The Commission finds the ALJ's recommendation to be well-reasoned based on the evidence on the record and, therefore, adopts such. *See*, PFD, p. 429. In this case, the Commission agrees with the ALJ that the record supports using normalized historical actuals for VEBA expenses. Thus, the Commission adopts the Attorney General's proposed $880,000 disallowance, as recommended by the ALJ.

b. Employee Savings Plan

DTE Gas initially proffered an ESP expense of $13.266 million, but after "[u]sing updated data and a refined methodology that starts from 2025 actual ESP costs and participant levels, . . . now supports an ESP expense of $12.847 million for the Projected Test Year." DTE Gas's initial brief, p. 232; 3 Tr 709, 751; *see also*, DTE Gas's reply brief, p. 139.

The Staff recommended a disallowance of $1.635 million because it rejected the company's normalization adjustment which involved "increas[ing] its historic test year basis from the actual

expense it incurred by applying a 'normalization' adjustment for 'out of period forfeitures'" along with unreasonably "increas[ing] its historic test year by the net of VSIP and 'Lag hiring' adjustments." 5 Tr 2531; *see also*, Staff's initial brief, p. 65.

Likewise, the Attorney General did not agree with the company's proposal, finding that DTE Gas's forecasted expense "represents a tremendous 30% increase over the actual 2024 expense" and that the company "has not supported that it will be able to add all the employees it projects, or that it needs to" and recommended a disallowance of $1.385 million. Attorney General's initial brief, pp. 115, 118.

The ALJ found the Staff's and Attorney General's arguments more persuasive than DTE Gas's and stated that the company's "historical-period adjustments are unreasonable, unsupported by the record, and result in an overstated projected increase in ESP expenses." PFD, p. 434. The ALJ noted that in Case No. U-21291, DTE Gas overstated its ESP expenses by $2 million, and that the "historical-average approached proposed by Staff and the Attorney General is more reasonable and more likely to produce an accurate projection" and thus, recommended adopting the Staff's $1.635 million disallowance. *Id*. However, as an alternative, the ALJ also suggested that "the Commission could adopt Staff's method with [an] adjustment to remove excess forfeitures from the 2024 historical test year" which would result "in a total disallowance of $1,240,000." *Id*.

In exceptions, DTE Gas argues that the ALJ's recommendation "does not meaningfully address the record evidence showing that 2024 ESP expense was not representative," nor does it "explain why Staff's simplified historical-growth-rate method is superior to DTE Gas's participant- and earnings-based forecast," and while the ALJ "incorrectly concludes that the Company's actual use of 2025 ESP data in rebuttal rehabilitated, rather than refined, its forecast." DTE Gas's exceptions, p. 174. The company proffers three arguments.

First, DTE Gas argues that it was an error to adopt the Staff's "simple historical averaging" position because "ESP expense is not a generic benefits line item but is instead a complex component driven by eligible earnings, employee participation, employee mix and growth, Company match obligations, capitalization, and wage growth." *Id*. (citing 3 Tr 709-710). The company also argues that the ALJ failed "to acknowledge the undisputed record evidence that 2024 ESP expense was distorted by an accounting change" that occurred because "in 2024, the Company started recognizing [employees who leave before becoming vested] departures" such that both 2023 and 2024's forfeitures were both being recognized in 2024, resulting "in an artificially low ESP cost for 2024" that requires an adjustment. DTE Gas's exceptions, p. 175 (citing 3 Tr 709, 748). DTE Gas states that the adjustment would increase the Staff's ESP projection by $395,000. DTE Gas's exceptions, p. 175 (citing 3 Tr 748). Lastly, DTE Gas notes that the ALJ ignored the company's 2024 VSIP, and that the ALJ accepted the Staff's "'overly simplistic'" historical-growth-rate method despite the Staff's treatment of the other employee benefits category where various "measurable underlying drivers—eligible earnings, employee participation and mix, contribution rates, wage growth, forfeitures, and capitalization" are not separately evaluated. DTE Gas's exceptions, pp. 175-176.

The Attorney General contends that DTE Gas's exceptions on this matter are merely the company "repeating its testimony and stating, without support or evidence, that the ALJ somehow ignored . . . parts of the record. There is nothing new in exceptions that was not fully rebutted by the AG, Staff, and ALJ." Attorney General's replies to exceptions, p. 54. The Attorney General notes that her recommended disallowance differs slightly from the Staff's; however, "the rationale is the same – that DTE's 'normalization' approach is simply DTE attempting to take advantage of a fully projected test year, [and] improperly inflate recovery" to "unnecessarily bilk customers."

Id. While she contends that the Commission should adopt her recommendation by adopting the ALJ's statement that DTE Gas's "historical-period adjustments are unreasonable, unsupported by the record, and result in an overstated projected increase in ESP expenses[,]" the Attorney General also notes that she supports the Staff's approach, which was "adopted and supported by the ALJ." *Id*. (citing PFD, p. 434).

The Commission agrees with the ALJ's alternative and adopts the Staff's method while using the company's "adjustment to remove excess forfeitures from the 2024 historical test year" which results in a $1.24 million disallowance and an increase to the Staff's ESP projection by $0.395 million. PFD, p. 434; *see also*, DTE Gas's exceptions, p. 175 (citing 3 Tr 748).

c. Active Healthcare

DTE Gas projected active healthcare benefit costs of $20.759 million, an increase from $16.626 million in the historic test year. 3 Tr 664; *see also*, DTE Gas's initial brief, p. 236; DTE Gas's reply brief, p. 142.

The Staff found that the company "unreasonably increased its actual historic test year basis with multiple adjustments" whereas "the unadjusted historic test year is a reasonable basis for projection" as such, recommended a disallowance of $3.602 million. 5 Tr 2532-2533; *see also*, Staff's initial brief, pp. 66-67.

The Attorney General contended that the company's healthcare cost increases "are excessive and well above inflationary increases experienced by the Company in recent years, as shown in Exhibit AG-56." 5 Tr 3353; *see also*, Attorney General's initial brief, pp. 118-119. By using a six-year period from 2019 to 2025 (to minimize the impact of the COVID-19 pandemic), the Attorney General presented a test year disallowance of $1.995 million, which is a rate of increase of an average annual rate of 2.2%. 5 Tr 3353; *see also*, Attorney General's initial brief, p. 119.

DTE Gas rejected the arguments of the Staff and Attorney General as fundamentally flawed because parties cannot assume "that the historical increases in Active Healthcare costs will be reliable predictors of future cost increases." DTE Gas's initial brief, p. 240 (citing 3 Tr 677). The company also cautioned that "healthcare costs are highly volatile" such that historical averages "are unlikely to be accurate predictors of the future within the context of healthcare costs." DTE Gas's reply brief, p. 142 (internal citations omitted); *see also*, DTE Gas's initial brief, p. 238; 3 Tr 680-681.

The ALJ was persuaded by the Attorney General's approach of "applying the historical average annual increase of 2.2%[,]" which notably aligned with the approved approach in Case No. U-21291. PFD, p. 440. The ALJ also found that "actual expenses . . . provided a more reliable basis for forecasting future expenses." *Id*. (citing January 23, 2025 order in Case No. U-21534 (January 23 order), p. 257). Thus, the ALJ recommended that based on the facts in this matter "and past Commission decisions," the Commission should adopt the Attorney General's proposed $1.996 million disallowance. PFD, p. 440.

In exceptions, DTE Gas asserts that it supported its $20.759 million in active healthcare expenses for the projected test year. DTE Gas's exceptions, p. 176. The company rejects that ALJ's recommendation to adopt the Attorney General's proposed disallowance in part because "the ALJ's adopted approach on this issue is inconsistent with its own finding on Other Employee Benefits (PFD, p 445)." *Id*., p. 178. The company also rejects the ALJ's reliance on Case No. U-21534, which rejected DTE Electric Company's constant dollar averaging method while suggesting that the Commission utilize the company's actual expenses and yearly changes. *Id*. (citing PFD, p. 440); *see also*, January 23 order, pp. 257-258.

DTE Gas asserts that the ALJ did not provide a "reasoned basis" as to why "aggregated historical averaging is too simplistic for Other Employee Benefits, but sufficiently reliable for Active Healthcare." DTE Gas's exceptions, p. 179. The company also notes that while the ALJ characterized the Attorney General's approach as "an 'actual expenses' approach[,]" the Attorney General actually "takes 2025 actual gross Active Healthcare costs and then applies a historical average growth rate to produce a projected-test-year forecast." *Id*. (quoting PFD, pp. 435-436). DTE Gas argues that while "the record identifies specific intervening circumstances that affected the prior-case comparison," such as the 2024 VSIP, an employee reduction, "savings across multiple benefits categories, and prior-case constant-dollar and COVID-related costs that did not recur" was not acknowledged by the ALJ, leading to the ALJ "effectively convert[ing] an explained historical variance into a presumption against DTE Gas's current forecast." DTE Gas's exceptions, pp. 179-180 (citing 3 Tr 689, 693-695). Lastly, the company argues that the Attorney General improperly calculated overall inflation projections of 2.2% per year when "in 2025, medical cost inflation was almost 8.0% while overall inflation was only about 3.0%." DTE Gas's exceptions, p. 180 (citing 3 Tr 678). In support of this claim, the company notes that "pressure on healthcare cost was recently exacerbated with the expiration of Affordable Care Act enhanced subsidies at the end of 2025, which will increase the number of uninsured individuals and therefore increase the cost to all users of the healthcare system" along with the "extremely high volatility" of the company's "per employee Healthcare costs." DTE Gas's exceptions, pp. 180-181 (citing 3 Tr 679-681).

DTE Gas continues to request that its proposed active healthcare expense be accepted as filed but that, in the alternative, "if the Commission elects to use a historical-trend approach, it should modify the PFD to adopt a corrected historical methodology that accounts for cost-per-employee

data and the Company-specific record evidence" instead of the Attorney General's "aggregate historical-average calculation as reflected on Exhibit A-36, Schedule Z3." DTE Gas's exceptions, p. 181.

The Attorney General contends that DTE Gas's "exceptions provide nothing new and its arguments were fully rebutted" by both her and the Staff, along with being fully addressed by the ALJ and as such, "should be rejected as self-serving and unrepresentative of clear historical trends." Attorney General's replies to exceptions, p. 55. The Attorney General notes that her method of "applying the historical average increase to actual . . . costs is the most reasonable method for forecasting test year costs[,]" was "properly recognized by the ALJ," and also "aligns with the approach most recently approved by the Commission in Case No. U-21291." *Id*. (citing PFD, p. 440).

The Commission appreciates DTE Gas's concern that the Affordable Care Act subsidies ended in 2025, increasing the cost "to all users of the healthcare system" along with the "extremely high volatility" of the company's "per employee Healthcare costs." DTE Gas's exceptions, pp. 180 (citing 3 Tr 681). Furthermore, the Commission agrees with DTE Gas's alternative suggestion which modifies the Attorney General's aggregate historical-average recommendation and utilizes the most updated per-employee calculation as it provides the most accurate projection of the company's active healthcare costs. *See*, Exhibit A-36, Schedule Z3. As such, the Commission adopts DTE Gas's alternative proposal which results in a projected expense of $19.079 million and an annual average escalation per employee of 3.2% to the normalized 2024 expense.

d. Other Employee Benefits

DTE Gas's proposed other employee benefits (OEB) expense was expected to increase from $6.376 million in the 2024 historical test year to $6.596 million for the projected test year, resulting in an increase of $0.220 million based on several adjustments to various costs that comprise its OEB expense. 3 Tr 670-671; *see also*, Exhibit A-13, Schedule C5.9; DTE Gas's initial brief, pp. 241-242.

The Staff rejected the company's proposed OEB expense and argued that DTE Gas's "actual 5-year average annual growth rate in employee benefits has been flat and slightly negative at -0.06%." Staff's initial brief, p. 68; *see also*, Exhibit S-14.3. In its reply brief, the Staff noted that it erred in its initial brief, which requested a reduction of $0.658 million and "has now been corrected to $758,000[,]" such that the Staff's recommended OEB expense is $5.838 million. Staff's reply brief, p. 5.

In rebuttal, DTE Gas utilized a "corrected projection" which produces an OEB expense for the Staff "of $6.562 million—virtually identical to the Company's original $6.596 million projection." DTE Gas's initial brief, p. 244 (internal citations omitted). The company argued that as "rates are set prospectively and cannot later be increased to recover costs that were under-projected, understating [the] ongoing Other Benefits expense based on temporary historical under-spending would create an enduring mismatch between rates and the Company's actual cost obligations going forward." DTE Gas's initial brief, p. 244 (citing 3 Tr 693). The company also critiqued the Staff's "zero-escalation approach" as being at odds with "the inflation level that the Company applied to this category of expenses" which was "quantified, measurable, and demonstrated in the record." DTE Gas's reply brief, p. 244 (internal citations omitted).

In its own rebuttal, the Staff argued that DTE Gas's suggestion of the Staff's position being a "zero-escalation approach" is misleading as the "Staff's projection of $5,838,000 is an increase to the Company's actual historic expense of $4,991,000 and higher than the prior three years of actual expenses." Staff's initial brief, p. 68. The Staff also asserted that DTE Gas itself supported the "Staff's position that the Company continuously and significantly over-projects Other Employee Benefits expense in total." *Id*., p. 69 (citing 3 Tr 693; Exhibit A-25, Schedule Z7, line 41).

The ALJ noted that while he understood the Staff's concerns, he "finds that Staff relies on the same methodology that the Commission rejected in its February 19, 2026 order in Case No. U-21860 (p. 354) as overly simplistic and failing to evaluate individual expense components" and as such, accepted DTE Gas's "corrected projected expense of $6.562 million, requiring a downward adjustment of $34,000 from the Company's original request." PFD, p. 445.

Neither DTE Gas nor the Staff filed exceptions on this matter.

After review of the record and arguments by the parties, the Commission finds the ALJ's recommendations on this issue to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusion and accepts DTE Gas's "corrected projected expense of $6.562 million, requiring a downward adjustment of $34,000 from the Company's original request." *Id*.

e. Deferral of Other Post-Employment Benefit and Pension Costs

The ALJ noted that DTE Gas asked to continue deferring its other post-employment benefit (OPEB) and pension costs, and no party challenged that accounting treatment. *See*, *id*. As such, the ALJ recommended approving DTE Gas's request.

The Commission finds the ALJ's recommendation on this issue to be well-reasoned and supported by the record, and it therefore adopts the ALJ's findings and conclusions in respect to the company's OPEB and pension costs. *See*, *id*.

13. Employee Incentive Compensation

DTE Gas proposed an employee incentive compensation program (EICP) expense of $16.591 million for the projected test year. 3 Tr 724; *see also*, DTE Gas's initial brief, p. 246. DTE Gas outlined its various incentive plans: the company has two short-term incentive plans, being the Annual Incentive Plan (AIP) (which is available to all executive-level employees), and the Rewarding Employees Plan (REP) (which is identical to the AIP except for its target and minimum performance payout); while there is also the Long-Term Incentive Plan (LTIP), which is a multiple-year plan available to managers and above. DTE Gas's initial brief, p. 246; *see also*, 3 Tr 728-729.

a. Incentive Compensation Related to Financial Measures

The Staff, ABATE, and the Attorney General proposed disallowing DTE Gas's entire $11.047 million tied to financial performance measures. The Staff noted that the Commission has excluded financial performance measures because the measures "were tied to Company earnings and cash flow . . . that largely benefited shareholders and should not be paid for by ratepayers." Staff's initial brief, p. 58 (citing 5 Tr 2373). The Staff also recommended an additional disallowance of $1.862 million as "LTIP is awarded with Restricted Stock or performance shares" whereas "Restricted Stock is considered a reward to employees for assisting the Company in reaching its financial goals." Staff's initial brief, p. 61 (citing 3 Tr 733). The Staff also provided a list of over a dozen rate cases in which the Commission excluded financially measured incentive compensation. *See*, Staff's initial brief, pp. 58-59.

Likewise, ABATE averred that incentive compensation related to financial measures "should not be recovered from ratepayers; these metrics are designed to satisfy the interests of shareholders, meaning they should be paid by shareholders." ABATE's initial brief, p. 44 (citing 5 Tr 2686-2688). ABATE also notes that the Commission has agreed with this disallowance in both Case Nos. U-21291 and U-20561. ABATE's initial brief, pp. 44-45.

The Attorney General agreed with the Staff and ABATE that "there is no direct relationship to customer benefits. These goals are in place to maximize profits and increase cash flow to pay dividends to shareholders." Attorney General's initial brief, p. 123. Specifically, the Attorney General averred that AIP, REP, and LTIP are "too heavily skewed towards measures that directly benefit shareholders and not customers." *Id*.

The ALJ was persuaded by the Staff's, Attorney General's, and ABATE's arguments, and he recalled that "[i]n DTE Gas's last two rate cases[, Case Nos. U-20940 and U-21291], the Commission disallowed incentive compensation related to financial metrics." PFD, pp. 452-453. As such, finding that the company "has not presented evidence to support reconsideration of the Commission's prior decisions regarding this issue[,]" the ALJ accepted the $11.047 million proposed disallowance. *Id*., p. 453. Additionally, the ALJ agreed with the "Staff's proposed disallowance of $1,862,000 related to employee incentive compensation awards involving Restricted Stock or performance shares under the LTIP program" as "the Commission has repeatedly disallowed expenses for awards of stock incentives" such as in Case No. U-21534. PFD, pp. 453-454. Thus, the ALJ recommended a total disallowance of $12.909 million in employee compensation related to financial measures. *Id*., p. 454.

The Attorney General provides a detailed explanation of DTE Gas's argument against the ALJ's findings; however, she contends that "[t]he ALJ properly concluded that DTE has not

presented evidence to support reconsideration of the Commission's prior decisions regarding this issue and has not presented sufficient evidence to establish that the disallowance should be rejected." Attorney General's replies to exceptions, p. 57 (citing PFD, pp. 452-453).

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record, finding that DTE Gas's incentives tied to financial measures are for the benefit of the company's shareholders, not its customers. *See*, Staff's initial brief, pp. 58, 61. As such, the Commission adopts the ALJ's findings and conclusion on this issue and adopts a total disallowance of $12.909 million in employee compensation related to financial measures. *See*, PFD, pp. 453-454.

b. Incentive Compensation Related to Operating Measures

The Attorney General requested that the Commission adopt her position "first approved in DTE Gas Case No. U-20940" to disallow the company's request for customers to pay for performance metrics that do not achieve target levels. Attorney General's initial brief, pp. 128-129 (citing December 9 order, p. 163). Following this argument, the Attorney General recommended a disallowance of $2.218 million (60% of the company's requested $5.544 million) as DTE Gas's "last five years of actual performance results show that the Company was able to achieve the target level performance only 60% of the time." Attorney General's initial brief, pp. 126-127.

The ALJ agreed with the Attorney General's arguments and proposed disallowance of $2.218 million. PFD, pp. 459-460. He also noted that in Case Nos. U-21291 and U-20940, the Commission agreed with the Attorney General's proposed disallowance tied to non-financial operating metrics that analyzed the company's average performance over a five-year period which "fell well short of its projected 100% target levels." *Id*. Lastly, the ALJ noted that "the data in the

Attorney General's exhibit is more concise and supports the argument for the proposed disallowance." *Id*., p. 460.

