STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of **CONSUMERS ENERGY COMPANY** for authority to increase its rates for the distribution of natural gas and for other relief.	)))))	Case No. U-21981

At the October 15, 2026 meeting of the Michigan Public Service Commission in Houghton, Michigan.

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

ORDER

TABLE OF CONTENTS

I. HISTORY OF PROCEEDINGS ---------- 1
II. LEGAL STANDARDS ---------- 4
III. TEST YEAR ---------- 5
IV. RATE BASE ---------- 6
V. COST OF CAPITAL ---------- 155
VI. ADJUSTED NET OPERATING INCOME ---------- 185
VII. REVENUE DEFICIENCY ---------- 284
VIII. COST OF SERVICE, RATE DESIGN, AND TARIFF ISSUES ---------- 284
IX. OTHER ISSUES ---------- 305

I. HISTORY OF PROCEEDINGS

On December 16, 2025, Consumers Energy Company filed an application in this case requesting authority to increase its rates for the distribution of natural gas by approximately $240 million annually above the level of rates established by the September 30, 2025 order in Case No. U-21806 (September 30 order) based on a projected 12-month test year ending October 31, 2027 (projected test year or test year).[1] Consumers also requested other forms of regulatory relief, including miscellaneous accounting authority. In addition to base rates established by the September 30 order, Consumers also provides natural gas service by way of other approved costs through tariffs on file with the Commission, including gas cost recovery (GCR) factors and securitization bond charges. Application, pp. 1-2.

According to Consumers, the rate increase sought in this case is based on the company's projections for relevant items of investment, expense, and revenues covering the projected test year. The company stated that the primary driver for this case is the need to serve its customers and reflects the company's continued investment in Michigan, with the company listing ongoing investments in gas utility assets to provide safe, clean, reliable, and efficient services and to comply with environmental and legal requirements; ongoing investments in enhanced technology to provide improved operational efficiencies and increased customer satisfaction; and operations and maintenance (O&M) expenses to, inter alia, support long-term investments and improve customer interactions as factors contributing to its requested rate increase. With this case, and in order to provide an overview of its long-term investments needed for the supply and delivery of natural gas, Consumers also provided the newest version of its Natural Gas Delivery Plan

[1] By the time of briefing, Consumers adjusted its requested annual increase to $231.476 million. Consumers' initial brief, Appendix A, line 8, column (e); Consumers' reply brief, p. 118.

(NGDP),[2] indicating that the plan is built around the four objectives of providing customers with safe, reliable, affordable, and cleaner natural gas service. Examples of investments being made, according to Consumers, are in the company's Enhanced Infrastructure Replacement Program (EIRP); Material Condition program; Compression and Storage program; Well Rehabilitation program; Regulatory Compliance programs; Capacity/Deliverability programs; and Systems, Application, and Products (SAP), Fourth Generation (S/4) High Performance Analytic Appliance (HANA) (SAP S/4HANA) Implementation project. Consumers requested a return on equity (ROE) of 10.25%, with an overall rate of return (ROR) on total rate base of 6.40% on an after-tax basis. The company also seeks rate design and tariff changes, along with approval of other proposals in this case, including certain accounting requests. *Id*., pp. 2-8.

On January 13, 2026, Administrative Law Judge Lesley C. Fairrow (ALJ) conducted a prehearing conference at which the ALJ either acknowledged or granted intervention in the case to the following parties: the Michigan Department of Attorney General (Attorney General),[3] Michigan Environmental Council (MEC) and Citizens Utility Board of Michigan (CUB) (jointly, MEC/CUB), Retail Energy Supply Association, Lansing Board of Water & Light (LBWL) and Michigan State University (MSU) (jointly LBWL/MSU), Association of Businesses Advocating Tariff Equity (ABATE), and Energy Michigan. Consumers and the Commission Staff (Staff) also participated in the proceeding. A schedule for the case was also established by the ALJ in accordance with the 10-month timeframe set forth in MCL 460.6a(5), and the ALJ adopted a protective order for use in the matter.

---

[2] An update to Consumers' NGDP is due by December 31, 2026. *See*, September 30 order, pp. 305, 309.

[3] Some parties refer to the Attorney General as the AG in testimony and briefing. Thus, any reference to AG in quoted material in this order means the same (i.e., Attorney General) and is not further defined or altered below.

Direct testimony was filed by the Staff and intervenors on April 14 and 15, 2026, and rebuttal testimony was filed by the parties on May 6, 2026. On May 15, 2026, Consumers filed revised testimony.

An evidentiary hearing was held on May 19, 2026, wherein testimony and exhibits were bound into the record and cross-examination was waived. Thereafter, briefs were filed by most of the parties.

The ALJ issued her Proposal for Decision (PFD) on August 12, 2026. On September 1, 2026, ABATE, Consumers, the Staff, MEC/CUB, and the Attorney General filed exceptions. On September 14, 2026, ABATE, the Staff, Consumers, MEC/CUB, and the Attorney General filed replies to exceptions.

The evidentiary record in this case is contained in public transcript Volume II, pages 26 through 2531, as well as in a confidential transcript,[4] along with exhibits outlined in the PFD, some of which also have a confidential and/or revised version. *See*, PFD, pp. 3-9.[5]

[4] The correct Volume II transcripts and those used and cited in this order are contained in filing #U-21981-0180 (public version) and filing #U-21981-0182 (confidential version).

[5] The docket also contains public comments within the Case Comments section. *See*, Case No. U-21981, filing ##U-21981-0001-CC through -0021-CC as of the date of this order.

II. LEGAL STANDARDS

Before addressing disputed issues in the case, the ALJ provided the following review of the legal standards applicable to this matter:

> The Commission applies the preponderance of the evidence standard when making findings of fact or weighing conflicting evidence. The Commission has indicated that 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 does not mean that if the utility presents evidence, the burden of proof shifts to the parties to the case to disprove that evidence. The Commission affirmed that other parties do not have the same burden of proof as the utility in Case No. U-21291 and held in part:
>
> > [T]he 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 Commission is required to set rates that are just and reasonable when exercising its ratemaking authority. The rate-making process necessarily "involves a balancing of the investor and the consumer interests." A public utility is constitutionally protected from being limited to rates that are so inadequate as to be confiscatory. One of the factors relevant to the rate-setting process is the return a utility's investors may reasonably expect given the risk profile of public utilities as business enterprises. The Commission has acknowledged that rates should be set so as to balance the interests of customers and shareholders such that the utility has "the opportunity to earn a reasonable return on its investments." In considering whether rates are just and reasonable, it is the result reached, and not the methods employed, that is controlling. Further, the Commission has broad discretion in determining the appropriate amount of investment on which a return will be computed. To that end, the Commission has held 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." Additionally, ratemaking is a legislative function, and the Commission is not bound by any particular method or formula in the exercise of this legislative function.

PFD, pp. 10-11 (footnotes omitted; alteration in the PFD). The ALJ then indicated, given the Commission's broad discretion in the ratemaking process and absent any issues rising to the level of constitutional concern, that she would apply the law, weigh the evidence in the record, and look to past Commission orders in guiding her decisions in this case.

No exceptions were filed on this issue.

The Commission agrees with the ALJ on the legal standards applicable to this case and adopts the same here. *See*, PFD, pp. 10-11.

III. TEST YEAR

In developing its rates for this proceeding, Consumers relied on a projected test year from November 1, 2026 to October 31, 2027; a 22-month bridge period from January 1, 2025 through October 31, 2026 (bridge period); and a 2024 historical year (historical year). 2 Tr 1293-1213; Exhibits A-1 through A-4, A-11 through A-13, and A-124. ABATE objected to the use of a projected test year in this case and, in noting a revenue sufficiency for the company of $46 million for the historical year and in the company earning additional revenue despite earning more than was authorized in its historical year across eight of the company's last nine rate increases, recommended that rates in this case be based on historical amounts adjusted for known and measurable changes. 2 Tr 1587-1592; ABATE's initial brief, pp. 4-7; ABATE's reply brief, pp. 1-2. Consumers disagreed, arguing that MCL 460.6a(1) allows for the use of projected test years, that the use of projected test years is the most accurate way to set rates for the period in which they will be effect, that six of the company's last nine rate cases were resolved via black box settlement agreements where the parties agreed to a certain level of rate relief, and basing rates on costs the company is irrevocably committed to incur is not the governing standard for cost recovery and would create a dangerous precedent. 2 Tr 962-967; Consumers' initial brief, pp. 3-5; Consumers' reply brief, pp. 5-7.

The ALJ found ABATE's historical test year arguments compelling. In doing so, however, and looking at past precedent, the ALJ ultimately found "that ABATE and the Commission agree—nothing prevents the Company from using a projected test year where it must provide

sufficient support for projected expenses which significantly deviate from historical amounts." PFD, p. 21 (citing January 11, 2010 order in Case Nos. U-15768 and U-15751, pp. 9-10, and July 10, 2025 order in Case No. U-21637, p. 38). The ALJ thus recommended that Consumers' projected test year be adopted, unless the company has not provided sufficient support for a particular cost request.

No exceptions were filed on this issue.

The Commission acknowledges that the use of projected test years by utilities in developing requested rates in rate cases is permissible per statute—subject, however, to the burden that the company prove the accuracy of every test year projection. In this regard, the Commission reminds the parties that, while MCL 460.6a(1) "plainly provides the utility with the opportunity to develop requested rates based on projected costs and revenues," the statutory language "does not require the Commission to approve such requested rates." January 23, 2025 order in Case No. U-21534, p. 25. Considering this background, the Commission agrees with the ALJ that Consumers' projected test year should be adopted to the extent the company has supported its requests in this case. Absent sufficient support, alternative methods for determining the company's projected costs may be used in determining reasonable and prudent amounts subject to cost recovery based on a preponderance of the evidence, including methods using historical data.

IV. RATE BASE

Rate base consists of the capital invested in used and useful utility plant, less accumulated depreciation, plus the utility's working capital requirements. By the briefing stage of this case, Consumers projected a total natural gas rate base of $12.364 billion for the test year, and the Staff calculated a jurisdictional rate base of $12.339 billion for the test year. Consumers' initial brief, Appendix A, line 1, column (e); Staff's reply brief, Appendix A, line 1, column (e). The Attorney

General recommended a $525 million reduction to rate base, including a $93 million reduction in working capital. Attorney General's initial brief, p. 13. Other parties also addressed individual rate base items.

Contested rate base issues are addressed *ad seriatim* below.

A. Net Utility Plant

Net utility plant is comprised of plant held in service, plant held for future use, and construction work in progress (CWIP), less the depreciation reserve. Consumers' projected rate base capital amounts are divided into the following programs: (1) Distribution and Transmission, (2) Compression and Storage, (3) Information Technology (IT) and Storage, (4) Fleet, (5) Operations Support, and (6) Customer Experience and Operations. Exhibit A-12, Schedule B-5.

1. Distribution, Transmission, Material Condition, and Regulatory Compliance Expenditures

    a. Mains, Services, and Meter Stands

Consumers projected 5,950 new gas business service connections annually during calendar years 2025, 2026, and 2027 and during the projected test year in this case, acknowledging that these projections are lower than its projections from Case No. U-21806 and substantially below the 2020-2024 average. With this, Consumers indicated a projected unit cost of $8,686.22 for 2025, $8,844.20 for 2026, and $8,795.13 for 2027; stated that New Business program capital investment is necessary to support the forecasted level of new service installations, including the mains and meter stands needed to serve anticipated housing starts reflected in third-party economic data; and thus included New Business Mains, Services, and Meter Stands subprogram capital expenditures of $51.683 million in 2025, $41.689 million for the 10 months ending October 2026, and $52.27 million for the projected test year in this case. 2 Tr 1475-1484;

Exhibit A-127, p. 1, line 1. Based on declining trends, MEC/CUB took issue with testimony and the company's NGDP projecting that the number of new service connections will not change at all in the next decade. MEC/CUB thus recommended that Consumers be required to revise its service connection projections in its NGDP to reflect this observable declining trend and to incorporate an analysis of factors driving the decline, including change in consumer preference and market share of gas end-use appliances and equipment. MEC/CUB also recommended that the Commission initiate a proceeding to review gas utility policies for new service connections, with a focus on assumptions and methodology used to calculate new customer contributions and establishing a process for reviewing and updating the underlying assumptions. 2 Tr 2214-2218; MEC/CUB's revised initial brief, pp. 89-94. Consumers disagreed with MEC/CUB's asserted downward trend, highlighting an overall upward trend in new service connections from 2009 to 2025. The company also argued that its gas line extension policy complies with Case No. U-21806 to provide a thorough justification of its Contribution in Aid of Construction (CIAC) and Customer Attachment program (CAP) methodologies. 2 Tr 1552-1555; Consumers' initial brief, pp. 8-15; Consumers' reply brief, pp. 11-13.

The ALJ recommended that the Commission authorize Consumers' New Business Mains, Services, and Meter Stands subprogram projections and costs in this case, finding that the company's projections "are based on the actual connections and costs from 2024 and the first half of 2025 and there is insufficient evidence on this record to find those projections are unreasonable." PFD, pp. 26-27. The ALJ then indicated that MEC/CUB's recommendations to revise Consumers' line extension policies and projections of new service connections in the company's NGDP are separately addressed in the Other Issues section of the PFD. *Id*., p. 27; *see also*, *id*., pp. 531-537.

No exceptions were filed on the capital expenditure aspect of this issue.[6]

The Commission finds the ALJ's capital expenditure recommendation on this issue well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusion on this portion of the issue. *See*, PFD, pp. 26-27.

b. Large New Business Projects

For the company's Large New Business subprogram, pertaining to new connections where the estimated infrastructure costs exceed $500,000 or where special tracking or management is required, Consumers included capital expenditures of $2.342 million in 2025, $7.546 million for the 10 months ending October 2026, and $0 for the projected test year. 2 Tr 1484-1487; Exhibit A-127, p. 1, line 2. The Attorney General took issue with the Agricultural Processing Complex projects and the associated capital expenditures of $12 million forecasted for 2026. With no contract signed and construction being postponed, the Attorney General argued that the company has not sufficiently shown that the projects will occur before the end of the test year and thus recommended that the associated capital expenditures be disallowed as premature in this case. 2 Tr 1859-1860; Exhibit AG-3; Attorney General's initial brief, pp. 21-23. Consumers disagreed, detailing the work that has already been done, stating that a contract signature could be received at any time, and thus asserting that it is reasonable to expect that actual construction will be complete before the end of the test year. The company also argued that a $12 million reduction is not feasible when it only requests $7.5 million for the 10 months ending October 2026. 2 Tr 1564-1566; Consumers' initial brief, pp. 15-16; Consumers' reply brief, pp. 13-14.

[6] While MEC/CUB did file exceptions as to New Business connection projections and line extensions policies as they relate to the company's NGDP, this portion of the issue and objections thereto are addressed under New Business Projections and Line Extensions below, similar to how this portion of the issue was addressed in the PFD. *See*, Part IX, Other Issues below; *see also*, MEC/CUB's exceptions, pp. 19-22.

The ALJ found Consumers' explanation that the company "is preparing for construction and able to sufficiently project the capital expenditures required for the Agricultural Processing Complex project reasonable" and thus declined recommending adoption of the Attorney General's proposed disallowance. PFD, p. 29.

The Attorney General objects and argues that the Agricultural Processing Complex customer has had the contract since October 2025 and had not signed it by the time of initial briefing in this case. Attorney General's exceptions, p. 4 (citing Exhibit AG-87, p. 4). Given the lack of certainty as to when these projects will advance to construction and completion, the Attorney General maintains that it is premature to include $12 million in rate base in this case. The Attorney General further notes dispute about the amount of these projects in the PFD—whether it is $7.5 million or $12 million—but nevertheless argues that $12 million was not adequately supported by the company and should thus be disallowed in this case, with opportunity for the company to recover actual reasonably incurred expenditures in its next rate case.

Consumers replies and argues that the Attorney General's objections are misplaced. The company asserts that it:

> is not acting prematurely in moving forward with the Agricultural Processing Complex project. The customer has signed the line extension agreement. The Company has reasonably moved forward with pre-construction work, including identifying the customer's load requirements, determining the main length and diameter to be installed, identifying the location of Company facilities, planning necessary outages, and conducting survey work. 2 TR 1565. Construction is expected to be completed before the end of the projected test year. *Id*. Moreover, the Attorney General's proposed $12.0 million disallowance is facially unsound because the Company's Large New Business subprogram projection for the relevant 10-month bridge period is only $7.5 million. See 2 TR 1486. Reducing a $7.5 million program projection by $12.0 million is neither feasible nor reasonable.

Consumers' replies to exceptions, p. 2. For these reasons, Consumers contends that the Commission should reject the Attorney General's proposed adjustment and adopt the company's projections.

The Commission respectfully disagrees with the ALJ, instead agreeing with the Attorney General that the Agricultural Processing Complex projects and the associated capital expenditures of $12 million forecasted for the 10 months ending October 2026 are not ripe for inclusion in rate base in this case. *See*, 2 Tr 1859-1860; Exhibit AG-3; Attorney General's initial brief, pp. 21-23. Although Consumers states, in replies to exceptions, that the customer has signed the agreement, this evidence is not on the record and thus cannot be taken into consideration in this case. *See*, Exhibit AG-3; Exhibit AG-87, p. 4; Attorney General's exceptions, p. 4. Indeed, the company's testimony notes only that "[t]he Company's line extension agreement has been presented to the customer, and a signature could be received at any time." 2 Tr 1565. However, while the Attorney General recommends a $12 million disallowance on this issue, Consumers contends that this amount is neither feasible nor reasonable since the company only overall requests $7.5 million for its Large New Business subprogram in 2026. Thus, considering Consumers' subprogram level adjustments as set forth in Table 8 on 2 Tr 1486, the Commission finds a disallowance here of $7.546 million attributable to the company's Agricultural Processing Complex projects for the 10 months ending October 2026 to be reasonable and prudent in this case.

c. Distribution and Transmission Asset Relocation

Consumers included Distribution Asset Relocation (Civic Improvement and Reimbursable) capital program expenditures of $81.311 million for 2025, $75.538 million for the 10 months ending October 2026, and $91.26 million for the projected test year in this case. 2 Tr 1471-1475, 1487-1500; Exhibit A-12, Schedule B-5.8, p. 1, line 2; Exhibit A-128, p. 1, line 3. For

Transmission Asset Relocation program expenditures, the company also included $24.867 million in 2025, $24.656 million for the 10 months ending October 2026, and $9.69 million in the projected test year. 2 Tr 1416-1420; Exhibit A-12, Schedule B-5.3, line 1; Exhibit A-73, line 1. Looking at historical expenditures from 2023 to 2025 adjusted for inflation, the Attorney General recommended a partial distribution expenditure disallowance of $8.661 million for the projected test year, asserting such expenditures to be overstated based on being mostly emergent in nature and unknown. The Attorney General also recommended a partial transmission expenditure disallowance of $4.835 million for the 10 months ending October 2026 and $5.897 million for the projected test year, asserting that three transmission-related projects (GL-00091, GL-03470, and B-GL-00617) are too premature to include in rate base in this case and two other projects (GL-00990 and GL-02086) are ideal candidates for soil replacement (adding soil over the pipeline to reestablish sufficient cover versus replacing the pipelines and burying them deeper). 2 Tr 1860-1862, 1898-1900; Attorney General's initial brief, pp. 23-28; Exhibit AG-4. Consumers disagreed, arguing that capital investments for distribution projects will likely exceed the company's projections for the 10 months ending October 2026 by as much as $19 million, not all Civic Improvement projects have yet been identified for 2027, and use of a historical-average methodology does not account for current project information; that transmission projects GL-00091, GL-03470, and B-GL-00617 are progressing and have undertaken activities that match projects that will be constructed in 2027; and soil replacement for Projects GL-00990 and GL-02086 is neither feasible nor durable. 2 Tr 1396-1399, 1566-1568; Consumers' initial brief, pp. 17-22.

The ALJ recommended adoption of the Attorney General's partial disallowance of $8.7 million for distribution expenditures but declined to recommend the Attorney General's

proposed disallowances for transmission expenditures. For distribution expenditures, the ALJ found that:

> [w]hile the Company and Attorney General agree that the distribution-related asset relocation projects are mostly unpredictable in nature, the Company does not overcome that actual asset-relocations have been declining since 2022. To that end, this PFD finds that basing the test year forecast on the 3-year historical average, adjusted for inflation, will reasonably take the year-to-year fluctuation into account.

PFD, p. 32. And for transmission capital expenditures, the ALJ found that:

> [a]ctivities such as survey work, design commencement, environmental review and permitting, long lead-time material procurement, and other activities have begun for the three projects [Attorney General witness] Mr. Coppola identifies as premature. Thus, while the projects may not be fully developed, they are in progress such that they appear to be sufficiently developed to warrant inclusion in rate base. This PFD also declines to accept the recommendation to require the Company to use a method other than relocation for [the] two other projects, finding insufficient evidence on this record to contradict the Company's assessment that no other method besides relocation was feasible and/or durable.

Id., pp. 32-33.

Consumers objects to the ALJ's recommendation regarding Distribution Asset Relocation projects and argues that the recommendation is flawed. The company states that the ALJ's finding fails to recognize that the company's Distribution Asset program consists of two sub-programs, and while there has been a decline in the Asset Relocation – Civic Improvement sub-program, that is not the case for the Asset Relocation – Reimbursable subprogram, which has seen expenditures increase since 2022. Consumers' exceptions, p. 2 (citing 2 Tr 1499). Moreover, per Consumers, "using an alleged decline in expenditures does not support basing the test year forecast on the three-year historical average, adjusted for inflation," as "the use of a historical-average methodology does not account for the current project information [n]or does a three-year-average reflect record evidence showing that actual Asset Relocation requirements are increasing" and "may exceed the Company's bridge-period projection by as much as $19.0 million." Consumers'

exceptions, pp. 2-3 (citing 2 Tr 2202-2203;[7] Exhibit AG-4). The company states that its projections in this case "are based upon the Company's recent experience in these sub-programs – along with knowledge of specific projects planned over the next few years" and "are required to meet the projected level of asset relocations associated with local and state government projects and complete work associated with customer-requested asset relocations and to resolve gas facility damages." Consumers' exceptions, p. 3. Consumers thus contends that the Commission should approve the company's entire Distribution Asset Relocation capital expenditures requested in this case.

The Attorney General objects to the ALJ's recommendation regarding Transmission Asset Relocation projects and argues that the ALJ "read[] too much into the Company's evidence." Attorney General's exceptions, p. 5. The Attorney General asserts that "the mere fact that some preliminary work has been performed . . . does not mean that the identified projects are ripe for inclusion in rate base in this case," as "[i]t is not clear what the timeline is for completing all the activities mentioned by the PFD," and "[t]he Company's claims that the projects were progressing as would be expected for projects that will be constructed in 2027 is not adequate for demonstrating completion in 2027." *Id*., pp. 5-6. And, as to the ALJ's rationale for Projects GL-00990 and GL-02086, the Attorney General reminds that:

> [t]he Company has the burden of demonstrating that its proposal is reasonable and prudent, which presumably would include an evaluation of alternatives. While [t]he Company claims that adding fill at one location is not permitted except in unavoidable circumstances because it is in a wetland, it is the Attorney General's understanding that it is not in but near a wetland. Further, the Company produced nothing delineating the wetland to support its claim and presumably burying a pipeline in a wetland would require the addition of some fill material to support the pipeline so that is not a basis for rejecting the Attorney General's recommendation.

[7] The Commission believes this citation to be incorrect in Consumers' exceptions and refers to 2 Tr 1566-1568 instead.

> Other than stating general or unsubstantiated concerns it has not been demonstrated that the Company's proposal is reasonable or prudent.

Id., p. 6 (footnotes omitted). The Attorney General further reiterates that, as discussed in her initial brief:

> Project GL 00990 is within agricultural farmland with some nearby wetlands. This project has a current depth of cover of 18 inches in comparison to the 36 inches depth that is now required at time of installation of a new pipeline. Project GL 02086 is also within agricultural farmland and has current depth of cover of 21 inches and would require an additional 15 inches of soil cover. The two agricultural projects identified above appear to be ideal candidates for soil replacement instead of replacing the 300 to 350 feet of pipeline and burying it deeper because they will only require from 15 to 18 inches of additional soil to be added, which seems manageable given the length of the pipeline. Soil in agricultural areas can be more easily replaced given the existence of other soil. Further, it is more cost effective for ratepayers since replacement of soil is a maintenance item instead of a capital expenditure with the added cost of a return on equity. Finally, it does not appear that the Company has actually evaluated replacing soil at certain locations, falling back on the assumption that it would be impracticable or impossible.