DTE Gas provides four exceptions to the ALJ's recommendation. First, DTE Gas asserts that the Attorney General's exhibit "simply shows the percentages" whereas the company's evidence provides critical context involving "how the incentive plans actually operate, including a reflection of actual gradients of performance." DTE Gas's exceptions, pp. 183-184 (citing PFD, p. 460; 3 Tr 752-754). The company also asserts that "[c]oncision is not the standard for determining whether an expense is reasonable and prudent" and that the ALJ did not explain why the Attorney General's concise, simplified approach was more probative than the company's own "plan-based, weighted performance evidence." DTE Gas's exceptions, pp. 183-184.

Second, DTE Gas argues that the ALJ's recommendation is not aligned with "the operational incentive compensation deferral mechanism that [he] separately recommends continuing" because the ALJ "recognizes that the deferral mechanism allows reconciliation of actual operational-metric incentive payouts . . . up to the 100% target level." *Id*., p. 184 (citing PFD, pp. 461-463). The company asserts that the deferral mechanism addresses the concern that customers should not pay for unachieved operational metrics because "[i]f actual operational performance falls below the approved base, customers are protected through the deferral mechanism" whereas the ALJ does not explain why an additional historical disallowance is necessary, calling it "unnecessary and duplicative." DTE Gas's exceptions, p. 184.

Third, the company opines that in this matter, the ALJ is proposing that the Commission treat DTE Gas differently than the Commission treated DTE Electric in Case Nos. U-21860 and U-21534, despite nothing existing in "the evidentiary record that would justify treating DTE Gas differently. The Commission should not adopt materially different treatment for comparable

operational incentive compensation frameworks based only on a conclusory preference for one line of cases over another." *Id*., pp. 184-185 (citing PFD, p. 460). Lastly, DTE Gas asserts that the ALJ's "sole reliance on prior DTE Gas cases is not an appropriate substitute for an independent analysis of this record" as prior decisions were based on prior, distinct records with different evidence than this case. DTE Gas's exceptions, p. 185. The company argues that "[t]he Commission's reasoned decision-making obligation under MCL 24.285 requires that its finding be supported by competent, material, and substantial evidence on the record in this case, not merely by reference to conclusions reached on different records in prior proceedings." *Id*.

ABATE contends that "the record in this case provides substantial testimonial evidence for rejecting the Company's proposal" regarding incentive compensation related to financial measures. ABATE's replies to exceptions, p. 16 (citing DTE Gas's exceptions, pp. 183-185). ABATE argues that "recovery from ratepayers is appropriate only 'if the operational performance metrics are actually achieved and benefits are measurable and quantifiable.'" ABATE's replies to exceptions, p. 17 (quoting 5 Tr 2687-2688). ABATE avers that recovery "of incentive compensation premised on operational achievement" is not reasonable when a utility "has historically achieved only a portion of those metrics at or above target." ABATE's replies to exceptions, p. 17.

The Attorney General asserts that, in its exceptions, DTE Gas provided "nothing new that was not fully considered and rejected" by both the Attorney General and the ALJ as the utility's "arguments fail to add support to its contention that customers should be required to pay for DTE bonuses related to performance metrics that the Company is not able to achieve." Attorney General's replies to exceptions, p. 56. She further contends that the ALJ properly weighed the evidence when he found that the Attorney General's evidence was "more reasonable and prudent

and more supportive" of her position. *Id*. The Attorney General also highlights DTE Gas's inconsistent position where, on this topic, the utility argues that the ALJ failed to follow Commission precedent while previously in exceptions, the company argues that the ALJ's recommendation to adhere to Commission precedent is improper. *Id*., p. 57.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record, and as such, adopts the ALJ's findings and conclusion on this issue. *See*, PFD, pp. 459-460. In Case Nos. U-21291 and U-20940, the Commission agreed with the Attorney General's proposed disallowance tied to non-financial operating metrics where DTE Gas failed to meet its 100% target level. *See*, November 7 order, p. 172; December 9 order, pp. 163-164; *see also*, PFD, pp. 459-460. Here, the Commission agrees with the Attorney General and ABATE that DTE Gas should not recover non-financial operating metrics above what it has historically achieved and finds DTE Gas's assertion that the ALJ relied solely on prior DTE Gas rate cases is disingenuous given that the Commission always reviews record evidence in rate cases while also reviewing past precedent. *See*, Attorney General's initial brief, pp. 126-127; *see also*, Attorney General's replies to exceptions, p. 57; ABATE's replies to exceptions, p. 17. Thus, the Commission adopts the ALJ's proposed disallowance of $2.218 million in incentive compensation related to operating measures.

c. Modification to the Incentive Compensation Mechanism

DTE Gas requested to continue and modify its incentive compensation tracker per Case No. U-21297, "with the base amount reset equal to the amount of incentive compensation approved for recovery in this case" and reasoned that "[s]ince the Company must provide a refund to customers if results fall below the baseline, it is reasonable to include the cost of achieving

exceptional results" to include "amounts above 100% of the target." DTE Gas's initial brief, p. 306 (citing 3 Tr 862); *see also*, 3 Tr 861-862.

While the Staff agreed with continuing the mechanism, it rejected DTE Gas's proposed modification to provide incentive compensation deferral mechanism amounts over 100% as "this could result in unnecessary and excessive rates for ratepayers." Staff's initial brief, pp. 60-61 (citing 3 Tr 721). The Staff highlighted the Commission's decision in the December 9 order, p. 163, in which the Commission set the maximum target level at 100% for recovery, and requested that the Commission impose that maximum target level in this matter. Staff's initial brief, p. 61.

The ALJ agreed with the Staff that the Commission "has consistently declined to modify the [employee incentive compensation deferral] mechanism" and as such, recommended that the Commission stay consistent on this matter. PFD, pp. 462-463. However, as the Staff did not oppose DTE Gas's "continued use of the deferral mechanism or resetting the base amount equal to the incentive compensation approved by the Commission in this matter," the ALJ recommended that the Commission approve that portion of DTE Gas's request. *Id*., p. 463.

In exceptions, DTE Gas argues against limits to it incentive compensation tracker, averring that the ALJ "conflates deferral accounting with automatic rate recovery" as the company's "proposed modification would not guarantee recovery of above-target payouts merely because they are recorded in the tracker. Rather, it would allow the Company to defer actual incentive compensation expense associated with operational performance outcomes and present that amount for commission review in a subsequent reconciliation or rate proceeding." DTE Gas's exceptions, p. 187. The company also notes potential situations where, "if employees achieve superior operational performance and actual payouts exceed 100% of the target, customers receive the

operational benefits while the Company is barred from tracking the corresponding compensation cost above the cap." *Id*. DTE Gas argues that to disallow payouts exceeding 100% is to convert its "tracker into a one-way protection for customers rather than a symmetrical mechanism that reconciles actual operational incentive costs above or below the approved base." *Id*.

The Attorney General asserts that the ALJ "saw through DTE's attempts to transfer risks to its customers and gain excessive bonus payments, to be paid by ratepayers" and that there was nothing new in the company's exceptions "that was not fully considered" by her, the Staff, or the ALJ. Attorney General's replies to exceptions, p. 58 (citing PFD, pp. 462-463).

The Commission finds the ALJ's recommendation to be well-reasoned based on the evidence on the record and therefore, adopts such. *See*, PFD, pp. 462-463. The Commission agrees with the Staff's proposal that rejected DTE Gas's proposed modification to provide incentive compensation deferral mechanism amounts over 100%, especially as in Case No. U-20940, the Commission previously set a maximum target level of 100% for recovery. *See*, Staff's initial brief, pp. 60-61.

F. Manufactured Gas Plant Remediation Expenses

DTE Gas proposed recovery of $439,654 in manufactured gas plant (MGP) remediation (or environmental remediation) expenses incurred between September 2023 and July 2025. Exhibit A-13, Schedule C13.4; *see also*, 3 Tr 919; DTE Gas's initial brief, p. 249. The Staff agreed that DTE Gas's requested recovery was "prudent and reasonably incurred." Staff's initial brief, pp. 28-29 (citing 5 Tr 2579). Thus, the ALJ recommended Commission approval of DTE Gas's "$439,654 in environmental remediation costs." PFD, p. 463.

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*.

G. Uncollectible Expenses

DTE Gas projected its uncollectible expense to be $23.54 million, utilizing a historical three-year average from 2022 to 2024 "of the percentage of net write-offs applied to projected expense." DTE Gas's initial brief, p. 249 (citing 3 Tr 1060); *see also*, Exhibit A-13, Schedule C5.7; 3 Tr 1060. Various parties recommended disallowances as discussed below.

1. Charges to Direct Expense

The Attorney General acknowledged that the company utilized a "methodology previously approved by the Commission of developing an average loss ratio from the most recent three years of net charge-offs to revenues and applying the loss ratio to future revenues to develop an estimate of uncollectible accounts expense." 5 Tr 3362; *see also*, Attorney General's initial brief, p. 132. However, because DTE Gas added $1.043 million to its $22.496 million of uncollectible expense for "what it calls 'Historical 3-year Average Charges to Direct Expense[,]'" she proposed disallowing that amount of matching funds because "there is no direct link between payments received in one year and the eventual write-off of uncollectible accounts in future years." 5 Tr 3363; *see also*, Attorney General's initial brief, p. 132; Attorney General's reply brief, pp. 133-134.

DTE Gas rebutted, stating that the Attorney General did not fully address "the additional billing cycle component of DTE Gas's argument, which is a key component of uncollectible expense[,]" instead arguing that the company "conflates arrearages and uncollectible expense" despite the company demonstrating "how the additional billing cycle allows a customer to

continue using gas service for longer, thereby resulting in higher bills for that customer, as well as higher arrears." DTE Gas's reply brief, p. 147.

The ALJ found that the company supported the reasonableness of its uncollectible expense and that without the direct match charges, "the Company's uncollectible expense would have increased. Additionally, these expenses are not recovered elsewhere in this case." As a result, the ALJ recommended rejecting the Attorney General's $1.043 million disallowance. PFD, p. 466.

In her exceptions, the Attorney General argues that "it is unclear what it means that these expenses are not recovered elsewhere in this case" and that the ALJ "simply echoes" the company's position that it supported its projected uncollectible expense's reasonableness by describing how its direct match charges were expensed. Attorney General's exceptions, pp. 42-43 (citing PFD, p. 466). The Attorney General asserts that the company's "practice of charging these uncollectible costs directly to expense is unusual, and unprecedented" with DTE Gas's premise being "entirely speculative and self-serving; there is no direct link between payments received in one year and the eventual write-off of uncollectible accounts in future years." Attorney General's exceptions, p. 43 (citing Attorney General's initial brief, pp. 131-134).

DTE Gas avers that the Commission should reject the Attorney General's exceptions because the ALJ properly rejected the Attorney General's proposal after considering the company's "explanation that Direct Match charges were expensed to prevent certain customer arrears—particularly for customers who would not have qualified for most assistance programs—from progressing to uncollectible status, that without those expenditures the Company's uncollectible expense would have increased, and that these expenses are not recovered elsewhere in this case." DTE Gas's replies to exceptions, p. 85 (citing PFD, p. 466). Furthermore, the company argues that the Attorney General provides nothing new to support her claims and that her characterization

of direct match expenses "as 'entirely speculative and self-serving'" is contradicted by the record. DTE Gas's replies to exceptions, p. 85 (citing Attorney General's exceptions, p. 43). The company also refutes the Attorney General's assertion that DTE Gas's uncollectible expense being charged "directly to expense is 'unusual, and unprecedented'" is overcome by record evidence while having been previously approved in Case Nos. U-20940 and U-21291. DTE Gas's replies to exceptions, p. 86 (quoting Attorney General's exceptions, p. 44; citing 3 Tr 1075). DTE Gas asserts that the Attorney General misstated the applicable ratemaking standard, demanding a direct link between one year's payments in connection with eventual write-off in future years despite uncollectible expense being a "forecast on a total historical loss-ratio basis, applying a three-year average net write-off percentage to projected bill revenue" instead of a "transaction-by-transaction" forecast. DTE Gas's replies to exceptions, p. 86 (citing Attorney General's exceptions, p. 42; 3 Tr 1060). DTE Gas concludes by stating that to adopt the Attorney General's disallowance would be to "penalize the Company for taking steps to reduce arrears and uncollectible expense, to customers' detriment." DTE Gas's replies to exceptions, p. 87 (citing DTE Gas's reply brief, p. 147).

The Commission finds the ALJ's recommendation to be well-reasoned based on the evidence on the record and, therefore, adopts such. *See*, PFD, p. 466. The Commission also notes DTE Gas's recognition of Case Nos. U-20940 and U-21291, in which the company's uncollectible expense was charged directly to expense. *See*, DTE Gas's replies to exceptions, p. 86 (quoting Attorney General's exceptions, p. 44; citing 3 Tr 1075); *see also*, December 9 order, pp. 165-167; November 7 order, p. 190. Thus, the Commission approves DTE Gas's request of $22.496 million in uncollectible expense with an additional $1.043 million added for charges to direct expense.

2. Expense Attributable to Cash-Only Policy

MEC argued that DTE Gas's cash-only policy of bill payment "creates additional hurdles for already-at-risk customers to pay their bills" and thus, it recommended a disallowance of $1.273 million worth of uncollectible expense. MEC's initial brief, p. 102 (citing 5 Tr 3157); *see also*, 5 Tr 3157; MEC's reply brief, p. 14. MEC averred that "making it harder for someone to pay, such as requiring them to pay with cash in person, makes them less likely to pay and, as a result, increases uncollectible expenses." 5 Tr 3155; *see also*, MEC's initial brief, p. 104. MEC and the Attorney General highlighted Case Nos. U-21860 and U-21534 in which the Commission expressed disapproval of cash-only policies. 5 Tr 3153-3156; *see also*, MEC's initial brief, p. 105.

In rebuttal, DTE Gas argued that "[h]igher arrears are not caused by the cash-only designation itself" but instead, the company argues, what causes arrearages is that a customer receives an additional billing cycle when a payment is returned. 3 Tr 1072; *see also*, DTE Gas's initial brief, p. 251. The company alleged that "[e]liminating or relaxing the cash-only restriction would increase arrears and uncollectible expense." 3 Tr 1072; *see also*, DTE Gas's initial brief, p. 251.

The ALJ noted the Commission's position in Case No. U-21534 which disallowed uncollectible expense tied to a cash-only policy "if evidence showed the policy increased uncollectible expense and quantified the amount of that increase[,]" finding that AG-CUB "provided such evidence." PFD, p. 473 (citing April 10, 2025 order in Case No. U-21534 (April 10 order), p. 168). Thus, the ALJ recommended disallowing $1.273 million in uncollectible expense "attributable to the Company's cash-only policy" and "requiring the Company to complete a comprehensive [BCA] evaluating the policy's impact on uncollectible expense." PFD, p. 474.

In exceptions, DTE Gas disagrees with the ALJ's decision to adopt the AG-CUB disallowance, claiming that the ALJ "treats the AG-CUB's comparison of restricted and unrestricted customers and resulting average of uncollectible expense as sufficient, with nothing more, to establish a disallowance, but that is not enough." DTE Gas's exceptions, p. 189 (citing PFD, p. 473). The company opines that while it "bears the burden of supporting" its monetary request, "a partying proposing a specific disallowance must still provide reasoned evidentiary basis for the amount and show why that amount should be excluded from rates." DTE Gas's exceptions, p. 189. DTE Gas notes that the ALJ did not find the company's overall uncollectible expense forecast methodology to be unreasonable, which "creates a mismatch between the Company's forecast method and the proposed disallowance" because the ALJ did not explain how the AG-CUB's disallowance should be integrated into the company's forecast "without double counting or distorting the historical loss-ratio methodology, or by controlling the uncollectible expense incurred by each group for potential reasons other than the cash-only policy[,]" thus creating a "penalty for a billing and collection practice, without the findings necessary to justify that penalty." *Id*., pp. 189-190. The company also believes that the conclusion that cash-only policies cause higher arrearages and uncollectible expense "is misplaced" because the company provided evidence that cash-only customers "have already exhibited more payment difficulties than customers who are not restricted." *Id*., p. 190. The company further avers that the ALJ's decision on DTE Gas's cash-only policy is at odds with the ALJ's acceptance of the company's direct match expenses, arguing that "[i]f arrearage mitigation is relevant to whether Direct Match expenses are recoverable, then arrearage mitigation is also relevant to evaluating whether the cash-only policy produces offsetting benefits that should be considered before imposing an uncollectible-expense disallowance." *Id*., p. 191.

In its replies to exceptions, MEC argues that the Commission is the judge of what is sufficient evidence, and that in Case No. U-21534, the Commission requested that a disallowance for cash-only uncollectible expense "be supported with evidence 'that the cash-only requirement results in an increase to [uncollectible expense] along with evidence showing the amount of that increase.'" MEC's replies to exceptions, p. 62 (quoting April 10 order, p. 16). MEC asserts that its analysis was tailored accordingly with sufficient proof that "the cash-only requirement results in an increase to the Company's uncollectible expenses" and that the cash-only uncollectible expense "exceeded $12.27 million in the last calendar year." MEC's replies to exceptions, pp. 62-63.

Next, MEC criticizes DTE Gas as being "too non-specific," while failing to identify any reason "(other than the cash-only policy) for the differing outcomes between restricted and unrestricted customers[,]" stating that the company "only offered an irrelevant, outdated analysis about arrearages." *Id*., p. 63 (citing MEC's initial brief, pp. 106-107). Third, MEC argues against DTE Gas's claim that "there is a 'mismatch between the Company's forecasted method and the proposed disallowance[,]'" stating that any mismatch "is likely negligible—and is almost certain to the Company's benefit" and that MEC "used 2025 data, which is the best and most recent evidence of the cash-only policy's actual effects on uncollectible expenses." MEC's replies to exceptions, pp. 63-64 (citing DTE Gas's exceptions, p. 189; PFD in Case No. U-21973, p. 464). Next, MEC avers that DTE Gas overstated the differences between cash-only restricted and unrestricted customers, arguing that "[t]here is no reason in the record, or otherwise, to believe that a customer with two returned payments is at an inherently greater risk of causing uncollectible expenses than a customer with only one returned payment." MEC's replies to exceptions, p. 64. Lastly, MEC contends that DTE Gas did not provide claimed benefits to its cash-only policy, while "the downsides are apparent" as the policy "makes it harder for customers to pay their bills,

decreasing the likelihood that they will pay their bills and increasing the Company's total uncollectible expenses, which are then recovered from all other customers." *Id*.

The Commission finds the ALJ's recommendation to be well-reasoned based on the evidence on the record and, therefore, adopts such. *See*, PFD, pp. 473-474. Furthermore, the Commission agrees with the five exceptions MEC provided, particularly the contention that DTE Gas's cash-only policy decreases the likelihood that customers will pay their bills which increases the company's uncollectible expense, and is then recovered from other customers. *See*, MEC's replies to exceptions, p. 62-64. While the Commission notes that elements of the Attorney General's and CUB's analysis were rudimentary, it is still more detailed than the evidence presented by the company, which did little to substantiate its claim that its cash-only policy reduces uncollectible expense. *See*, 5 Tr 3155; *see also*, MEC's initial brief, pp. 104-105; DTE Gas's exceptions, p. 189 (citing PFD, p. 473). In order to avoid similar disallowances in the future, the Commission encourages DTE Gas to either provide much better justification for its cash-only policy in supporting reduced uncollectible expense, or to rethink a policy that may have been an effective way of reducing uncollectible expense 20 years ago, when cash was a much more broadly-used form of payment, but may have more limited impact (and create higher barriers for customers) in 2026.

3. Home Protection Plus Expenses

FLO recommended that the Commission "[b]an DTE from . . . [p]assing on uncollectible expenses from HPP programs to other ratepayers." 5 Tr 2921. FLO testified that it does not believe that DTE Gas fully segregated "the finances of its fully regulated operations and the HPP programs" such that "[f]ailure to distinguish [HPP expense] arrears would result in uncollectible charges that all ratepayers then face." 5 Tr 2914.

In rebuttal, DTE Gas testified that its HPP uncollectible expense should not be removed because "HPP revenues and HPP-related O&M are both included in the Company's revenue requirement and, on a net basis, reduce that requirement for customers." 3 Tr 1090. The company further averred that "[r]emoving HPP uncollectibles would require removing all associated HPP revenues and expenses, which would increase the revenue requirement and increase customer rates." 3 Tr 1090.

The ALJ noted that neither party addressed HPP-related uncollectible expense in briefing, and recommended rejecting FLO's disallowance based on DTE Gas's reasoning to include HPP uncollectible expense, stating that "[t]his recommendation is consistent with this [ALJ]'s findings regarding FLO's broad policy concerns with the HPP program." PFD, p. 474.

No relevant exceptions were filed on this issue.

The Commission finds the ALJ's recommendation to be well-reasoned based on the evidence on the record and, therefore, adopts such. *See*, *id*.

H. Lost and Unaccounted-For and Company-Use, Gas-in-Kind

DTE Gas stated that it supports 3.6 Bcf of LAUF gas for the projected test year. 3 Tr 635; *see also*, Exhibit A-15, Schedule E9. The company averred that "[t]otal LAUF and Company Use costs are allocated to GIK[-]related and base distribution customers" per Exhibit A-15, Schedule E8, with Exhibit A-15, Schedule E10 providing the company's cost recovery calculations. 3 Tr 644. DTE Gas noted that "[t]o minimize the impacts of swings in the unaccounted-for nature of LAUF gas, the Commission and Staff have supported the use of a five-year average in DTE Gas's last seven fully litigated general rate cases." 3 Tr 635; DTE Gas's initial brief, pp. 251-252 (citing 3 Tr 635; Exhibit A-15, Schedule E9). Both the company and the ALJ noted that no other party contested DTE Gas's LAUF volumes, company use volumes, or

GIK rates, and as such, the ALJ recommended that DTE Gas's proposal be approved as reasonable and prudent. *See*, PFD, p. 474; DTE Gas's initial brief, pp. 252-253; *see also*, DTE Gas's reply brief, pp. 148-149.

The Commission finds the ALJ's recommendation to be well-reasoned based on the evidence on the record and, therefore, adopts such. *See*, PFD, p. 474.

I. Net Operating Income Summary

Based his findings and recommendations, the ALJ recommended an ANOI of $363.759 million. PFD, p. 475; *see also*, *id*., Attachment C, filing #U-21973-0354. The Commission has made adjustments *supra*, and approves an ANOI of $352.627 million.

VII. REVENUE DEFICIENCY

DTE Gas contended that it has a $233.8 million revenue deficiency. DTE Gas's reply brief, Attachment A, p. 4. Based on his findings and recommendations described in the PFD, the ALJ recommended a base revenue deficiency of $145.598 million. *See*, PFD, p. 475; *see also*, *id*., Attachment A, line 8. Consistent with the decisions in this order, the Commission finds that DTE Gas has a revenue deficiency of $149.318 million, computed as follows:

Rate Base	$7,768,974,000
Overall Rate of Return	4.54 %
Required Rate of Return	5.96%
Income Required	$462,850,000
Adjusted Net Operating Income	$352,627,000
Income Deficiency	$110,223,000
Revenue Conversion Factor	1.3547
Total Revenue Deficiency	$149,318,000

VIII. OTHER REVENUE-RELATED AND NON-REVENUE RELATED ITEMS

A. Customer Assistance, Shutoff, and Unregulated Program Issues

1. Customer Assistance Programs

DTE Gas testified that DTE Gas's assistance programs include the Affordable Payment Plan (APP) (also known as Low-Income Self Sufficiency Program (LSP)), residential income assistance (RIA), low-income assistance (LIA), and the Payment Stability Plan (PSP) which was piloted from 2022-2024. The PSP is a program that dictates customer payment based on a percentage of a customer's income, otherwise known as a percentage of income payment program (PIPP). 3 Tr 1043, 1049-1057. The company argued that the affordability programs are effective and compliant with Commission rules. 3 Tr 1077-1078. DTE Gas also testified that the more appropriate dockets to address affordability programs are in Case Nos. U-20757[16] and U-20929[17] rather than this rate case. 3 Tr 1078.

FLO argued, in detail, that the programs are inadequate and do not meet the needs of low and middle-income customers. 5 Tr 2752. Moreover, FLO testified that DTE Gas's customer outreach is infrequent and not sufficiently comprehensive to be able to let customers know programs are available. 5 Tr 2769-2771. FLO recommended that the Commission either require DTE Gas to relaunch its programs or that the Commission order significant changes to the current programs. 5 Tr 2755-2768, 2827-2844, 2866.

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[16] Case No. U-20757 is the docket opened on the Commission's own motion at the start of the COVID-19 pandemic and continues to focus on customer assistance programs for low-income households.

[17] Case No. U-20929 is a docket opened to reduce the energy bills of DTE Gas and DTE Electric customers with a current goal to limit the energy burden to no more than 6% of the low-income customer's total household income.

The Staff detailed the work regarding affordability programs happening in other dockets. The Staff discussed the December 18, 2025 order in Case No. U-21637, where the Commission addressed issues regarding rate impacts on pending rate cases, requiring multi-channel communications to customers for all rate cases filed after March 1, 2026. 5 Tr 2587. The Staff also testified about the Energy Affordability and Accessibility Collaborative (EAAC) Report filed in Case No. U-20757 that focused on findings regarding affordability programs. 5 Tr 2589-2591.

The ALJ summarized the June 11, 2026 order in Case No. U-20757, *et al*. (June 11 order) (which was issued after all parties completed their briefing in this instant matter). As noted by the ALJ, the June 11 order addressed the EAAC and the results of PIPP pilots undertaken by DTE Gas. In that case, the Commission endorsed the Staff's recommendation to develop APP programs, incorporating certain PIPP elements. The Commission directed the Staff to initiate a workgroup, including all rate-regulated utilities, the Michigan Department of Health and Human Services, assistance agencies, and others to, among other things:

> (1) develop appropriate tariff provisions for APPs; (2) assist in the development of APPs for utilities that currently do not have such programs along with a plan for transitioning customers from LIA and RIA credits to the APP; (3) explore best practices for simplifying assistance program enrollment; (4) develop a benefit matrix based on the starting point contained in the report; (5) address energy assistance triage issues; (6) evaluate best practices for income validation, including frequency of customer re-validation; (7) discuss and define necessary changes to late payment practices; (8) draft necessary revisions to the Consumer Standards and Billing Practices for Electric and Natural Gas Service; (9) develop a process for estimating increased funding to serve more customers as part of future utility rate cases; and (10) consider Staff's recommendations for further exploration as set forth in the report.

PFD, pp. 479-480 (citing June 11 order, pp. 49-50).

The ALJ pointed out that the June 11 order also directed the creation of an implementation work group and directed the Staff to file an implementation plan and draft APP tariff framework no later than January 31, 2027. PFD, p. 480 (citing June 11 order, p. 52).

As a result, the ALJ found that FLO's concerns should be considered, where appropriate, in the implementation work group created by Case No. U-20757. In addition, the ALJ directed that objections and concerns around customer assistance and shutoff protection programs should be filed in Case No. U-20757 and should not be handled as part of this rate case. PFD, pp. 480-481.

There were no specific exceptions filed regarding the customer assistance programs.[18] After review of the record and arguments by the parties, the Commission finds the ALJ's recommendations on these issues well-reasoned and supported by the record. PFD, pp. 475-481. The Commission encourages the groups within FLO to participate in the implementation work group in Case No. U-20757 as the Commission shares many of FLO's concerns regarding affordability programs for customers. The work groups and other dockets that address customer affordability programs allow for more time to develop lasting, impactful programs and also lend themselves to consistency across utility companies – as opposed to a piecemeal approach in each separate rate case. Accordingly, the Commission adopts the ALJ's findings and conclusions that work regarding the customer assistance programs should continue in other dockets such as Case No. U-20757 and will not be specifically addressed in this rate case.

But the Commission finds credible FLO's arguments that it could take some time before customers feel the effects of the affordability programs mandated in the Commission's June 11 order. FLO's exceptions, p. 6; *see also*, June 11 order, pp. 51-52 (directing the Staff to file an implementation plan and draft APP tariff framework no later than January 31, 2027). Therefore, the Commission adopts FLO's recommendation to increase the LIA credit in the interim until the

[18] The Commission notes that FLO filed exceptions regarding the affordability of energy and made arguments that affordability should not be siloed into Case No. U-20757. FLO's exceptions, pp. 1-7. Therefore, a more detailed discussion of FLO's exceptions regarding affordability and related affordability programs below.

program outlined in Case No. U-20757 is in place. The Commission orders the LIA to be increased to $58 per customer, per month, which is approximately 70% of the proposed average monthly bill – an increase of $7,128,000 to the revenue deficiency through a corresponding reduction to revenues.

2. Shutoffs

FLO asserted that there are problems with DTE Gas's current shut-off prevention programs such as the Winter Protection Program (WPP), shutoff protection plan (SPP), and medical emergency, critical care, and military service protection programs as demonstrated by an increase in shutoffs in the last two years. 5 Tr 2774-2788. FLO also argued that there is a racial disparity in shutoffs — noting that shut-offs become much more likely in a community as the percentage of black, indigenous, and people of color (BIPOC) increases in that community, even when controlling for income. More specifically, FLO averred that shutoffs for gas-only and electric/gas customers increased from 4.54% in 2023 to 5.22% in 2025, with 87% of shutoffs occurring in Detroit. 5 Tr 2901-2902. FLO described low awareness for programs, eligibility, and lack of accessibility for program sign-ups. 5 Tr 2865. As a result, FLO recommended a shutoff moratorium, that the Commission find that race is the only statistically significant independent driver of shutoffs, that the Commission should direct DTE Gas to take immediate action to eliminate racial disparities in shutoffs, and that the Commission should request proposals for policies to address the shutoff and racial disparity issue. 5 Tr 2788-2789, 2921.

DTE Gas argued that shutoff is not based on race – instead shutoffs are based on the Commission's rules regarding payment status, notice, and eligibility for assistance programs. 3 Tr 1086-1087. DTE Gas also proffered that FLO's proposals regarding a shutoff moratorium

would require a change to statute or administrative rules regarding shutoffs and the Commission does not have authority to implement those proposals. *Id*.

The Staff responded and argued that the Commission has already found that a rate case is not the proper forum for consideration of a shutoff moratorium, but that the Commission is committed to reducing arrearages and shutoffs and those issues are being addressed in a separate case. 5 Tr 2592 (citing February 19 order, pp. 416-417; *see also*, June 11 order). The Staff also pointed out that the WPP program is set by statute and the Commission has no authority to alter or expand the WPP. 5 Tr 2592 (referencing MCL 410.10t and Mich Admin Code, R 460.101-460.169).

The ALJ agreed with the Staff and found that:

> (1) certain shutoff protection programs (like the WPP) are defined by statute; thus, the Commission lacks authority to expand eligibility or modify other program requirements; (2) the Commission has addressed the topic of a shutoff moratorium in recent electric rate cases and determined that "a rate case is not the appropriate forum to consider shutoff moratoria and that consideration of such proposals is more appropriately addressed through the Commission's work in other dockets" (February 19, 2026 order in Case No. U-21860, p. 416. See also, March 27, 2016 order in Case No. U-21870, pp. 485-486); and (3) the Commission has directed that modifications to shutoff practices and procedures be addressed as part of the EAAC docket as well as other proceedings (See also, Case No. U-21939 regarding shutoff protections for critical care customers).

PFD, p. 484.

The ALJ also found cause for concern about the racial disparities in shutoffs based on the evidence FLO provided. The ALJ referenced the March 27, 2026 order in Case No. U-21870, a recent Consumers Electric Company (Consumers) rate case, where similar concerns regarding racial disparities in shutoffs were presented. In that case, Consumers voluntarily agreed to create a team "to evaluate data relevant to the regression analysis, customer data related to payment behaviors, reviewing customer processes, etc." PFD, p. 485 (citing Case No. U-21870, PFD, p. 947). Consumers also committed to designing a pilot to test countermeasures to address any

disparities in shutoffs identified by regression analysis, reiterating its commitment to equitable treatment of all customers. PFD, p. 485 (citing Case No. U-21870, PFD, p. 951). In the Commission's order in Case No. U-21870, the Commission agreed with the PFD's rationale for denying a shutoff moratorium and found "that Consumers' agreement to revisit the regression analysis to evaluate how the pilot and countermeasures impacted disparity in disconnections should be adopted." PFD, p. 485 (citing March 27, 2026 order in Case No. U-21870, p. 486).

As a result, the ALJ in this case recommended that: (1) the Commission reaffirm its holding in Case No. U-21860 that a rate case is not the appropriate forum for addressing shut-off moratoriums; (2) the Commission should strongly encourage FLO and other parties to participate in dockets like Case No. U-20757 where concerns regarding shutoffs are being addressed; and (3) DTE Gas should be directed to thoroughly investigate the apparent racial disparity in shutoff rates, undertake corrective measures if necessary, and present a report in the next rate case. PFD, pp. 485-486.

DTE Gas excepts to the last recommendation of the PFD – that the company should be directed to investigate and undertake corrective measures for the apparent racial disparity in its shutoffs. DTE Gas takes exceptions for three reasons: (1) the basis for the recommendation is improperly rooted in a concern involving Consumers (and not DTE Gas); (2) there is nothing in the record that supports that shutoffs are based on racial disparities; and (3) a rate case is not an appropriate forum for addressing practices and procedures related to shutoffs. DTE Gas's exceptions, p. 195.

In FLO's replies to DTE Gas's exceptions, FLO addresses the company's argument and states that the justification for DTE Gas's exception is based on a misapplication of the record. First, FLO argues that the ALJ's finding that DTE Gas should also investigate and undertake corrective

measures was not based on Consumers' behavior, but rather the reference to Consumers was an example of the Commission taking action to address a similar issue involving an apparent racial disparity in shutoffs. FLO's replies to exceptions, p. 8. Second, FLO argues that there is evidence in the record to support a finding that there are apparent racial disparities regarding shutoffs regarding DTE Gas's customers. *Id*., pp. 8-9 (citing 5 Tr 2901-04).

The Commission adopts the ALJ's recommendation regarding shutoffs. The Commission finds the ALJ's recommendation well-reasoned and supported by the record and applicable case law. PFD, pp. 481-486. First, the Commission finds that a rate case is not the most appropriate docket to present issues regarding a shutoff moratorium and supports the ALJ's application of the prior cases here. *Id*., p. 484. As noted in the prior section, a separate docket is the more appropriate place to evaluate a shutoff moratorium since the time limits for rate cases are so tight.

Turning to the specific policies and procedures regarding DTE Gas and potential shutoffs, the Commission agrees with FLO that the evidence does not suggest that enough customers are aware of the medical emergency and critical care shutoff prevention programs. 5 Tr 2855-2865. Thus, DTE Gas shall increase its education efforts regarding those programs and provide the Commission with an update of those efforts in the next rate case. Second, the Commission echoes the ALJ's encouragement for FLO and its member organizations to participate in workgroups and dockets like Case No. U-20757, where affordability programs and shutoff prevention policies are being developed. The Commission remains committed to efforts to reduce arrearages and shutoffs, including considering specific shutoff protections as FLO suggests. *See*, Case No. U-20757. Lastly, the Commission finds that there is an apparent racial disparity in shutoffs in DTE Gas's service area. *See*, 5 Tr 2901; Table 3 at 5 Tr 2902. DTE Gas is directed to thoroughly

investigate the apparent racial disparity in shutoff rates, undertake an analysis of possible corrective measures, if necessary, and present a report in a new docket by December 30, 2026.

3. Unregulated Programs

DTE Gas offers the HPP program to its customers for a prepaid annual or monthly charge to cover repairs for household system and appliances. DTE Gas proffered that the program gives customers peace of mind regarding the cost and reliability of appliance repair and the cost of the program produces revenue that exceeds the cost of the program. 2 Tr 268-269.

FLO raised several concerns with DTE Gas's unregulated programs, including the HPP. FLO reiterated the concerns of the Commission expressed in Case No. U-21860 that: (1) there are likely low-income customers enrolled in these programs who cannot afford them; and (2) that DTE Gas should provide information in its next rate case to demonstrate that unregulated program costs do not contribute to shutoffs. 5 Tr 2906. FLO testified that DTE Gas does not separately account for the portion of customer arrearages resulting in shutoffs for unpaid unregulated programs like HPP. 5 Tr 2904-2905. FLO also argued that DTE Gas does not comply with the Code of Conduct when it comes to HPP because DTE Gas violates MCL 460.10ee(2)[19] since the HPP program is not transparent as to its costs and revenues, and the program is anticompetitive because the same customer billing platform is used to charge for the service, while no other business entity has the same access to customer bills. 5 Tr 2907-2908. FLO also questioned the company's submission of financial reporting in its Code of Conduct report and whether unregulated programs are properly reported. 5 Tr 2915.

[19] MCL 460.10ee addresses the Code of Conduct and VAPs and services and subsection (2) states, "[a] utility may offer its customers value-added programs and services if those programs or services do not harm the public interest by unduly restraining trade or competition in an unregulated market."

FLO recommended that the Commission: (1) penalize DTE Gas for its failure to submit financial statements required by the Code of Conduct; (2) investigate the comingling of costs and revenues of unregulated programs with regulated rates; (3) until the Company can demonstrate that customers are not shut off for failing to pay for the HPP program, prohibit DTE Gas from shutting off any customers enrolled in the HPP program; and (4) require DTE Gas to provide additional information to customers about the benefits and costs of participating in the HPP program. 5 Tr 2921-2922.

DTE Gas responded that participation in the HPP program is a not a factor in DTE Gas shutoffs. 3 Tr 1088 (citing Exhibit A-33, Schedule W10). DTE Gas proffered that "HPP cannot drive shutoff outcomes because shutoff decisions are based solely on regulated utility arrears and Commission approved Billing Practice Rules, not unregulated program charges." 3 Tr 1088. DTE Gas points to a feature on its bill – a separate line item for unregulated programs like HPP, as evidence that shutoffs are not related to non-payment of HPP. 3 Tr 1089. Moreover, in discovery, DTE Gas stated that, "[a]s HPP is an unregulated [ ] VAPS, there is not a causal link between HPP and shut offs. Meaning, if an HPP customer was shut off in 2025, their participation in HPP would have been terminated." Exhibit A-33, Schedule W10, p. 1. DTE Gas also stated that if a customer with HPP was shut off from service and then the customer has service restored, they would have to re-enroll in HPP. *Id*. DTE Gas also responded to the Code of Conduct claims by averring that the company timely files its annual Code of Conduct report with the Commission (that includes information regarding the HPP program) and the report has been accepted for many years. 2 Tr 337.