Id., p. 7 (footnotes omitted). The Attorney General thus maintains her recommendation that the Commission remove $4.835 million for the 10 months ending October 2026 and $5.897 million for the projected test year from the company's forecasted transmission capital expenditures.

In reply, Consumers disputes as erroneous the Attorney General's argument that the transmission capital expenditures are not ripe for inclusion in rate base in this case, given that the challenged projects are proceeding in accordance with the company's ordinary and prudent engineering schedule and commensurate with projects that will be constructed during the test year. Consumers' replies to exceptions, pp. 3-4 (citing 2 Tr 1396-1397). The company further reiterates that Projects GL-00990 and GL-02086 "are located either in an agricultural area or in wetlands" and "adding soil to these locations is neither feasible nor durable." Consumers' replies to exceptions, p. 4 (citing 2 Tr 1397-1399). On this basis, Consumers asserts that the Commission

should reject the Attorney General's proposed adjustments and approve the company's capital expenditure request.

The Attorney General also replies and asserts that the Commission should reject Consumers' arguments in exceptions. The Attorney General states that her testimony and briefing indicated that there are two subprograms under the Distribution Asset Relocation program and addressed both and that, while her supported recommendation combined the disallowances for both programs, the ALJ presumably was aware that the disallowance recommendation related to two programs. The Attorney General, in this regard, recaps that asset relocations for civil improvements have been declining since 2022 and highlights that, while Consumers identified sufficient projects to fully support the company's capital spending for the 10 months ending October 2026, the company only identified known projects totaling $12.9 million for the projected test year compared to $76.2 million forecasted for that period. Attorney General's replies to exceptions, pp. 10-11 (citing Exhibit AG-4 and Attorney General's initial brief, pp. 26-28). And then for the Reimbursable subprogram, the Attorney General states that the company "could not provide a list of projects to support forecasted capital expenditures for 2026 and 2027." Attorney General's replies to exceptions, p. 11. Based on this information provided by the company, the Attorney General maintains that the company's forecasted capital expenditures for both distribution subprograms are overstated for the projected test year and thus why she used a three-year historical average plus inflation to forecast capital expenditures for the test year given the emergent nature of most of the projects within these two subprograms and with a large portion of forecasted capital spend unknown. The Attorney General therefore contends that the Commission should adopt the ALJ's recommendation.

The Commission finds the ALJ's recommendation on this issue well-reasoned and supported by the record. Although Consumers disputes the ALJ's recommendation for distribution, capital expenditures for total asset relocations have indeed been decreasing between 2022 and 2025, such that averaging these capital expenditures for 2023 to 2025 and adjusting them for inflation for the 10 months ending October 2026 and the projected test year is reasonable. 2 Tr 1860-1862; Exhibit AG-4, p. 4. Further, the Commission agrees with the Attorney General that, while expenditures for the Asset Relocation – Reimbursable subprogram have increased, the company did not provide sufficient evidence on the record in the form of a list of projects to support forecasted capital expenditures for 2026 and 2027. Attorney General's replies to exceptions, p. 11. The Commission is likewise reasonably persuaded that transmission Projects GL-00091, GL-03470, and B-GL-00617 will proceed in accordance with other construction projects in 2027 and that soil replacement is not practical for transmission Projects GL-00990 and GL-02086. 2 Tr 1396-1399. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, pp. 32-33.

d. Pipeline Integrity Transmission

To address inspection, assessment, and remediation activities required by the federal Pipeline & Hazardous Materials Safety Administration (PHMSA) and the Commission-enforced Michigan Gas Safety Standards, Consumers included forecasted capital expenditures of $14.611 million for 2025, $7.753 million for the 10 months ending October 2026, and $23.247 million for the projected test year for its Pipeline Integrity program. The company also described its Transmission Integrity Management Plan (TIMP) that addresses the risks on each covered transmission pipeline segment in accordance with federal requirements. 2 Tr 1421-1428, 1431-1433; Exhibit A-74, p. 1, line 1. The Attorney General argued that the company forecasted a

substantial increase to capital expenditures in the program in 2027 compared to historical levels, specifically noting that nearly $1.5 million on average per project forecasted for 2027 is nearly double the highest cost in the past three years. Considering the 17 projects planned for 2027, which are not unique compared to prior years, and the alleged excessive cost of $675,737 per project without explanation or justification, the Attorney General recommended a disallowance of $11.488 million for the projected test year. 2 Tr 1901-1902; Exhibit AG-21; Attorney General's initial brief, pp. 60-62. Consumers disagreed with the Attorney General's assessment and argued that the company's forecast is not based on a simple historical average adjusted for inflation but is rather identified using historical costs and then refined through project-specific details to account for various factors. The company did, however, indicate that the projected test year expenditures should be updated to $16,752,909 to account for the completion of Project 1700-1 in 2025 under the Asset Relocation Transmission program. 2 Tr 1400-1401; Consumers' initial brief, pp. 23-25, and Appendix B3, line 3.

The ALJ declined recommending the Attorney General's proposed disallowance. The ALJ stated that, "[a]lthough the Attorney General takes issue with the program costs proposed for 2027, this PFD is persuaded that the Company's 2027 forecast is based on project-specific details, which is supported by Staff,[8] and this PFD also finds that there are no obvious irregularities that would warrant a disallowance." PFD, p. 37.

The Attorney General objects and argues that Consumers' "hybrid method of projecting costs using historical data with additional project specific data raises questions about the reasonableness of the cost estimate and does not alleviate the concerns raised by the Attorney General." Attorney

[8] Prior to providing her recommendation on this issue, the ALJ noted that, "[w]hile Staff did not present testimony, it adopted Consumers' reduced program costs as a concession to Staff's position in its brief." PFD, p. 37 (citing Staff's initial brief, pp. 8-9).

General's exceptions, p. 8. The Attorney General asserts the same questions and concerns with regard to the downward adjustment for improperly included costs and thus, given the company's questionable cost estimating practices, maintains her recommendation for the Commission to remove a total of $11.488 million for the projected test year from the company's forecasted capital expenditures.

In reply, Consumers asserts that the Attorney General's argument against Consumers' hybrid method of projecting costs is baseless. Per Consumers:

> The Company has not changed its methodology for projecting Pipeline Integrity costs. Nor has the Attorney General explained why this method of projecting program costs is now unreasonable. The Company projects project costs by first using historical costs from other work of similar scope. 2 TR 1400. Through additional scope refinement by engineering, the estimate is then updated and adjusted to more accurately represent the specific project with pertinent, project-specific details, including site variability and complexity. *Id*. Company witness Waggener explained that "this is appropriate because each project varies in aspects including, but not limited to, pipeline diameter, length of remediation required, depth of excavation required, construction method required to successfully remediate (e.g., conventional open-cut construction vs. trenchless construction), permitting requirements, adjacent population density to the project location, general site accessibility, and general site conditions, including groundwater and vegetation." *Id*. The Company also explained that its 2027 expenditures have increased due to an increased number of engineered projects, including the 1200A-3 Pipe Segment Replacement Project, which features a horizontal directional drill below the Kalamazoo River. *Id*.

Consumers' replies to exceptions, pp. 5-6. Consumers thus contends that the Commission should reject the Attorney General's proposed adjustment.

The Commission finds the ALJ's recommendation on this issue well-reasoned and supported by the record. While the Commission notes the concerns over the company's projected test year adjustment on rebuttal that suggests that it is hard for the company itself to even follow its overlapping capital projects and programs, the Commission nevertheless finds that Consumers adequately explained the variability of projects and included project-specification information to

justify the company's requested costs. 2 Tr 1400; Consumers' initial brief, pp. 24-25. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 37.

e. Pipeline Integrity Transmission Operated by Distribution

For pipeline integrity assessments of transmission lines operated by distribution (TOD) pipeline, Consumers included forecasted capital expenditures of $6.624 million in 2025, $8.506 million for the 10 months ending October 2026, and $15.944 million for the projected test year. 2 Tr 1430-1431, 1433-1434; Exhibit A-74, p. 1, line 2. Absent explanation or justification, the Attorney General recommended a partial disallowance of $5.348 million for the 10 months ending October 2026 and $11.013 million in the projected test year for the large and excessive escalation in costs for the projects planned in 2026 and 2027 as compared to recent historical levels. 2 Tr 1902-1904; Attorney General's initial brief, pp. 62-63. Consumers disagreed, arguing that the Attorney General's average project cost methodology is fundamentally flawed and does not reflect how this work is planned or costed. 2 Tr 1401-1402; Exhibit A-168; Consumers' initial brief, pp. 25-26.

The ALJ declined to recommend adopting the Attorney General's partial disallowance based on historical cost levels. The ALJ stated that:

> [w]ith no evidence on this record to contradict the Company's claim that the 2023 change in regulation requirements results in additional work, this PFD finds the Company's explanation that the increase in scope results in an increase in costs for 2026 and 2027 is sufficient to warrant approval of the requested expense.

PFD, p. 40.

The Attorney General objects and asserts that the evidence does not support the ALJ's analysis. Per the Attorney General:

> Based on information provided by the Company, the average cost per pipeline integrity project over the past three years ranged from $92,245 to $239,010 with the highest amount occurring in 2025. For 2026, the Company forecasted pipeline integrity projects for a total cost of $10,333,781, translating to a cost per project of $645,861. For 2027, the Company forecasted capital expenditures of $16,939,988 for 20 projects, which translates to an average of $846,999 per project. The forecasted costs per project for 2026 and 2027 vary significantly from the 2023 to 2025 period.
>
> The Company does not provide justification for the large escalation in project costs in 2026 and 2027 other than the claim of "additional work being required." That is not sufficient evidence to support the projected costs. Based on the Attorney General's analysis, the 2027 average project cost is three and half times higher than the 2025 project cost. The forecasted costs are excessive.

Attorney General's exceptions, pp. 9-10 (footnotes omitted). On this basis, the Attorney General maintains that the Commission should remove $5.348 million for the 10 months ending October 2026 and $11.013 million for the projected test year from the company's forecasted capital expenditures.

In reply, Consumers asserts that the Attorney General's objections are without merit. Consumers recaps that:

> Company witness Waggener testified that the Company's increased 2027 Pipeline Integrity – TOD costs are driven largely by the implementation of the 2023 RIN2 amendments, which added compliance obligations under 49 C.F.R. § 192.927 and increased the number of ICDA[s] [Internal Corrosion Direct Assessment] and required digs. 2 TR 1401. He further testified that forecasted project costs are based on individual projects that vary materially based on asset-specific compliance requirements, scope, and remediation needs. *Id*. In particular, Exhibit A-168 (JLW-5), workpaper WP-MPG-15, shows that the 2027 Pipeline Integrity – TOD forecast reflects a real increase in External Corrosion Direct Assessment ("ECDA") and ICDA work—not only cost inflation. *Id*.

Consumers' replies to exceptions, p. 7. Consumers thus contends that the Attorney General's proposed disallowances should be rejected and the company's forecasted capital expenditures should be approved.

The Commission finds the ALJ's recommendation on this issue well-reasoned and supported by the record. The Commission finds testimony on behalf of the company persuasive that increased project costs are attributable to assessment changes and additional requirements beginning in 2023 and the variability of costs for individual projects based on asset-specific compliance requirements, scope, and remediation needs. 2 Tr 1401, 1431; Exhibit A-168; Consumers' initial brief, pp. 25-26. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 40.

f. Distribution Maximum Allowable Operating Pressure

Consumers described projects on its gas distribution system where reconfirmation of the established maximum allowable operating pressure (MAOP) is required due to new gas code language in PHMSA regulation 49 CFR 192.624 and forecasted capital expenditures of $66.4 million in 2025, $124.7 million for the 10 months ending October 2026, and $102.7 million for the projected test year. 2 Tr 1511-1528, 1870. The Attorney General recommended the Commission remove $44.106 million from the 10 months ending October 2026 and $90.705 million from the projected test year for capital expenditures associated with 10 projects (out of 22) in this subprogram that have either been canceled or are too premature to include in rate base in this case. 2 Tr 1870-1873; Exhibit AG-8; Attorney General's initial brief, pp. 37-40. Based on historical MAOP project projections compared to their actual costs, ABATE raised concerns about the overstatement of costs in this case and recommended a $41.2 million (40.1%) disallowance for the projected test year. 2 Tr 1644-1649; ABATE's initial brief, pp. 9-11; ABATE's reply brief, pp. 2-4. Also raising concerns, MEC/CUB recommended: (1) a $7.7 million projected test year disallowance for the additional 11% of MAOP project mileage that the company is proposing to complete beyond the 50% PHMSA requirement by July 3, 2028;

(2) that the Commission require Consumers to demonstrate a more robust, quantitative assessment of each reconfirmation method for each MAOP project going forward; and (3) that the Commission establish a requirement that Consumers reconfirm a certain percentage of the affected pipe mileage using reconfirmation methods other than replacement. 2 Tr 2208-2214; MEC/CUB's revised initial brief, pp. 18-23; MEC/CUB's reply brief, p. 4. Consumers conceded to a reduction of $34.389 million in bridge period and $32.782 million in projected test year capital expenditures for four projects (Project Nos. 22861, 22781, 21676, and 22738) that were either canceled or reduced in scope as a result of federal clarification subsequent to the filing of this case regarding the federal pressure test recordkeeping requirements. Consumers, however, disputed all other arguments and proposals as unreliable, meritless, and based on stale project-status information and unsupported proration assumptions. 2 Tr 1550-1551, 1555-1559, 1562-1563, 1572-1575; Consumers' initial brief, pp. 27, 32-41; Consumers' reply brief, pp. 17-21.

The ALJ noted the importance of MAOP capital expenditures for safety and reliability purposes and found that no party presented evidence to determine otherwise in this case. The ALJ acknowledged and accepted Consumers' concession that canceled projects or those reduced in scope should be removed from rate base, resulting in a reduction of $34.4 million from the bridge period and $32.8 million from the test year. For similar reasons, the ALJ also agreed with the Attorney General's recommendation to disallow capital expenditures for the Line 1002, 14 mile – Lorraine Ave to Red Run Drain project "since it appears to be an improper placeholder given that it is in such an early phase of planning that it has not yet been assigned a project number." PFD, p. 50 (citing Exhibit AG-8, line 5). The ALJ further found that, "[w]ith the Company's immediate past history of underspending on projects in this program and cancelling or reducing the scope of projects after funds were approved, . . . the Company has not provided sufficient evidence to

support a request that includes $3,210,000 in the project[ed] test year expenditures for that project." PFD, p. 50. That aside, the ALJ found that Consumers supported the remainder of the company's requested capital expenditures for this subprogram and accordingly recommended that the Commission reject the other recommended disallowances proposed by the Attorney General, ABATE (40.1% across-the-board), and MEC/CUB (11% across-the-board). Further unpersuaded, the ALJ declined to recommend MEC/CUB's recommendations that the Commission require a quantitative assessment of reconfirmation methods available for each MAOP project and a certain percentage of reconfirmation using methods other than replacement. The ALJ found:

> the Company's initial qualitative assessment of reconfirmation methods supported by the Kiefner Final Report sufficient to determine which of the authorized reconfirmation methods would work best to meet its regulatory requirements. Additionally, the Company, with Staff oversight, is in the best position to determine what method of reconfirmation is most appropriate for each project and it would be unreasonable and potentially dangerous to limit the Company's options for reconfirmation by tying it to an authorized percentage.

PFD, pp. 50-51.

In exceptions, ABATE argues that, while the disallowances acknowledged and recommended by the ALJ here are reasonable, Consumers nevertheless failed to adequately support the company's remaining requested capital expenditures for this program as noted by the ALJ's finding about "'the Company's immediate past history of underspending on projects in this program and cancelling or reducing the scope of projects after funds were approved,'" which ABATE asserts as justification for disallowing 40.1% of the company's requested cost recovery. ABATE's exceptions, p. 3 (quoting PFD, p. 50). ABATE restates, as explained in its initial brief, that:

> this amount represents the variance between Consumers' cost projections and the actual cost of the several MAOP projects that have already been completed inside the historical bridge period and test years. (ABATE Initial Br at 9-11.) The Commission should not simply approve Consumers' requested cost recovery

> beyond the reductions for projects that were canceled or reduced in scope; these cancelations and scope reduction demonstrate the unreasonableness of Consumers' projections generally. As the PFD properly found, Consumers' proposed projected test year projections should be adjusted where the Company has not provided sufficient support of their reasonableness. (PFD at 21.) The alleged importance of these projects is not a substitute for finding the associated claimed future cost projections are reasonable or adequately supported. Consumers' history of underspending and project cancellation or scope reduction, acknowledged by the PFD, demonstrate its projections are neither here. The PFD properly relied on its finding regarding "the Company's immediate past history of underspending on projects in this program and cancelling or reducing the scope of projects after funds were approved" to disallow cost recovery for the Line 1002 project. (PFD at 50.) That same evidentiary premise equally applies to the balance of the program. The same record cannot simultaneously support a project-specific disallowance and full approval of the remainder without an explanation of why the Company's demonstrated pattern of underspending is probative as to one project and not as to the others.

ABATE's exceptions, pp. 3-4. In this regard and based on a lack of evidentiary support and the company's demonstrated track record, ABATE argues that the Commission should disallow an additional $28 million (totaling an overall 40.1% disallowance) from the company's revised and remaining projected test year request of $69.946 million (leaving approximately $41.9 million in the test year). *Id*., p. 4 (citing ABATE's reply brief, p. 4).

Consumers also objects and argues that the ALJ's conclusion regarding the Line 1002, 14 mile – Lorraine Ave to Red Run Drain project is inaccurate. The company states that this project is a known project and currently in the planning phase of project development, with construction projected for 2027. Further, according to Consumers:

> [w]hile the Company did not show the assigned project number, this does not make the project a "placeholder." In fact, a project number has been assigned and the design of the project is ongoing. The project was simply renamed in the Company's system as Line 1002, which is why the project number was omitted in the testimony. Exhibit AG-7, page 4, shows project number 30995 named "MAOP HP Line 1002 Type IIb", this is the 14 mile – Lorraine Ave to Red Run Drain project.

Consumers' exceptions, p. 4. The company accordingly contends that cost recovery for the project is reasonable and should be approved.

MEC/CUB also object and argue that the remaining MAOP project expenditures are not supported by substantial evidence and should be subject to further quantitative review. In support, MEC/CUB assert that the ALJ's MAOP recommendations rely on some fundamental misstatements or misunderstandings in the record. Specifically, while PHMSA regulations do require Consumers to have a plan to reconfirm MAOP and remediate line segments where testing records do not meet standards for documentation that is traceable, verifiable, and complete, MEC/CUB assert that this does not prevent the Commission from setting a higher standard regarding these expenditures to protect ratepayers. MEC/CUB recall the six methods of reconfirming MAOP set forth in 49 CFR 192.624(c) and note that, while the company indicated that it chose pipeline replacement for several reasons (Method 4), the company at the same time made contradictory statements regarding the ability to perform pressure testing (Method 1). MEC/CUB's exceptions, pp. 4-5 (citing 2 Tr 1514, 2209-2210). MEC/CUB, in this regard, assert that:

> [i]t is not credible to say that pressure testing is infeasible immediately after saying that pressure testing is part of the pipe replacement protocol currently practiced by the Company. If pressure testing will be required regardless, it is only prudent to pressure test prior to pipe replacement, with the potential to save ratepayers the cost of replacement if reconfirmation can be achieved through pressure testing alone.

MEC/CUB's exceptions, pp. 5-6. MEC/CUB further recall company testimony about pressure reduction methods (Methods 2 and 5) and maintain that these company arguments are generalized arguments for 22 projects, rather than project specific. To this, MEC/CUB argue that "Consumers offers no reason why it cannot perform a quantitative assessment of its chosen reconfirmation methodology for each project on this relatively short list," contending that the company "simply

reasserts the same generalities in support of selecting what is often the costliest option, replacement[, which] is insufficient protection for ratepayers." *Id*., pp. 6-7. Lastly, MEC/CUB contend that the ALJ's recommendations adopt mischaracterizations of the Kiefner Report. MEC/CUB state that:

> [t]he PFD finds the Company's "initial qualitative assessment of reconfirmation methods supported by the Kiefner Final Report sufficient to determine which of the authorized reconfirmation methods would work best to meet its regulatory requirements." But this conclusion ignores the fact, raised in MEC-CUB's Initial Brief, that [Consumers witness] Warriner's points regarding the Kiefner report relate particularly to pressure testing and Engineering Critical Assessment (ECA) – only two of the recertification methods identified. Kiefner does not support the rest of the Company's MAOP recertification methodology. The Kiefner report is also written from a general perspective, so while it may align with some of Consumers' evaluation methods, [MEC/CUB] witness deLeon's key conclusion stands. Consistent with Kiefner, she argued that Consumers must demonstrate (and thus far has not) sufficient evaluation of pipeline replacement alternatives. The PFD's recommendation adopts Consumers' mischaracterization of the Kiefner Final Report and therefore reaches a flawed conclusion about the feasibility of recertification alternatives.

Id., p. 7 (footnotes omitted). For these reasons, MEC/CUB "recommend that the Commission require a quantitative, project-by-project analysis of reconfirmation options, and set an authorized percentage of replacement, above which approval shall be contingent upon acceptance by the Commission of a project-specific justification for replacement." *Id*., pp. 7-8.

The Attorney General also objects and argues that the ALJ erred in only recommending a partial disallowance. The Attorney General restates, as discussed in her initial brief, that:

> the information provided by the Company lacked sufficient detail to determine what amount is attributable to the cancelled projects or the projects with changes in scope, or to determine what the changes in scope entail. Further, . . . [Attorney General witness] Mr. Coppola determined that the capital expenditures for the identified projects for the 10 months ending October 2026 and the projected test year are $44,156,000 and $40,855,000 not the $34.4 million and $32.8 million identified by the Company. In addition, there are projects that are still preliminary with uncertainty surrounding their implementation, have not entered the design phase, or are still in the early design phase.

Attorney General's exceptions, pp. 13-14 (footnotes omitted). The Attorney General thus maintains that the Commission should adopt her entire proposed disallowance.

ABATE replies to Consumers' exceptions and asserts that cost recovery for the company's Line 1002 project was not adequately supported and should thus be rejected. Referencing the Commission's finding on page 6 of the January 31, 2017 order in Case No. U-18014 as it relates to a company's burden when seeking approvals for projected costs, ABATE states that:

> [t]he fact that project is in the planning phase and construction may begin in two years does not demonstrate cost recovery is reasonable at this time. This type of extended timeframe demonstrates the flaw in using cost projections to set revenues; forecasting costs years out into the future does not provide a reliable basis for speculating as to what costs the utility may actually ultimately incur, and which costs it should recover. The PFD properly recognized this reality in its finding that the Line 1002 project "is in such an early phase of planning" and with "the Company's immediate past history of underspending on projects in this program and cancelling or reducing the scope of projects after funds were approved," Consumers did not provide "sufficient evidence to support a request that includes $3,210,000 in the project[ed] test year expenditures for that project." (PFD at 50.) Further, Consumers did not address the PFD's additional finding, regarding Consumers' past history of underspending and cancelling and reducing project scope. This finding independently supports the disallowance. As Consumers has not addressed this issue, the PFD's finding and recommendation stands regardless of how the Commission resolves the placeholder question.
>
> The use of projected costs to establish Consumers' revenue requirement inherently involves speculation and guesswork. The less developed a project is and the further out its planning, design, and construction timeline is set the less reliable or accurate the associated cost projection.

ABATE's replies to exceptions, pp. 1-2. ABATE contends that the ALJ properly recognized that this project is simply too preliminary; thus, the company's proposal for this project is inadequately supported, and the Commission should adopt the ALJ's recommendation.

In response to MEC/CUB's exceptions, the Staff asserts that the Commission should adopt the ALJ's recommendation regarding MAOP reconfirmation methods. The Staff states that:

> MEC quotes Company witness Warriner's statement of "operational risks and constraints associated with re-testing pipe that is already in-service" but fails to

> recognize the risks and constraints that were highlighted such as failures during pressure testing, unplanned or extended outages, and customer disruptions. (2 TR 1511-1528.) Company witness Warriner further highlighted the limitations of pressure testing in-service pipe in distribution systems as supported by the Kiefner report, ". . . in the case of a gas main, the disruption of customers usually cannot be tolerated, and hence, pressure testing in such systems is rarely if ever conducted on existing pipe segments in such systems." (2 TR 1558; Exhibit A-169.) Staff agrees with the conclusion reached by the PFD, which was adequately supported on the record through the testimony of Company witness Warriner. Thus, Staff recommends that the Commission adopt the PFD's recommendation that the Company's assessment of reconfirmation methods were complete and reasonable.