The ALJ made two findings: (1) the issues raised by FLO regarding the HPP violating the Code of Conduct belong outside of a rate case; and (2) the evidence does not support FLO's

contention that DTE Gas may be improperly shutting off customers enrolled in HPP that do not make their payments. PFD, pp. 489-490.

There were no exceptions filed regarding this issue.

The Commission adopts the finding of the ALJ that issues regarding potential Code of Conduct violations belong outside of a rate case. The Commission finds the ALJ's citations to *Forner v Mich Pub Serv Comm*, 330 Mich App 233; 981 NW2d 525 (2021) and also Mich Admin Code, R 460.10111(2) are applicable to this Code of Conduct issue. PFD, p. 491. The Commission finds the ALJ's recommendation well-reasoned and supported by the record.

As to FLO's request that the Commission issue a moratorium on shutoffs because of the possible correlation between unpaid HPP program payments and shutoffs, the Commission declines to impose a moratorium, finding that there is not enough persuasive evidence in the record to support doing so. That being said, the Commission reminds DTE Gas of its obligations pursuant to the Commission's billing rules pertaining to billing for unregulated services. *See*, Mich Admin Code, R 460.126. The rule allows for a utility to bill for an unregulated program and a gas service on the same bill if the charges are designated separately. The rule also states that failure to pay for the unregulated service may result in a discontinuance of the unregulated service but not the shutoff of the utility service. The rule concludes by stating that when, "partial payment is made, the utility shall first credit payment to the balance outstanding for natural gas or electric service pursuant to the provisions of R 460.123(7) and R 460.123(8) where applicable." *Id*. The Commission is concerned that although DTE Gas states that it follows all billing rules for HPP and that the items are on separate lines, the evidence or discovery response does not affirmatively say that partial payments are always credited to the utility bill before they are applied to the unregulated program. Failure to comply with the requirements of Rule 23 or evidence of repeated

violation of this rule may result in further investigation or the initiation of a show cause proceeding by the Commission.

B. Gas Delivery Plan

1. Background

In 2020, the Commission issued an order adopting a settlement agreement where DTE Gas agreed, based on feedback from the Staff, to include a Natural Gas Delivery Plan (GDP) in its next general rate case. August 20, 2020 order in Case No. U-20642 (August 20 order), Exhibit A, ¶ 11. The GDP is intended to provide a roadmap for how, over the next decade, the company will continue to provide safe and reliable service to its customers while balancing the needs of affordability and environmental responsibility. DTE Gas filed versions of the GDP in its next two rate cases: Case Nos. U-20940 and U-21291.

In the November 7 order, with respect to the GDP, the Commission requested that DTE Gas provide an updated GDP in the next rate case that includes consideration of the energy transition away from fossil fuels and declining natural gas demand. The Commission ordered that the GDP should demonstrate how DTE Gas considered "various energy transition pathways and the associated costs and risks of each." November 7 order, p. 216. More specifically, the Commission ordered that DTE Gas needed to include:

> information pertaining to how the company intends to achieve emissions reductions as part of its corporate goals and the State's emissions reductions goals with an estimated timeline for achieving those goals and interim goals; alternatives to capital investment, such as pipeline repairs and NPAs; historical trends of natural gas demand, projected demand, and impacts of changing demand; and the projected impacts of the transition towards electrification and decarbonization, including the portion of its distribution system that DTE Gas anticipates will be most immediately impacted. DTE Gas shall take steps to meaningfully engage interested persons in the development of its updated GDP and shall file the plan in this docket no later than December 31, 2025.

November 7 order, pp. 216-217.

In addition, the Commission directed DTE Gas to better explain how the GDP aligns with the company's sales forecast. *Id*. at 217. Finally, the order also noted DTE Gas's willingness to use the MiEJScreen tool in future planning and stated that the use of the tool would be helpful to understand the impact of capital investments on customers – including those in EJ communities. *Id*., p. 221.

DTE Gas provided an updated GDP in the instant matter, and the following is a summary of the arguments regarding the sufficiency of the GDP, the ALJ's findings and recommendations, and the Commission's order regarding the same.

2. Emissions Reduction and Energy Transition

There was extensive testimony from the intervening parties and DTE Gas that was summarized by the ALJ. PFD, pp. 494-515. To recap briefly, DTE Gas argued that it complied with the Commission's order regarding the GDP related to various transition pathways and the company held one meeting in April 2025 that included several parties from DTE Gas's last rate case, as directed by the Commission. 2 Tr 104-105; *see also*, the GDP at Exhibit A-12, Schedule B5.6.

The Staff argued that although DTE Gas minimally complied with the last GDP order, the Staff recommended that the company include more detail on decarbonization efforts including the number of existing renewable natural gas (RNG), and land management projects, future projects, and metrics related to these projects. 5 Tr 2561-2563.

MEC argued that the GDP does not comply with the Commission directives as the plan did not provide for sufficient energy alternatives and emission reduction, it did not consider electrification or NPAs, and it did not analyze if energy efficiency would reduce need for capital investments in the gas system. It also critiqued the 2025 DTE survey of propane customers and

the Guidehouse study around the costs of a gas furnace that DTE Gas referenced to support its plan. MEC argued the GDP is largely "business as usual" for DTE Gas with no major changes incorporated. 4 Tr 1952-1977.

Ann Arbor also argued that DTE Gas did not comply because the report did not meaningfully address alternatives to capital investments, the impacts of the change in demand for gas as an energy source, or the impact of electrification and decarbonization. Ann Arbor also provided evidence about the area's changes regarding gas usage. 5 Tr 3039-3054 3075-3076.

FLO argued that DTE Gas's cost comparison of furnaces to heat pumps was misleading, the GDP did not account for the decrease in demand for natural gas, and it also failed to consider electrification through education and incentives to customers. 5 Tr 2946.

DTE Gas responded that it has already achieved 18% reduction in emissions since 2005 and the MI Healthy Climate Plan only calls for a 17% reduction by 2030. DTE Gas also argued that electrification is not the most cost-effective option. In addition, DTE Gas stated that it did account for a decrease in gas demand and presented investment alternatives. DTE Gas also defended the survey of propane users to support its findings as a good test case for customers who would make a switch to a different fuel option. It also argued that no witnesses presented data that indicated electrification is an increasing trend or that electrification is economically or politically viable. 2 Tr 123-134.

The ALJ agreed with the Staff that the GDP minimally complies with the directives in the order in Case No. U-21291 while acknowledging the significant concerns and questions raised about DTE Gas's assumptions and analysis related to future gas demand and their potential to over invest in the current system. In addition, the ALJ noted that he agreed with several intervenors that DTE Gas's customer preference study that involved only propane customers was too limited

of a pool and failed to reflect the sentiment of other customers in the service territory. The ALJ also found that the Guidehouse study had significant flaws related to cost information for gas furnaces and therefore gave little weight to the information in that study. PFD, p. 517.

The ALJ also recommended the Commission direct DTE Gas to conduct a workshop collaborative with the Staff and interested parties "to define the priorities and parameters of how the Company should incorporate potential future scenarios into its next GDP." *Id*. The ALJ also recommended that DTE Gas should be directed to present its next GDP in a separate docket where it can be comprehensively evaluated. The ALJ suggested, as an alternative, that the Commission consider a future-of-gas proceeding for all Michigan regulated utilities to provide a more holistic view of energy transition and the impact of that transition on customers and utilities. *Id*., pp. 517-518.

Ann Arbor filed exceptions to the PFD regarding the suggestion that a future-of-gas proceeding be considered only as an alternative to a DTE Gas specific proceeding. Ann Arbor argues that it is necessary that DTE Gas engage in meaningful planning to update its GDP that is specific to DTE Gas's service territory – a future-of-gas proceeding should be a "complement" to the DTE Gas specific planning and not an "alternative." Ann Arbor's exceptions, pp. 4-5.

DTE Gas filed exceptions to the PFD's findings on several grounds. First, DTE Gas disagrees with the "minimally compliant" finding and argues that the scope of the company's filing and record support that DTE Gas identified emission reduction targets, alternatives to capital investment, historical and projected gas demand, and electrification and decarbonization impacts. DTE Gas argues that there is no need for any finding for the degree of compliance. *Id*., p. 194. DTE Gas argues that both the Guidehouse study and propane customer survey are not flawed, nor that the studies/surveys failed to reflect the sentiment of customers. DTE Gas argues that the

record evidence supports that both have value in demonstrating the GDP is sufficient. *Id*., pp. 194-195.

Second, DTE Gas excepts to a separate GDP docket or future-of-gas proceeding because it would be an administrative burden without any demonstrated need. *Id*., pp. 195-196. Moreover, DTE Gas argues that future evaluations would require a comprehensive stakeholder process rather than a process through the rate case. *Id*., pp. 196. Therefore, DTE Gas requests that the Commission adopt a finding that the company complied with the directive in Case No. U-21291 but decline to discredit the Guidehouse study and customer preference study, decline to initiate a workshop, separate GDP docket, or future-of-gas proceeding until it is legislatively supported and all relevant stakeholders are included. *Id*.

In replies to exceptions, Ann Arbor addresses DTE Gas's assertion that a GDP workshop is not needed because it poses an administrative burden without any need. Ann Arbor argues that the record is replete with evidence demonstrating that there is a need for comprehensive evaluation on how the energy transition will impact the company's investments and its effect on rate payers. Ann Arbor's replies to exceptions, p. 6. Ann Arbor avers that in the past, the Commission has initiated a separate process and proceeding for issues that require more time and attention than a rate case provides and the Commission should do so here. *Id*. (citing December 1, 2023 order in Case No. U-21297; February 19 order). Ann Arbor points out that DTE Gas also agrees that the GDP requires comprehensive, stakeholder involvement. Ann Arbor's relies to exceptions, p. 7.

MEC also replied to DTE Gas's exceptions to the ALJ's recommendations. MEC argues that DTE Gas made only minimal changes since its last GDP. MEC cites examples such as the plan to continue capital distribution spending from $450 million in 2025 to $700 million in 2035 and transmission capital rising from $50 million in 2025 to almost $200 million in 2035. MEC's

replies to exceptions, p. 65 (citing Exhibit A-12, Schedule B5.6, p. 52, Figure 43 (distribution capital) and p. 62, Figure 53 (transmission capital)). Additional examples of "business as usual" that MEC presents include that the GDP plans for recruiting new customers in the face of a decline in usage, the plan dismisses electrification as having any impact on DTE Gas' expansionist capital plan, the plan seeks to convert more propane users to natural gas and to purchase forestry carbon offsets, and the plan only cites one example for NPAs through its risk-based prioritization process for capital projects. MEC's replies to exceptions, pp. 65-66 (citing Exhibit A-12, Schedule B5.6, pp. 34, 52, 62, 85-86). MEC points to its testimony that DTE Gas did not comply with the Commission's prior order because the strategy is vague and relies on infrastructure replacement to reduce emissions. MEC's replies to exceptions, p. 67 (citing 4 Tr 1952-1977). MEC also argues that DTE's survey was flawed because it only surveyed a small population and the questions in the poll created skewed answers. MEC's replies to exceptions, p. 68 (citing Exhibit MEC-5, question 5b). MEC also argues that the Guidehouse study DTE Gas relies on to dismiss electric heating is flawed. It argues that the report underestimated the installed cost of a gas furnace using figures from almost a decade ago with no installation costs. And it did not incorporate cost increases for expansive capital spending DTE Gas plans. MEC's replies to exceptions, pp. 68-69 (citing 4 Tr 1966). Therefore, MEC requests that the Commission find that the ALJ correctly found that DTE Gas's plan at best minimally complied with the directives from Case No. U-21291 and that the company needs to re-do the plan. MEC does not take a position on the proper proceeding. MEC's replies to exceptions, p. 71.

FLO filed replies to exceptions and they argue that the record supports finding that the GDP fell short of addressing the concerns that led to the Commission's prior order. FLO points to the record and the testimony of all the intervenors witnesses and shared many of the same arguments

as MEC. FLO echoed the importance of a separate docket for DTE Gas's GDP because of the challenge to grapple with the issues in the GDP in the single docket rate case. FLO's replies to exceptions, pp. 1-4.

DTE Gas replies that the PFD found it complied with Case No. U-21291 and states that neither FLO nor Ann Arbor contest the PFD's finding. DTE Gas argues that both FLO and Ann Arbor's exceptions are rooted in a policy preference that extends beyond the scope of a rate case proceeding. DTE Gas also reiterates the administrative burden of the GDP in a standalone docket. DTE Gas asks that if a future-of-gas proceeding were to be established, it would be appropriate to substitute that work for a GDP. DTE Gas's replies to exceptions, pp. 97-98.

3. Energy and Environmental Justice

The GDP incorporates EJ by using the MiEJScreen Tool to identify census tracts within its service area. The GDP provides maps showing the location of planned projects relative to those identified areas. 5 Tr 2790, Exhibit A-12, Schedule B5.6, p. 49. FLO argued that DTE Gas did not demonstrate it actually used the MiEJScreen tool when planning – only that it used it retrospectively to identify where already planned investments were occurring. 5 Tr 2792. As a result, FLO asked the Commission to order a more robust EJ analysis. DTE Gas replied that 30% of the company's GRP work has been done in EJ areas over the last five years. Exhibit A-12, Schedule B5.6, p. 49.

The ALJ agreed with FLO that DTE Gas needs to better incorporate EJ in future iterations of the GDP. PFD, p. 517.

DTE Gas filed exceptions stating that the ALJ did not give the company enough credit for the current incorporation of the MiEJScreen tool and fails to explain how DTE Gas could "better incorporate" the tool. DTE Gas reiterated that it complied with the Commission's directives in

Case No. 21291 to utilize the tool in its planning process and the GDP reflects that. DTE Gas exceptions, p. 195. DTE Gas again noted that 30% of the work the company has done in the past five years has been completed within environmental justice communities. *Id*. (citing Exhibit A-12, Schedule B5.6, pp. 49–51).

FLO also filed exceptions stating that while they agree with the ALJ's recommendation that DTE Gas needs to better incorporate EJ in future filings of the GDP, the recommendation lacked clear direction. FLO points out that DTE Gas merely announces the percentage of work in EJ communities and provides no evidence about how EJ considerations influenced that work or informed the needs of those communities. FLO argues that the Commission should require DTE Gas to take specific steps to better incorporate EJ into its planning and analysis and to report on both the process and its outcomes. The reporting and analysis should account for long-term demographic changes reflective of the long-term investments the company is making. FLO's exceptions, pp. 12-13.

DTE Gas's replies to exceptions state that FLO's proposals go well beyond what the Commission previously ordered and what the record supports. Again, DTE Gas reiterates that it did use the MiEJScreen and identified that 30% of GRP work over the last five years was within vulnerable EJ communities. DTE Gas's replies to exceptions, p. 98.

FLO filed replies to exceptions and reiterated its argument that DTE Gas's announcement of the 30% of renewal work is "descriptive" rather than "decision-oriented[.]" FLO argues the ALJ does not discredit the work DTE Gas did, but rather recognizes the evidence proffered by the parties. FLO's replies to exceptions, pp. 3-4.

4. Discussion and Recommendation

The issue framed by the parties and the ALJ is whether the current GDP complies with the directive in Case No. U-21291. Essentially, the issue in dispute is whether DTE Gas "checked a box" with the current plan. However, the Commission's primary goal in evaluating the GDP is to determine whether the proposed investments in this case are reasonable and prudent and are supported by reasonable long-term plans as outlined in the GDP. *See*, MCL 460.6a.

After reviewing the GDP and all of the evidence, the Commission finds that the GDP is lacking in several areas. *See*, Exhibit A-12, Schedule B5.6. First, although the plan presents some modest reductions in demand, generally the GDP continues to reflect, as MEC describes, a "business as usual" approach. MEC's replies to exceptions, pp. 65-66 (citing Exhibit A-12, Schedule B5.6, pp. 34, 52, 62, 85-86). To fully assess whether a course of action is reasonable and prudent, however, a range of potential future options must be evaluated, not just one that reflects current system use. *See*, 4 Tr 1962; 5 Tr 2561-2563, 3046-3048. Second, but also related to the lack of future planning, the Commission finds that the analysis regarding NPAs was weak. *See*, Exhibit A-12, Schedule B5.6, pp. 81, 83-84. The GDP did not plan for alternatives such as electrification, targeted EWR, demand response (DR) programs, or other technologies such as geothermal. *See*, 4 Tr 1959, 1968-1970.

Third, the Commission finds that the predicted growth of gas usage is overstated in the plan. *See*, Exhibit A-12, Schedule B5.6, pp. 34, 85, 86. DTE Gas's underlying assumption that gas demand will continue to increase is not supported by the record. 4 Tr 1971-1976; 5 Tr 3039, 3042-3043. Moreover, there was insufficient analysis regarding location specific increases and/or decreases in demand for gas and plans to adapt accordingly. The record demonstrates that in certain areas, like Ann Arbor, there are plans for reduction of the use of gas infrastructure, but the

GDP does not reflect any location specific change or analysis. 5 Tr 3041-3046. The Commission also finds that DTE Gas's 2025 survey to propane users was deficient as it is not a large enough pool to determine growth. *See*, 5 Tr 2945-2946, Exhibit MEC-5, question 5b. The Commission also finds that the part of the Guidehouse study referenced by DTE Gas to support its GDP was also insufficient as it used outdated numbers and failed to include comprehensive costs. 4 Tr 1965.

Fourth, the Commission agrees with FLO that DTE Gas's EJ analyses in the GDP can and should be improved. While the Commission recognizes and supports that work is being done in EJ communities, DTE Gas did not provide evidence on how EJ was incorporated into its planned work. The evidence fails to support a causal – as opposed to correlative – relationship between the MiEJScreen tool and any work being done in EJ communities. 3 Tr 1611-1612; 5 Tr 2789-2796.

Therefore, the Commission finds that the overly narrow analysis presented in the GDP calls into question the reasonableness and prudence of DTE Gas's future investments. The Commission adopts the recommendation of the ALJ that DTE Gas shall conduct a workshop with the Staff and other interested parties to define the priorities and parameters of how the company should incorporate future scenarios that include varied assumptions about the energy transition and natural gas demand (and not just the growth of gas scenario in the current GDP) in its next GDP. Additional details and analysis regarding potential assumptions and scenarios about the future should be addressed and metrics associated with those projects should be discussed.

The Commission directs the company, in its next GDP, to consider more locally specific analysis of growth and/or reduction of gas usage, and any corresponding impacts on how the company should plan its system. The next GDP also needs to incorporate additional NPAs and not just focus on growth of gas usage, as described above. The Commission also directs the next GDP

to expand the five-year sales forecast to ten years to provide for more efficient scenario planning. The Commission also encourages DTE Gas to work with DTE Electric to align the assumptions between the companies about electric and gas projections, and present a GDP based on consistent assumptions across companies.

With regards to EJ, the Commission directs DTE Gas to: (1) run a regression analysis on racial disparities in shutoffs in its next rate case and DSP; (2) conduct an analysis comparing service reliability in EJ census tracts to non-EJ census tracts with similar population densities and other characteristics, such as urban EJ to urban non-EJ; and (3) include distributions, and not just averages, across EJ gradations in the company's reliability reporting. The Commission directs that this analysis is to be provided in the next GDP.

The Commission declines to adopt the ALJ's recommendation for DTE Gas to present the next GDP in a separate docket. For now, the Commission maintains that the next GDP should be filed with the next rate case because the GDP informs whether DTE Gas's requests for rate increases for investments are reasonable and prudent. If the GDP does not reflect that the future plans for investments are reasonable and prudent then it may call into question whether the Commission can approve certain costs in the future. The Commission also declines, for now, to order a separate future-of-gas proceeding. Given the deficiencies in the current GDP, the focus needs to be on developing a GDP specific to DTE Gas that provides for reasonable and prudent plans for future investments.