Staff's replies to exceptions, p. 37 (ellipses in replies to exceptions).

Consumers also responds and first asserts that the record is contrary to the Attorney General's objections—meaning, that the record reflects that the company was actively progressing necessary projects and that several of the projects had advanced beyond statuses reflected in the Attorney General's analysis. Consumers' replies to exceptions, pp. 13-14 (citing 2 Tr 1511-1528, 1573-1575). Consumers next asserts that the record also does not support ABATE's 40.1% downward adjustment conclusion, as ABATE's proposal is not based on proper updated information but rather discovery responses with only estimates available when the response was prepared. Consumers' replies to exceptions, pp. 14-15 (citing 2 Tr 1562-1563, 1648-1649 and Exhibit AB-3, p. 1). Consumers further argues that ABATE's methodology also ignores the project-specific evidence contained in the record, while notably also not challenging the underlying scope, cost estimate, or necessity of any individual project. Consumers' replies to exceptions, p. 14 (citing 2 Tr 1512-1528). Continuing, Consumers asserts that MEC/CUB's reconfirmation method requests are neither required nor needed based on the record in this case. While MEC/CUB contend that the company relied upon generalized statements when selecting replacement as the preferred reconfirmation method, Consumers argues that the record demonstrates otherwise. Consumers' replies to exceptions, p. 16 (citing 2 Tr 1514-1517,

1557-1559). Per Consumers, MEC/CUB "identif[y] no regulatory requirement or record evidence demonstrating that additional quantitative analyses are necessary." Consumers' replies to exceptions, p. 17. For reasons explained in the Kiefner Report and company testimony, Consumers asserts that MEC/CUB's pressure testing arguments are also simply wrong and fail to understand how the distribution system operates. *Id*., pp. 17-18 (citing 2 Tr 1514-1516 and Exhibit MEC-6, p. 41). The company further states that the ALJ did not conclude that the Kiefner Report independently dictated the company's selection of replacement but rather found that Consumers' qualitative assessment of reconfirmation methods was supported by both the Kiefner Report and company testimony. Lastly, Consumers asserts that MEC/CUB's proposed predetermined percentage of reconfirmation activities to be completed using methods other than replacement should be rejected as "an arbitrary numerical target above project-specific engineering, operational, and compliance considerations." Consumers' replies to exceptions, p. 19. On this basis, Consumers asserts that the Commission should decline the proposals set forth by the Attorney General, ABATE, and MEC/CUB and adopt the company's revised capital expenditure request.

In response to Consumers' objections, the Attorney General asserts that the ALJ did not err in her assessment of the evidence with regard to the Line 1002, 14 mile – Lorraine Ave to Red Run Drain project, that Consumers failed to adequately identify the project. Per the Attorney General:

> Although the Company claims that the project is in the development phase with construction project in 2027, there is uncertainty about how quickly the project will develop and when, or whether the capital expenditures will occur as forecasted by the Company. It is too premature to include in rate base in this rate case.

Attorney General's replies to exceptions, p. 13 (footnote omitted). The Attorney General thus asserts that the Commission should adopt the ALJ's recommendation regarding the project.

The Commission overall finds the ALJ's recommendation on this issue well-reasoned and supported by the record. The Commission agrees with the importance of MAOP capital expenditures for safety and reliability purposes and also acknowledges and accepts Consumers' concession that canceled projects or those reduced in scope as a result of federal clarification subsequent to the filing of this case regarding the federal pressure test recordkeeping requirements should be removed from rate base, resulting in a reduction of $34.4 million from the bridge period and $32.8 million from the test year. 2 Tr 1550; Exhibit MEC-15, p. 2; Exhibit AG-7, p. 2 (Response c.). The Commission also adopts the ALJ's recommendation to remove capital expenditures for the Line 1002, 14 mile – Lorraine Ave to Red Run Drain project in this case. Although Consumers asserts that the Line 1002, 14 mile – Lorraine Ave to Red Run Drain project is not a placeholder project and points to Exhibit AG-7 to show that the project does have a project number (Project No. 30995), the Commission is not persuaded that the inclusion of these costs in rates is reasonable and prudent for several reasons. In rebuttal testimony, Consumers provided that the Line 1002, 14 mile – Lorraine Ave to Red Run Drain project "is *not* included in the project list provided in Exhibit AG-7 because *a DAPP number has not yet been assigned to that project*," and although Exhibit AG-7 does surprisingly include a project number for the project despite testimony otherwise, the exhibit also shows the "Status" of this project as "Design Not Started." 2 Tr 1574 (emphasis added); Exhibit AG-7, p. 4. Given this evidence and the company's own discrepancies, the Commission agrees that this project appears to be a placeholder project and that associated expenditures are thus premature for inclusion in customer rates based on the evidence presented. The Commission also overall agrees with the ALJ's recommendation as to MEC/CUB's proposals concerning reconfirmation methods but does not necessarily agree with the broad statement implying that the company, with Staff oversight, is always in the best position to

determine what method of reconfirmation is most appropriate for each project, as there may be instances where this may not be true and where evidence provided by other parties may be more persuasive than that provided by the company. Despite this minor caveat, the Commission overall adopts the ALJ's findings and conclusion on this issue. *See*, PFD, pp. 49-51.

g. Distribution Capacity/Deliverability Program

Consumers described the projects in this program as means to address increases in pipeline capacity as a result of population shifts or system requirement changes and to ensure adequate and reliable pressures for deliverability throughout the system, and, for this, the company included forecasted capital expenditures $6.466 million in 2025, $4.866 million for the 10 months ending October 2026, and $14.347 million for the projected test year. 2 Tr 1535-1539; Exhibit A-12, Schedule B-5.8, p. 1, line 4; Exhibits A-130 and A-131. The Attorney General recommended a partial disallowance of $11.431 million for the projected test year based on a lower 2025 amount of actuals provided by the company during discovery (of $900,000 actually spent versus $6.5 million requested in this case) and for six projects that are too premature to include in rate base. 2 Tr 1873-1875; Exhibit AG-9; Attorney General's initial brief, p. 10.[9] Consumers disagreed, arguing that the Attorney General's proposed disallowance is based on an unduly pessimistic and incomplete reading of the record, stale project snapshots, and unsupported allocation assumptions. 2 Tr 1576-1577; Consumers' initial brief, pp. 63-65.

The ALJ found the Attorney General's proposed disallowance of $11.431 million to be reasonable based on testimony on her behalf. The ALJ reasoned that:

> [t]he Company does not dispute or explain the significant variance in historic actual versus projected expenses that [Attorney General witness] Mr. Coppola pointed out for 2025 and which resulted in an over-recovery of approximately $5.7 million.

[9] As noted in the PFD, the Attorney General's initial brief referenced Exhibit AG-9 but did not otherwise address this issue. PFD, p. 53, n. 247.

> This PFD also notes that the Company invested over $31.8 million in projects in the program from 2020 through 2024. The Company has not sufficiently proven that ongoing investment is reasonable or prudent.

PFD, p. 53.

Consumers objects and asserts that the Attorney General and ALJ's recommendation "is based on a point-in-time snapshots that continue to advance over time, with at least one cited project already moving from 'Released' to 'Field Completed,' and that the existence of project assignments, completion dates, and active tracking confirms the Company is progressing toward completion of the work." Consumers' exceptions, p. 12 (citing 2 Tr 1576-1577). Consumers further rebuts lower-than-projected spending in 2025, asserting that the record shows otherwise (i.e., currently identified work already exceeding capital amounts projected in this case). Per Consumers:

> This can be seen from Exhibit AG-9, which reconciles the 2026 project list with the Company's 2026 calendar year projection on the line labeled "Program Level Adjustments" which has a value of ($4,299,018). 2 TR 1576. This credit value shows that the Company's current work plan has identified more projects in 2026 than were originally estimated in the preparation of the Company's filing. *Id*. The Company's forecast is supported by known and advancing project work, and the Commission should reject the PFD's proposed disallowance and adopt the Company's original Distribution Capacity/Deliverability capital expenditure projections.

Consumers' exceptions, p. 12.

No replies to exceptions were filed on this issue.

Persuaded by the company's exceptions and noting that the Attorney General did not file replies to the company's exceptions on this issue, the Commission respectfully disagrees with the ALJ and finds that Consumers' requested expenditures are supported by known and advancing project work and are thus reasonable and prudent for inclusion in rate base in this case. *See*, Consumers' exceptions, pp. 11-12 (citing 2 Tr 1576-1577).

h. Distribution Plant 2025 Underspend

The Attorney General argued that an underspend 2025 Distribution Plant amount of $4.561 million provided by the company during discovery should be removed from rate base in this case as not incurred and therefore unreasonable. 2 Tr 1897-1898; Exhibit A-12, Schedule B-5.8, p. 1; Exhibit AG-19; Attorney General's initial brief, pp. 68-69. Consumers disagreed and argued that the Attorney General's analysis does not consider all Distribution programs, as Distribution programs are documented on both Exhibit A-12, Schedule B-5.7 and Exhibit A-12, Schedule B-5.8, and, when factoring all Distribution spend including Material Condition Renewals, the underspend noted by the Attorney General is offset. 2 Tr 1099-1100, 1577-1578; Exhibit A-12, Schedules B-5.7 and B-5.8; Exhibit A-153; Consumers' initial brief, pp. 68-69.

The ALJ recommended that the Attorney General's disallowance be adopted. The ALJ reasoned that:

> [w]hile the witness testimony and exhibit presented by the Attorney General seem to only consider a portion of the 2025 distribution spending, [Attorney General witness] Mr. Coppola's underlying calculation appears to have taken all applicable spending into account since the "Total Distribution Capital" used is more than the "Total Capital" which was provided by the Company in discovery and offered by the Attorney General as proof that there was an underspent amount. Noting that the Company provided no alternative calculation, this PFD recommends that the Commission accept the Attorney General's proposal.

PFD, pp. 54-55 (footnote omitted; citing Exhibit AG-27, pp. 1-2, compared to Exhibit A-12, Schedules B-5.7 and B-5.8).

Consumers objects and asserts that the ALJ erred in her recommendation "because, when including all distribution spending, distribution spending in 2025 was in fact higher than projected primarily due to increased spending needed in Material Condition Renewals." Consumers' exceptions, p. 15 (citing 2 Tr 1099-1100). In greater detail, Consumers states that the Attorney General's amounts:

> were taken from the Company's discovery response included as Exhibit AG-19, and only included the New Business, Asset Relocation, Regulatory Compliance, and Capacity/ Deliverability programs. See Exhibit AG-19, page 2. The Attorney General's recommendation did not consider the other distribution spending sponsored by Company witness Kristine A. Pascarello, including the Material Condition programs. 2 TR 1099; see also 2 TR 1010 for a list of the Gas Distribution major programs.

Consumers' exceptions, p. 15. Consumers further argues that the ALJ's conclusion that the company did not provide an alternative calculation is also incorrect. Per Consumers:

> As discussed in rebuttal and shown in Exhibit A-153 (KAP-9), page 3, line 47, Material Condition spending levels for 2025 were projected at $358.3 million, with actual spending of $365.37 [million]. Thus, Material Condition spending was about $7.1 million higher than projected in 2025. 2 TR 1100. This $7.1 million in Material Condition overspend more than offsets the $4.561 million underspend in the New Business, Asset Relocation, Regulatory Compliance, and Capacity/Deliverability identified by the Attorney General. Accordingly, when appropriately taking into account the 2025 Material Condition spending, any true up of 2025 distribution projections with actual amounts would result in an increase of $2.5 million, not a decrease.

Consumers' exceptions, pp. 15-16 (emphasis in exceptions).

No replies to exceptions were filed on this issue.

Persuaded by the company's exceptions and noting that the Attorney General did not file replies to the company's exceptions on this issue, the Commission respectfully disagrees with the ALJ and finds that Consumers' requested expenditures are reasonable and prudent for inclusion in rate base in this case. *See*, Consumers' exceptions, pp. 14-16 (citing 2 Tr 1099-1100).

i. Enhanced Infrastructure Replacement Program

Consumers explained that, in response to a federal call to action in 2011, the company began its EIRP in 2012 with the goal of replacing gas mains composed of the highest safety and vulnerable risk materials by the end of 2035 with modern, lower-maintenance plastic and steel mains. For this program, the company forecasted capital expenditures of $231.4 million for 2025, $196.377 million for the 10 months ending October 2026, and $234.183 million for the projected

test year. 2 Tr 1011-1028; Exhibit A-112, p. 1, line 1; Exhibit A-114. The Staff offered general support for the program, noting that the company is making progress toward reducing the cost per mile of plastic main installation, but nevertheless urged the company to continue implementing measures to manage costs and minimize impacts of the program on customers. 2 Tr 2322-2324; Staff's amended initial brief, pp. 57-61. The Attorney General argued that the company should not be allowed to continue the pace of capital spend for this program and recommended that the Commission cap the company's annual capital expenditures at $207 million (2024 actual spend of $193 million adjusted for inflation). The Attorney General recalled history involving this program in support of her recommendation; asserted that four projects within the program (ROK29, LIV8, LIV9, and KAL9) are also too premature to include in rate base in this case, thus recommending an additional disallowance of $45.276 million for the projected test year; and asserted that the completion of the program would not be affected significantly as a result of these recommendations. In total, the Attorney General recommended a disallowance of $72.459 million in projected test year capital expenditures. 2 Tr 1876-1883; Exhibit AG-11; Attorney General's initial brief, pp. 48-54. ABATE likewise recommended a restriction on spending, specifically a limit on spending on the most critical distribution mains (i.e., the top 100 highest-risk segments) based on the company's Distribution Risk Analysis Model (DRAM)). Considering this, the decrease in the number of main leaks resulting from corrosion failure, and historical spend less than forecasted in the past, ABATE thus recommended a disallowance of $72.1 million for seven low-value projects where the DRAM risk value was not within the company's top 100 rankings (i.e., projects FLT12, ROK18, ROK27, ROK29, LIV8, LIV9, and LAN11). 2 Tr 1639, 1653-1654; ABATE's initial brief, pp. 11-15; ABATE's reply brief, pp. 4-6. MEC/CUB criticized the company's strategy for mitigating risks associated with vintage pipes based on the company

not considering pipeline repair or relining options, recalled Commission direction in Case No. U-21806 for the company to include consideration of non-pipeline alternatives (NPAs) and other alternatives to pipeline replacement in the company's updated NGDP, noted that the projected test year spend is a 20% increase above the company's four-year historical average from 2020 to 2024, and thus recommended a $39.5 million disallowance and to hold EIRP investments to $194.5 million (the historical average from 2020 to 2024) until the updated NGDP is submitted at the end of December. 2 Tr 2190-2196; MEC/CUB's revised initial brief, pp. 5-12; MEC/CUB's reply brief, p. 1. Consumers disagreed, arguing that the capital expenditures for the four projects are appropriately included in this case, a spending cap would prolong exposure to higher-risk assets and increase the likelihood of more disruptive and costly emergent replacements, EIRP projects should not be evaluated solely on risk ranking, the reduction in 2023 spend was in response to the settlement agreement in Case No. U-21148 to consider a program completion date beyond 2030, and replacement of vintage materials in the EIRP is the necessary risk-mitigation approach. 2 Tr 1071-1078, 1100-1104, 1109-1113; Consumers' initial brief, pp. 41-42, 45-51; Consumers' reply brief, pp. 22-26.

The ALJ recommended that the Commission approve the company's request. The ALJ noted the purpose of the program is to improve safety and reliability and, while noting similar criticism by parties in previous cases, agreed with the Staff that the Commission has repeatedly approved capital expenditures for this program. The ALJ further noted the Staff's argument that the scope of this program has been clearly defined through prior cases and found that "the parties seeking disallowances have not presented sufficient evidence to overcome the benefits of the EIRP." PFD, p. 63.

ABATE objects and argues that the purported EIRP benefits do not compensate for Consumers' failure to demonstrate that the company's cost projections are reasonable. Further, as the Commission's decision must be based on evidence in this case, ABATE asserts that the ALJ's recommendation on the basis of these purported benefits and past Commission orders should be rejected as not consistent with the company's burden or the applicable standard in this case. In greater detail, ABATE argues that:

> [a]s the PFD recognized, Consumers must "must provide sufficient support for projected expenses which significantly deviate from historical amounts." (PFD at 21.) The Commission cannot approve cost recovery for insufficiently supported projections based on a program's perceived benefits or impute a past approval into this case. Other intervenors are not charged with providing "sufficient evidence to overcome the benefits of the EIRP," Consumers must adequately demonstrate its projections are reasonable (meaning they will be incurred) regardless of program benefits. (PFD at 63.) The Company has not done so here.
>
> As described by the PFD, numerous parties explained the unreasonableness of Consumers' projections for this program. As the PFD noted, the Attorney General explained that Consumers should be held "accountable to meet its initial cost projections instead of allowing the average cost-per-mile for replacement to continue to escalate" and "there is no proof that the mains that remain to be replaced are of high risk." (PFD at 60.) ABATE similarly explained that "the work proposed to be completed through the EIRP is not replacement of high-risk pipelines," which "makes accelerating the program scope unreasonable." (PFD at 61.) Further, Consumers has a history of projections exceeding actual costs and "the Company's grid-based strategy for replacement inflates costs, includes unnecessary work and results in unreasonable expenses." (*Id*.) MEC/CUB similarly pointed out that Consumers "substantially increased program spending in recent years, prioritizes replacement when repair or relining are also viable options, and that the EIRP has not reduced the Company's total number of leaks nor the share of total hazardous leaks." (PFD at 62.) In short, Consumers' cost projections are not reasonable and the benefits of the EIRP have nothing to do with Consumers' failure to adequately support its claimed future costs.

ABATE's exceptions, pp. 5-6. ABATE further claims that the ALJ did not address its contentions about EIRP projects being outside the top 100 segments under the company's own DRAM assessment and Consumers' own admissions that the company "'has not performed a cost-benefit analysis comparing its grid-based EIRP approach to the alternative, segment-by-segment strategy

proposed by ABATE'" or that the company "'has not conducted studies or analyses to determine a specific DRAM risk score at which a distribution main segment should or should not be replaced under the EIRP.'" *Id*., p. 6 (quoting/citing ABATE's initial brief, p. 13; Exhibit AB-20, pp. 22-23; 2 Tr 1650-1654). In sum, per ABATE, Consumers' history of over-projecting costs for this program, the company's own data demonstrating reductions in leaks in recent years, and proposed work that does not focus on high-priority replacements shows that Consumers' projections here are both unreasonable and unnecessary and, as a result, the Commission should decline to approve recovery of $72.1 million for the seven projects outside the top 100 rankings at this time, with ABATE noting that, if Consumers undertakes this work, the company can request reasonable cost recovery associated with the projects in its next gas rate case. ABATE's exceptions, pp. 6-7.

MEC/CUB also object and argue that, despite evidence and arguments from them, ABATE, and the Attorney General in favor of limiting EIRP projects and spending, along with the Staff's support to manage these costs and their impact, the ALJ nevertheless recommended full authorization of funds requested by the company. In response to this, MEC/CUB take exception and assert that the ALJ's recommendation "disregards new information about the accuracy of the Company's EIRP projections and the diminishing urgency of the need for the program, and neglects the opportunity presented by the forthcoming updated Natural Gas Delivery Plan (NGDP) to incorporate critical EIRP data into the Commission's final order in this case." MEC/CUB's exceptions, p. 1. In further support, MEC/CUB state that:

> [t]he EIRP, initiated in 2012, is gradually running its course of replacing, by the end of 2035, "gas mains composed of the highest risk materials." It stands to reason that even a useful and necessary program of pipeline replacement will eventually wind down to lower priority items that can safely be spread out over the remaining nine years of the program timeline, to lessen the annual burden on ratepayers. This has happened here, yet the annual EIRP capital spending budget has ballooned from an estimated $70,000,000 in the original 2011 filing to $234,182,638 for the projected test year. The Attorney General's witness,

> Sebastian Coppola, presented evidence and testimony that a spending limit at the 2024 level – $192,973,757 – would "allow for program goal achievement" while "reduc(ing) the cost for the customer." ABATE witness Colin Fitzhenry backed up this conclusion by pointing out that six of the twelve projects identified by the Company are not on the list of the top 100 highest risk segments. He also noted, "the number of distribution main gas leaks due to corrosion failure was approximately 35% less in recent years." In other words, EIRP work has significantly shifted to lower priority projects, and recent gas leak data does not support the Company's plans to accelerate replacement activity at heightened cost to ratepayers.

MEC/CUB's exceptions, pp. 1-2 (footnotes omitted). MEC/CUB then recall testimony from this case about *why* this program has grown so costly, stating that:

> [t]he Company has excluded pipeline repair or relining as alternatives to replacement, focusing on "having zero vintage materials in the distribution system by 2035," ignoring the potentially less costly alternative of repair/relining, which can be achieved while the pipe remains underground. The Company portrays replacement as the only feasible option, yet the Kiefner Report, which the Company frequently cites in support of its filings, includes an option for site-specific evaluation of repair versus replacement, and PHMSA's Call to Action "includes 'rehabilitation, repair, and replacement' as strategies for addressing critical pipeline infrastructure with known risks." At the same time, the Commission has ordered the Company to submit an updated Natural Gas Delivery Plan (NGDP), which must "include consideration of non-pipeline alternatives (NPAs) and other alternatives to pipeline replacement." As [MEC/CUB witness] deLeon states in her testimony, "Because the current EIRP plan does not reflect the updated (NGDP) strategy, it is premature to approve the proposed level of spending." The updated NGDP will provide critical data for confirming the prudency of EIRP expenditures and timeline, and for helping ensure ratepayers' protection.

MEC/CUB's exceptions, pp. 2-3 (footnotes omitted). MEC/CUB further aver that the Staff's support for the program in terms of previously defined scope and consistent prior approvals does not address the critique that an accelerated schedule (versus a steady schedule up to the 2035 deadline) is more costly for customers without meaningful gains in terms of safety or service. Moreover, per MEC/CUB, "[i]t is also inconsistent to insist on approving anything within the original scope of the EIRP without paying attention to the original timeline and budget, which were less onerous for ratepayers." *Id*., p. 3. In sum, MEC/CUB argue that "changed

circumstances at this mid-course stage of the EIRP should prompt a shift in the [Commission]'s directive" and a more "nuanced response" than that recommended by the ALJ in the form of:

> (1) an EIRP spending limit tied to the projects identified by the Company as highest priority, namely the Company's top 100 highest-risk segments, with a preference for witness Coppola's proposed disallowance of $72.459 million in projected test year EIRP capital expense; and (2) withholding authorization of EIRP capital expenditure pending filing of the updated NGDP, due December 31, 2026.

Id., pp. 3-4.

The Attorney General also objects and argues that none of the ALJ's rationale supports denying the Attorney General's recommendations here. The Attorney General, in this regard, asserts that she presented sufficient evidence that the costs related to Projects ROK29, LIV8, LIV9, and KAL9 are premature as Consumers has not demonstrated that construction will begin early enough and that the projects will be completed before the end of the projected test year. The Attorney General further underscores that the company:

> expects to reach a new peak level of capital spending on the EIRP program in the projected test year of $234.2 million. Any attempt to constrain costs has been short-lived. This is not surprising since Consumers has failed to meet previous commitments to restrain spending. In the settlement agreement for Case No. U-21490, the Company stated that it would keep the EIRP spending level for the 12 months ending September 2025 at $215.3 million. However, the Company exceeded that spending level by reaching in excess of $231 million in capital expenditures in 2025. Therefore, the Commission needs [to] set a maximum spending level or a cap for the EIRP.

Attorney General's exceptions, pp. 16-17 (footnotes omitted). Lastly, the Attorney General contends that there is no evidence that her recommended approach will compromise safety or reliability. More specifically, per the Attorney General:

> No analysis has been presented of what high risk mains remain to be replaced given the advanced stage of the program. The Company has purportedly followed a risk-based approach to pipe replacement over most of the past 13 years, which should have resulted in high-risk mains and services already being replaced. The Company admits that gas leak data shows a downward trend for below grade leaks, but claims that as the pipe continues to age the number of gas leaks will increase.

> However, the Company's conclusion is provided without any supporting engineering analysis. The Company has not provided any compelling evidence that the planned increase in spending is tied to any increased safety risks. Therefore, extending completion of the EIRP program a few more years past the current 2035 date[] is a reasonable trade-off to balance against customer affordability from uncontrolled capital spending on the program.

Id., p. 17 (footnotes omitted). On this basis, the Attorney General maintains that the Commission should remove $45.276 million from the company's forecasted capital expenditures.

Consumers responds and asserts that the Commission should adopt the ALJ's recommendation. In response to the Attorney General's objections, Consumers maintains that capital expenditures for Projects ROK29, LIV8, LIV9, and KAL9 are not premature and should not be removed by the Commission. Consumers states that "[o]nly the test year portion of each project's cost is included in these projections;" "as of April 2026, all four projects . . . are in the engineering design phase and are advancing consistent with the Company's standard EIRP project development process;" and "[b]ased on this progress, the Company will begin construction on all four projects in the test year and continues to expect to incur the projected capital expenditures in the test year." Consumers' replies to exceptions, p. 26 (citing 2 Tr 1073-1074). Consumers also disputes the Attorney General's proposed $207 million spending cap. Addressing the Attorney General's contention that the company overspent in 2025, Consumers asserts that:

> [t]he Attorney General's conclusion is incorrect. In the settlement agreement approved by the Commission in Case No. U-21490, the parties agreed to an EIRP spend amount of $215.3 million for the 12 months ended September 30, 2025. Case No. U-21490, July 23, 2024 Order, Exhibit A, paragraph 5. EIRP expenditures of $231 million in calendar year 2025 do not "exceed" the amount committed to in the Case No. U-21490 settlement agreement because the settlement agreement amount was for the 12-month test year ended September 30, 2025, not for the calendar year 2025. As noted by Company witness Kristine A. Pascarello, the Company expects EIRP expenditures to be $203.9 million for the 12 months ended September 30, 2025, which is less than the $215.3 million amount in the Case No. U-21490 settlement agreement. 2 TR 1027. The Attorney General's comparison is mistaken and does not support an argument that the Company is failing to meet its commitments from Case No. U-21490.

Consumers' replies to exceptions, pp. 26-27. Consumers further articulates why this cap should be rejected, reiterating the purpose of the EIRP and the risks of delaying this work. *Id*., p. 27 (citing 2 Tr 1075-1077. The company thus argues that, just as the Commission determined in Case No. U-21806, the Commission should again reject the imposition of any cap on EIRP capital expenditures in this case. In response to ABATE, Consumers asserts that ABATE's reduced EIRP funding request "misconstrues how EIRP projects should be evaluated and would result in project inefficiencies" and that "EIRP projects should not be evaluated based solely on the risk ranking of distribution main segments, and certainly should not be limited to only the top 100 highest risk segments." Consumers' replies to exceptions, p. 28. Consumers recaps how the DRAM makes evaluations, how EIRP selections are developed, how EIRP project areas are cleared of all vintage materials regardless of individual segment risk rank in the DRAM, and how limiting EIRP projects would be inconsistent with reasonable and prudent system-level planning and lead to increased costs. *Id*. (citing 2 Tr 1100-1102). Consumers further readdresses spending in 2023 and argues that "ABATE's identification of this reduction in miles in 2023 fails to consider the historical context of that reduction, and it certainly does not lead to a conclusion that the Company will be unable to complete the projected test year spending in this case." Consumers' replies to exceptions, p. 29 (citing 2 Tr 1102-1104). Consumers also argues that ABATE's characterization of EIRP work is incorrect. Consumers reiterates that:

> EIRP work targets the replacement of all aging and highest risk materials. 2 TR 1011. While the Company uses a relative risk model to prioritize replacements that offer the greatest reduction in risk, the Company is planning to fully eliminate vintage mains and standard pressure systems by 2035. 2 TR 1013-1014. All of the EIRP replacements are "necessary" because they all work toward the goal of fully eliminating vintage materials by 2035 to improve safety and reliability. See 2 TR 1014. While the overall system risk is expected to decline as the Company replaces vintage materials through the EIRP and related programs, until all vintage materials are eliminated, the remaining vintage segments present

> elevated risk compared to modern infrastructure, and thus continued replacement of these high-risk materials is prudent. 2 TR 1074-1075.

Consumers' replies to exceptions, p. 29. Lastly, in response to MEC/CUB, Consumers maintains that replacement is indeed the necessary risk-mitigation approach for the vintage materials replaced in the EIRP, particularly cast iron and bare steel, as "[r]epairs are temporary fixes that do not address the underlying material driven integrity risks, and relying on repair would prolong exposure to safety risks rather than eliminating them." *Id*., p. 30 (citing 2 Tr 1110-1111). Moreover, per Consumers:

> [T]he Kiefner report relied on by MEC-CUB states that for distribution systems, integrity decisions must be made through the operator's Distribution Integrity Management Program ("DIMP") rather than through inspection or rehabilitation approaches. *Id*. The Company appropriately plans and executes EIRP projects as part of the Company's DIMP. *Id*. The Kiefner report also notes that common inspection tools used on transmission pipelines are generally not applicable for distribution systems, and as such the report does not support the position that inspection-based rehabilitation can substitute for the need for replacement on the distribution system. 2 TR 1111-1112.
>
> The Kiefner report also recognizes that the cast iron and bare steel materials targeted by the EIRP make them unsuitable for long-term repair or rehabilitation. 2 TR 1112. The report explains that for bare steel pipe, ongoing mitigation measures are often not cost-effective or reliable, and replacement may be warranted where corrosion threats cannot be adequately controlled. *Id*. The report also recognizes that cast iron pipe presents unique integrity challenges, and that many operators pursue systematic replacement of cast iron mains. *Id*. And relining is not a feasible solution because it would result in extended customer outages and inefficiencies, and it does not eliminate vintage materials pursuant to PHMSA's "Call to Action." Exhibit MEC-3. The Company's pipeline replacement under the EIRP is aligned with best practices for managing distribution system risk. 2 TR 1112-1113.

Consumers' replies to exceptions, pp. 30-31. Consumers further disputes MEC/CUB's recommendation for an EIRP spending limit tied to the 100 highest-risk segments for the reasons already discussed above and asserts, in sum, that the Commission should reject any and all

proposed reductions or caps on EIRP funding that would delay the planned EIRP work to address known safety risks.

The Commission agrees with the Attorney General, ABATE, and MEC/CUB and finds some form of cost containment not only reasonable and prudent but also necessary at this stage of the EIRP program. While the Commission continues to see overall value in the program, that value does not overcome the rate at which program costs have increased and ballooned since the program first began in 2012. The Commission further finds the rapid and continuous growth of this program to be unsupported on this record. The Commission therefore adopts the Attorney General's proposal to cap projected test year EIRP capital expenditures to be included in customer rates at $207 million. 2 Tr 1880. This keeps the program more in line with the original intent of the program and balances the need to replace high-risk pipeline with customer affordability concerns.

j. Material Condition Non-Modeled

Consumers indicated that projects in its Material Condition Non-Modeled (MCNM) program include hundreds of company-initiated replacements to address emergent issues that must be resolved to comply with regulations or to ensure safety and reliability, with forecasted capital expenditures of $52.802 million for 2025, $45.558 million for the 10 months ending October 2026, and $47.205 million for the projected test year. 2 Tr 1028-1037; Exhibit A-112, p. 1, line 2. The Attorney General objected to the inclusion of some of the expanded, intermingled, and duplicative work added to this program in 2024 (replacement of wrought iron mains, the additional leak mitigation activities, and the replacement of obsolete meters) and thus, given other programs that already address this kind of work, recommended that $13.784 million for the 10 months ending October 2026 and $9.924 million for the projected test year be removed. 2 Tr 1883-1888;

Attorney General's initial brief, pp. 40-46. Consumers disagreed, arguing that this work is appropriately included in this program considering different circumstances; to reduce customer disruptions and overall construction costs by combining wrought iron work with nearby infrastructure projects; to proactively reduce risk, manage available meter replacement inventory, and avoid prolonged outages; and to complete leak replacements in a planned and controlled manner. 2 Tr 1079-1087; Consumers' initial brief, pp. 41-45; Consumers' reply brief, p. 21.

The ALJ declined to recommend adoption of the Attorney General's proposed disallowance. The ALJ found that Consumers "adequately explained the need for these expenditures and that the projects have progressed sufficiently enough to be authorized in this case," found "it reasonable for the Company to address emergent public safety-related issues in multiple ways," and noted "that the Commission has approved the [program] as reasonable in the past." PFD, p. 67.

The Attorney General objects and asserts that the Commission should reject the ALJ's recommendation. Separately addressing the expanded work added to this program, the Attorney General maintains that wrought iron main work should be done under the EIRP given that wrought iron mains are similar to cast iron mains that the company has been replacing within the EIRP. The Attorney General states that, while:

> [t]he Company indicates that it will address the remaining wrought iron mains through civic asset relocation and the EIRP in addition to the Non-Modeled subprogram[,] . . . [r]eplacement of the wrought iron mains should be included in the EIRP as discussed above and prioritized against other projects for risk and replacement. Replacement can also be done through civic asset relocations, as those situations arise. There is no need to include the replacement of wrought iron mains within a third program.
>
> The fact that the Commission may have approved this type of costs in prior cases does not mean that the Commission cannot not evaluate similar costs or arguments to achieve a reasonable outcome in this rate case. Further, as the Company knows, Commission orders are not strictly precedential.

Attorney General's exceptions, pp. 19-20. The Attorney General maintains a similar stance concerning obsolete meters, stating that:

> [a]ccording to the Company, the meters being replaced are diaphragm meters that cannot be repaired when they fail and need to be pre-engineered before replacement. However, residential meters are replaced routinely when they fail without the need to be pre-engineered. The Company also has two other programs for meter replacements, one within the Meters program and the other through the Service Renewal subprogram. The replacement of the 5,500 obsolete meters should be done within those other programs as the meters fail. There is no need for an additional special program at a cost of $10.3 million for 2026 and 2027.

Id., pp. 20-21 (footnotes omitted). Lastly and similarly regarding leak mitigation activities, the Attorney General asserts that:

> [i]t appears that there are leak repairs within the Material Condition Renewals subprogram that seem related to the mitigation of the 400 leak repairs [proposed here for the projected test year]. According to the Company, the targeted leak mitigations do not require immediate emergency replacement, but the Company prefers to address them in a planned matter through the Non-Modeled subprogram. The Company has a separate gas leak repair program to address gas leaks that require both immediate attention and those that can be postponed and repaired later, so the Company's explanation for doing this work under the Non-Modeled program does not seem reasonable. In addition, the Company has the Material Condition Renewals subprogram to address the replacement of vintage mains, services, and meter stands that are prone to leaks or need to be replaced. There is no reason to have a third spending category to address repairs or mitigation of gas leaks within the Non-Modeled subprogram, which increases overall capital spending even further, when other programs are available to address the leaks. There is no need for this additional special spending category at a total cost of $6.0 million between 2026 and 2027.

Id., pp. 21-22 (footnotes omitted).

Consumers responds and argues that the Commission should reject the Attorney General's removal of funding request. With wrought iron pipe, Consumers reiterates that:

> [w]rought iron pipe cannot be permanently repaired using modern welding techniques, which results in recurring leaks and increased operational risks when these facilities remain in service. 2 TR 1080. The Company's planned wrought iron projects included in the MCNM Program are designed to eliminate the remaining wrought iron miles not currently included in planned EIRP work, which will allow the Company to complete this work in a controlled manner in 2026. *Id*.

> Replacement of vintage materials occurs across multiple distribution programs depending on the driver for the replacement, project timing, and field conditions. 2 TR 1081. Addressing these replacements through planned MCNM projects reduces customer disruption and overall construction costs by combining the work with nearby infrastructure projects. *Id*. Wrought iron facilities identified for replacement due to localized failures, repeat leaks, or emergent safety concerns are appropriately and efficiently replaced through the MCNM Program. *Id*.

Consumers' replies to exceptions, p. 20. For obsolete meters, the company repeats that:

> [u]nder the MCNM Program, the Company replaces known obsolete meters in advance, which allows the Company to develop designs before construction begins and schedule work in a controlled manner. 2 TR 1083. While Consumers Energy also replaces meters under the Routine Meter Exchange and Material Condition Renewals programs, those replacements occur under different circumstances. The Routine Meter Exchange Program replaces pre-defined meter lots and does not target the obsolete regulated meter ("RM") types, and the Material Condition Renewals Program addresses field-initiated, emergent meter replacements. *Id*. The MCNM Program replaces a small subset of obsolete RM meters that need to be replaced. *Id*. The planned replacement of these obsolete meters allows the Company to manage the remaining limited inventory of these obsolete meters and ensure meter availability. 2 TR 1083-1084.
>
> The Commission should reject the Attorney General's proposed reactive approach to replace these obsolete meters as they fail. When an obsolete RM meter fails, the failure requires rebuilding of the meter stand, not just replacing the meter. 2 TR 1084. If the Company only replaced these meters as failures occur, it would increase the likelihood of extended customer outages, particularly in multi-meter installations such as apartment complexes. Waiting for failures to replace these meters would force this complex construction work, such as rebuilding multi-meter stands, to occur in emergent situations. *Id*. The Company's approach of replacing a small number of these meters each year in the planned MCNM projects allows the Company to proactively reduce risk and avoid prolonged outages. *Id*.

Consumers' replies to exceptions, pp. 20-21. And lastly, with regard to mitigating leaks,

Consumers recaps that:

> [t]here are two pathways that the Company follows to address leaks: (1) immediate responses for emergent conditions; and (2) planned replacements for deferred conditions. 2 TR 1085-1086. Under the MCNM Program, the Company plans and executes deferred leak-related replacements that are known, engineered, and scheduled. 2 TR 1086. Leaks that require immediate action are addressed through the Material Condition Renewals Program; leaks that can be safely deferred, and where replacement is appropriate, are addressed through planned MCNM projects. *Id*. The MCNM Program does not expand the scope of leak mitigation, but allows

the Company to complete leak replacements in a planned and controlled manner. *Id*.

Consumers' replies to exceptions, pp. 21-22. Consumers further recalls that the Commission considered and declined to adopt similar arguments from the Attorney General in Case No. U-21806 and asserts that the Commission should likewise reject the same in this case.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. The Commission is persuaded that "[t]he planned replacement and leak mitigation work is appropriately conducted in different programs based on factors such as the reason for the replacement, necessary timing, and field conditions," and that "[t]he work completed in the planned MCNM projects reduces customer disruptions and overall construction costs, supports completion of the work in a controlled manner, and avoids prolonged outages." Consumers' replies to exceptions, p. 22 (citing 2 Tr 1080-1081, 1084, 1086). Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 67.

k. Material Condition Renewals – Leak Detection and Repair

Consumers indicated that this program is a company initiative to reduce actionable gas leaks in the field through full replacement of gas infrastructure on an emergent and immediate basis, with forecasted capital expenditures of $41.688 million for 2025, $37.407 million for the 10 months ending October 2026, and $66.33 million for the projected test year. 2 Tr 1038-1044; Exhibit A-112, p. 1, line 3. The Staff provided support for the program. 2 Tr 2324-2326; Staff's initial brief, pp. 61-63. The Attorney General, on the other hand, proposed a partial projected test year disallowance of $24.693 million considering a three-year historical average of spend for this program (from 2023-2025) plus inflation, since the program is based on emergent and uncertain needs versus planned needs. 2 Tr 1888-1890; Attorney General's initial brief, pp. 46-48. Consumers disagreed, arguing that the Attorney General's recommendation fails to recognize that

the company's use of advanced methane detection (AMD) leak survey technology and a grid-based leak survey beginning in 2027 will materially increase detected leak counts beyond historical numbers. With this, the company also noted that AMD technology has not been previously used for system-wide compliance leak surveys and that the test year in this case incorporates the first planned use of doing so. 2 Tr 1088-1089; Consumers' initial brief, pp. 41-42, 45.

The ALJ declined to recommend the Attorney General's proposed disallowance. The ALJ found that:

> the Company's plan to continue addressing a backlog of active gas leaks is a reasonable and prudent capital expenditure to support safe and reliable natural gas service for the reasons argued by Staff. This PFD also finds it reasonable for the Company to address leaks at the earliest possible point with the available AMD technology and, therefore, recommends the Commission decline the Attorney General's proposed partial disallowance and, instead, approve the Company's entire capital expenditure request for this program.

PFD, p. 70.

The Attorney General objects and argues that the ALJ erred in her recommendations. In support, the Attorney General asserts that Consumers has been adequately addressing active gas leaks at the lower spending levels and, while the company speculates higher spending will be necessary using AMD technology to discover additional gas leaks, the Attorney General contends that "there was not a significant impact on Non-Modeled Renewals in 2024 and 2025 from using AMD technology" and "[t]he AMD technology seems to identify more Grade 2 and 3 Non-Hazardous gas leaks [when this program addresses Grade 1]." Attorney General's exceptions, pp. 23-24 (footnote omitted). The Attorney General thus argues that historical evidence does not support the large increase in requested spending for the projected test year, and, given the emergent and uncertain nature of future capital expenditures in this subprogram with

higher 2025 costs driven by damage repairs, maintains her recommendation to use the 2026 forecast adjusted for inflation to determine appropriate spending needs for the projected test year. Per the Attorney General, "[i]f the actual expenditure is more than expected by the Attorney General, the Company can always seek recovery in its next gas rate case[;] [h]owever, if it is less than projected, ratepayers are not burdened with excessive cost." Attorney General's exceptions, p. 24.

Consumers responds and argues that the Commission should adopt the ALJ's recommendation. Asserting that it fully supported the expected increase in test year funding for leak mitigation, the company reiterates that:

> AMD technology detects smaller amounts of gas release than traditional tools, and significantly outperforms the walking survey method by covering greater distances in less time. 2 TR 1155. The test year in this case incorporates the first planned use of AMD for compliance leak surveys. 2 TR 1088-1089. Expanded leak survey coverage and enhanced detection sensitivity will result in a higher number of actionable leaks, with these repairs often requiring full replacement of the affected infrastructure. 2 TR 1040.
>
> Using leak find rates and the expanded survey scope, the Company reasonably determined the number of Material Condition Renewal replacements assuming that (i) one actionable aboveground leak is identified for every 30 services surveyed, and one actionable below-ground leak is identified for every five miles of main surveyed; (ii) 1,150,226 services and 23,622 miles of main will be surveyed in the test year; and (iii) approximately 19% of leaks identified are projected to require full replacement under the Material Condition Renewals Program. 2 TR 1041-1043. The Company's projected expenditures will provide the necessary funding to address the higher volume of emergent repairs and reduce the leak backlog. See 2 TR 1040-1041. The Attorney General's method of projecting expenditures based on the number of leaks identified historically fails to consider the expanded leak survey coverage in the test year and that AMD will identify leaks that have not historically been detected. See 2 TR 1088, 1245-1247.

Consumers' replies to exceptions, pp. 23-24.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. The Commission is persuaded that the company's projected capital expenditures are

necessary to address the higher volume of emergent repairs reasonably anticipated with the use of AMD technology in the test year and Consumers' assumptions and that the requested funds will reduce the company's leak backlog. 2 Tr 1040-1041. Accordingly, with noted support also from the Staff, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, p. 70; *see also*, 2 Tr 2326 and Staff's initial brief, p. 63.

l. Vintage Service Replacement Program

Consumers described its Vintage Service Replacement (VSR) program, which began in 2017, as the company's comprehensive approach to replacing copper, bare steel, and unknown-material gas services across the company's distribution system, in coordination with the completion of the EIRP, to address vintage materials that have significantly higher corrosion-related leak rates compared to modern alternatives and thus pose elevated safety, reliability, and environmental risks. The company explained its 2035 target for full elimination of vintage services, with use of DRAM results to now determine the order in which vintage services will be replaced (with 105,784 vintage services remaining as of January 2025), and forecasted capital expenditures of $30.113 million for 2025, $43.689 million for the 10 months ending October 2026, and $65.761 million for the projected test year. 2 Tr 1044-1047; Exhibit A-112, p. 1, line 4. Based on an estimated increase in the number of vintage service lines replaced under other programs (i.e., the company's Material Condition Renewals program), the Staff argued that the number of service lines replaced under the VSR program in 2027 should be reduced/offset by 1,000 service line units, resulting in a disallowance of $8.559 million in projected capital expenditures for the VSR program. The Staff also recommended that the Commission require Consumers to report additional information about the vintage service lines replaced under the Material Condition Renewals program in the company's EIRP performance report, similar to the information as

provided in Attachment 14 of Consumers' Gas Enhanced Infrastructure Replacement Program 2024 Performance Report. 2 Tr 2326-2329; Exhibits S-17; Staff's initial brief, pp. 10-15. The Attorney General questioned the company's forecasted increase in the cost and work under this program for 2026 and 2027 and thus recommended that 2026 and 2027 capital expenditures be based on actual capital expenditures for 2025 adjusted for inflation, resulting in disallowances of $16.174 million for the 10 months ending October 2026 and $32.11 million for the projected test year. 2 Tr 1890-1893; Attorney General's initial brief, pp. 54-57. ABATE asserted that the company failed to justify the necessity and scale of its request when looking at benefits versus proposed cost and thus recommended that the Commission approve capital expenditures based on the company's actual 2024 spending, adjusted for inflation, resulting in reductions of $37 million in the bridge period and $44.7 million in the projected test year. 2 Tr 1639, 1654-1657; ABATE's initial brief, pp. 15-17; ABATE's reply brief, pp. 6-8. MEC/CUB expressed concern over the number of replacements and the unit cost proposed in this case, along with the lack of alternatives considered, and thus proposed disallowing $34 million and limiting spending to the four-year historical average of $31.2 million for the projected test year. MEC/CUB also recommended that the Commission require Consumers to include, in the company's updated NGDP, an evaluation of relining and NPAs for vintage services, along with an engineering study evaluating the 2035 timeline for replacement and customer preferences as part of this discussion. 2 Tr 2202-2208; MEC/CUB's revised initial brief, pp. 12-18; MEC/CUB's reply brief, p. 3. Consumers agreed with the Staff's $8.559 million reduction but disagreed with the remaining reduction and reporting change recommendations from the Staff, the Attorney General, ABATE, and MEC/CUB. 2 Tr 1105-1109, 1113-1115, 1069-1071; Consumers' initial brief, pp. 51-55; Consumers' reply brief, pp. 26-29.

Albeit acknowledging Consumers' agreement with the Staff's proposed reduction, the ALJ instead recommended that the Commission adopt the Attorney General's proposal to set the capital expenditures for this program at actual 2025 levels adjusted for inflation, resulting in a $16.174 million disallowance for the 10 months ending October 2026 and a $32.110 million disallowance for the projected test year. In support, the ALJ noted Consumers' acknowledgement that the company's 2027 projection was too high and found that:

> the evidence on the record supports that the level of expenditure proposed by the Attorney General will accomplish the goal of replacing the remaining vintage services and is reasonable given the decline in necessity as evidenced by the Company's historical data showing a reduction in leaks and replacements and its plan to reduce the number of replacements in other programs in the coming years.

PFD, pp. 80-81. The ALJ further recommended that the Commission require Consumers to provide service leak replacement data outlined by category of activity across the system. The ALJ found that the company:

> indicates that the data provided in Attachment 14 to its EIRP performance report is the system-level view of all service line leaks remediated by replacement and the Company has made projections that certain projects will increase, so it is reasonable for it to provide the data to determine if those projections come to fruition.

Id., p. 81.