C. Pilot Programs

The Commission defines a pilot program as "a limited duration experiment or program to determine the impact of a measure, integrated solution, or new business relationship on one or

more outcomes of interest." PFD, p. 518 (citing the February 8, 2021 order in Case No. U-20645, Exhibit A). Pilot Programs are evaluated using the following criteria:

> (1) the need for the pilot and its intended goals; (2) the comprehensiveness of the pilot design and evaluation plan; (3) the pilot's costs; (4) the presence of a detailed timeline for implementation; (5) the presence of a detailed stakeholder engagement plan; and (6) the pilot's benefits and public interest justification.

Id. As detailed below, the Commission directs that the DR pilot programs and Revenue Decoupling Mechanism (RDM) continue as previously ordered.

1. Demand Response

In Case No. U-21291, the Commission ordered DTE Gas to continue its Smart Savers Gas pilot – a program that offers incentives to customers with wi-fi thermostats and allows DTE Gas to adjust the thermostat settings during morning and evening peak events – despite DTE Gas's initial decision to discontinue the program. Case No. U-21291 ordered the company to consider strengthening objectives, evaluation methods, and snapback mitigation efforts and provided seven areas of improvement. 3 Tr 1102 (referencing November 7 order, pp. 200-202).

DTE Gas testified that as a result of Case No. U-21291, the company outlined planned improvements for the 2025-2026 Smart Savers DR pilot and stated that the pilot plans to enroll 10,000 customers and operate within a projected $1.4 million additional budget. 3 Tr 1105-1106.

FLO testified that demand response programs are important, but DTE Gas did not submit enough information to determine the ability of the program to reduce customer bills. 5 Tr 2961-2962.

The Staff testified that they reviewed how DTE Gas addressed the areas of improvement for the pilot as outlined in Case No. U-21291. 5 Tr 2571. The Staff recommend that DTE Gas present a full evaluation of the pilot to the Staff and interested parties within six months after the

2025–2026 winter season, including results on enrollment, event timing, preheating, snapback mitigation, participation, load reduction, and benefit-cost performance.

The ALJ adopted the Staff's recommendation that the Commission require DTE Gas to present a full evaluation of the Smart Savers pilot within six months of the 2025/2026 winter season and to present those results in the next gas rate case filing. PFD, p. 521.

None of the parties filed exceptions to the ALJ's findings regarding DTE Gas's DR pilot.

After review of the record and arguments by the parties, the Commission finds the ALJ's recommendation on this issue well-reasoned and supported by the record. PFD, pp. 519-521. Accordingly, the Commission adopts the ALJ's findings and conclusions, while clarifying that the results of that study should be included in the company's next gas rate case filing, as opposed to a separately filed report.

2. Revenue Decoupling Mechanism

DTE Gas proposed continuing its RDM as approved in Case No. U-21291. 2 Tr 47-49. DTE Gas explained that the RDM eliminates the potentially negative financial impact of programs such as EWR programs, which result in lost energy sales. 2 Tr 47. DTE Gas further stated that its current RDM, approved in Case No. U-21291, is a simple revenue tracker which reconciles the distribution revenue amount approved in that order with actual weather-normalized distribution revenue. 2 Tr 48.

No party challenged the continuation of the RDM and the ALJ recommended that the Commission find the RDM to be reasonable and prudent and order the continuation of the program. PFD, p. 522. No exceptions were filed on this issue. After review of the record and arguments by the parties, the Commission adopts the finding and recommendations of the ALJ that the RDM is reasonable and prudent and that the program should be continued.

D. Affordability

Several intervening parties, including FLO, the Attorney General, and MEC, all testified about the energy affordability crisis in Michigan and how gas service is becoming increasingly unaffordable for many residents.

The Attorney General argued that capital spending has risen – noting that before 2013, annual capital expenditures were at or below $200 million have expanded to roughly $900 million by 2026. 5 Tr 3238. The Attorney General proffered that the increase in earnings are driven primarily through capital spending rather than sales or revenue expansion. 5 Tr 3241.

MEC testified that DTE Gas's proposed capital investments only intensify the energy affordability crisis with energy bills rising faster than the rate of inflation. 5 Tr 3176-3177. DTE Gas bills increased 25.9% from 2020 to 2024, outpacing inflation, even though residential gas sales remained flat. 5 Tr 3180-3181.

FLO argued that as wealthier white communities move away from gas, low-income communities will take the brunt of that change financially. 5 Tr 2743. They also asserted that the energy burden for many households far exceeds the 6% of income threshold considered reasonable for total household bills. 5 Tr 2746, 2822-2823, 2938-2039. FLO proffered that the affordability crisis disproportionally affects low-moderate income LMI or BIPOC households. 5 Tr 2822. FLO also highlighted inequities in DTE Gas's promotion of indoor gas usage for cooking, observing that DTE Gas does not disclose the risks from indoor air pollution, especially for residents in communities with poor air quality. 5 Tr 2886-2887.

As a result, FLO recommended that the Commission significantly reduce the company's request for a rate increase because DTE Gas failed to address the affordability crisis. FLO also requested that the Commission order the company to improve and relaunch its PIPP program, or in

the alternative expand the amount of the LIA credit, expand the amount of the RIA credit, and increase outreach to customers on their eligibility for existing programs. FLO's initial brief, p. 131.

The ALJ noted the concerns raised by the intervenors regarding affordability as being valid and illustrative of the affordability issues Michigan residents are facing. He reiterated the importance of the Commission being apprised of affordability issues as the Commission works to determine the reasonableness and prudence of DTE Gas' requested investments. He also noted that he could not recommend that DTE Gas be prohibited from marketing natural gas for cooking. PFD, p. 525.

FLO excepts to the ALJ's finding regarding affordability and argues that the ALJ failed to consider affordability – a violation of Michigan law. FLO's exceptions, p. 1. First, FLO argues that Michigan law requires the Commission to consider affordability in rate making under MCL 460.6h because general rate cases require the commission to set rates that are "just and reasonable." *Id*. FLO proffers that the testimony provided demonstrates that consumers cannot afford their utility bills. FLO's exceptions, pp. 1-2. As a result, the Commission must look at the impact of the proposed rates on consumers to determine what is "just and reasonable." *Id*., pp. 2-3. Second, FLO argues that the ALJ refused to consider affordability because the ALJ improperly delegated affordability considerations to other dockets and failed to properly apply the evidence to the law around setting just and reasonable rates. *Id*.

DTE Gas responds to the exceptions and states that FLO's arguments regarding affordability concerns are not necessarily tailored: they raise their concerns that are based on statewide issues and not specific to DTE Gas customers. FLO's proposals either require statutory change or are best resolved outside of a single-utility case. DTE Gas's replies to exceptions, pp. 102-104.

Second, DTE Gas addresses FLO's argument that the ALJ's treatment of affordability violates Michigan law. MCL 460.6a does not require the Commission to adopt a particular party's preferred affordability analysis – only that the finding is reasonable and prudent and that the Commission's findings be supported by competent, material, and substantial evidence. DTE Gas points to the ALJ's recommended reduction of the Company's requested revenue deficiency is a "just and reasonable" finding and the Commission does not need a separate section that analyzes affordability when issuing that decision. *Id*., pp.104-105. DTE Gas notes that it does not attempt to minimize the affordability challenges reflected in the record – and that the challenges continue for some customers which is why DTE Gas administers assistance programs. *Id*. pp. 104-106.

In rate cases, the Commission must set rates that are reasonable and prudent. MCL 460.6a. In ratemaking, "the establishment of a reasonable utility rate is not subject to precise computation. What is reasonable 'depends upon a comprehensive examination of all factors involved, having in mind the objective sought to be attained in its use.'" *In re Consumers Energy Co*, 322 Mich App 480, 487; 913 NW2d 406, 412 (2017) (citing *Meridian Twp v East Lansing*, 342 Mich 734, 749; 71 NW2d 234 (1955)). The Commission has discretion to set the rate at the level it chooses so long as the Commission "chooses a rate that is neither so low as to be confiscatory nor so high as to be oppressive." *In re Consumers Energy*, 322 Mich. App. at 487 (citing *Mich Bell Tel Co v Pub Serv Comm*, 332 Mich. 7, 26, 50 NW2d 826 (1952)).

The Commission finds that the evidence in the record demonstrates that there is a need for the Commission to balance affordability issues, and also to ensure that the public has access to safe, reliable gas supply. The Commission recognizes the strain of utility bills on many Michiganders – and as a result, has issued multiple orders to address affordability concerns. *See*, e.g. November 7 order, p. 220 (increased LIA credit from $30 to $40 per month); February 29, 2026 order in Case

No. U-21860, p. 399 (directed DTE Electric to improve existing programs to assist low-income customers with accessing these programs); June 11, 2026 order in Case No. U-20757 (June 11 order), p. 38 (adopted a goal of reducing energy burdens for customers participating in an APP to be no more than 6% of household income); *see also*, *infra* for a discussion of the details of the work being done in Case No. U-20757. Notably, the Commission's June 11 order in that case established a 6% total energy burden goal (2% for natural gas) via an affordable payment plan based on and similar to the PIPP pilot referenced by FLO. FLO's initial brief, p. 131.

In this order, the Commission finds it has actively considered and balanced affordability concerns with the need for investment in the system to ensure safe and reliable utility services. The Commission has diligently reviewed the record in this case, eliminating all unsupported or unreasonable costs from the final approved rates. The Commission has balanced the factors involved in setting rates, including affordability, as thoroughly discussed and analyzed throughout this order. The Michigan Court of Appeals has repeatedly held that the weighing of factors is not a precise computation and the Commission has discretion to balance those factors. *See*, *e.g.*, *Meridian Twp*, 342 Mich at 749; *Consumers*, 322 Mich App at 487-488; *In re Consumers Energy Co*, 278 Mich App 547, 563; 753 NW2d 287 (2008); *Ford Motor Co v Pub Serv Comm*, 221 Mich App 370, 375-375; 562 NW2d 224 (1997). The Commission finds, based on the evidence and applicable law, it has weighed the necessary and relevant factors in this case to arrive at rates that are just and reasonable according to MCL 460.6a(4), (12), and (13).

Further, the Commission acknowledges the company's efforts on programs related to affordability but agrees with FLO that more can be done to educate and inform low-income customers. Accordingly, the Commission directs DTE Gas to improve its communication to customers about existing assistance programs to better educate and assist low-income customers

with accessing these programs and obtaining funding. DTE Gas must clearly inform customers about the availability of its assistance programs and how they work. DTE Gas should also consider incorporating FLO's recommendations to make a portion of their assistance events available to residents on both weekends and weekdays and make them available to a broader range of residents across its service territory. In addition, the Commission respectfully rejects the ALJ's findings regarding the marketing associated with gas stoves and rejects recovery of marketing costs for gas stoves as it is not necessarily for safe, reliable service. Lastly, to address affordability, the Commission notes that it directs the LIA to be increased to $58, approximately 70% of the proposed monthly bill as described above.

IX. COST OF SERVICE, RATE DESIGN, AND TARIFFS

A. Cost of Service Study and Rate Design

DTE Gas presented a cost of service study (COSS) for the projected test year ending September 30, 2027, for both Sales EUT customers (Proposed COSS). 3 Tr 567; *see*, Exhibit A-16, Schedule F1.1. The company provided that the allocation methods and rate schedules used in the Proposed COSS are the same allocation methods and rate schedules that the Commission approved in the November 7 order. 3 Tr 573, 576.

DTE Gas also provided an alternative cost of service study (Alternate COSS) in accordance with the November 7 order, which required the company to continue submitting an alternative COSS model with updated information. 3 Tr 585-586 (citing November 7 order, p. 236). According to DTE Gas, the company prepared the Alternate COSS "using the same methodology as was used in its last gas rate case [Case No. U-21291], updated for costs in the current case and supplemented with updated studies. The results—showing revenue requirement by rate class—are presented in Exhibit A-24, Schedule N1." 3 Tr 586. DTE Gas provided that:

> [t]he Alternate COSS uses the same cost inputs as DTE Gas's Proposed COSS but modifies the allocation of distribution main plant and IRM Main Replacement Program costs by splitting them into high-pressure and low-pressure components. High-pressure distribution main costs are allocated to customers served from the Company's high-pressure and low-pressure distribution systems, excluding volumes taken from the transmission system. Low-pressure distribution main costs are allocated only to customers served from the low-pressure distribution system.

3 Tr 586.

The ALJ provided an overview of the COSS and rate design on pages 525 through 529. For the uncontested issues, the ALJ recommended that the Commission approve all undisputed matters in relation to the COSS and rate design.

The Commission finds the ALJ's analysis and recommendations related to the uncontested issues in this proceeding regarding the COSS and rate design to be well-reasoned and supported in the record. Therefore, the Commission adopts the ALJ's recommendations on the uncontested issues. The contested issues, objected to in exceptions, are discussed in detail below.

1. Cost of Service Study Allocation and Related Issues

    a. Average and Peak Allocation

According to DTE Gas, the company's rate design reflects the Commission's long-standing approval of two demand/capacity allocation methods: (1) the Average and Peak (A&P) method for functionalized transmission costs and non-customer related distribution costs, and (2) a blended method of 50% cost allocation on the peak method and 50% cost allocation on the percentage of storage capacity for storage costs. 3 Tr 573-574. DTE Gas explained that both methods use a coincident peak day assuming operation at design conditions in the determinations of the allocation schedules. 3 Tr 574. For the projected test year in the Proposed COSS, DTE Gas provided that "the Company's January design peak day requirement of 2.494 Bcf, as identified in DTE Gas's GCR Plan (Case No. U-21608, Exhibit A-5, page 2), is used." 3 Tr 575.

The Staff presented two COSS models, "[o]ne to match the Company's [P]roposed COSS and one to match the high and low [Alternate] COSS that was filed by the Company. The COSS which closely matches the Company['s] [Proposed] COSS is in Staff Exhibit S-6, and the high/low [Alternate] COSS is presented in Staff Exhibit S-16." 5 Tr 2435. The Staff indicated that it found that the initial revenue target generated by the COSS "did not produce reasonable rate design across the [rate] schedules within the customer classes[so] . . . Staff adjusted the revenue targets until a reasonable rate design was attainable. The results of Staff's rate design can be found in Exhibit S-6 schedule F3.1." 5 Tr 2395.

ABATE contested the use of the A&P allocator to allocate the cost of transmission and distribution main capacity across rate classes in both the Proposed COSS and the Alternate COSS, claiming that the A&P allocator "does not allocate the cost of capacity in line with cost-causation and distorts the accuracy of the Company's [Proposed COSS and Alternate COSS]. The [A&P] cost allocation method effectively introduces rate impacts into cost allocation, [which] is not a pure cost allocation method." 5 Tr 2629. In arguing that the A&P method tempers the apportionment of costs between high and low load factor customers, ABATE asserted that cost allocation and rate moderation should be separate steps with the revenue apportionment share of the overall rate design process addressing the size of the class rate impacts. 5 Tr 2629.

ABATE also asserted that there is a misalignment between DTE Gas's planned gas delivery system and the allocation of capacity costs using the A&P method. 5 Tr 2631. According to ABATE, DTE Gas "plans and sizes its transmission, storage capacity, and high-pressure distribution mains to meet design-day requirements, maintain system reliability and safety, and resolve localized constraints, not to serve each class's total annual consumption[;]" however, "the Company's long-term delivery investments are driven by peak-day system requirements, integrity

management, and targeted renewal and capacity projects, and not by incremental annual volumes." 5 Tr 2630 (footnote omitted). ABATE explained that DTE Gas's A&P allocator assumes that capacity costs vary with total annual use, which implicitly assigns peak-driven costs based on energy usage instead of on the load characteristics underlying the need for additional capacity, and this, ABATE argued, is inconsistent with how the company's gas delivery assets actually behave. 5 Tr 2631-2632.

ABATE also explained that DTE Gas's A&P allocator "applies to both transmission facilities and distribution mains, effectively pushing both types of capacity-related costs through the same composite factor[,]" but this approach ignores that many local distribution mains are installed to provide basic connectivity and minimum pressure to serve customers and transmission facilities are planned and engineered to meet system-wide peak demand conditions. 5 Tr 2632. ABATE asserted that treating transmission facilities and distribution mains "as if they are driven by the same combination of peak and average use dilutes the connection between actual planning criteria and allocated costs[,]" and effectively double counts transportation customers' throughput and overstates their impact on DTE Gas's capacity asset investments. 5 Tr 2632, 2634. ABATE argued that this results in large transportation customers bearing a disproportionate share of peak-driven costs, even though they do not drive incremental design day investments in proportion to their annual volumes, which causes large volume transportation classes to be allocated revenue increases in DTE Gas's COSS that are substantially greater than the system average with peak day demand being driven by non-transportation customers. 5 Tr 2634. ABATE described this as structural bias and a disproportionate burden on EUT classes that undermines regulatory gradualism and rate stability, makes long-term planning more difficult for large transportation customers, and fails to reward large transportation customers for efficient use of system capacity

by requiring them to pay for a moving cost of service target in each case. 5 Tr 2634, 2636. ABATE argued that over-allocating capacity costs sends inconsistent price signals to large load transportation customers who have the ability to bypass the company's gas delivery system and systematically sets rates for transportation customers above cost in a manner that is "inconsistent with sound ratemaking, promoting efficient use of utility infrastructure, and supporting Michigan's business and industrial economy." 5 Tr 2636-2637.

Because the Staff's two COSS models also used the A&P allocator, ABATE made similar arguments against the Staff's COSS models in its rebuttal. 5 Tr 2647-2659.

ABATE suggested replacing the A&P allocator with an allocator that focuses on peak day cost-causation, such as a Design Day Demand or Average and Excess Demand method. 5 Tr 2637-2638. ABATE explained that DTE Gas moving away from an A&P allocator toward a peak day demand allocator would:

> better align cost responsibilities with the drivers of the Company's gas delivery investments, reduce the structural methodological bias against high load factor transportation customers, and provide a more stable foundation for cost-based rates over time. This would benefit transportation customers by reducing the risk of repeated, outsized increases for transportation classes, and it would benefit other customers by promoting efficient use of the system, reducing the risk of bypass and stranded costs, and supporting the business and industrial economy in DTE's service territory.

5 Tr 2639.

Regarding the revenue portion, ABATE suggested that the company use the Design Day Demand method of capacity cost allocation to align the driver of investment in capacity costs with the allocation method. 5 Tr 2641. As an alternative revenue apportionment, ABATE suggested that the Commission consider capping the revenue apportionment for any class to 1.5 times the system average increase to address a A&P-based COSS that is not reflective of cost-causation across classes. 5 Tr 2641. This, ABATE asserted, would "temper interclass revenue movement

and avoid large, one time increases that could impose disproportionate and unjustified rate shocks on particular classes" while still allowing meaningful movement toward the Proposed COSS. 5 Tr 2641.

DTE Gas disagreed with ABATE's arguments, noting that the "A&P methodology has been repeatedly approved by the Commission and was explicitly affirmed for continued use in the Commission's November 7 Order in Case No. U-21291 (see page 228)." 3 Tr 596. The company also disagreed with ABATE's proposed cap of 1.5 times the system average increase, arguing that ABATE's proposal is arbitrary and not supported by COS results. 3 Tr 596. DTE Gas asserted that rate schedule increases are based on the allocation of the company's revenue requirement using Commission-approved COS methodologies, and "[i]mposing a cap on class increases independent of those results would override cost-based outcomes and therefore should be rejected." 3 Tr 596.