ABATE objects and argues that Consumers failed to demonstrate the reasonableness of its projections here. Despite the ALJ taking note of Consumers' acknowledgment that the company's 2027 projection was too high and the reduction in leaks and replacements in historical data, along with plans for the company to reduce the number of replacements in other programs in the coming years, ABATE asserts that the ALJ's recommendation remained above that justified by the record. Specifically, according to ABATE:

> the PFD recommended setting "the forecast of services replaced to actual levels achieved in 2025 adjusted for inflation which amounts to $27,515,000 for the

> 10 months ending October 2026 ($16,174,000 lower than the Company's forecast) and $33,651,000 for the 12 months ending October 2027 ($32,110,000 lower than the Company's forecast)." (*Id*.) The justifications provided by the PFD merit reducing Consumers' requested cost recovery by an additional $20.8 million in the bridge period and []an additional $12.6 million in the projected test year beyond the $16,174,000 and $32,110,000 reductions the PFD has already recommended for those respective periods.
>
> As the PFD found, Consumers' 2027 cost projection was too high and its historical data shows a reduction in leaks and decline in necessity. Further, as explained in ABATE's Initial Brief, the Company's proposed increase in VSR work was over three times the actual work it previously completed. These realities merit a larger cost disallowance than that recommended by the PFD. Rather than use the Attorney General's recommendation to use 2025 figures adjusted for inflation, the Commission should approve cost recovery consistent with continuing the rate of service replacements completed in 2024. (ABATE Initial Br at 15-17.) The 2024 program year is the appropriate anchor because it is the most recent year of fully verified actual replacement volumes and cost per service. The Company's support for its 2025 figures consisted of projections and preliminary actuals, and its 2025 activity already reflects the very acceleration ABATE contends is unjustified. (Pascarello 2 Tr 1108-09; Exhibit AB-20 at 27.) Allowing for annual inflation adjustments of 2.5%, an appropriate increase to the cost per service would amount to $7,721 in 2025, $7,914 in 2026, and $8,285 in 2027. The adjusted cost of the VSR program would therefore be $36.8 million in the bridge period and $21.1 million in the test year. (*Id*.)

ABATE's exceptions, pp. 7-8.

Consumers also objects and asserts that the Commission should not adopt the ALJ's recommendation because it will only slow the pace of VSR replacements and goes against approvals in Case No. U-21806. Consumers states that its plan to remove all vintage services by 2035 is accomplished through this program, its EIRP, and other programs, and while the ALJ "is correct that fewer replacements are planned in the EIRP and other programs, with those programs focusing on coordinated or condition-based replacement[,] . . . fewer replacements in those programs does not result in reducing VSR Program replacements." Consumers' exceptions, pp. 5-6 (citing 2 Tr 1090). Rather, according to Consumers:

> the VSR Program has shifted toward addressing the residual population, resulting in more replacements under the VSR Program. 2 TR 1090. <u>It is precisely because</u>

> service replacements are declining in the EIRP and other programs that the Company is projecting increased service replacements in the VSR Program. The Company is proceeding pursuant to its plan to fully eliminate vintage services by 2035, and to accomplish this plan an average annual replacement rate of 10,500 services is required. 2 TR 1046. With fewer services replaced in the EIRP and other programs, more services will need to be replaced in the VSR Program to fully eliminate vintage services by 2035. See 2 TR 1090.

Consumers' exceptions, p. 6 (emphasis in exceptions). Furthermore, Consumers contends that:

> even if the Commission agreed that the Company should reduce VSR expenditures and the pace of vintage service replacements, which it should not, the Commission should not reduce bridge period expenditures because the Commission approved $42.51 million of VSR Program expenditures in the projected test year in Case No. U-21806. See Case No. U-21806, September 30, 2025 Order ("U-21806 Order"), page 59. The projected test year in Case No. U-21806 covered the 12-month period ending October 31, 2026, which includes the bridge period in this case of 10 months ending October 31, 2026. See 2 TR 1047. The Company is already completing bridge period VSR Program work and making associated expenditures consistent with the [Commission]'s approval in Case No. U-21806. The Commission should continue its approval of the pace of the Company's vintage service replacements and related expenditures, including those in the VSR Program, and it would be particularly unreasonable to reduce the bridge period expenditures in this case that are based on the approval that the Commission granted for the test year in Case No. U-21806.

Consumers' exceptions, p. 6. Consumers thus asserts that the Commission should approve the company's projections, with the Staff's reduction, to support improved reliability and safety through the replacement of remaining vintage services at a measured and reasonable pace.

Consumers also maintains that the Commission should decline to adopt the ALJ's modified EIRP performance reporting recommendation as unnecessary. Consumers reiterates that:

> [t]his recommendation arose from Staff's proposal that the Company be required to report service lines replaced under the Material Condition Renewals Program in the EIRP performance report, similar to the information provided in Attachment 14 of the 2024 report. See 2 TR 2329. But the service leak replacement data provided in Attachment 14 is not limited to the EIRP, and is sourced from the Company's annual Department of Transportation ("DOT") reporting that captures all service line leaks remediated regardless of the program. 2 TR 1070. Using this DOT-based data ensures all service leak remediation activity across the system is captured. The DOT-based reporting framework includes all service replacements and reflects actual system operations. 2 TR 1070-1071.

Consumers' exceptions, p. 7.

The Staff states that it does not object to the ALJ's recommended disallowance but nevertheless clarifies that Consumers does not intentionally plan to reduce the number of vintage service lines replaced under the EIRP. Rather, according to the Staff, the number of service lines forecasted to be replaced under the EIRP "is a function of the number of [such] lines available within EIRP projects, and other programs, to be replaced." Staff's exceptions, p. 2 (citing 2 Tr 2324-2347).

ABATE responds to Consumers' exceptions and asserts that, because the company's proposal here was not adequately supported, the Commission should reduce cost recovery for the program consistent with ABATE's recommendations in this case. While Consumers argues in exceptions that fewer replacements in the EIRP and other programs do not reduce VSR program replacements but increases them because the VSR program has shifted toward addressing the residual population, ABATE contends that this response from Consumers "does not answer the PFD, which found a decline in need evidenced in part by the Company's own historical data showing a reduction in leaks." ABATE's replies to exceptions, p. 3. Per ABATE:

> Consumers' program-shifting claim both elides that finding and proves too much: if the VSR Program is now absorbing residual work displaced from other programs, the request reflects a mitigation of work among programs rather than a demonstrated increase in risk requiring remediation at this cost.
>
> As demonstrated throughout the record in this case, including in the PFD's acknowledgment regarding necessity, the vast majority of the Company's requested cost recovery is not associated with addressing real and material risk. (See ABATE Initial Br at 15-17; ABATE Exceptions at 7-8.) The Company acknowledged that it "has not conducted studies or analyses to determine a specific DRAM risk score at which a vintage service should or should not be replaced" and its objective is not to achieve a "particular level of residual risk on vintage services, but to systematically reduce overall system risk over time by addressing higher-risk services first where practicable and coordinating replacements efficiently across all vintage assets." (Exhibit AB-20 at 25-26). As such there is no demonstration on the record that its

> requested cost recovery is reasonable. Instead, the Company effectively conceded these costs are not actually necessary, reasonable, or prudent; they instead simply stem from the Company's desired project timeline. Furthermore, the Company's proposal also represents a dramatic increase of over three times the actual work completed, meaning the Company has not demonstrated this work is likely to be completed. (*Id*.) The record does not, therefore, demonstrate this level of expenditure is reasonable or that the Company's proposed work scope is achievable.

ABATE's replies to exceptions, pp. 3-4.

Consumers responds to ABATE and argues that the Commission should reject ABATE's proposed reduction and approve the company's projections with the Staff's reduction. Consumers reiterates that it:

> is proposing to proceed pursuant to its plan to eliminate remaining vintage gas services, including copper and bare steel, by 2035 in coordination with other distribution capital programs. 2 TR 1113. With fewer services replaced in the EIRP and other programs, more services will need to be replaced in the VSR Program to fully eliminate vintage services by 2035. See 2 TR 1090. This projected VSR work is supported by a scalable workforce that includes internal crews and long-standing, qualified contractors. 2 TR 1108. As shown in Exhibit AG-17, page 3, Consumers Energy has been able to increase VSR activity in recent years, including higher service replacement volume in 2025, and the projected work in this case builds on that capability. 2 TR 1109.

Consumers' replies to exceptions, p. 32. Underscoring that it is proposing to remove all vintage services by 2035, Consumers repeats that:

> [f]or Proactive Out-of-Grid vintage services located outside of EIRP project boundaries, the Company uses risk analysis through the DRAM as a planning input. 2 TR 1105-1106. For Proactive In-Grid vintage services, the services fall within EIRP project boundaries but are not directly tied to the replacement of a vintage main. 2 TR 1106. These services are funded through the VSR Program but coordinated with the EIRP project. *Id*. These services are not selected using the DRAM. ABATE's proposed reduction in EIRP funding would reduce the number of Proactive service replacements, including those coordinated with EIRP projects. *Id*.

Consumers' replies to exceptions, p. 33. Moreover, per Consumers:

> The VSR Program should not be limited to a small subset of the highest risk services because such an approach would result in construction inefficiencies,

> would require repeated entry into the same areas, and would significantly slow the progress toward eliminating leak-prone vintage materials from the system. 2 TR 1106. It is also important to note that the aggregate risk score for those top 1,000 services is 17.732. 2 TR 1107. For context, when considering all 102,700 vintage services at the time the analysis was performed, the total modeled vintage service risk score was 100.286. *Id*. Thus, the top 1,000 services represent approximately 17.77% of total modeled vintage service risk, even though they are less than 1% of the vintage service population that the model evaluated. *Id*. So although risk is meaningfully concentrated among the highest-ranked services, limiting replacement to the highest ranked services would leave most vintage services unaddressed and would slow the progress in reducing systemwide vintage service risk. *Id*.

Consumers' replies to exceptions, p. 33. In sum, Consumers states that, under this program, all vintage services, which have higher long-term leak and corrosion risks compared to modern materials, are being replaced by 2035 to reduce safety, reliability, and environmental risks on the system and, as previously noted, the company is completing bridge period work and making associated expenditures consistent with test year approvals in Case No. U-21806. This work, per Consumers, is necessary, reasonable, and prudent and should thus be approved subject to the Staff's adjustment.

MEC/CUB also respond and contend that the ALJ's recommendation is a reasonable and conservative approach grounded in demonstrated and audited expenditure data rather than forward-looking projections. MEC/CUB argue that Consumers' adoption of the Staff's recommendation undermines the company's argument that the pace of the VSR program must increase unimpeded. Adopting a capital expenditure that reflects actual levels instead of ambitious projections, per MEC/CUB, is prudent and an established and authorized Commission practice. MEC/CUB further argue that Consumers' proposal to escalate the company's projects here is motivated by a self-imposed deadline, the company proposed far fewer replacements in prior years and has consistently underperformed, there is no evidence that the company can complete its projections, and Consumers' own historical data illustrates that the company has overestimated the

realistic rate of replacement here. On this basis, MEC/CUB assert that "[a]dopting the PFD recommendation would not slow down the replacement rate" but "would [instead] acknowledge and hold the Company responsible for its track record." MEC/CUB's replies to exceptions, p. 2. Beyond this self-imposed deadline, Consumers points to the need to limit safety, reliability, and environmental risks; however, per MEC/CUB, the Attorney General noted "evidence that below grade gas leaks have been decreasing since 2021, indicating that the cost to be absorbed by the ratepayer for accelerated replacement is not commensurate with the benefit," and, thus, "if leak rates are declining, the urgency of accelerating VSR replacements beyond 2025 actual levels is diminished." *Id*., p. 3. Moreover, according to MEC/CUB:

> In its rush to replace, the Company has also given insufficient attention to (often) less expensive and more flexible alternatives, such as the five viable alternatives to full replacement described by witness deLeon. Locking in natural gas service with replacements creates long-term risks for ratepayers, she testified, providing examples of electrification being implemented successfully in other states. Consumers' rebuttal indicated that electrification would depend heavily on "uncertain ratepayer future decisions," yet the Company's proposal would effectively make those decisions for ratepayers. Assuming the status quo amid rising utility costs and an ever-changing infrastructure landscape essentially strong arms the ratepayer into continuing with natural gas service when less costly options may be available. The company has provided insufficient justification for resorting to the most expensive option, full replacement, asserting without supporting evidence that VSR projects are too large and complex for any of the five other methods.

MEC/CUB's replies to exceptions, p. 3 (footnotes omitted). Additionally, as to bridge period funding and approvals in Case No. U-21806, MEC/CUB clarify that:

> [t]he [Commission]'s approval of $42.51 million in VSR Program expenditures in Case No. U-21806 for the 12-month period ending October 31, 2026 does not create a binding entitlement to recover those same expenditures in the current proceeding. *Consumers Energy Co v Public Service Comm'n*, 261 Mich App 455 (2004) (prior [Commission] approval of expenditures does not automatically entitle a utility to recover those costs without further Commission review). Each rate case involves an independent review of the reasonableness and prudence of capital expenditures for the applicable rate period, and a prior approval in a different case does not foreclose the Commission's authority to scrutinize and adjust those

> expenditures in a subsequent proceeding based on updated record evidence. *Association of Businesses Advocating Tariff Equity v Public Service Comm'n*, 216 Mich App 8, 30 (1996); *Association of Businesses Advocating Tariff Equity v Public Service Comm'n*, 208 Mich App 248, 266-67 (1994) (the Commission undertakes an independent analysis in each case and "may make pragmatic adjustments which may be called for by particular circumstances").
>
> The fact that the Company has already begun incurring bridge period expenditures does not transform those expenditures into automatically recoverable costs; the Commission retains the authority to evaluate whether such expenditures are reasonable and necessary. The Commission "is not bound by any single formula or combination of formulas, but is free to make pragmatic adjustments warranted by particular circumstances." MCL 460.6h(1)(d), cited in *Attorney General v Public Service Comm'n*, 189 Mich App 138, 472 NW2d 53 (1991).
>
> Moreover, the overlap between the two test periods does not mean the Commission is bound by its prior order—circumstances, including actual 2025 expenditure levels and updated program data, may have changed in ways that justify a different outcome in this proceeding. Beginning work without approved funding is a risk the Company chose to take, not the fault or responsibility of the ratepayer. The Company's 2035 elimination goal does not necessitate any particular annual pace in any single rate year, so ratepayers should not be required to fund an accelerated schedule that is not yet supported by demonstrated operational capacity or confirmed project commitments.

MEC/CUB's replies to exceptions, pp. 4-5. In sum, MEC/CUB urge the Commission to adopt the ALJ's recommendation and to also include a provision "requiring the Company to provide an alternatives assessment not only of the less cost intrusive VSR options outlined by [MEC/CUB] witness deLeon but also documenting what ratepayers desire in their utility infrastructure." *Id*., p. 5.

The Attorney General also responds and asserts that the Commission should adopt the ALJ's recommendation. Responding to Consumers' exceptions, the Attorney General asserts that:

> [t]he increase in the number of service replacements for 2026 and 2027 does not appear to be based on an increased need to address gas leaks. Gas leak data shows a decline in the number of below grade gas leaks, except for a slight increase in the number of gas leaks from 2023 to 2024, the overall trend has seen a decline in gas leaks for all types of gas services since 2021. The higher number of service replacements is not adequately supported and should be scaled back.

Attorney General's replies to exceptions, p. 16 (footnote omitted).

The Commission finds the ALJ's recommendations well-reasoned and supported by the record. Based on this record and in deciding rates on a prospective basis, the Commission is not persuaded that Consumers can meet the program goals it has presented in this case. While the Commission is favorable to having an end date or goal by which the company would like to have work done, this end date or goal must be realistic with the work that can actually be accomplished, and on this record the company has not demonstrated how this is possible. The Commission also agrees with the ALJ's recommendation as to the Staff's reporting proposal. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue but also, for the reasons articulated by Consumers, declines to adopt MEC/CUB's recommendation for the company to provide an alternatives assessment of less costly VSR options and to document what ratepayers desire in their utility infrastructure. *See*, PFD, pp. 80-81; *see also*, 2 Tr 1115.

m. Deliverability Base Field Measurement Program

Consumers explained that this program is essential to ensure accurate gas quality and measurement and includes projects for remote gas measurement equipment monitoring, gas volume calculations, gas transmission metering, transport metering stations, interstate interconnection sites, gas quality improvement and processing, gas sampling systems, and other ancillary equipment. For the program, the company forecasted capital expenditures of $9.15 million in 2025, $9.846 million for the 10 months ending October 2026, and $25.371 million for the projected test year. 2 Tr 1447-1450; Exhibit A-75, p. 1, line 3. The Attorney General argued that eight projects in this program (Projects GM-01089, B-GM-00042, B-GM-00043, B-GM-00045, B-GM-00047, B-GM-00049, B-GM-00051, and B-GM-00053) are too premature to include in rate base in this case and further noted no benefit/cost analysis (BCA)

for any of the projects, including the Williamston station project (Project GM-01089) previously presented in Case No. U-21806. On this basis, the Attorney General recommended that $7.365 million for the 10 months ending October 2026 and $20.752 million for the projected test year be disallowed. 2 Tr 1906-1908; Exhibit AG-24; Attorney General's initial brief, pp. 57-58. Consumers disagreed, arguing that, despite being in early phases, the projects have incurred and will continue to incur necessary expenditures, and the development phase of a project, by itself, is not a valid basis to exclude prudent capital investments from rate base. 2 Tr 1403-1404; Exhibit A-166; Consumers' initial brief, pp. 56-59.

The ALJ recommended that the Commission adopt the Attorney General's proposed disallowances. In doing so, the ALJ noted that Consumers voluntarily removed the Williamston station project from consideration in Case No. U-21806 and found that the company did not sufficiently justify doubling the capital expenditures for the program in the projected test year in this case for the reasons set forth by the Attorney General. PFD, p. 83 (citing September 30 order, pp. 63-65).

Consumers objects and argues that the Commission should reject the ALJ's recommendation. While the company acknowledges that it voluntarily removed the Williamston station project from Case No. U-21806, the company nevertheless asserts that the record in this case reflects the reasonableness of the project. Consumers states that it:

> has since undertaken a business case and cost-benefit analysis showing that the project is needed to satisfy API-1164 and the Transportation Security Administration cybersecurity requirements, reduce risks associated with testing in live systems, and provide long-term economic benefits through avoided third-party testing and lower internal construction costs. Exhibit A-166 (JLW-3). Company witness Jordan L. Waggener testified that this facility provides a dedicated nonproduction test environment for transmission measurement technology, allowing the Company to validate new protocols, applications, firmware, and measurement equipment before deployment on the live system. 2 TR 1403-1404. That capability reduces operational and cybersecurity risk associated with parallel

> field testing, supports more reliable compliance with federal standards, and allows the Company to perform testing, troubleshooting, and construction of measurement assets internally rather than continuing to rely on third-party providers. Additionally, internal construction of gas analysis buildings and enclosures is typically completed at approximately half the cost of comparable third-party solutions, and those avoided contractor, laboratory, and testing costs provide continuing customer benefits over time. 2 TR 1403-1404.

Consumers' exceptions, pp. 8-9. Accordingly, Consumers asserts that it fully supported as reasonable its entire forecasted Deliverability Base Field Management program capital expenditures, including for the Williamston station project, in this case.

The Attorney General responds and, while acknowledging the company's arguments in exceptions regarding the Williamston station project, highlights that Consumers provides no analysis related to any of the other seven projects identified by the Attorney General as premature for inclusion in rate base in this case. Although the Attorney General maintains that the Commission should adopt the ALJ's recommendation, alternatively the Attorney General recommends that, "[a]ssuming arguendo that the Commission adopts the Company's arguments with regard to the Williamston project, the remaining projects are unsupported, and the Commission should not approve recovery of those costs." Attorney General's replies to exceptions, p. 19.

The Commission agrees with the ALJ in part. While the Commission agrees with the Attorney General that seven of the eight projects (Projects B-GM-00042, B-GM-00043, B-GM-00045, B-GM-00047, B-GM-00049, B-GM-00051, and B-GM-00053) are indeed premature for inclusion in rate base based on the evidence, the Commission finds that Consumers has shown through testimony and its approved business case and BCA that the Williamston station project "is needed to satisfy API-1164 and the Transportation Security Administration cybersecurity requirements, reduce risks associated with testing in live systems, and provide

long-term economic benefits through avoided third-party testing and lower internal construction costs" and is thus reasonable and prudent for cost recovery in this case. Consumers' exceptions, p. 8; *see also*, 2 Tr 1404-1405 and Exhibit A-166, pp. 5-29. Accordingly, for the seven projects, the Commission finds a disallowance of $7.365 million for the 10 months ending October 2026 and $9.448 million for the projected test year to be reasonable and prudent in this case. 2 Tr 1906-1907.

n. Deliverability Base Pipeline Program

Consumers described that this program supports maintaining operations in accordance with the Michigan Gas Safety Standards and includes projects for valve and associated valve operator replacement, piping replacement due to MAOP revisions, construction of new sectionalizing valves and tap valves, reconfiguration of tap piping and associated valving upstream of city gate facilities, and installation or retirement of pipeline taps. For this program, Consumers forecasted capital expenditures of $22.843 million in 2025, $19.841 million for the 10 months ending October 2026, and $24.649 million for the projected test year. 2 Tr 1450-1451; Exhibit A-75, p. 1, line 4. The Attorney General took issue with the early/placeholder stage at which 10 projects in the program are at (Projects GL-03316, GL-03805, GL-03640, B-GL-00262, B-GL-00264, B-GL-00268, B-GL-00272, B-GL-00273, B-GL-00625, and Emergent) and recommended that $6.277 million for the 10 months ending October 2026 and $19.856 million for the projected test year be disallowed as inappropriate or premature for inclusion in rate base in this case. 2 Tr 1909-1910; Attorney General's initial brief, pp. 58-60. Consumers disagreed, arguing that the challenged expenditures include emergent valve project funding related to compliance obligations under 49 CFR 192.745 and 49 CFR 192.611; that projects in planning/scoping or at 30% design are progressing on a prudent schedule consistent with normal engineering; that work completed to

date represents appropriate pre-construction activity, with timing and costs set forth in Exhibit AG-25; and that it is thus incorrect to characterize the projects as premature. 2 Tr 1405; Exhibit A-167; Consumers' initial brief, pp. 59-60.

The ALJ recommended adopting the Attorney General's proposed disallowances in part. The ALJ agreed that capital expenditures for projects B-GL-00271,[10] B-GL-00272, and B-GL-00273[11] are placeholder amounts that should not be included in rate base in this case, finding that:

> [i]ndeed, in describing the projects the Company indicates that these "emergent" projects require remediation "promptly[,]" "within 24 months" or not at all because "an alternate emergency valve" can be used. Moreover, given that the Company has been remediating inoperable valves, in particular, at a more accelerated pace since 2024 than it has in the past, the likelihood for "emergent" replacement should also decrease.

PFD, p. 86 (footnotes omitted; citing Exhibit A-167, pp. 1-2). The ALJ further agreed that capital expenditures for projects GL-03316, B-GL-00268, and B-GL-00625 should also be disallowed, finding that:

> [t]hese projects are in the planning/scoping phase and expected to incur expenses 2027 at the earliest, and this PFD finds that the Company has not shown that the projects are mature enough for inclusion in rate base at this time. The Commission has previously found that a utility's assertion that a project is on pace with its normal project cadence does not necessarily provide evidentiary support for its related capital projections to be included in a rate case and this PFD finds disallowing expenditures for the projects at issue here appropriate for the same reason.

PFD, p. 86 (footnote omitted; citing September 30 order, p. 66). The ALJ, however, did not agree with the Attorney General's proposed disallowances for projects GL-03805, GL-03640,

[10] Project B-GL-00271 is located at the bottom of page 7 of Exhibit AG-25, along with on page 4 of Exhibit A-167. This project is also identified as the Emergent project on 2 Tr 1910.

[11] The ALJ inadvertently identified this project as Project B-GL-00272 (thus repeating the reference to Project B-GL-00272 twice). *See*, PFD, p. 85. Based on a review of the record, however, it is clear that this was a typographical error and that the ALJ meant for this to reference to be to Project B-GL-00273. *See*, 2 Tr 1910; Exhibit A-167, pp. 1, 4; and Exhibit AG-25, p. 8.

B-GL-00262, and B-GL-00264, finding that the record "includes testimony and information to support the Company's position that these projects, which are projected to begin construction in the summer of 2026, are sufficiently developed to include in rate base." PFD, pp. 86-87 (citing 2 Tr 1450-1451; Exhibit AG-25, pp. 1-2). In total, the ALJ thus recommended that $18.386 million be removed from the company's projected test year capital expenditures in this case.

Consumers objects and asserts that the ALJ's recommendation is inappropriate. The company asserts that projects B-GL-00271, B-GL-00272, and B-GL-002724[12] are not placeholders but rather emergent in nature and identified throughout the year through various code required inspections and studies. Consumers states that:

> B-GL-00271 is funding in 2027 for emergent valve replacements due to inoperability discovered during the 2026 valve and operator inspections. Inoperable valves are required to be remediated promptly unless an alternate emergency valve is designated. §192.745. B-GL-00272 is funding in 2027 for emergent class location change projects discovered during the 2026 quarterly class change studies. Any issues discovered during the class change study must be remediated within 24 months. §192.611. B-GL-00273 is emergent funding in 2027 for emergent sectionalizing valve installations due to spacing issues discovered in 2026 from the quarterly valve spacing study. §192.179. Exhibit A-167 (JLW-4). Cost recovery for these projects is reasonable.
>
> Regarding projects GL-03316, B-GL-00268, and B-GL-00625, these projects are in the planning/scoping phase. Company witness Waggener explained that the work completed to date constitutes appropriate pre-construction activity, that the projects' timing and costs are reflected in Exhibit AG-25, and that it is therefore incorrect to characterize the projects as premature. 2 TR 1405. These projects are progressing through a prudent schedule consistent with the Company's normal engineering cadence. 2 TR 1405.

[12] In exceptions, Consumers indicates that "[w]hile the PFD references B-GL-00273, the Company believes that the intended reference was to B-GL-002724." Consumers' exceptions, p. 9, n. 1. The Commission disagrees. *See*, prior footnote above.

Consumers' exceptions, pp. 9-10. On this basis, Consumers asserts that cost recovery for these projects and its overall program are reasonable and that the ALJ's proposed reduction should be rejected.

The Attorney General also objects and asserts that the ALJ erred in only recommending a partial disallowance. The Attorney General maintains that Projects GL-03805, GL-03640, B-GL-00262, and B-GL-00264 "are still in the preliminary and very early stages of project development with no design work yet started or sufficiently advanced to support expenditures in the test year since it is possible timelines and costs can change as design work advances further." Attorney General's exceptions, p. 26. The Attorney General thus contends that the Commission should adopt her recommended disallowances in full.

In reply, Consumers disputes that Projects GL-03805, GL-03640, B-GL-00262, and B-GL-00264 are still preliminary and asserts that the Attorney General's argument in exceptions "discounts the fact that the work completed to date constitutes appropriate pre-construction activity, that the projects' timing and costs are reflected in Exhibit AG-25, and that it is therefore incorrect to characterize the projects as premature." Consumers' replies to exceptions, p. 35. Consumers thus contends that the Commission should reject the Attorney General's proposed reduction and instead approve the company's forecasted capital expenditures here.

The Attorney General also replies and asserts that the Commission should reject the company's arguments in exceptions. The Attorney General further states that "Exhibit AG-25 only indicates that [the] engineering design phase [for Projects GL-03316, B-GL-00268, and B-GL-00625] is project[ed] to begin either this summer or in the fall of 2026[;] [t]here are no detailed timelines or breakdown of activities." Attorney General's replies to exceptions, p. 21.

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. 85-87. Consumers has not shown evidence that the projects indicated by the ALJ in her recommendation are defined enough for the Commission to be confident they should be included in rate base.

o. Transmission and Storage City Gates

Consumers described transmission and storage city gate stations as the point between the transmission and distribution systems where overpressure protection valves and odorizer stations are installed. Noting that many of these stations are 40 to 50 years old, Consumers stated that its City Gate program allows for both planned and emergent rebuilding or other improvements to existing facilities and equipment and forecasted program capital expenditures of $45.293 million in 2025, $51.913 million for the 10 months ending October 2026, and $48.534 million for the projected test year. 2 Tr 1455-1458; Exhibit A-75, p. 1, line 6. The Attorney General took issue with premature and emergent/placeholder projects (Projects B-GL-00319, B-GL-00320, and B-GL-00473, and Emergent[13]) and thus recommended a disallowance of $1.377 million for the 10 months ending October 2026 and $20.829 million for the projected test year. 2 Tr 1911-1912; Exhibit AG-26; Attorney General's initial brief, pp. 63-65. Consumers disagreed, arguing that projects early in the engineering and design phase are progressing consistent with normal engineering schedules for construction in 2027, the work undertaken to date represents appropriate preconstruction activity, and several funds have been funded for emergent projects since the original filing of this case. 2 Tr 1406-1407; Exhibit A-167; Consumers' initial brief, pp. 60-61.

[13] While labeled as Emergent on 2 Tr 1912, the bottom of page 6 of Exhibit AG-26 labels this particular project as Project B-GL-00328.

The PFD recommended adopting the Attorney General's proposed disallowances. The ALJ agreed that "where no design work has been initiated, the cost estimate and timeframe for completion of [Projects B-GL-00319, B-GL-00320, and B-GL-00473] is too uncertain to include in rate base." PFD, p. 88. As far as potential emergent projects, the ALJ stated that:

> [e]ven if the Company is correct that this amount has been approved in the past, the Commission has consistently rejected the use of contingency amounts in projections, as well as the use of "placeholders" through which the utility would fill in missing details or costs at some future point in the proceeding. Because the Company has not sufficiently justified the spending, it is unreasonable to include it in rate base.

PFD, pp. 88-89 (footnote omitted; citing December 17, 2020 order in Case No. U-20697, pp. 9, 19-20).

Consumers objects and asserts that the ALJ's recommendation fails to recognize that these projects:

> are progressing in a manner consistent with the Company's normal engineering and design cadence for projects scheduled for construction in 2027, and the work undertaken to date constitutes appropriate pre-construction activity. 2 TR 1406. Moreover, the challenged emergent funding is supported by actual, identified needs, including replacement of obsolete remote terminal unit equipment at specified locations in 2026 and 2027. 2 TR 1407. Under these circumstances, the record does not support excluding the challenged projects or associated emergent funding from rate base. *Id*.

Consumers' exceptions, pp. 10-11. On this basis, Consumers argues that the projected expenditures for this program are reasonable, that projects within the program are moving forward at the appropriate timeline, and that projected costs should be approved.

In reply, the Attorney General asserts that the Commission should reject Consumers' arguments in exceptions. The Attorney General states that:

> [f]irst, claims that a project is progressing according to normal engineering and design cadence provides no information or support for the timing of a project and whether costs will be incurred as projected. As with other preliminary and early stages of project development, it is very likely that the cost for these projects will

> change from the amounts proposed by the Company and the timing of construction could slip into a future year. Second, in prior rate cases, the Commission has rejected the inclusion of placeholder amounts in rate base.

Attorney General's replies to exceptions, p. 26 (footnotes omitted).

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. 88-89.

p. Transmission Enhancement for Deliverability and Integrity Program

Consumers explained that its transmission enhancement for deliverability and integrity (TED-I) program is focused on maintaining deliverability and integrity and on improving the ability to control gas flows by replacing transmission pipeline segments, upgrading city gate stations, and installing remote control valves, rupture mitigation valves, and pressure limiting devices. For this program, the company forecasted capital expenditures of $17.626 million in 2025, $13.436 million for the 10 months ending October 2026, and $24.753 million for the projected test year. 2 Tr 1442-1447; Exhibit A-75, p. 1, line 1. The Attorney General argued that four projects in this program are too premature to include in rate base (Projects GL-03049, GL-00136, GL-00140, and GL-03212) and thus recommended that $1.054 million for the 10 months ending October 2026 and $15.662 million for the projected test year be disallowed in this case. 2 Tr 1904-1905; Attorney General's initial brief, pp. 65-66. The Staff also recommended that capital expenditures for Project GL-03212 (the Line 300 Reroute and Retirement Project) ($0.241 million for 2025, $1.054 million the 10 months ending October 2026, and $10.647 million for the projected test year) be excluded unless and until a Public Act 9 of 1929 (Act 9) approval order is issued by the Commission. 2 Tr 2515-2518; Exhibit S-15.3; Staff's Amended Initial Brief, pp. 9-10. Consumers disagreed with regards to three of the projects

(Projects GL-03049, GL-00136, and GL-00140), arguing that these projects are progressing and have untaken activities commensurate with projects that will be constructed in 2027. Consumers did, however, revise its position as to Project GL-03212 (the Line 300 Reroute and Retirement Project) as the project still requires Act 9 approval which is not expected prior to the Commission's final decision in this case. The company thus revised its request for TED-I capital expenditures to $17.386 million for 2025, $12.381 million for the 10 months ending October 2026, and $14.107 million for the projected test year. 2 Tr 1396, 1402-1403; Exhibit A-165, p. 1, line 1; Consumers' initial brief, pp. 61-63.

The ALJ noted the company's agreement to not include capital expenditures for Project GL-03212 (the Line 300 Reroute and Retirement Project) in this case and recommended that the Commission adopt this concession.[14] Similarly, the ALJ agreed with the Attorney General that Projects GL-03049, B-GL-00136 and B-GL-00140 are too premature to include in rate base in this case and thus recommended that $5.015 million in the test year also be disallowed. The ALJ stated that Consumers "concedes that the scope of those projects continues to be refined," with the ALJ finding that "where the scope is not yet set, the costs of the projects are too uncertain for approval." PFD, p. 91.

Consumers objects and asserts that Projects GL-03049, B-GL-00136 and B-GL-00140 "are proceeding through the Company's ordinary and prudent engineering process for 2027 construction, including scope refinement, site evaluation, design initiation, environmental review,

[14] Later in the PFD, the ALJ noted that the Line 300 Reroute and Retirement Project (also referred to as the Line 300 Reroute and Retire Project) is discussed both here and under Storage and Storage Pipeline Replacement and stated that, "if the Company has included the capital expenditures for it in both the Storage and Transmission programs, those expenditures should be disallowed in both areas." PFD, p. 125, n. 627; *see also*, *id*., p. 121, n. 606. Upon review of the record, the Commission confirms that the company did not include costs for this project under both areas.

permitting, long lead-time procurement, and coordination with Gas Control regarding outage scheduling." Consumers' exceptions, p. 11 (citing 2 Tr 1402). The company argues that "[t]hese activities are not evidence of a project being premature but instead are the very steps necessary to advance transmission projects to execution" and that, therefore, the projects' associated costs are reasonable for inclusion in the company's TED-I program. Consumers' exceptions, p. 11.

In reply, the Attorney General argues that the activities described by Consumers in exceptions "still raise[] questions about timing and whether the project[s] will be completed in the test year." Attorney General's replies to exceptions, p. 24. The Attorney General thus contends that the Commission should adopt the ALJ's recommendation.

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. 91. Consumers did not present evidence on the record that Projects GL-03049, B-GL-00136, and B-GL-00140 are mature enough to include in customer rates at this time.

q. Transmission Plant 2025 Underspend

The Attorney General argued that an underspend amount of $5.55 million by the company for 2025 should be removed from rate base in this case as not incurred and therefore unreasonable. 2 Tr 1913; Exhibit A-12, Schedule B-5.3, line 4, column (c); Exhibit AG-27; Attorney General's initial brief, p. 68. Consumers conceded. Consumers' initial brief, Appendices B2 and B3.

The ALJ recommended that the Attorney General's proposed disallowance be adopted, as agreed to by Consumers. PFD, p. 92.

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. 92.

r. Meters - Smart Meter Pilot

Consumers explained its Meter subprogram and discussed how it purchases new gas meters on a periodic basis to meet customer and regulatory commitments, with the company forecasting capital expenditures of $26.641 million in 2025, $26.820 million for the 10 months ending October 2026, and $31.41 million in the projected test year. With its projected test year capital expenditures, the company included $1.977 million for a proposed gas smart meter technology pilot as a foundational step to modernize the company's natural gas metering infrastructure. 2 Tr 1504-1511; Exhibit A-30, pp. 48-49; Exhibit A-129, p. 1, line 2. The Staff supported Consumers' desire to proactively begin replacing the company's gas meters through a pilot of ultrasonic meters but recommended that the Commission only approve the company's Phase 1 request in this case (beginning with 1,000 meters in 2027) and condition any future requests for cost recovery (Phase 2) on Consumers providing missing implementation information, including a BCA and information outlining what full ultrasonic meter implementation would look like. 2 Tr 2334-2341; Exhibit S-16; Staff's amended initial brief, pp. 130-133. The Attorney General argued that the company's forecasted capital expenditures for the Meters subprogram for 2026 and 2027 are excessive compared to historical levels and recommended a disallowance of $6.259 million for the 10 months ending October 2026 and $4.194 million for the projected test year based on actual purchases in 2024 and 2025, plus inflation. The Attorney General also expressed concern over the pilot and the introduction of smart meters considering advanced meter reading (AMR) and advanced metering infrastructure (AMI) meters were first introduced in 2015

and arguing that replacement of AMR and AMI modules and meters at this time is unjustified and premature while also mentioning that full implementation costs of Phase 2 are estimated at $100 million. Asserting that the pilot has thus not been adequately justified, the Attorney General also recommended that the Commission remove the $1.977 million requested for the pilot for the projected test year. 2 Tr 1862-1870, 2028-2031; Exhibits AG-5, AG-6; Attorney General's initial brief, pp. 29-37. On rebuttal, Consumers reduced its annual meter purchase plan for 2026 and 2027 by 9.5% (down 5,348 meters each year) based on a reassessment of meter inventory requirements, resulting in downward adjustments of $2.548 million for the 10 months ending October 2026 and $2.796 million for the projected test year. Consumers, on the other hand, disagreed with the Attorney General's proposed adjustments for the Meters subprogram and her position that the company's requested expenditures are inconsistent with historical experience and overstated and also disagreed with the Attorney General's proposed disallowance for the pilot due to her misunderstanding of several aspects of the pilot, including the purpose of the pilot and the broader operational context. Consumers explicitly stated that it did not, however, oppose the Staff's recommendation for additional information to receive further costs related to ultrasonic meters beyond that presented in this case. 2 Tr 1550, 1568-1572; Consumers' initial brief, pp. 27-32; Consumers' reply brief, pp. 14-17.

The ALJ declined to recommend the Attorney General's proposed disallowance for the Meters subprogram, finding that "the Attorney General's proposal to set costs and reduce unit purchases based on the one-year historical average is not a more favorable or reasonable approach to that of the Company." PFD, p. 102. The ALJ, however, agreed with the Staff regarding the pilot, recommending that:

> the Commission adopt Staff's proposal to approve recovery of the costs for Phase 1 and require the Company to provide missing implementation details, including a cost-benefit analysis, a full implementation plan with strategies for using new data and safety features, an estimate of total system-wide costs, and a timeline for deployment before any additional costs are approved. While the Attorney General raises a valid concern about how much full implementation will cost, the Company and Staff argue the Pilot is reasonable and the Phase 1 costs will allow the Company to address the identified concerns – and this PFD agrees.

Id.

The Attorney General objects and argues that the ALJ's Meter subprogram conclusions should be rejected as oversimplifying and mischaracterizing the Attorney General's analysis. Per the Attorney General, her analysis "is far more nuanced and considered more than one year of data." Attorney General's exceptions, p. 27. In greater detail, and as noted in her initial brief, the Attorney General states that:

> the Company provided the number of meters purchased annually from 2022 to 2025 and forecasted for 2026, 2027 and the projected test year. First, for New Business customer connections, the data shows that during the four years from 2022 to 2025, the number of meters purchased ranged from 9,730 to 21,871 and averaged 19,365 meters during the most recent three years. However, the Company forecasted 25,965 meter purchases for New Business for 2026 and 2027 and included 22,874 meters in the projected test year. The Company's amounts seem excessive.
>
> Second, for meters to be purchased for New Business, [Consumers witness] Mr. Warriner shows that new customer connections are forecasted to be lower for 2026 and 2027 than in recent historical years and on par with 2024 levels. Therefore, the higher forecasted meter purchases for 2026 and 2027 do not accurately reflect the lower forecasted customer additions. Therefore, [Attorney General witness] Mr. Coppola determined that the 19,463 meters purchased in 2024 is a reasonable proxy to forecast the number of New Business meters for 2026, 2027, and the projected test year given Mr. Warriner's testimony.
>
> Third, purchases for other (mostly replacement) Meters have ranged from 11,422 to 26,343 meters during 2022-2025 with the highest number occurring in 2025. For 2026, the Company forecasted purchases of 30,480 meters in this area with a similar quantity for 2027 and a scaled down quantity of 26,852 meters for the projected test year. Purchases have grown over the four years 2022 to 2025 for Other Meters, reaching a peak of 26,343 in 2025, which is a reasonable basis to forecast future year purchases for 2026, 2027, and the projected test year.

> Combining the New Business meter quantity of 19,463 to the Other Meter purchases of 26,343, Mr. Coppola forecasts total meter purchases of 45,806 for 2026 and the projected test year.

Id., pp. 27-29 (footnotes omitted). On this basis, the Attorney General states that a forecasted unit cost per meter of $541 was used for 2026 and an inflation adjusted amount unit cost of $553 for 2027 was used to determine appropriate cost forecasts and recommended disallowances, which the Attorney General argues are reasonable given the information available and should thus be adopted.

The Attorney General further objects to the ALJ's recommendation regarding the smart meter pilot, arguing that the ALJ's conclusions and recommendation miss the point that justification for Phase 1 of the pilot has not been made. The Attorney General states that:

> [t]he Company has not yet proposed, and the Commission has not approved a new meter replacement program for electric meters. The Company has yet to select a vendor for the new smart meter and was still considering four potential vendors. Regarding the additional features of automatic remote shutoff of the meter and customers being able to access their gas usage daily or hourly, the Company reported that it envisions using the shutoff feature on 112,000 occasions during the year for bill collection activities and customer move-in/move outs. This number represents about 6% of the customer base. The Company has not demonstrated the practicality or necessity for some of the touted features of the meters.
>
> The Company is still working with a consultant to develop a cost/benefit analysis to be completed before the start of the pilot. However, none was provided in this case. Instead, the Company claims that it needs the pilot to gather accurate costs and benefits and assess technical challenges during the implementation phase. This claim is faulty. The Company knows the cost of the meter and the meter stand. It also knows what it costs to replace a meter and meter stand having done that procedure thousands of times already with other meters or can reasonably estimate that cost. Assuming, it has done sufficient research with other utilities that have implemented new smart meters, it should be able to anticipate technical and field implementation problems and should be able to take those into consideration in preparing a relatively accurate cost/benefit analysis without waiting for implementation of the first or second phase of the proposed pilot. In fact, if the cost/benefit analysis does not provide a clear indication that undertaking the smart meter program is justified, both economically and otherwise, the pilot program may not be needed at all. The Company has also not adequately addressed other alternatives to prolong the life of the existing meters and meter modules. The

> proposed pilot program has not been adequately justified, and it is premature to begin the pilot program during the projected test year.

Id., pp. 30-32. The Attorney General thus maintains that the Commission should remove $1.977 million in forecasted capital expenditures for the proposed smart meter pilot (along with $240,000 in associated O&M expense).

In reply, Consumers argues that the Attorney General's objections fail to address the fact that the company revised its meter purchasing projections in this subprogram, which the company avers should take care of her concerns. Nevertheless, Consumers asserts that the Attorney General's larger disallowance "overstates the extent to which the Company's forecast should be reduced and relies on assumptions that are inconsistent with the Company's actual meter procurement experience and revised purchase plan" and are thus unsupported. Consumers' replies to exceptions, p. 8. Consumers further reiterates that:

> the Attorney General's proposed 2026 bridge-period reduction assumes that only 10/12 of annual 2026 meter expenditures should be attributed to the 10 months ending October 31, 2026. This assumption is inconsistent with both historical experience and the Company's actual forecast. In 2024, approximately 95% of the Company's annual meter capital expenditures occurred in the first 10 months of the year, and for 2026, the Company projects approximately 88% of annual spending will occur during the bridge period. 2 TR 1569-1570. By contrast, the Attorney General's use of an 83% allocation materially understates the amount reasonably attributable to the bridge period and correspondingly overstates the proposed disallowance. *Id*. The same problem impacts the Attorney General's projected test-year calculation. 2 TR 1570-1571.

Consumers' replies to exceptions p. 9. Accordingly, Consumers contends that the Commission should reject the Attorney General's proposed Meter subprogram reductions. And, as to objections regarding the company's proposed pilot, Consumers again asserts that the Attorney General's exceptions ignore the purpose and intent of the pilot. Consumers, in this regard, recaps that:

[t]hrough the pilot, the Company plans to address three converging issues in the Company's long-range gas meter supply plan: (1) aging and obsolescence of diaphragm meter technology; (2) the approaching end of life of gas communication modules, which are constrained by an approximately 20-year battery life; and (3) the risk that existing gas Advanced Meter Infrastructure ("AMI") communications may become less reliable as electric smart meters transition away from the current 4G LTE cellular network. 2 TR 1509. Company witness Warriner explained that current gas AMI meters depend on the cellular capabilities of electric smart meters to transmit usage data, so replacing electric meters could create compatibility and continuity issues for gas-data transmission. *Id*. The pilot is therefore intended to test alternative communication pathways and integration with next-generation electric meters so the Company can evaluate continuity of service before making longer-term investment decisions. 2 TR 1510.

. . . The pilot is intended to allow the Company to test new technology and gather Company-specific information concerning operational feasibility, customer benefits, implementation requirements, and cost-effectiveness before making any long-term decision. 2 TR 1571-1572. This is extremely important and reasonable.

With the gas smart meter pilot, the Company is proactively addressing three converging challenges. First, the pilot will address the aging and obsolescence of diaphragm meter technology. Over the long term, the Company expects both new and refurbished diaphragm meters to become less available as new meter supply tightens and replacement parts become unavailable. Exhibit S-16, page 4. This is heightened by the fact that the Company can only refurbish and reuse approximately one out of every 20 diaphragm meters removed from service. *Id*. Second, the pilot will address the approaching end of life for the gas communication modules ("GCMs") used to transmit gas usage data. These GCMs were installed between 2015 and 2019 and have an expected 20-year battery life, creating significant battery-failure risk between 2035 and 2039 and requiring replacement of approximately 300,000 GCMs per year from 2036 through 2039. Exhibit S-16, pages 4-5. Based on this, the Company reasonably plans to begin replacing approximately 200,000 meters per year in the early 2030s to "avoid a near simultaneous wave of failures in the late 2030s." *Id*. Third, the pilot addresses the complexity of maintaining reliable communications for gas AMI meters as electric smart meters transition away from the current 4G LTE cellular network. 2 TR 1509. GCMs for combination electric and gas customers currently depend on electric meters with encoder receiver transmitter ("ERT") readers to transmit gas usage data. Exhibit S-16, page 5. Because wireless carriers are unlikely to support 4G LTE by the mid-2030s, the Company expects to transition from its current 4G LTE electric meters; if replacement meters lack ERT readers, gas modules could no longer transmit usage data through the electric meters. *Id*. Conducting a pilot will allow the Company to gather accurate costs and benefits and assess technical challenges before implementation. The costs presented in this case will allow the Company to reasonably evaluate meter technology and collect data to develop

> cost-benefit analyses and use cases, and to inform decisions on system-wide deployment.

Consumers' replies to exceptions, pp. 10-11. Consumers thus contends that the Commission should approve the company's request of $1.977 million in capital expenditures for the pilot in the projected test year.

The Commission respectfully disagrees with the ALJ's Meter subprogram capital expenditure recommendation, instead agreeing with the Attorney General that these expenditures are excessive compared to historical levels such that a disallowance of $6.259 million for the 10 months ending October 2026 and $4.194 million for the projected test year is reasonable and prudent. Attorney General's exceptions, pp. 27-29 (citing 2 Tr 1477-1479, 1482, 1863; Exhibit AG-5; Attorney General's initial brief, pp. 29-32). The Commission does, however, see value in the company's gas smart meter technology pilot and looks forward to reviewing the implementation details that the company has agreed to provide in its next gas rate case. Specifically, the Commission expects to see detailed results of the pilot, including actual costs, implementation details, what smart meter data is collected and how it is used, corresponding customer benefits and a plan for customer data access, a full implementation plan with strategies for using new data and safety features, an estimate of total system-wide costs, a timeline for deployment, and a detailed BCA that projects the costs and benefits of a full program deployment before approving any future pilot or program expansion. *See*, PFD, p. 102.

2. Gas Operations Other

Consumers explained that the Gas Operations Other program consists of expenditures for routine computer equipment, tools, certain land and right-of-way expenditures, compliance and control projects such as the advanced methane detection (AMD) project, and the Geospatial

Inventory and Modeling Program. 2 Tr 1048-1049; Exhibit A-113. Specific disputed expenditures are discussed below.

a. Compliance and Controls – Advanced Methane Detection Projects

Consumers explained that AMD is an advanced detection system used across multiple operational areas to identify methane leaks with increased sensitivity and accuracy compared to traditional leak detection equipment. Per the company, this technology will improve its ability to locate and prioritize more leaks resulting in improved public safety and environmental sustainability. The company stated that the AMD technology has a five-year lifecycle (based on hardware performance, software evolution, and regulatory compliance) and that in 2026 and 2027, the company intends to replace eight units that were purchased in 2021. Consumers projected expenditures of $3.28 million in 2026, and $4.773 million in 2027. 2 Tr 1049, Table 12; Exhibit A-113, p. 3, line 7.