The Staff also disagreed with ABATE's arguments, asserting that there is substantial evidence to support use of the P&A allocator. Staff's reply brief, p. 12. The Staff agreed with DTE Gas's approach and the Commission's past orders using the P&A method, noting that the Staff "considered the Commission's continued reliance and approval of the [A&P] method[, which has been consistently approved since 1988,] and found no reason to deviate from the Commission approved method." *Id*., p. 14. As such, the Staff suggested that the Commission should approve the use of the A&P allocator because using the A&P allocator method has been a longstanding practice for nearly 30 years, asserting that is a reasonable allocation method that better reflects cost-causation principles than ABATE's proposal while balancing the interests of all customers. *Id*., pp. 13, 15-16. Moreover, the Staff contended that the arguments ABATE made have been presented in the past and rejected. *Id*., p. 16.

The ALJ recommended that the Commission adopt the Staff's COSS and rate recommendations and calculations, as adjusted based component figures underlying the calculations approved by the Commission in this case. PFD, p. 549. The ALJ found the Staff's arguments in favor of using A&P reflecting costs and cost attribution to be the most compelling of those presented by the parties in "balancing consistently recognized practices and customer affordability." *Id*. The ALJ also pointed to the Commission's "comprehensive examination of similar arguments in [the November 7 order.]" *Id*.

In exceptions, ABATE argues that the ALJ made several inaccurate assertions regarding its arguments against the use of the A&P allocator in the PFD and provides numerous examples of these discrepancies. ABATE's exceptions, pp. 9-17 (citing PFD, pp. 539-540, 542, 544, 547, 549). ABATE also asserts that the ALJ based his recommendation "in large part on 'relying on the Commission's comprehensive examination of similar arguments in [the November 7 order in] Case No. U-21291[,]'" but the November 7 order was based on a materially different record. *Id*., p. 21 (quoting PFD, p. 549). ABATE contends that the ALJ's own account of the November 7 order confirms why that case cannot supply the substantial evidence missing in this case, noting that the "affirmative, evidentiary record testimony supporting the [A&P] allocator which the Commission relied upon in its decision in [the November 7 order] is therefore absent from this record[and a] recommendation resting on [the November 7 order] thus imports a conclusion drawn from a different and materially fuller record." ABATE exceptions, p. 22. Thus, ABATE asserts that:

> Commission decisions, particularly those which directly result in millions of dollars being allocated to the Company's various rate classes, cannot be made on autopilot. Instead, the Commission's decision must be based on the substantial evidence presented in this case, not Staff's unsupported briefing claims and a past Commission Order. The Commission cannot base its decision here on its conclusion regarding the review of different evidence in a different case. Again,

> Mich Admin Code, R 792.10427(2) requires that "factual information or evidence" that is not part of the record "shall not be considered in the determination of the case, except as otherwise permitted by law." The preponderance of the evidence on the record in this case does not support the PFD's recommendation to adopt a rate design based on the [A&P] allocator. As such the Commission should reject this recommendation and adopt the revenue apportionment proposed by ABATE in this case.

Id., pp. 22-23 (quoting Mich Admin Code, R 792.10427(2)) (footnote omitted).

In replies, the Staff asserts that the Commission should reject ABATE's arguments. Staff's replies to exceptions, p. 16. The Staff notes that any discrepancies with the ALJ's description of the timeline in the PFD is a moot point when the Staff recommended maintaining the previously approved allocator and an appropriate consideration of the record, briefs, and reply briefs reflect the ALJ correctly agreeing with the Staff and DTE Gas on the use of the A&P allocator. *Id*. The Staff contends that the ALJ correctly ruled on this issue based on an appropriate consideration of the records, briefs, and reply briefs. *Id*., p. 17.

DTE Gas also disagrees with ABATE's exception, asserting that ABATE's contention that the record lacks competent, material, and substantial evidence to support the A&P allocator independent from prior Commission orders "misapprehends both the evidentiary record and the applicable legal standard." DTE Gas's replies to exceptions, p. 88. DTE Gas notes that this record, standing alone, provides competent, material, and substantial evidence to support the A&P method. *Id*. The company also notes that the Commission has consistently approved the A&P method for over three decades. *Id*. As such, DTE Gas requests that the Commission reject ABATE's exception and affirm the ALJ's cost of study methodology recommendation. *Id*.

The Commission has reviewed the whole record in the instant case, and makes its decision based on the evidence and arguments made on this record. Based on this review, the Commission finds the ALJ's recommendation to adopt the Staff's COSS and rate recommendations and

calculations, as adjusted based on component figures underlying the calculations approved by the Commission in this case, 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. 549.

b. Use of the Alternate Cost of Service Study

According to DTE Gas, the November 7 order directed the company to continue preparing and filing an alternative COSS model as an:

> informational and analytical exercise to explore the potential effects of allocating certain distribution main costs based on high-pressure and low-pressure service distinctions. Commission Staff supported the continued preparation of the Alternate Cost of Service Study as a supplemental analytical tool to help evaluate shifts in revenue responsibility between [EUT] rate schedules, including for purposes of examining economic break[-]even relationships. The study was not intended or designed to replace the Company's primary cost of service study for setting base rates.

3 Tr 597 (citing November 7 order, pp. 233-236). The company prepared an Alternate COSS in accordance with the November 7 order. 3 Tr 585-586.

The Staff explained that it used DTE Gas's Alternate COSS as a guide to assess how the revenue responsibility should be shifted between the different transportation rate schedules and when revenue adjustments should be made to maintain the current break-even points. 5 Tr 2396. The Staff suggested that DTE Gas be required to continue providing the alternative high-pressure and low-pressure COSS in future rate case "so that this method can continue to be utilized, and parties can continue to explore the best way to modify rate design to directly utilize this alternative COSS." 5 Tr 2435.

Detroit Thermal avowed its support for the use of DTE Gas's Alternate COSS, asserting that the company's "current COSS allocation does not fairly attribute distribution costs to the XXLT [extra-extra-large transportation] class." 5 Tr 2611, 2613. Detroit Thermal explained that the company's use of the Alternate COSS with a modified allocation of distribution main plant and

IRM main replacement program costs split into high- and low-pressure components, as presented in Exhibit A-24, Schedule N1, causes a significant shift of revenue requirement costs away from the extra large transportation (XLT) class. 5 Tr 2612-2613. Detroit Thermal asserted that because the "high- and low- pressure data received from DTE Gas shows that they have this more detailed level of information in hand to support a more accurate and fair allocation of costs among all of its customers," it supported the use of the company's Alternate COSS as a more accurate and fair allocation of costs among DTE Gas's customers. 5 Tr 2613.

DTE Gas disagreed with Detroit Thermal's proposal to use the Alternate COSS as the primary COSS, arguing that the Alternate COSS relies on simplified assumptions and incomplete data that do not accurately reflect cost causation at a base rate design level. 3 Tr 597-598. The company explained that its accounting and plant records do not "differentiate distribution main costs between high-pressure and low-pressure facilities, nor does the Company comprehensively track customer volumes by service level[,]" and both the allocation of distribution main costs by pressure class and the differentiation of customer volumes by service level are critical inputs required to develop the Alternate COSS. 3 Tr 598. DTE Gas opined that the Alternate COSS is best used as a supplemental analytical tool, and the company's Proposed COSS remains the reliable basis for rate design. 3 Tr 599.

While the Staff used the company's Alternate COSS as a guide for assessing revenue responsibility, the Staff does not support the use of the alternative rate design for setting rates. 5 Tr 2396, 2400. The Staff explained that the alternative rate design did not provide favorable rates for the transportation class as a whole when compared to the primary rate design. 5 Tr 2400.

ABATE reiterated its argument against the use of both COSS models, arguing that the primary and alternate COSS models presented by DTE Gas and the Staff use the A&P allocator which does

not accurately reflect cost-causation by service level and continues to allocate large customers costs which they do not cause. 5 Tr 2629, 2648, 2653. ABATE suggested that the Commission "give greater weight to a design day demand capacity allocator that is aligned with DTE's planning criteria and treat the . . . primary and alternate [COSS] results as secondary information rather than as binding targets for transportation class revenue responsibility." 5 Tr 2653.

The ALJ disagreed with Detroit Thermal's suggestion to use DTE Gas's Alternate COSS, noting that the shortcomings in data the Alternate COSS relied upon would be difficult for the company to fix "without substantial changes to how the Company monitors transportation," and that the Alternate COSS was ordered for purposes of an analytical tool and not as the primary rate model. PFD, pp. 560-561. The ALJ also recommended that the Commission direct DTE Gas to continue preparing an alternate COSS model and continue discussing improved rate design methodologies, noting that this "appears to be unopposed[.]" *Id*., p. 561. The ALJ did not find anything raised in this case that undermined the Commission's past analysis on the use of the A&P allocator in the alternate COSS or the reasons against switching to the alternate COSS. *Id*., p. 560.

Turning to the November 7 order, the ALJ noted that the Commission "credited Staff's explanation in Case No. U-21291 that it was not advisable to switch to the alternate COSS because such a change would need to be accompanied by a reexamination of rate structure, potentially leading to an entire redesign, which was outside the scope of a 10-month rate case" and "credited the Staff's opinion that the alternate COSS provides guidance regarding appropriate increases in the transportation class schedules." *Id*. (citing November 7 order, pp. 235-236).

In exceptions, Detroit Thermal disagrees with the ALJ's recommendation to maintain the Alternate COSS as an analytical tool and not as the primary rate tool. Detroit Thermal's exceptions, p. 3 (citing PFD, p. 561). Detroit Thermal reiterates its support for the Alternate

COSS and its request for the Commission to require DTE Gas to use the Alternate COSS for cost allocation purposes, noting that the ALJ acknowledged that "Detroit Thermal's arguments regarding the need for an improved rate design and rate making process 'are not without some merit[.]'" Detroit Thermal's exceptions, pp. 3-7 (quoting PFD, p. 561). However, Detroit Thermal also asserts as an alternative, its support for DTE Gas to continue preparing an alternate COSS model that includes the alternate high-pressure and low-pressure COSS and to continue discussing improved rate design methodologies in future rates cases. Detroit Thermal's exceptions, p. 7 (citing PFD, p. 561; 5 Tr 2435; Exhibit A-24, Schedule N1).

In replies, DTE Gas asserts that Detroit Thermal's exception should be rejected as procedurally improper, noting that the requirements of Mich Admin Code, R 792.10435 (Rule 435) were not properly followed. DTE Gas's replies to exceptions, p. 92. The company argues that Detroit Thermal:

> does not cite or reference the PFD a single time, does not address the PFD's findings that there is a "lack of reliable information underlying the [A]lternate COSS in this case" and that the Alternate COSS is intended to be "an analytical tool", and does not identify any factual or legal error in the PFD's analysis. Detroit Thermal's only reference to the PFD's holding on this issue appears in the introductory portion of its Exceptions, where it merely restates the PFD's conclusion before pivoting directly into the same merits arguments and record citations it presented to the PFD before the PFD issued. Simply re-advocating a position that the PFD already considers and rejects, without identifying any flaw in the PFD's reasoning, does not constitute a proper exception under Rule 435 and does not entitle Detroit Thermal to a second bite at the apple before the Commission.

Id., pp. 92-93 (internal citation omitted) (quoting PFD, p. 561).

The Commission finds the ALJ's recommendation for DTE Gas to continue providing the alternate COSS and continue discussing improved rate design methodologies in future rate cases to be well-reasoned and supported by the record. *See*, PFD, pp. 560-561. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue and finds that DTE Gas shall

continue to submit the alternate COSS with updated information. In addition, the Commission agrees with the ALJ's recommendation not to adopt Detroit Thermal's suggestion to use DTE Gas's Alternate COSS as the primary COSS rate model, for the reasons articulated in the PFD. *Id.*

2. Rate Design and Economic Break-Even Points

DTE Gas laid out the importance of retaining economic break-even points and presented the following proposed break-even points between the various rate schedules:

GS [general service]-1 to GS-2	14,000 Mcf per year
GS-1 to S [school service]	2,183 Mcf per year
GS-1 to ST	14,500 Mcf per year
ST to LT	100,000 Mcf per year
LT to XLT	700,000 Mcf per year

> The economic break-even points listed above were determined by including the proposed monthly customer charges, distribution charges, and the Company's proposed Infrastructure Recovery Mechanism (IRM) surcharges for calendar year 2025.

2 Tr 282-283. DTE Gas's proposal eliminates the break-even point between rate classes XLT and XXLT and instead establishes a clear eligibility criterion for XXLT service that requires customers to consume a "minimum of 4 Bcf annually, with all volume sourced directly from DTE Gas's transmission system or high-pressure distribution system." 2 Tr 283. The company provided that the minimum volume thresholds would only be met from a master account, and not from contiguous accounts. 2 Tr 283. DTE Gas explained that the issue of the economic break[-]even points between XLT and XXLT has been a "recurring point of contention in the past several rate cases[,]" and the company's proposal to eliminate this break-even point should:

(1) address previously raised concerns, (2) reinforce the intent of the XXLT rate to serve DTE

Gas's largest industrial customers with their unique usage patterns and infrastructure needs, and (3) keep the rate competitive to retain these customers. 2 Tr 288.

DTE Gas's proposed cost-based rates under the EUT rate schedules were presented in Exhibit A-16, Schedule F2, page 3, and were calculated as the maximum rates from the difference between the minimum optional rate for each of the rate schedules and the company's calculated cost of service rates. 2 Tr 284. The company also suggested setting the maximum rate for rate schedule XXLT equal to the rate calculated for rate schedule XLT, noting that the maximum optional rate for EUT customers is intended to amortize large customer construction costs instead of customers paying a higher upfront CIAC. 2 Tr 285-286.

The Staff's proposed rate design for the various rate schedules was presented in Exhibit S-6.0, Schedule F3. 5 Tr 2397-2398. For the Staff's primary rate design model, the Staff explained that it utilized DTE Gas's rate design model with the company's proposed exclusion of the XXLT rate schedule from the transportation customer class break-even analysis. 5 Tr 2398. The Staff also provided an alternative transportation class rate design that includes rate schedule XXLT into the break-even analysis, noting that it did so to provide "the Commission and other interested parties with more information about the overall impact of excluding rate schedule XXLT from the transportation class's break[-]even analysis." 5 Tr 2398-2399; *see*, Exhibit S-15.2, Schedule F3, page 4. The Staff opined on the importance of maintaining economic break-even points between rate schedules and suggested that DTE Gas in its next rate case "design its rate design model to automatically maintain its break[-]even points for the transportation customer class" to "promote standardization across rate design models, and for improved functionality and efficiency by interested parties[.]" 5 Tr 2395, 2400. The Staff noted that this approach is consistent with rate design models utilized by other investor-owned gas utilities. 5 Tr 2400.

DTE Gas expressed appreciation for the Staff's interest in improving "efficiency, transparency, and usability of its rate design model and [a] will[ingness to] . . . engage in discussions with Staff and Consumers, as needed, to better understand alternative [rate design] methodologies." 3 Tr 606. The company, however, requested flexibility with the methodology ultimately used, expressing concern that a strictly formula-based approach could produce impractical or excessive rate shift outcomes and unreasonable rate impacts. 3 Tr 606-607.

ABATE argued that because the Staff "used the percentage revenue shares from its primary [COSS] and its alternate [COSS] as a lower bound and upper bound for each transportation rate schedule's share of the revenue responsibility, and then adjusts class targets within those ranges to maintain desired break[-]even points[,]" the Staff's "entire set of transportation revenue targets is anchored to [] cost allocation results that [ABATE] has shown do not reflect cost-causation and which are manipulated to fall within arbitrary break[-]even points." 5 Tr 2655 (footnote omitted). ABATE explained that:

> [b]reak[-]even points are a rate design tool, not a measure of cost responsibility, and they should be secondary to cost causation rather than dictating which classes are required to absorb large above-system average increases. By using the [COSS] outputs to set transportation revenue targets and then forcing break[-]even points to remain at 100,000 Mcf and 700,000 Mcf for Rates LT and XLT, Staff effectively uses break[-]even points to cement the [A&P] allocator's bias into the rate design rather than using rate design to moderate methodology driven distortions.

5 Tr 2656. ABATE reiterated its argument on the use of a design day demand allocator providing smaller increases to reach cost of service for transportation classes than using a COSS model on a A&P allocator, concluding that the Staff's break-even points override "a more accurate measure of class cost responsibility." 5 Tr 2655-2658.

Detroit Thermal opposed DTE Gas's proposed elimination of the break-even point between the XLT and the XXLT classes because of the significant rate escalations impacts on XLT

customers. 5 Tr 2614. According to Detroit Thermal, the company's proposed rate increases are projected to increase the aggregate charges for three of Detroit Thermal's steam generation plants from $3.05 million to approximately $4.32 million, which is a 42% price increase. 5 Tr 2614. This increase, Detroit Thermal argued, could not be passed on to its customers on fixed special contracts, which would leave Detroit Thermal's smaller customers to bear the costs under its Steam Supply Cost Recovery (SSCR) mechanism and impair its ability to keep steam affordable in its non-exclusive service territory. 5 Tr 2604-2606.

Detroit Thermal also argued that DTE Gas's proposed 4 Bcf should be rejected, noting that DTE Gas's decision to remove the economic break-even point between XLT and XXLT customer classes contravenes testimony provided by the company in Case Nos. U-20940 and U-20642. 5 Tr 2614; *see*, 5 Tr 459-460 in Case No. U-20940 (DTE Gas's witness Henry J. Decker provided a list of reasons to support the company's continued maintenance of the economic break-even points between the EUT rate classes); August 20 order (approved settlement agreement maintained the existing economic break-even level of 3.5 Bcf between the XLT and XXLT rates classes). Detroit Thermal also argued against DTE Gas's proposed removal of the 3.5 Bcf economic break-even point, asserting that it serves as a constraint on XLT rate adjustments. 5 Tr 2618. Detroit Thermal provided break-even calculations for the XLT and XXLT using current fixed and variable rates for XLT and XXLT and proposed fixed and variable rates for XLT and XXLT. 5 Tr 2616-2617. Detroit Thermal explained that the current fixed and variable rates calculation showed a break-even close to the previous design break-even level of 3,542,934 Mcf (or 3.5 Bcf), and the proposed fixed and variable rates calculation showed a break-even level that dropped to 2,196,042 Mcf (or 2.2 Bcf). 5 Tr 2617. Detroit Thermal opined that:

> [t]he large decrease in the break[-]even level from approximately 3.5 Bcf to 2.2 Bcf is as a result of XLT proposed fixed and variable rates being pushed well beyond

> levels that the 3.5 Bcf break[-]even would have historically constrained. With the constraint removed, DTE Gas is now able to push the proposed XLT variable transportation charge as much as 53.02% higher . . . from $0.8414/Mcf to $1.2881[/]Mcf (versus the XXLT variable rate going from $0.2873/Mcf to $0.3179), in addition to the fixed charge increasing from $14,460/month to $16,450/month).