The Attorney General questioned the effectiveness and benefits of the AMD technology and stated that the company introduced the AMD project in 2021 in anticipation of regulations from PHMSA that never materialized. Thus, the Attorney General recommended a disallowance of the company's proposed expenditures for the 10 months ending October 2026 and the projected test year. 2 Tr 1896-1897.

Consumers disagreed with the Attorney General's disallowance and argued that the AMD technology will add value in terms of added-risk management and compliance assurance benefits. 2 Tr 1096-1098.

The ALJ rejected the Attorney General's recommended disallowance, noting that the Commission declined to adopt a similar recommendation for AMD project expenditures in Case No. U-21806. The ALJ quoted the Commission's reasoning: "'the leak detection that the AMD

program is intended to address remains a highly important issue[,]'" even if PHMSA regulations do not require it. PFD, p. 105 (quoting September 30 order, p. 79). The ALJ recalled that the Commission found the purported public safety and environmental benefits to be compelling and to be sufficient justification for the AMD expenditures in that case. PFD, p. 105 (citing September 30 order, p. 105). In this case, the ALJ found that the Commission's analysis applies to the AMD expenditures presented here and that the company's proposed expenditures should be approved. PFD, p. 105.

The Staff takes exception with respect to the O&M expenses associated with AMD capital expenditures to point out that the ALJ made an error—the ALJ recommended a disallowance of O&M despite approving capital expenditures for the AMD project. Staff's exceptions, pp. 2-3. The Staff asks the Commission to acknowledge the error and allow the O&M expense for AMD. *Id*., p. 3.

In her exceptions, the Attorney General argues that it is premature for Consumers to now request additional large spending on the AMD technology for 2026 and 2027 without a clear understanding of what the company has achieved to date based on historical spending and whether it is advisable to continue spending millions of dollars without a regulatory mandate from PHMSA. The Attorney General also includes increasing gas bills and affordability concerns as a consideration factor. Thus, the Attorney General asks the Commission to disallow the company's proposed expenditures for the 10 months ending October 2026, and the projected test year.

Attorney General's exceptions, p. 34.[15]

Consumers replies with a repetition of its position on the record including the benefits to customers of AMD technology and examples of AMD technology detecting serious gas conditions. Consumers' replies to exceptions, pp. 35-36 (citing 2 Tr 1050-1051, 1098, 1158). Consumers continues to argue that AMD provides early leak detection that reduces risk to customers and provides risk-management benefits. The company points to Case No. U-21806 where the Commission approved the AMD expenditures and recognized leak detection as an important issue independent of enactment of any PHMSA rule. Consumers' replies to exceptions, p. 37 (citing September 30 order, p. 79). According to Consumers, nothing has changed from the last rate case to this one with respect to AMD that would warrant a disallowance, and the Commission should approve the company's proposed AMD expenditures "to continue strengthening methane detection, monitoring, and management capabilities and improve the effectiveness of required leak survey and response activities." Consumers' replies to exceptions, p. 37 (citing 2 Tr 1098).

Finding the ALJ's recommendation to be well-reasoned and supported by the record, the Commission adopts the PFD with respect to Consumers' proposed AMD capital expenditures. *See*, PFD, p. 105. The Commission continues to find work relating to leak detection to be important to public safety and environmental sustainability and finds that the company demonstrated the reasonableness and prudence of its expenditures in this category. *See*,

[15] In her exceptions, the Attorney General asks the Commission to reject the company's proposed spending and then states "and remove" but the sentence ends there; therefore, the remainder of the recommendation is unclear. Attorney General's exceptions, p. 34. Based on the context and the Attorney General's previously stated position in her initial brief, the Commission presumes that the Attorney General meant to recommend removal of these amounts from the company's forecasted capital expenditures. *See*, Attorney General's initial brief, p. 71.

2 Tr 1049-1051, 1096-1098. The Commission also notes the Staff's exceptions pointing out that the ALJ recommended approval of the AMD capital expenditures but then recommended a disallowance of the associated O&M expenses for AMD. *See*, Staff's exceptions, pp. 2-3. As discussed below in this order, the Commission finds that the O&M expenses associated with the AMD capital expenditures should also be approved.

b. Tools

Consumers explained that its proposed expenditures of $4.51 million for 2025, $3.748 million for the 10-month bridge period ending October 2026, and $8.083 million for the test year, are to replace tools that are worn, broken, or outdated for employees that work off-site. 2 Tr 1048; Exhibit A-113. The company also requested an additional $3.6 million in the test year for advanced technologies and pilot programs, including global positioning system (GPS) asset tracking and digital tools for real-time geo-spatial data capture. 2 Tr 1048-1049. The Attorney General recommended a disallowance of the additional $3.6 million in the test year, arguing that Consumers did not adequately support or justify this expenditure. Specifically, the Attorney General stated that the company did not provide any evidence of cost savings to support its claims of improved operational efficiency associated with this spending. 2 Tr 1894.

Consumers disagreed with the Attorney General's disallowance and explained that the $3.6 million will be used to replace specific hardware including handheld enhanced methane detection devices that pinpoint exact leak locations and to replace outdated electron fusion equipment that reduces escalating maintenance costs and avoids service disruptions. Consumers argued that the proposed expenditures should be approved because no alternative would deliver comparable benefits. 2 Tr 1094-1096.

Noting that only the additional $3.6 million was disputed, the ALJ recommended that the remainder of the company's expenditures should be approved. As to the $3.6 million, the ALJ did not find that Consumers provided sufficient evidence to support the reasonableness and necessity of this spending. The ALJ characterized the company's testimony as vague and generalized, particularly its claims that costs have escalated, and she added that the company's Exhibit A-113 does not provide further detail. The ALJ also noted that Exhibit AG-18 indicated that $1 million of the $3.6 million will be used to replace electron fusion boxes that have contributed to increasing repair and maintenance costs because the boxes are no longer supported by the vendor. However, the ALJ stated that the company does not otherwise describe the replacement equipment that will be used, the number of electron fusion boxes needed, whether the boxes need repair, or if all the boxes will be replaced with this funding. PFD, pp. 107-108.

As to the GPS-enabled antennas and enhanced methane detection tools, the ALJ found the company's details again to be lacking. Noting Consumers' statement that it would continue to quantify the full financial impacts, the ALJ agreed with the Attorney General's recommended disallowance. The ALJ added that Consumers did not adequately refute the Attorney General's concern that the methane detection tool expenditures are redundant since the company requests funding for similar tools in other programs. Thus, the ALJ recommended a disallowance of the additional $3.6 million in the test year. *Id*., p. 108.

Consumers takes exception, repeating what it calls a detailed explanation of how the incremental $3.6 million will be spent and the benefits of the additional spending. Consumers' exceptions, pp. 13-14 (citing Exhibit AG-18). The company disagrees with the ALJ's assertion that Consumers did not adequately refute the claim that the methane detection tools are redundant. Consumers recalls its testimony as follows:

> [t]he methane detection tools funded under this program are different from Advanced Methane Detection ("AMD") technology. AMD is a mobile screening technology that identifies leaks over broader areas. 2 TR 1095. Thus, AMD technology identifies potential leaks, and the leak detection team will then schedule leak investigations where qualified individuals walk all mains and services within 50 feet beyond the AMD-generated search area. 2 TR 1052-1053. The enhanced methane detection tools in the Capital Tools funding are handheld instruments used by these field crews to precisely pinpoint the actual leak location once a potential leak has been identified. 2 TR 1095. The enhanced handheld tools will improve the speed and accuracy of field confirmation and repair activities.

Consumers' exceptions, p. 14. Consumers restates that its tool expenditures will modernize essential tools, reduce maintenance inefficiencies, improve safety and regulatory compliance, and manage long-term costs. Thus, the company asks the Commission to approve its requested expenditures.

In reply, the Attorney General disputes Consumers' reliance on Exhibit AG-18, which the company contended offered a detailed explanation of how the incremental $3.6 million will be spent. While Exhibit AG-18 contains a description of projects that the incremental amount will be spent on, the Attorney General contends that there is not detailed information such as specific amounts for projects, quantities, or any other detail to verify the amount proposed by Consumers. The Attorney General notes that Consumers only identified $1 million to replace electron fusion boxes but provided no detail on unit costs or other details. Attorney General's replies to exceptions, pp. 26-27 (citing Exhibit AG-18).

The Commission respectfully declines to adopt the ALJ's recommendation regarding the $3.6 million disallowance. The Commission finds that Consumers demonstrated that the leak detection devices within this tool category are not duplicative of devices already included in AMD and adequately explained what its proposed expenditures are for. *See*, 2 Tr 1048-1049, 1052-1053, 1095-1096. However, the Commission notes that, when Consumers makes assertions of cost savings resulting from a proposed expenditure, the company should make an effort to quantify

those costs. The Commission expects to see better explanation of these savings and where they reduce customer costs going forward. Additionally, as a general matter, the Commission notes Consumers' proposals represent a significant increase in capital expenditures, many aspects of which have been challenged in this case. However, in this instance, the Commission finds that Consumers has met its burden to prove that its proposed expenditures for the tools category are reasonable and prudent and should be approved as filed. *See*, Exhibit A-113; Exhibit AG-18.

3. Compression and Storage

Consumers explained that its gas compression and storage facilities expenditures are categorized into Freedom upgrade, compression sites, storage new wells, well rehabilitation, storage pipeline replacement, well data acquisition, Riverside Field retirement, and safety valve installation. The company proposed expenditures in this overall category of $167.8 million for 2024, $196.6 million for 2025, $153.8 million for the 10 months ending October 2026, and $187.2 million for the test year. 2 Tr 842-843; Exhibit A-12, Schedule B-5.5.

a. Compression

Consumers projected expenditures of $54.662 million in 2025, $59.115 million in the 10 months ending October 2026, and $73.350 million for the test year. Actual expenditures for 2024 were $58.272 million per the company. 2 Tr 842-846; Exhibit A-12, Schedule B-5.5, p. 2. The Attorney General recommended disallowing the expenditures for nine projects that she determined were premature for inclusion in rate base, which amounted to a disallowance of $9.171 million from the 10-month bridge period ending October 2026, and $25.763 million from the projected test year. 2 Tr 1919-1920; Exhibit AG-30. Consumers disputed the Attorney General's disallowance and argued that, while in the early stages, these projects were progressing

and incurring necessary expenditures. Consumers argued that a disallowance would increase operational risk and threaten the maintenance of reliable compression equipment. 2 Tr 872-873.

The ALJ recommended that the Commission adopt the Attorney General's proposed disallowance of $9.171 million for the 10 months ending October 2026, and $25.763 million for the projected test year related to the nine compression projects. The ALJ pointed out that Consumers acknowledged that the projects were in the early stages, some of which are only in the concept, plan, and scope phases. This indicated to the ALJ that the projects are premature for inclusion in rate base because their costs and timeframe for completion are too uncertain. PFD, p. 111.

Consumers takes exception to the ALJ's recommendation, arguing that it explained that each project is progressing and undertaking activities consistent with planned construction in late 2026 and 2027. Consumers repeats that, even in early stages, the projects have incurred, and will incur, necessary expenditures, and the fact that the projects are in the development phase is not a reasonable basis for a disallowance. The company restates that it manages a portfolio of capital projects in various stages and contends that deferring these projects increases operational risk and impairs its ability to maintain reliable compression equipment to move gas into the system and storage fields. Consumers' exceptions, pp. 21-22 (citing 2 Tr 874). Thus, Consumers asks the Commission to reject the ALJ's recommended disallowance of $9.171 million for the 10 months ending October 2026 and $25.763 million for the projected test year for the company's nine compression projects. Consumers' exceptions, p. 21.

In her replies, the Attorney General repeats her position that the nine identified projects in this category are in such early stages, that "[i]t is very likely that the cost for these projects will change from the amounts proposed by the Company and the timing of construction is still unknown and

could slip into a future year past the end of the projected test year," and that inclusion in rate base is thus premature. Attorney General's replies to exceptions, p. 28. While Consumers argues in exceptions that Act 9 approval is not a cost recovery mechanism, the Attorney General points out that Consumers acknowledges that it will not begin construction of the projects until it receives Act 9 approval. Thus, the Attorney General asks the Commission to find that the timing of construction is unknown and could shift beyond the test year. In response to Consumers' argument that the projects are progressing despite being in the early stages, the Attorney General argues that the timing of the projects is vague and a mere assertion that projects are progressing is not adequate support for cost recovery. Therefore, the Attorney General requests that the Commission adopt the PFD. *Id*., pp. 29-30.

Finding the ALJ's recommendation to be well-reasoned and supported by the record, the Commission adopts the PFD on this issue. *See*, PFD, p. 111. The ALJ properly excluded these projects from rate base as they have not received Act 9 approval (with the exception of the one project addressed by the ALJ) and are in such early stages that the requisite level of certainty that they will progress as scheduled and will incur the projected expenditures within the bridge period and test year does not yet exist. *See*, 2 Tr 1919-1920; Exhibit AG-30. As such, the Commission finds that it is not appropriate to include these expenditures in rate base at this time.

b. Lyon 29/34 (Northville Storage Fields)

Consumers explained that the Northville Storage fields include Lyon 29, Lyon 34 (Lyon 29/34), and Northville Reef and that the company has incurred costs in 2022 through 2024 to install a liquid handling system and has expenditures to secure remaining materials, site permitting, and construction in 2024 and 2025. Per the company, projected expenditures for 2025 through 2027 are needed to complete the liquid handling system for Lyon 29/34 and to start

engineering and procurement at Northville Reef Field for its liquid handling system. 2 Tr 850-851.

The Attorney General disputed the necessity of the Lyon 29/34 project and pointed out that Consumers failed to include the total cost of the project in its rate case application. Citing discovery responses, the Attorney General stated that Consumers reported the total costs of $40.396 million from 2018 to the end of 2028. 2 Tr 1914-1915. The Attorney General recalled that when the Commission approved projected spending of $3.65 million for the 12 months ending October 2026 in Case No. U-21806, the company had projected the total cost to be $37.371 million. While the company explains the increased costs in this case being attributed to higher than budgeted contractor costs, the Attorney General deemed this to be an unacceptable explanation and asked the Commission to disallow $3.025 million. 2 Tr 1915-1916.

Consumers disagreed with the Attorney General's suggested disallowance, arguing that the additional costs are necessary and outside of the company's control. 2 Tr 870-871.

The ALJ agreed with the Attorney General and recommended a disallowance of $3.025 million from the 10-month period ending October 2026. The ALJ found that, while the costs imposed by the local unit of government are outside of the company's control, "those costs could have, and should have been researched and incorporated in the original bid." PFD, p. 114. The ALJ pointed out that the application in Case No. U-21806 was filed on December 16, 2024, noted that the administrative law judge in Case No. U-21806 had recommended a full disallowance, but the Commission had disagreed and found the capital expenditures to be reasonable and prudent. *Id*., pp. 114-115 (citing September 30 order, pp. 88-91). In this case, the ALJ found "it troubling that the application for this case was filed only a few months after the Commission's Order was entered and Consumers found another $3,025,000 in 'necessary'

expenses for the project that were 'outside of its control.' Projects should not be made to look more affordable than they really are by leaving out reasonably certain expenses." PFD, p. 115.

Consumers takes exception to the ALJ's recommended disallowance and repeats its testimony that the additional costs were imposed on the company by the local township after the original bid and that such post-bid changes are not uncommon for large construction projects. Consumers' exceptions, p. 23 (citing 2 Tr 870; Exhibit AG-28 Confidential). Reciting the ALJ's reasoning, the company asks the Commission to reject the ALJ's recommendation because it will penalize the company for costs imposed outside of its control, the additional scope required does not make the resulting costs imprudent or unnecessary, and the timing of the Commission's approval in Case No. U-21806 and the imposition of the new requirements is irrelevant. Consumers adds that the timing does not justify a disallowance since the ALJ did not identify evidence that the added requirements were avoidable, unreasonable, or unnecessary. Consumers' exceptions, pp. 23-24.

In replies, the Attorney General repeats her position, arguing that the company did not justify recovery of the cost overrun associated with the Lyon 29/34 project. In response to Consumers' exceptions, the Attorney General states that the ALJ did not err. Per the Attorney General, it is not unexpected that a local government would have conditions for project approval and the company should have inquired about potential impacts to the project. Thus, the Attorney General asks the Commission to adopt the PFD. Attorney General's replies to exceptions, pp. 32-33.

Finding the ALJ's recommendation to be well-reasoned and supported by the record, the Commission adopts the PFD on this issue. *See*, PFD, p. 115. The Commission notes the evasiveness of the company's response regarding whether it made efforts to ascertain permitting requirements from the local township ahead of compiling and completing its bid for the project or to explain the nature of these costs as to whether they are typical of projects like this or are unique

such that they are not foreseeable. When pointedly asked this question by the Attorney General in discovery, Consumers merely listed the additional requirements from the township and indicated that the additional requirements were added in the design phase of the project, after the bidding. *See*, Exhibit AG-81. Consumers was notably not responsive to the question of whether the company inquired with the local township regarding permit requirements prior to or in the process of preparing its bid or why these costs were not known prior to bidding.

The company carries the burden of proof in demonstrating that its proposed expenditures are reasonable and prudent. The Commission finds that in this instance the company has not carried that burden to convince the Commission that these additional costs were impossible to know and was unresponsive to a reasonable attempt by the Attorney General to ascertain the company's due diligence in preparing its bid. As such, the Commission finds the ALJ's recommended disallowance to be appropriate.

c. New Well/Re-Entry Well

Consumers stated that it plans to drill eight new wells in 2026 and 2027, as well as three re-entry wells at a projected cost of $31.951 million for the 10-month bridge period ending October 2026, and $31.046 million for the test year. Per the company, the projected capital expenditures for 2025 through 2027 include funding for engineering, site preparation, and drilling of new wells. 2 Tr 853-854; Exhibit A-12, Schedule B-5.5.

The Attorney General recommended a disallowance of $9.87 million for the 10 months ending October 2026, explaining that the company spent only $15 million on new storage wells in 2024 and that the total forecasted cost for new wells and re-entry wells for the bridge period is actually $22.081 million. 2 Tr 1916-1918. The Attorney General did not dispute the company's test year projected expenditure. Attorney General's initial brief, p. 76.

The ALJ recommended a disallowance of $4.935 million for new well spending in the 2026 bridge period, reasoning that:

> [b]ased on a comparison of historical spending versus projected spending, the Company's new well spending projection for 2026, and its re-entry well spending for 2027, appear to exceed what is reasonable. It seems noteworthy that the Company did not include any actual expenditures for 2026 when it filed its rebuttal testimony for this case. Nevertheless, the Attorney General's recommendation, based on a straight average, also seems likely to be inaccurate, because, as the Company notes, averaging does not analyze unique aspects of each well.

PFD, pp. 118-119. Thus, the ALJ recommended adopting half of the Attorney General's disallowance to address what appears to be an over-projection by Consumers but to also credit the company's explanation that a portion of the above-average increases are based on measurable differences between the well projects. *Id*., p. 119.

Consumers takes exception, citing its testimony, which explained that the Attorney General's method supporting her proposed disallowance is overly simplistic and does not accurately account for the cost of new well projects. Consumers recalls that the Attorney General took the total costs of wells drilled in 2023 through 2025, divided by the number of wells drilled, to determine an average cost per new well, plus an inflation factor. Consumers' exceptions, p. 19 (citing 2 Tr 1917-1918). Consumers asks the Commission to reject this approach because:

> [the Attorney General] wrongly assumed that all new wells have a similar geological formation, drill depths, pipeline lengths, and site preparation. As [Consumers' witness] Mr. Joyce explained, such assumptions are not correct. 2 TR 871-872. The Company's Storage Engineering group uses information about the specific attributes of a planned new well to create projected expenses for each project. Mr. Joyce testified that the Company's method is far more accurate for projecting the new well expense than the one proposed by Attorney General witness Coppola.

Consumers' exceptions, pp. 19-20.

Consumers also contends that the ALJ's 50% disallowance is in error because it relies on the Attorney General's defective method, which the ALJ acknowledged when she stated that based on

a straight average, the Attorney General's recommendation seems likely to be inaccurate because averaging does not consider the unique characteristics of each well. *Id*., p. 20 (citing PFD, p. 118). Thus, Consumers argues that, with that acknowledgment, there is no evidentiary basis for accepting the half of the Attorney General's proposed adjustment. The company repeats that its own forecasting method should be relied upon because it was developed using the specific attributes of each planned well, including geological formation, drill depth, pipeline length, and site preparation requirements. For this reason, Consumers asks the Commission to reject the ALJ's $4.935 million reduction and approve the company's full expenditures for the Storage New Wells category. Consumers' exceptions, p. 20.

The Attorney General takes exception to the PFD, recalling the company's position and her analysis of the costs for drilling new well and re-entry wells in 2026 and 2027 and her recommendation to remove $8.870 million for the 10 months ending October 2026 from the company's forecasted capital expenditures. Attorney General's exceptions, p. 35. The Attorney General asks the Commission to adopt her proposed disallowance in its entirety. She explains that the ALJ acknowledged that the company's projections are excessive and that the company carries the burden to show its projections are reasonable and prudent. The Attorney General contends that the company did not meet its burden and adds that averages include highs and lows that capture the variations in individual well expenses. Thus, the Attorney General maintains that her methodology provides a reasonable basis supporting her proposed disallowance. *Id*., pp. 35-36.

Consumers replies to the Attorney General's defense of her averaging method in exceptions, repeating the purpose of the storage new wells expenditures and that the company's projections for 2025 through 2027 expenditures include engineering, site preparation, and drilling of new wells. Consumers' replies to exceptions, p. 38. Consumers contends again that the Attorney General's

averaging approach does not account for project-specific well characteristics, such as geological formation, drill depth, pipeline length, and site preparation. *Id*., p. 39 (citing 2 Tr 871-872). Consumers states that the ALJ properly recognized the flaw in the Attorney General's method but then, contrary to record evidence, adopted half of the Attorney General's disallowance. Consumers repeats that the disallowance is not tied to a project-specific cost estimate or any evidence showing the company's forecast is overstated. Consumers maintains that its proposed expenditures are appropriate and should be adopted by the Commission. Consumers' replies to exceptions, pp. 39-40.

In her replies to exceptions, the Attorney General refers to her arguments made in exceptions regarding this issue. Attorney General's replies to exceptions, p. 33.

Finding the ALJ's recommendation to be well-reasoned and supported by the record, the Commission adopts the PFD on this issue. *See*, PFD, pp. 118-119. The Commission finds that the ALJ arrived at a reasonable result given that Consumers' projections for the 10-month bridge period ending October 2026 represent a 16% increase in the average per well inflation-adjusted historical cost for new wells and a 29% increase for re-entry wells. *See*, 2 Tr 1917-1918. While the company argues that the Attorney General's averaging method is too simplistic and that the company's method considers the unique characteristics of each well project, the company did not rebut the concern over the increase in projected expenditures with evidence showing the specific characteristics of these projects or any actual spending that occurred in 2026 up to the point where the company filed rebuttal testimony on May 6, 2026. It is the company's responsibility to carry the burden of supporting its requests, and while it states simply that project-specific well characteristics such as geological formation, drill depth, pipeline length, and site preparation affect a project's cost, it does not include any of these details in the record. As such, the Commission is

not persuaded to adopt the company's expenditures as proposed. Therefore, the Commission adopts the ALJ's recommended disallowance of $4.935 million from the 2026 bridge period.

d. Storage and Storage Pipeline Replacement

Consumers explained that this category of expenditures includes the Line 300 reroute project and projects for the Overisel, Ray, and St. Clair storage fields and that planned capital expenditures for 2025 through 2027 consist of a launcher receiver replacement at the Ray storage field and scrubber replacements at two of the St. Clair storage fields. 2 Tr 851-852. For the storage pipeline replacement program, the company stated that projects include the replacement and retirement of storage pipelines to reduce the risk of major failure. Consumers also explained that previously the EIRP funded the storage field lateral and mainline replacement, but, starting in 2018, the transmission EIRP program ended, and this program began addressing storage pipelines not qualifying for EIRP funding. 2 Tr 858-860; Exhibit A-12, Schedule B-5.5. The company projected $30.4 million for 2025, $32 million for the 2026 bridge period, and $19.3 million for the projected test year for gas storage projects, along with $37.5 million for 2025, $8.6 million for the 10-month bridge period ending October 2026, and $57.6 million for the projected test year for gas storage pipeline projects. Exhibit A-12, Schedule B-5.5.