5 Tr 2617-2618.

DTE Gas disagreed with Detroit Thermal's arguments, asserting that the company's proposed changes to the XXLT break-even structure and eligibility threshold better reflect the structural characteristics of the XXLT class and address long-standing rate design issues associated with maintaining economic break-even points for this rate schedule. 3 Tr 600. The company explained that its proposed removal of the XXLT rate schedule from economic break-even adjustments and setting the minimum participation threshold at four Bcf was to "better align the XXLT rate with its intended purpose . . . [of] serv[ing] a very limited number of customers with exceptionally large volumes and distinct usage characteristics, and not as an extension of other [EUT] classes." 2 Tr 318. DTE Gas further explained that the minimum four Bcf volume requirement is comparable to the treatment used by other Michigan utilities for their largest transportation customers and provides greater clarity and stability in the rate structure. 2 Tr 318. As such, DTE Gas asserted that Detroit Thermal's arguments do not raise a sufficient basis in which to reject the company's proposed refinements.

In providing its alternative transportation class rate design that includes rate schedule XXLT into the break-even analysis, the Staff utilized a break-even usage of 3.5 Bcf, as it was previously used in Case No. U-21291, between rate schedules XLT and XXLT. 5 Tr 2398-2399; *see*, Exhibit S-15.2, Schedule F3, p. 4. The Staff explained that this did not change the revenue to be collected from the transportation class, and therefore, resulted in no secondary rate impacts to other customer classes. 5 Tr 2399-2400.

Having already rejected ABATE's allocator arguments, the ALJ recommended the adoption of DTE Gas's break-even points between rates ST and LT and LT and XLT, finding that the Staff's "use of the existing break-evens gives them weight[a]nd no party has proposed break-evens varying from those delineated by the company. PFD, p. 568.

Regarding the removal of break-even points between XLT and XXLT and a four Bcf minimum rate for XXLT, the ALJ recommended approval of DTE Gas's proposed elimination of the break-even between rate schedules XLT and XXLT and for imposition of the four Bcf annual volume minimum for rate XXLT. PFD, p. 579. The ALJ noted that DTE Gas "articulated reasonable, non-punitive, and non-discriminatory reasons for eliminating the break-even between rates XLT and XXLT, and for imposing a 4 Bcf annual minimum volume for XXLT customers." PFD, p. 578. The ALJ also noted that the Staff's ability to establish a reasonable rate design with the elimination of the threshold between XLT and XXLT "at the very least strongly implies that the removal of the break-even, and replacement with a minimum 4 Bcf annual minimum volume for rate XXLT customers, is not unreasonable or arbitrary." *Id*., p. 578. Continuing, the ALJ provided that:

> [a]lthough this PFD takes seriously Detroit Thermal's concerns regarding DTE stifling honest competition, particularly where a smaller percentage of XXLT customers actually take service from transmission lines than the tenor of DTE's witness testimony would lead one to believe, the presented reasons for eliminating the break-even and imposing the 4 Bcf annual threshold do not appear to be pretextual. Furthermore, Staff indicated that the effects of the change do not appear to be rippling out from EUT to other classes. What creates hesitation in recommending DTE's requested changes stems from Staff's encouragement that the break-even between rate schedules XLT and XXLT continue to be considered. However, Staff's own elimination of the break-even in its primary calculations, and the lack of impact on non-EUT classes, undermines Staff's request. For the reasons stated by DTE in requesting the rate design change, this PFD recommends approval of DTE's requested elimination of the break-even between rate schedules XLT and XXLT, and the imposition of the 4 Bcf annual volume minimum for rate XXLT. This PFD also takes this opportunity to invite Staff in exceptions to clarify its

> position regarding the break-even between rate schedules XLT and XXLT, and why it should be maintained if it disagrees with this PFD's recommendation.

Id., p. 579 (citations omitted) (citing 5 Tr 2399-2400, 2605, 2611-2612, 2615).

The ALJ also recommended that the Commission direct DTE Gas to "design and adopt a rate design model to automatically maintain economic break-even points for the EUT transportation classes, other than between XLT and XXLT as is [being suggested] by Staff." PFD, p. 568. The ALJ recommended adoption of the Staff's position, finding reasonable the Staff's argument that "break-evens permit DTE Gas to appropriately recover its revenue deficiency while providing efficiency and functionality and at the same time providing stability for customers." *Id*., p. 569.

In response to the ALJ's invitation to clarify its position, the Staff explains in exceptions that it supports the ALJ's recommendation for the Commission to adopt DTE Gas's proposal to eliminate the break-even point between the XLT and XXLT rates. Staff's exceptions, p. 7. The Staff further explains that its suggestion that the alternative rate design still be considered was only to allow for interested parties and the Commission to have all relevant information and to serve as a counterfactual to the proposal. *Id*. Further, the Staff clarifies that "its continued support for the information to be considered does not constitute Staff recommending that its proposed alternative rate design be utilized over its proposed primary rate design." *Id*., pp. 7-8.

In exceptions, Detroit Thermal disagrees with the ALJ's recommendation to allow DTE Gas to eliminate the break-even point between XLT and XXLT rates and impose a four Bcf minimum volume to qualify for XXLT service, reiterating its arguments in opposition to DTE Gas's proposals. Detroit Thermal's exceptions, pp. 3, 7-9 (citing PFD, p. 578).

ABATE excepts to the ALJ's recommendation to adopt DTE Gas's proposed break-evens, arguing that this does not result in rates that reflect cost-causation. ABATE's exceptions, p. 25 (citing PFD, p. 568). ABATE asserts that even if the Commission adopts the use of the P&A

allocator at the COSS stage as the ALJ recommends, the Commission should separately adopt ABATE's revenue-apportionment cap, noting that the revenue apportionment "is a distinct step from developing a [COSS] and the principles of gradualism, rate stability, and avoidance of rate shock apply there regardless of the allocator used." ABATE's exceptions, p. 25 (citing PFD, p. 549). ABATE also reiterates its suggestion on limiting any class base delivery increase to 1.5 times the system average increase which it claims would add only about $0.97 per month to the average Rate A customer's bill, asserting that "[t]his is a far more equitable approach, which . . . also more closely aligns revenue recovery with the manner in which the Company's customer classes cause its costs." ABATE's exceptions, pp. 25-26.

In replies, the Staff disagrees with ABATE's contention that the Staff's break-even analysis cements in rates that do not reflect cost causation. Staff's replies to exceptions, p. 17. The Staff notes that "[w]hile [the break-even analysis] does not directly assign costs, it does bring rates in line with the parameters set forth by Staff's costs of service studies." *Id*. The Staff also disagrees with ABATE's proposed revenue-apportionment cap, asserting that ABATE's argument on Rate A customers receiving just a $0.97 increase in their monthly bill is unsupported in the record. *Id*. The Staff further notes that any revenue cap would most likely lead to more rate distortions in the future due to costs not being fully allocated to rate classes as they traditionally would because of the caps. Thus, the Staff asserts that the Commission should reject ABATE's erroneous claims on how the Staff utilize its break-even analysis, and reject ABATE's proposed-revenue apportionment cap. *Id*.

In replies, DTE Gas requests that the Commission reject ABATE's proposal on limiting any class base delivery rate increase to 1.5 times the system average increase, arguing that the cap is arbitrary and unsupported by the cost-of-service results developed in this case. *Id*., p. 90. The

company notes that "ABATE's rebuttal testimony setting forth the purported $0.97 per month impact on Rate A customers does not overcome the fundamental deficiency that its proposed cap is untethered from any cost of service analysis and would, if adopted, undermine the purpose of conducting a cost of service study in the first instance." DTE Gas's replies to exceptions, p. 91 (internal citation omitted).

DTE Gas also asserts that Detroit Thermal's exception should be rejected as procedurally improper under Rule 435. DTE Gas's replies to exceptions, p. 108. DTE Gas argues that Detroit Thermal:

> does not cite or reference the PFD a single time, does not address the PFD's finding that DTE Gas "articulated reasonable, non-punitive, and non-discriminatory reasons" for the change, and does not identify any factual or legal error in the PFD's analysis. Once again, Detroit Thermal's only reference to the PFD's holding on this issue appears in the introductory portion of its Exceptions, where it merely restates the PFD's conclusion before pivoting directly into the same merits arguments and record citations it presented to the PFD. Simply re-advocating a position that the PFD already considered and rejects, without identifying any flaw in the PFD's reasoning, does not constitute a proper exception under Rule 435 and does not entitle Detroit Thermal to a second bite at the apple before the Commission.

Id. (quoting PFD, p. 578) (internal citation omitted).

In replies, ABATE takes issue with the Staff providing clarification after the record was closed and the parties filed their Initial and Reply Briefs. ABATE's replies to exceptions, pp. 17-18 (citing Staff's exceptions, pp. 7-8). ABATE asserts that the Staff's clarification is "argument, not evidence, and it cannot supply record support that the PFD itself found wanting." ABATE's replies to exceptions, p. 18. ABATE contends that the Commission should reject the ALJ's recommendation for the reasons set forth in ABATE's exceptions; if the Commission does not adopt ABATE's proposed rate design, ABATE asserts that the Commission should decline to treat

the Staff's post-hearing clarification as a substitute for the record support the ALJ found lacking and maintain the break-even point between Rates XLT and XXLT. *Id*., pp. 18-19.

The Commission finds the ALJ's recommendations to adopt DTE Gas's proposed break-even points between rates ST and LT and LT and XLT, proposed elimination of the break-even between rate schedules XLT and XXLT, and proposed imposition of a 4 Bcf annual volume minimum for rate XXLT well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on these issues. *See*, PFD, pp. 568, 578-579. The Commission also directs DTE Gas to design and adopt a rate design model to automatically maintain economic break-even points for the EUT transportation classes except for rates between XLT and XXLT. *See*, *id*., pp. 568-569.

3. Residential Customer Monthly Service Charge Increase

For the residential rate schedules and the general service rate schedule, DTE Gas proposed an increase in monthly customer charge for Rate A from $14.50 to $15.40, for Rate 2A-Meter Class I from $14.50 to $15.40 (replicating Rate A's amount to maintain historical consistency), and for Rate 2A-Meter Class II and Rate GS-1 from $50.00 to $55.00. 2 Tr 280; Exhibit A-16, Schedule F2, p. 2. For the remainder of the sales and transportation rate schedules, DTE Gas proposed an increase in monthly customer charge for Rate GS-2 from $925.00 to $1,050.00; for Rate S from $270.00 to $285.00; and for EUT Rate ST from $2,780.00 to $3,300.00; for EUT Rate LT from $4,980.00 to $9,490.00; for EUT Rate XLT from $14,460.00 to $16,450.00; and for EUT Rate XXLT from $178,055.00 to $194,000.00. 2 Tr 281; Exhibit A-16, Schedule F2, pp. 2-3. The company explained that it used several factors when determining the monthly customer charges, including social concerns raised in previous rate cases, historically approved economic break-even

points between the rate schedules, time elapsed since the last customer charge adjustment, and the volatility of customer bills. 2 Tr 279-280.

While the Attorney General found reasonable DTE Gas's proposed 6% increase for the residential customers, she argued that the company's proposed 10% increase for the GS-1 customers was excessive. 5 Tr 3382. The Attorney General suggested that the 6% increase should also be applied to GS-1 customers, resulting in an increase to $53.00 instead of DTE Gas's proposed $55.00. 5 Tr 3382.

DTE Gas disagreed with the Attorney General's suggestion, arguing that her proposed limit of the GS-1 customer charge to $53.00 is "not supported by cost-of-service principles or by any customer-charge methodology[, but rather] . . . applies an arbitrary limitation based solely on a targeted percentage increase and a comparison to residential rate impacts." 3 Tr 594-595. The company averred that the Commission should approve the GS-1 monthly customer charge of $55.00 because "[t]his charge is supported by the same historical cost-based methodology previously approved by the Commission in their November 7, 2024 order in Case No. U-21291 and appropriately reflects customer-related costs rather than an arbitrary percentage limitation." 3 Tr 595.

The ALJ recommended that the Commission adopt DTE Gas's proposed increase for GS-1 customers to $55.00, finding that the Attorney General did not provide a basis for limiting the increase of the customer charge to 6% beyond her claim of maintaining consistency. PFD, p. 582. The ALJ noted that the company's "proposed increase appears to be calculated[,]" and that the Staff's Exhibit S-6, Schedule F3, showed that DTE Gas's proposed 10% increase for GS-1 customers did not appear grossly disproportionate to increases for the other classes. *Id.*

The Attorney General excepts to the ALJ's recommendation, arguing that it is "unclear exactly what the ALJ means by stating that DTE's proposed increase seems 'calculated.'" Attorney General's exceptions, p. 45 (quoting the PFD, p. 582). Continuing, the Attorney General argues that her calculation is also calculated and based on a certain percentage increase, and that maintaining consistency with other classes, historical practice, the goal of avoiding rate shock, and continuing to incentivize energy conservation (which fixed costs do not do) is certainly a valid basis upon which to base a decision, noting that the ALJ does not explain why those considerations are not relevant. Attorney General's exceptions, p. 45. The Attorney General reiterates that DTE Gas's proposed 10% increase to GS-1 customers, in a single rate case, is excessive and should be rejected. *Id*. The Attorney General also reasserts her suggestion for the Commission's approval of an increase to the monthly service charge to no more than $3.00 for GS-1 customers. *Id*.

In replies, DTE Gas requests that the Commission reject the Attorney General's exception and affirm the ALJ's recommendation to approve the company's proposed $55.00 monthly customer charge for Rate GS-1. DTE Gas's replies to exceptions, p. 106. DTE Gas asserts that the Attorney General identifies no cost-of-service flaw in DTE Gas's proposed monthly service charge and merely repeats the same unsupported percentage-matching argument that the ALJ already considered and rejected. *Id*., p. 107.

The Commission finds the ALJ's recommendations to adopt DTE Gas's proposed increase for GS-1 customers to $55.00 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. 582.

B. Tariffs

DTE Gas presented a summary of proposed tariff changes in Exhibit A-16, Schedule F5, and revised tariff pages in Exhibit A-16, Schedule F5.1. 3 Tr 587. Under Section C of the company's Rate Book, DTE Gas proposed tariff changes to the CAP to reflect revised percentages for DTE Gas's Carrying Cost Rate under Section C8.9(B)(1) and Discounted Rate under Section C8.9(B)(6). 3 Tr 587-588. The company explained that these proposed revisions are based on DTE Gas's incremental pre-tax rate of return and weighted cost of permanent capital as reflected in Exhibit A-14, Schedule D1. 3 Tr 588. DTE Gas noted that these proposed changes are uncontested and should therefore be approved as filed. DTE Gas's initial brief, p. 312.

Under Section D of DTE Gas's Rate Book, the company proposed tariff changes for its sales customers that include a revised IRM, changes to monthly customer charges and distribution charges for each rate schedule, changes to the LIA program, and changes to the RIA service provision to equal the proposed residential customer charge. 3 Tr 588-590. For Section E of the company's Rate Book, DTE Gas proposed tariff changes for its transportation and storage customers that include changes to its monthly customer charges and transportation charges for each EUT rate schedule, alterations to language that reflects removal of the Operational Flow Order Daily Quantity Maximum from Part E of the Rate Book, removal of the phrase "during the initial term of the Contract" on Sheet E-13.00, alterations to Section E14 that reflect removal of the break-even between XLT and XXLT and requirements for taking service under rate XXLT, and changes to off-system transportation rates for TOS-F under Section E25 and TOS-I under Section E26. 2 Tr 289; 3 Tr 590.

The Staff expressed support for DTE Gas to update its tariff sheets to reflect rate changes approved by the Commission. 5 Tr 2401.

The ALJ agreed with the Staff and recommended that the Commission adopt this "practical position." PFD, p. 586. The ALJ further recommended that the Commission approve the company's uncontested tariff sheet changes, and permit DTE Gas to update its tariff sheets to reflect any rate changes approved by the Commission in this case. *Id*.

The Commission finds the ALJ's analysis and recommendations related to DTE Gas's uncontested tariff sheet changes in this case to be well-reasoned and supported in the record. Therefore, the Commission adopts the ALJ's recommendations on the uncontested tariff sheet changes. The contested tariff sheet issues, objected to in exceptions, are discussed in further detail below.

1. Monthly Customer Service Charge Tariff Changes

The Attorney General argued that DTE Gas's proposed increase to the monthly customer charge for Rate GS-1 of $55.00 was excessive and argued for a more limited increase of $53.00 instead. 5 Tr 3382.

DTE Gas asserted that its proposed increase to the monthly customer charge for Rate GS-1 to $55.00 was appropriate and requested that the Commission adopt the company's proposed tariff changes under Section D of its Rate Book. DTE Gas's reply brief, p. 201.

The ALJ recommended that the Commission adopt "an amendment to Section D of DTE's rate book to match whatever the Commission decides in relation to the customer charge[.]" PFD, p. 587. The ALJ also recommended that the Commission approve the uncontested residential customer monthly service charge increases. *Id*.

No exceptions were filed on this issue.

The Commission finds the ALJ's recommendations to adopt DTE Gas's proposed monthly customer service charge tariff changes 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. 587.

2. Pooling

RESA suggested that DTE Gas modify its operational tariff rules to provide a pooling option for gas transportation customers. 4 Tr 2160. According to RESA, pooling is "the grouping of transportation service customers that are all being supplied by the same supplier . . . to make a single supply nomination for a group of customers instead of numerous individual nominations."[20] 4 Tr 2160. RESA asserted that DTE Gas should be required to:

> (1) Accept pooled nominations from suppliers[;]
>
> (2) Calculate and assess any load balancing charges based upon the net imbalance of a supplier's pool;
>
> (3) Calculate and assess any authorized and unauthorized gas usage charges based upon the net imbalance of a supplier's pool;
>
> (4) Calculate and assess excess pipeline costs surcharge based upon the net imbalance of a supplier's pool;
>
> (5) Establish the Pool Authorized Tolerance Level ("PATL") as the sum of all the individual pool member Annual Contract Quantity ("ACQ") times 10% or, when appropriate, the percentage of ACQ Tolerance Level as selected by the pool member; and
>
> (6) Establish the pool monthly injection rights as the corresponding sum of the rights of the individual pool members under existing tariff limits.

4 Tr 2169-2170.

RESA also explained the benefits of pooling and that pooling would not adversely impact system reliability and should have no impact on non-pooling customers. 4 Tr 2162-2167. RESA

[20] RESA noted that the pooling it suggested is different from pooling as the North American Energy Standards Board defines it. 4 Tr 2160.

further explained that there may be some pooling program start-up costs, but that these could be collected through a reasonable monthly administrative fee. 4 Tr 2164-2166. Moreover, RESA opined, that "any imbalance between the volumes delivered and consumed by the pool are billed by the utility to the pool operator, who then invoices those customers based on actual usage[,]" which is "[i]n contrast[to] the current non-pooling standalone arrangement[where] customers are billed directly by the utility for any imbalance without any offset due to the netting effect of offsetting imbalances from other customers." 4 Tr 2166. RESA noted that pooling should not allow suppliers to adjust their pool nomination in response to market prices; if that were to occur, DTE Gas could implement critical periods of restrictions as it does with non-pooling standalone customers. 4 Tr 2167. RESA also noted other utilities that offer pooling programs and that the Commission directed DTE Gas to participate in a collaborative on pooling convened by Consumers Energy Company in the September 13, 2018 order in Case No. U-18999 (September 13 order). 4 Tr 2167.

DTE Gas argued against RESA's suggestion, asserting that the company already offers a pooling-like option for EUTs and GS-2 and Rate S customers to "aggregate their accounts, as long as certain criteria are met as explained in the tariff[.]" 2 Tr 311. While this is different than the type of pooling RESA is proposing, DTE Gas contended that this is the only pooling-like option that the company is able to support in order to protect its current system and operations, as well as other customers. 2 Tr 311. The company also noted concerns raised by the Commission in the September 13 order and that the Commission directed DTE Gas to participate in a pooling collaborative not implement a pooling program. 2 Tr 311. DTE Gas acknowledged that it participated in the pooling collaborative as directed in the September 13 order, but that the collaborative did not allay the company's concerns. 2 Tr 311-312. Additionally, DTE Gas

contended that Constellation New Energy Gas, a RESA affiliate, had its pooling proposal denied in Case No. U-15985 because it did not demonstrate that pooling would benefit anyone but gas suppliers. 2 Tr 311. DTE Gas argued that adding a pooling program to the EUT tariff, as RESA proposed, would introduce additional and largely undefined operational risk to the company's gas system by a single pool manager controlling nomination decisions in response to market price signals, thereby redirecting supply elsewhere and negatively impacting the system, particularly during extreme winter weather. 2 Tr 312-313.

DTE Gas also disagreed with the assertion that RESA's pooling option would reduce administrative costs, noting that RESA's pooling proposal would not materially alter staffing when system monitoring is performed through automated systems, imbalance nominations are tracked automatically, nominations exceeding maximum daily quantity are rejected without manual override, and pooling would not change the company's issuance of monthly billing statements to all EUT customers but could require an increase in costs to pool suppliers for administration charges and imbalance penalties. 2 Tr 312-313. DTE Gas argued against RESA's contention that pooling implementation could increase supplier participation and RESA's assumption that an EUT pooling program would result in suppliers passing cost savings through to individual EUT customers, noting that pooling participation that limits customers to a single pooling could restrict supplier choice for pooling customers and would leave EUT customers with "no recourse if they believe supplier was not acting properly." 2 Tr 226-227, 314.

While saying that the record did not support RESA's claims that supplier competition would ensure savings from pooling would be passed on to customers, the ALJ contended that other utility pooling programs have demonstrated that EUT customers would likely be protected by contract rights with their suppliers outside of Commission oversight. PFD, pp. 599-600 (citing RESA's

reply brief, p. 5). In addressing DTE Gas's concerns over pools causing instability through their bidding practices, the ALJ noted that other utility pooling programs have implemented the desired pooling practices without causing a market collapse, which undermines DTE Gas's concerns over market volatility. PFD, p. 600. The ALJ also noted that RESA's proposed pooling program would be voluntary, which is a key distinction between this case and the pooling proposal made in the September 13 order. *Id*. However, the ALJ contended, a rate case is fundamentally concerned with reasonableness of rates and underlying expenditures. *Id*. Therefore, the ALJ recommended that the Commission decline to adopt RESA's pooling proposal "[b]ecause DTE says it cannot implement the requested pooling proposal without incurring substantial expense, and because it is not clear that such an expense would be solely borne by the gas suppliers who would benefit from allowing pooling." *Id*. If pooling is to be required, the ALJ contended, that there either needs to be "some showing that the proffered monthly pooling fee would cover the costs – which, due to the inherent information imbalance between DTE and intervenors may be exceedingly difficult, even with discovery – or compulsion would appear to be better suited to a legislative solution than a regulatory one." *Id*., p. 599.

RESA excepts to the ALJ's recommendation, arguing that proposed changes to utility tariffs are properly within the scope of general rate proceedings and any suggestion to the contrary is without merit. RESA's exceptions, pp. 2-3. RESA also disagrees with the ALJ's contention that "DTE Gas cannot implement pooling without 'incurring substantial expense[,]'" asserting that the "record does not support that claim, yet that assertion appears to be the primary basis for the ALJ's recommendation that the Commission reject RESA's pooling proposal." *Id*., p. 3 (quoting PFD, p. 600).

DTE Gas disagrees with RESA's exception, arguing that the "current EUT tariff structure appropriately balances the interests of transportation customers, competitive suppliers, and the system as a whole, and RESA's exception identifies no record evidence undermining that balance." DTE Gas's replies to exceptions, p. 100. The company contends that RESA's exception is not merely asking the Commission to review a decision DTE Gas has already made, but to override that decision and compel DTE Gas to adopt a specific commercial pooling structure that it has determined is not in the company's or its customer's best interests; if pooling is to be imposed on the company over its own business judgement, the ALJ recognized that is would be "'better suited to a legislative solution than a regulatory one.'" DTE Gas's replies to exceptions, p. 101 (quoting PFD, pp. 599-600).

The Commission declines to adopt RESA's pooling proposal, finding the ALJ's recommendation well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue. *See*, PFD, pp. 599-600.

3. Infrastructure Recovery Mechanism

DTE Gas proposed tariff changes under Section D of its Rate Book to reflect the company's requested IRM rate revisions.[21] 3 Tr 587-589; Exhibit A-16, Schedule F5, p. 1; Exhibit A-16, Schedule F5.1, pp. 3-4.

The ALJ recommended that the Commission approve tariff changes under Section D of DTE Gas's Rate Book that "reflect the Commission's decisions in relation to the substantive considerations regarding changes and updates to the IRM." PFD, p. 600.

No exceptions were filed on this issue.

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[21] For a detailed discussion of DTE Gas's proposed IRM rate revisions, see the Infrastructure Recovery Mechanism section of this order.

The Commission finds the ALJ's recommendation to approve DTE Gas's tariff changes under Section D of its Rate Book as reflected in this order 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. 600.

4. Rate Extra Large Transportation and Extra-Extra Large Transportation Alterations (Tariff Changes for End Use Transportation Service)

DTE Gas proposed tariff changes under Section E of its Rate Book to reflect the company's requested removal of the break-even between Rate XLT and Rate XXLT.[22] 3 Tr 590; Exhibit A-16, Schedule F5; Exhibit A-16, Schedule F5.1.

The ALJ recommended that the Commission approve tariff changes under Section E of DTE Gas's Rate Book that "effectuate the Commission's decisions in relation to rate design." PFD, p. 600.

No exceptions were filed on this issue.

The Commission finds the ALJ's recommendation to approve DTE Gas's tariff changes under Section E of its Rate Book as reflected in this order 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. 600.

5. Residential Income Assistance and Low-Income Assistance Tariffs

DTE Gas laid out and explained the company's energy assistance programs including the RIA and LIA.[23] 3 Tr 1043, 1049-1057. Specific to RIA and LIA, DTE Gas proposed tariff changes

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[22] For a detailed discussion of DTE Gas's proposed removal of the break-even between Rate XLT and Rate XXLT, see the Cost of Service Study and Rate Design subsection of this order.

[23] For a detailed discussion on DTE Gas's energy assistance programs, which include the RIA and LIA, see the Customer Assistance Programs section of this order.

under Section D of its Rate Book to reflect the company's requested RIA credit revisions for Residential Service Rate A customers and for the elimination of duplicative language for the LIA credit and general terms and surcharges. 3 Tr 587-589; Exhibit A-16, Schedule F5, p. 1; Exhibit A-16, Schedule F5.1, pp. 3-4; DTE Gas's initial brief, p. 312.

FLO argued that DTE Gas's energy assistance programs were ineffective and failed to address the root issue of unaffordable gas bills. 5 Tr 2752. As an alternative, FLO suggested a relaunch of the company's PIPP with a 2% income payment cap for DTE Gas customers, a 6% payment cap for combined DTE Gas and electric customers, and funds reallocated from the RIA and LSP funds into the PIPP program, noting that this would replace the existing programs including the LSP and modified LPS programs. 5 Tr 2753-2755; 2764-2768. If the existing assistance programs remain in place, FLO suggested that the current $40 LIA credit be expanded in amount, transparency, and enrollment beyond its current 33,000 enrollees; that the RIA credit cover 100% of each bill's monthly customer charge; and that the LIA participation should not disqualify customers from receiving RIA credit. 5 Tr 2757-2762. While FLO supported DTE Gas's proposal to raise the RIA credit to $15.40 per month, it suggested that the "RIA credit—or another credit—be increased sufficiently to cover the incremental IRM-related charges that customers now must pay as well." 5 Tr 2763-2764. FLO also suggested that the Commission direct the company to inform all RIA credit recipients of their eligibility for the LIA credit, where applicable." 5 Tr 2764. For the LIA credit, FLO suggested that the Commission should increase the LIA credit to 70% of the proposed average monthly customer and distribution charges. FLO's initial brief, p. 30.

The Staff disagreed with FLO's suggestions, asserting that FLO did not consider the basis for the RIA credit program nor did FLO conduct any analysis regarding DTE Gas's ability to adequately recover the revenue requirement associated with the proposed IRM or that the costs

recovered through the IRM would be recovered through distribution charges if the IRM did not exist. Staff's initial brief, pp. 79-82. The Staff also contended that FLO provided no consideration for the timeline misalignment between the IRM surcharge and the RIA credit, noting this timing mismatch could lead to the under collection of revenue.[24] *Id*., p. 81. Moreover, the Staff argued that FLO gave no consideration to the Commission's decision to reject a similar proposal in the November 7 order. *Id*. (citing November 7 order, pp. 205, 207-208).

The Staff also asserted that it is "improper to change any of the current low-income programs at this time, given that the Commission is currently weighing a series of energy assistance recommendations that were brought before it in the Energy Affordability Report in . . . Case No. U-20757 that could potentially overhaul the RIA credit." Staff's initial brief, pp. 81-82. Further, the Staff contended that, while FLO "offered support to a new hypothetical low-income program instead of expanding the currently approved RIA Credit program in its discovery responses to Staff, they did not explicitly or implicitly suggest any semblance of a working replacement in lieu of approval of their current proposal." *Id*., p. 82 (citing Exhibit S-22, p. 4).

DTE Gas also disagreed with FLO's assertions, contending that many of FLO's proposals require "changes to statutory or rule-based programs . . . that DTE Gas cannot unilaterally modify[, or] . . . would materially expand benefits or protections without any quantified alternative forecast." DTE Gas's initial brief, p. 310. Moreover, the company argued that "FLO [made] no argument germane to the instant case, i.e., that DTE Gas's affordability portfolio should be disallowed as imprudent[.]" DTE Gas's reply brief, p. 200. Therefore, the company argues that

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[24] The Staff provided that the "IRM cost reconciliation occurs outside of rate cases, whereas the RIA credit is only calculated during the rate case process as it is tied to the residential customer charge." Staff's initial brief, p. 81.

because FLO failed to point to any imprudence on the company's part, its proposal should be accepted by the Commission. *Id*., p. 200.

The ALJ agreed with the Staff's argument that "FLO has not properly supported its proposal, and that the proposal to include the amount of the IRM in the RIA ignores both the purpose of the IRM and the RIA's history before the Commission." PFD, p. 603. The ALJ also strongly encouraged FLO to:

> adhere to the Commission's prior orders indicating that the FLO's arguments are not well-suited to a rate case. However, if this is once again ignored, this PFD further encourages the FLO to obtain appropriate information through discovery, propose through exhibits tariff language to effectuate their affordability proposals, and otherwise provide the support for their proposals, such as avoiding under recovery, that Staff's filings correctly note is lacking.

Id., p. 604. The ALJ also noted that while this case was pending, the Commission issued the June 11 order, which created a new workgroup with the goal of reducing energy burdens for residential customers and tasked the Staff with proposing a new tariff framework no later than January 31, 2027. *Id*., p. 603 (citing June 11 order, pp. 51-52). The ALJ strongly encouraged FLO, and the organizations comprising FLO, to participate in this workgroup. *Id*., p. 604.

While DTE Gas still bears the burden of establishing the reasonableness of its tariff requests, the ALJ noted that no one was arguing that the RIA should be lower than what the company is proposing or that DTE Gas should cancel its LIA programs outright. *Id*., pp. 603-604. The ALJ further noted that the LIA the company is offering is not facially unreasonable. *Id*., p. 604. As a result, and because the ALJ recommended the adoption of DTE Gas's increased RIA credit in this case, the ALJ recommended that the Commission approve DTE Gas's proposed tariff changes to effectuate the increased RIA credit and to eliminate duplicative LIA language. *Id*., p. 604 (citing PFD, p. 343). The ALJ also recommended that the Commission direct DTE Gas to "include the implementation of the Commission's Affordable Payment Plan tariff framework in its next rate

case, as it is to be filed by Staff no later than January 31, 2027 per the Commission instructions in [the June 11 order]." PFD, p. 604; *see*, June 11 order, p. 52.

No exceptions were filed on this issue.

The Commission finds the ALJ's recommendation to approve DTE Gas's proposed tariff changes to effectuate the increased RIA credit and to eliminate duplicative LIA language 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. 604. The Commission also directs DTE Gas to include the implementation of the APP tariff framework in its next rate case as described in this order and the June 11 order. Notably, the APP framework outlined in the June 11 order is very similar to what FLO is proposing in this case, with a maximum of 2% of income payment cap for DTE Gas customers, a 6% payment cap for combined DTE Gas and electric customers, and funds reallocated from the RIA and LSP funds into the APP program.

THEREFORE, IT IS ORDERD that:

A. Based on the findings in this order adopting a October 1, 2026, through September 30, 2027 test year, rate base of $7,768,974,000, an authorized rate of return on common equity of 9.80%, and an authorized required rate of return of 5.96%, DTE Gas Company is authorized to implement rates that increase its annual revenues by $149,318,000, over the rates approved in the November 7, 2024 order in Case No. U-21291.

B. DTE Gas Company is authorized to implement rates consistent with the revenue deficiency approved by this order on a service rendered basis for service provided on and after October 1, 2026. The attachments to this order, consisting of Attachment A (a summary of revenue by rate class), Attachment B (tariff sheets), and Attachment C (infrastructure recovery mechanism surcharge) are under review. The Commission Staff is directed to file the attachments in this

docket no later than September 24, 2026. The Commission anticipates issuing an order approving the attachments no later than October 1, 2026.

C. The Commission directs DTE Gas Company to include in its next rate case a benefit-cost analysis and long-term plan for the company's rollout of the ultrasonic meters and bypass devices, as described in this order. The benefit-cost analysis shall include the total costs of transitioning to ultrasonic meters, the timeline of transitioning to ultrasonic meters, a timeline for implementation of safety benefits such as threshold alarms and auto shut off, an analysis of alternative metering solutions considered, quantification of all quantifiable benefits including eliminating gas service interruption, remote shutoff, and improved accuracy. Additionally, the company shall also provide the number of ultrasonic meters installed, the number of advanced metering infrastructure/advanced meter reading modules installed, and the number of diaphragm meters installed starting in 2026 until the filing of its next rate case.

D. DTE Gas Company shall file an annual report regarding the new market attachment program that shall include details regarding customer attachment program performance going forward, including comparisons of actual versus projected usage and revenues. The report shall be filed in a new docket that may then be used for all future annual filings of the new market attachments report. The first report shall be due no later than October 1, 2027, and shall be filed on October 1 each year thereafter.

E. In any future rate case in which DTE Gas Company seeks recovery of capital expenditures for the new market attachment program, the company shall update its customer attachment usage to be at or below the average of the last five years' actual gas usage per customer class as reported by DTE Gas Company to the Commission on its P-522 forms, as described in this order. Should DTE Gas Company opt to utilize alternative assumptions for customer usage in future cost

recovery requests for new market attachments, it shall provide rigorous justification with evidence supporting any assumption that exceeds that of the average DTE Gas Company usage per customer over the last five years. Additionally, in any future cost recovery request for new market attachments, the company shall provide evidence regarding the weighted average life of natural gas household appliances installed by newly attached customers, which will be evaluated to determine the appropriateness of the 20-year payback period, as described in this order. The company may propose an alternative payback period with thorough justification supported by record evidence.

F. DTE Gas Company shall continue to provide the alternate cost of service study as described in this order.

G. DTE Gas Company shall design and adopt a rate design model to automatically maintain economic break-even points for the End-Use Transportation classes except for rates between the extremely large transportation class and the extra extremely large transportation class.

H. DTE Gas Company shall include the implementation of the Affordable Payment Plan tariff framework in its next rate case as described in this order and the June 11, 2026 order in Case No. U-20757.

I. In future rate cases, DTE Gas Company shall provide detailed descriptions, costs, and customer benefits to support its customer service operations and maintenance expense, as described in this order.

J. In future rate cases, DTE Gas Company shall establish a mechanism to track all costs associated with the preparation and filing of rate cases and file the costs associated with their previous rate case with each new filing.

K. By its next gas rate case, DTE Gas Company shall work with the Commission Staff to develop more accurate method for calculating the company's weather normalization adjustment that better aligns with monthly differences between actual and normal Heating Degree Days.

L. In its next rate case, DTE Gas Company shall submit a refined energy waste reduction methodology that precisely demonstrates the correlation between energy waste reduction savings, end-use transportation revenue reductions, and end-use transportation revenue forecasts, as specified in this order.

M. In future gas rate cases, DTE Gas Company shall provide transparent and detailed evidence demonstrating how the company offsets inflation through productivity gains, as directed in this order.

N. In future rate cases, DTE Gas Company shall file direct testimony and exhibits containing an itemized list of projected costs associated with the company's corporate membership fees, as well as justification for why these costs are required and are in the interests of ratepayers.

O. In its next rate case, DTE Gas Company shall conduct and present a comprehensive idling analysis that quantifies necessary versus waste idling by vehicle type, estimates fuel costs attributable to both necessary and waste idling by vehicle type, assesses wear-and-tear impacts expressed in equivalent miles driven, evaluates the idle reduction potential of electric power takeoff systems for appropriate vehicle classes in its fleet, and explicitly quantifies the idling advantage of electric vehicles relative to conventional vehicles.

P. In its next rate case, DTE Gas Company shall develop and present a fleet electrification plan guided by a robust, regularly updated total cost of ownership framework that evaluates electric alternatives for all vehicle types (but especially light-duty vehicles) and is applied on a rolling basis. The fleet electrification plan should use updated data for locations and speed of fast

charging facilities across the state, as well as realistic estimates based on data for daily mileage driven and cold weather battery performance. The total cost of ownership framework should also include any idling savings identified in the idling study.

Q. The Low-Income Assistance Credit shall be increased to $58, approximately 70% of the proposed average monthly bill.

R. DTE Gas Company is directed to thoroughly investigate the apparent racial disparity in shutoff rates, undertake an analysis of possible corrective measures, if necessary, and present a report in a new docket by December 30, 2026.

S. DTE Gas Company is directed to conduct a workshop with the Commission Staff and other interested parties to develop the gas delivery plan, as described in the order.

T. DTE Gas Company shall update its gas delivery plan and file the updated plan as described in this order in its next general rate case.

U. DTE Gas Company shall utilize the Michigan Department of Environment, Great Lakes, and Energy's MiEJScreen Tool in its planning processes, as described in this order, in its next general rate case.

V. DTE Gas Company shall improve its communication to customers about existing assistance programs to better educate and assist low-income customers with accessing assistance programs and obtaining funding.

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 sheac1@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 10, 2026.

Lisa Felice, Executive Secretary

P R O O F O F S E R V I C E

STATE OF MICHIGAN)

Case No. U-21973

County of Ingham)

Brianna Brown being duly sworn, deposes and says that on September 10, 2026 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 10th day of September 2026.

Angela P. Sanderson
Notary Public, Shiawassee County, Michigan
As acting in Eaton County
My Commission Expires: May 21, 2030

Service List for Case: U-21973

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