The Attorney General identified eight projects (GS-00543, GS-00504, GS-00506, GS-00509, GS-00510, GS-00515, GS-00520, and GS-00537) as being in the planning, preliminary design, or early phase of engineering design phases and that four of these projects required Act 9 approval from the Commission. Noting that the company stated its intention to file the necessary Act 9 application in first half of 2026 and that the eight projects are too uncertain to be included in rate base at this time, the Attorney General recommended a $5.325 million disallowance in the 2026

bridge period and a $57.431 million disallowance from the test year. 2 Tr 1921-1922; Exhibit AG-31.

The Staff also recommended a disallowance for the projects that require Act 9 approval, identifying those projects as the Line 300 Reroute and Retire, Salem Mainline 2 Replacement, Overisel Mainline 16-inch Replacement, Salem Lateral 2N Replacement, and Overisel Mainline 12-inch Replacement. 2 Tr 2515-1517; Exhibits S-15.2 and S-15.3.

The company disagreed with the Attorney General's and the Staff's proposed disallowances, arguing that while project construction will not commence until Act 9 approval was obtained, the company will still move forward with engineering and procurement activities. Consumers added that projects in the early stages still incur necessary expenditures. 2 Tr 869, 874.

The ALJ recommended a disallowance of $241,000 for 2025, $2.838 million for the 2026 bridge period, and $61.554 million for the test year.[16] PFD, p. 124. First, the ALJ noted that the Commission approved Consumers' Act 9 application for the Salem Mainline 2 16-inch natural gas pipeline replacement project (project GS-00506) on July 16, 2026, four months after the company's submission of the Act 9 application. The ALJ stated that, even if the remaining projects requiring Act 9 approval follow the same timeline, a final Commission decision would come after the bridge period in this case. Thus, the ALJ agreed that there is no guarantee that all Act 9 applications will be approved and therefore found that the capital expenditures for the Line

[16] The ALJ noted that the Line 300 Reroute and Retire project was discussed as part of the TED-1 program and recommended that, to the extent that the company included capital expenditures for that project in the Storage and Transmission programs, the expenditures should be disallowed in both areas. PFD, p. 121, n. 606. Thus, the amounts recommended by the ALJ include the following disallowances for the Line 300 Reroute and Retire project: $241,000 for 2025; $1.054 million for the 10-month bridge period ending October 2026; and $10.647 million for the test year. For clarity, the disallowances relevant to the Storage and Storage Pipeline Replacement category only are as follows: $1.784 million for the 10-month bridge period ending October 2026 and $50.907 million for the test year.

300, Overisel Mainline 16-inch replacement, Salem Lateral 2N Replacement, and Overisel Mainline 12-inch replacement should be disallowed. The ALJ added that the company conceded that the request for the Line 300 reroute and retire project was premature because a final order on the Act 9 application was not expected prior to a final decision in this case. PFD, p. 125 (citing 2 Tr 1396, 1402-1403).

The ALJ also recommended a disallowance for the four other projects identified as being premature by the Attorney General (projects GS-00543, GS-00510, GS-00520, and GS-00537). The ALJ agreed that these projects are not developed enough for inclusion in rate base. PFD, p. 125.

Consumers takes exception and asks the Commission to approve the full amount of its proposed expenditures for all the projects making up the Storage and Storage Pipeline Replacement category. Beginning with the ALJ's acceptance of the Staff's Act 9 argument, the company contends that Act 9 is not a cost approval mechanism, the company fully supported the need for the projects, and the company will incur costs before Act 9 approval. Consumers states that it accounted for the time required for the Act 9 approval process and asserts that there is no reason to expect misalignment with the start of construction and the rate recovery requested in this case. Consumers' exceptions, pp. 17-18.

Turning to the ALJ's acceptance of the Attorney General's position and disallowance, Consumers argues that each of the projects identified by the Attorney General as premature are progressing according to a schedule that allows for construction in late 2026 and 2027. Consumers repeats its testimony that, while in the early stages, these projects have incurred and will continue to incur costs, including personnel costs, engineering support, and procurement of long-lead materials. The company argues that being in the development phase is not a reason to

disallow the expenditures for a project and explains that the company routinely manages a portfolio of projects across varying stages of development to ensure continuity of work, timely execution, and compliance with regulatory and operational requirements. Adopting the ALJ's disallowance will increase operational risk and impede the company's ability to maintain reliable field storage equipment, according to Consumers. *Id*., p. 18 (citing 2 Tr 873-874).

No replies to exceptions were filed on this issue.

Finding the ALJ's recommendation to be well-reasoned and supported by the record, the Commission adopts the PFD on this issue. *See*, PFD, pp. 124-125. The Commission is persuaded by the Attorney General's and the Staff's arguments that, without Act 9 approval, the timeline for these projects remains uncertain such that cost recovery is not appropriate at this time. The additional projects identified by the Attorney General are also in such early stages that their timelines for incurring costs and the amounts of the expenditures are uncertain. *See*, 2 Tr 1921-1922, 2515-2517; Exhibit AG-31; Exhibits S-15.2 and S-15.3.

e. Compression and Storage 2025 Underspend

In response to a request by the Attorney General, Consumers identified $161.744 million of actual expenditures for the company's compression and storage programs, which is $34.851 million less than the $196.595 million the company included as its 2025 expenditure in its application in this case. The Attorney General proposed a disallowance of the $34.851 million difference, which Consumers did not oppose. 2 Tr 1923; Exhibit A-12, Schedule B-5.5; Exhibits A-37, A-156 and A-157; Exhibit AG-32, pp. 1-2. The Staff also stated in its initial brief that the underspend should be disallowed. Staff's amended initial brief, pp. 8-9.

The ALJ noted Consumers' agreement and recommended that the $34.851 million be excluded from rate base. PFD, p. 126.

No party filed exceptions on this issue.

Noting the parties' agreement on this issue and finding the ALJ's recommendation to be well-reasoned and supported by the record, the Commission adopts the PFD on this issue. *See*, PFD, p. 126.

4. Facilities and Shared Services

Per Consumers, the Facilities and Shared Services category supports operations through the Fleet Services, Facilities, Real Estate, Contractor Oversight, and Supply Chain Materials Management functions, which acquire, construct, and maintain assets for the areas of the business serving customers. Consumers explained that the Facilities organization manages, maintains, and operates 3.2 million square feet of building space across Michigan and that some facility systems have exceeded their useful lives and no longer meet modern standards for energy efficiency and workspace. 2 Tr 771-772. Consumers stated that it evaluated its facilities for safety, quality, and cost to identify renovation or replacement needs and to come up with a prioritized plan for its facilities. This prioritized plan began with the company's 10-year Long-Term Facilities Plan, which was one of many inputs informing the company's Long-Term Financial Plan (a five-year financial plan created in part from facility health assessments). 2 Tr 773-777.

Consumers divided its facilities capital expenditures into Asset Preservation and Other Equipment. Asset Preservation includes emergent repairs, asset replacement, new construction, and renovations, and Other Equipment includes wellness equipment, computer equipment, print equipment, real estate tools and equipment, supply chain tools and equipment, and facilities tools. For Asset Preservation, the company projected $2.634 million in the 10-month bridge period ending October 2026, and $1.482 million in the test year. 2 Tr 778-813; Exhibit A-12, Schedule B-5.4. For Other Equipment, the company projected $1.119 million in the 10-month

bridge period ending October 2026, and $633,000 in the test year and explained that the increase over the five-year historical average was due to growing investments in supply chain warehousing. 2 Tr 778-779.

The Attorney General recommended a disallowance of $450,000 from the company's projected expenditures for the 10-month bridge period ending October 2026, and $712,000 from the test year to reflect the Attorney General's method of using the recent three-year average of emergent facilities capital expenditures. 2 Tr 1931-1932; Exhibit A-83. Consumers disagreed with the Attorney General's proposed disallowance and defended the company's method of using a five-year average for emergent repair capital expenditures. 2 Tr 817-818.

The ALJ agreed with the Attorney General's method, stating that it is reasonable to use a multi-year historical average to forecast spending for emergent projects. The ALJ found that the most recent three-year period is reasonable because within the historical five-year period are, presumably, COVID-19 pandemic-related activities that are not expected to occur during the test year. Additionally, the ALJ reasoned that the company used three-year historical averages to forecast expenditures for other projects in this case. Thus, the ALJ recommended a disallowance of $450,000 from the 10-month bridge period ending October 2026, and $712,000 from the projected test year. PFD, p. 131.

Consumers takes exception, arguing that the ALJ's recommendation contradicts past Commission orders. The company recalls its testimony that it used a five-year average to determine its emergent repair capital expenditures and that the Commission has accepted this approach in past rate cases, including Case Nos. U-21870, U-21806, U-21585, U-21389, U-21224, and U-20963. Consumers adds that its forecasted expenditures for the bridge period and the test year are each less than the five-year average of emergent repairs, which is $1.49 million.

Consumers' exceptions, pp. 24-25 (citing 2 Tr 870; Exhibit A-83, p. 2). Additionally, the company asks the Commission to reject the PFD because "[t]he fact that the Company may use three-year averages for other categories does not show that a three-year average is appropriate for this category, where the record evidence specifically supports a five-year historical average and prior Commission acceptance of that approach." Consumers' exceptions, p. 25.

In replies, the Attorney General repeats her position on the record and responds to Consumers' repeated advocacy for using a five-year average approach. The Attorney General points out that the ALJ noted that the five-year period likely includes COVID-19 related activities that would not be expected in the projected test year and that Consumers itself stated that the five-year average for emergent repairs is $1.49 million, likely from extra expenditures during the COVID-19 years. Thus, the Attorney General asks the Commission to adopt the PFD. Attorney General's replies to exceptions, p. 35.

The Commission respectfully declines to adopt the ALJ's recommendation with respect to the disallowance in the bridge period and test year for emergent repairs. The ALJ seems to rely on a presumption that the five-year historical average includes COVID-19 related activities that will not occur again in the test year. *See*, PFD, p. 131. However, there is no evidence on this record identifying any specific COVID-19 related costs that occurred within the five-year timeframe that are unlikely to occur again. In the absence of such evidence, the Commission finds that the five-year average employed by Consumers in past cases is reasonable as it captures the highs and lows in expenditures over an adequate period of time. The Commission is not persuaded by the Attorney General's position which selected three years with lower expenditures seemingly with the justification that Consumers had stated in discovery that its emergent repair projects were not known in advance and, therefore, it was not clear to the Attorney General how the company

arrived at its projected expenditures for the bridge period and test year. *See*, 2 Tr 1932. However, Consumers' response is not unreasonable because the nature of emergent repairs means that they are unplanned and are not known ahead of time. Hence, an averaging method is appropriate. The Attorney General did not provide persuasive evidence to deviate from the five-year average used in the past. Thus, the Commission approves Consumers' proposed expenditures for emergent repairs in the bridge period and test year.

5. Fleet

Consumers testified that it had shifted from its goal of electrifying 30% of its fleet by 2030 to an approach driven by market availability that the company describes as more pragmatic and one that will allow the company to focus on electrifying units that deliver measurable value while maintaining flexibility. The company stated that it operates 283 electric vehicles (EVs) (5% of the powered units in its internal fleet) and that the company is using its standard replacement process to evaluate EV opportunities. Consumers explained that, when considering an EV, it looks at vehicle mileage for range feasibility, market availability, functional suitability, and the total cost of ownership (TCO). Per the company, it partnered with CALSTART, a national non-profit organization focused on clean transportation, to do a fleet electrification assessment and an idling and cost savings analysis. The company stated that this assessment revealed an opportunity to lower operating and fuel costs and reduce wear and tear associated with idling on internal combustion engine (ICE) components. Consumers planned to discuss best practices for idling, ways to reduce idling, planned charging installations, increased load demands at service centers, and plans to retire seven ICE trucks and purchase seven EV trucks in the test year. 2 Tr 902-907; Exhibits A-105, A-106, A-107, and A-108.

MEC/CUB contended that Consumers was backing away from the company's previous commitment to electrification and that its abandonment of the 30% electrification goal eliminates accountability during a major fleet replacement cycle. MEC/CUB asserted that company vehicles had average daily mileage within EV ranges and, therefore, EV range is not a constraint. MEC/CUB argued that market limitations or operational fit concerns are not a basis for retreating from the 30% goal and alleged that the company did not collect sufficient data on charging costs or hourly load shape data for its EV fleet. MEC/CUB recommended that the Commission require Consumers to reinstate the 30% fleet electrification goal by 2030, provide a documented quantitative TCO analysis for each vehicle category evaluated through its Electrification Filter as a condition of including fleet capital expenditures in rates, collect and report complete charging cost data for all EV and plug-in hybrid EV (PHEV) fleet vehicles in its next gas rate case filing, and collect hourly EV charging load shape data for its EV fleet and share that data with its electric utility counterpart. 2 Tr 2110-2121; Exhibit CUB-27.

MEC/CUB also provided their own analysis of the company's fleet idling data which, per MEC/CUB, showed that EVs and electric power takeoff (ePTO) technologies could address the company's vehicle idling issues. Thus, MEC/CUB also recommended that the Commission require the company to analyze and quantify idle-reduction benefits in its cost-ownership calculation within the electrification filter. 2 Tr 2123-2125.

Consumers defended its approach to fleet electrification and disputed MEC/CUB's analysis and resulting conclusions and recommendations to the Commission. *See*, 2 Tr 921-927.

The ALJ found that it was not in the best interests of ratepayers to hold Consumers to its previously approved 30% electrification goal or a target that is not cost-effective. Thus, the ALJ declined to recommend that the Commission require the company to reinstate the 30% goal. PFD,

p. 141. While the ALJ agreed with the company's market availability approach in lieu of the 30% goal, she was not persuaded by Consumers' argument against revising the electrification filter and the company's position that documenting TCO would replace managerial judgment. The ALJ noted that, in support of the company's position, Consumers relied on anecdotal evidence and subjective preferences rather than objective validated data. The ALJ stated that requiring a TCO evaluation for every vehicle category may require additional effort, but it ensures meaningful consideration of alternatives using objective data. Finding this to be reasonable and in the interest of ratepayers, the ALJ recommended that the Commission direct Consumers to prepare a TCO analysis for the vehicles the company evaluates through its electrification filter. *Id*., pp. 141-142.

The ALJ also recommended that, since the company tacitly agreed to collect and report complete charging-cost data for all EV and PHEV fleet vehicles, the Commission should direct the company to do so in its next gas rate case. The ALJ reasoned that EVs and PHEVs are not new to Consumers' fleet, and, given the company's previous 30% goal, it is reasonable for Consumers to collect this information. Per the ALJ, this data and the hourly EV charging load shape data are necessary to accurately report the TCO, which is reasonable and prudent in evaluating how to shape the company's future fleet in the best interest of ratepayers. Lastly, the ALJ also found it reasonable for this information, once collected, to be shared with the company's electric utility counterpart. *Id*., p. 142.

MEC/CUB take exception to the PFD with respect to the ALJ's rejection of reinstating the company's 30% fleet electrification goal and to clarify that the TCO analysis recommended by the ALJ should also include the savings attributable to reduced idling. MEC/CUB's exceptions, p. 17. Regarding the 30% goal, MEC/CUB contend that the company never presented evidence that fleet electrification does not remain cost effective and that the company's comparison of EVs to ICE

vehicles was limited to purchase price and failed to account for lower maintenance, fuel, and environmental costs. MEC/CUB add that Consumers did not support its claim that the company could not uphold the 30% commitment without exceeding the Commission's approved one-to-one replacement rate. *Id*., pp. 17-18. MEC/CUB repeat their argument that the company should not be permitted to back out of its fleet electrification commitment without "serious justification and evidentiary support." *Id*., p. 18.

MEC/CUB state that the ALJ did not specifically address MEC/CUB's recommendation to include EV idle-reduction benefits in the TCO analysis and, citing their testimony and briefing, ask the Commission to direct Consumers to explicitly analyze and quantify idle-reduction benefits as a discrete line item in the company's Electrification Filter's TCO calculation. *Id*., pp. 18-19. MEC/CUB argue that their recommendation is reasonable because it will ensure that the TCO analysis is complete and that alternatives are considered using objective data, as the ALJ reasoned for other aspects of her recommendation. *Id*., p. 19.

In its exceptions, Consumers commends the ALJ's rejection of the reinstatement of the 30% target but argues that the ALJ erred in her analysis of the company's Electrification filter. Consumers disputes the ALJ's conclusion that the company relied on anecdotal evidence and subjective preferences and that the company did not use objective validated data. Per Consumers:

> [n]o party claimed the electrification filter does not rely on objective data either, the TCO metric was proposed as an additional metric to a list of other objective metrics already evaluated by the Company. The Company clearly shows how the filter is used in testimony. 2 TR 903-905. The PFD misunderstands the underlying dispute and adding a metric to how the Company evaluates EV purchasing would inappropriately result in the Commission making management decisions on behalf of the Company contrary to *Union Carbide v Public Service Commission*, 431 Mich 135; 428 NW2d 322 (1988) [(*Union Carbide*)]. Further the addition of the TCO metric would reduplicate efforts already completed by the Company. The TCO metric is not substantially different from cost benefit analyses already performed by the company in response to the Commission's Case No. U-20963, December 22, 2021 Order [December 22 order]. The Commission required the company to

> present a "benefit cost analysis incorporating the costs and benefits to ratepayers from the company's investment decisions." [December 22 order], page 183. [Consumers' witness] Mr. Judy explains the result of that analysis [is that] the Company partnered with CALSTART to assess fleet electrification. 2 TR 905.

Consumers' exceptions, pp. 26-27.

Consumers also excepts to what it calls the ALJ's presumption that the company's existing telematics infrastructure can capture hourly EV charging load-shape data despite MEC/CUB offering no evidence to show that to be true. Consumers explains that the requested data is more difficult to gather than MEC/CUB and the ALJ assume because such charging load-shape data would have to be developed. Consumers states that it does not oppose collecting more complete charging cost data for its EV and PHEV fleet vehicles and that it is willing to evaluate next steps in gathering that data but contends that it should not be required to collect hourly load-shape data. *Id*., p. 27.

In replies, MEC/CUB ask the Commission to adopt the ALJ's recommendations regarding the TCO analysis for the company's EVs and collecting charging cost and hourly charging load shape data for the company's EVs. As to Consumers' argument that its Electrification Filter is objective, MEC/CUB quote as follows from their initial brief:

> [t]he Company's process for evaluating operational fit also raises broader concerns. . . . For example, the Company dismissed the Ram ProMaster EV based simply on informal oral interviews with an unknown number of people that had an opportunity to test-drive the vehicle. Based on discovery, the Company apparently concluded that the Ram ProMaster is operationally inadequate because (1) the "people that had an opportunity to test-drive and inspect [it] preferred the lower roof height of the vans currently in use;" (2) there were "concerns" regarding the "sturdiness of the roll down rear door" and "quality of the sliding door;" and (3) "driver observations noticed that it was getting less MPGe [miles per gallon equivalent] than expected." The Company's observations were not quantified or documented, nor were they validated by third-party reports. Rather, the Company appears to have relied solely on anecdotal evidence and the subjective preferences of personnel. That is not credible or reliable evidence, and the Commission should require the Company to provide substantial, objective evidence of the operational limitations of candidate EVs before authorizing new capital spending on ICE

vehicles.

MEC/CUB's replies to exceptions, p. 6 (quoting MEC/CUB's revised initial brief, pp. 28-29). MEC/CUB insists that adoption of their TCO analysis recommendation will help ensure objective decision making. MEC/CUB's replies to exceptions, pp. 6-7.

In response to Consumers' arguments regarding violations of *Union Carbide*, MEC/CUB state that it is the prerogative of the Commission to evaluate the reasonableness, prudence, and cost-effectiveness of the company's spending and argued that their recommended TCO analysis will assist the Commission in that process. *Id*., p. 7. MEC/CUB explain that their recommended TCO analysis is different from the BCA being performed in response to the December 22 order, thus avoiding the duplication asserted by Consumers. MEC/CUB's replies to exceptions, pp. 7-8. Lastly, as to Consumers' assertion that MEC/CUB provided no evidence that existing telematics infrastructure can capture hourly EV charging load-shape data, MEC/CUB point out that Consumers offered no evidence that it could not. MEC/CUB add that, even if this new infrastructure needs to be developed, doing so would be prudent. *Id*., p. 8. According to MEC/CUB, "without load shape data, the Company cannot take advantage of managed charging and demand response programs and their associated savings." *Id*. Thus, MEC/CUB ask the Commission to require Consumers to complete a TCO analysis for the vehicles evaluated through the electrification filter and to collect charging-cost and hourly charging load shape data for the company's EV fleet. *Id*.

In its replies to exceptions, Consumers asks the Commission to reject MEC/CUB's arguments regarding the 30% goal and adopt the ALJ's recommendation. The company repeats that it has not abandoned fleet electrification but is instead opting for a more cost-effective strategy as explained in its testimony and initial brief. Consumers' replies to exceptions, p. 40 (citing Consumers' initial

brief, pp. 79-82). Consumers frames MEC/CUB's position as asking the company to pursue a higher spending obligation without the evidentiary basis showing such a pathway to be reasonable and prudent. Consumers' replies to exceptions, pp. 40-41. Consumers then responds to MEC/CUB's assertion that Consumers did not present evidence that fleet electrification was not cost-effective and that the company only compared the purchase price of EVs versus ICE vehicles. Per the company, it explained in its briefing why a rigid 30% goal would not be cost-effective and argues that MEC/CUB's position would allow an intervenor to demand that a utility spend more money in a specific area and then require the utility to disprove the intervenor's preferred spending level. *Id*., p. 41 (citing Consumers' initial brief, pp. 79-82). Mandating the 30% goal would push the bounds of the Commission's authority and would amount to dictating management decisions contrary to *Union Carbide*, according to the company. Consumers' replies to exceptions, p. 41.

Citing similar reasons, Consumers asks the Commission to reject MEC/CUB's recommendation to include idle-reduction benefits in the TCO analysis of EVs. The company defends its evaluation metrics and argues that specific directives regarding the metrics to be used would violate *Union Carbide*. Repeating that MEC/CUB did not provide compelling evidence in support of their position, Consumers requests that the Commission reject MEC/CUB's exceptions and adopt the ALJ's recommendation regarding the 30% target. *Id*., pp. 41-42.

Beginning with the 30% goal, the Commission finds the PFD to be well-reasoned and supported by the record and adopts the ALJ's recommendation. The Commission notes that the company's previously stated ambition to electrify 30% of its fleet by 2030 (including 100% of its light duty vehicle purchases to be electric by 2030) was a voluntary commitment made by the company. The company's failure to follow through on its promises does not in itself render its revised approach unreasonable, though such corporate backtracking will likely spur an

understandable level of skepticism in accepting future commitments at face value. As such, while the Commission hopes the company will in the future at least attempt to perform appropriate due diligence in advance of (rather than after) making such public commitments, the Commission finds that the company has adequately supported the shift to a one-to-one EV replacement approach that considers cost-effectiveness, operational and technological appropriateness, TCO, and market availability, among other factors. *See*, 2 Tr 902-903, 920-922. The Commission encourages the company to continually update its electrification analysis to include updated TCO and BCA calculations as new data becomes available.

The Commission also agrees with the ALJ's recommendation and the company's agreement to collect and report complete charging-cost data for all of the company's EV and PHEV fleet vehicles to be able to compare this data to fuel costs for its ICE vehicles. Additionally, noting the company's tacit agreement, the Commission adopts the ALJ's recommendation for the company to collect and report the hourly EV charging load shape. Consumers did not oppose the collection of this additional data but asked for additional time beyond its next gas rate case filing in order to develop a plan and the means to collect such data. *See*, Consumers' initial brief, p. 81. The Commission finds Consumers' request for additional time to be reasonable and therefore, respectfully declines to adopt the ALJ's recommendation for this data to be filed in Consumers' next gas rate case. *See*, PFD, p. 142. Rather, the Commission finds that Consumers shall include this data in the upcoming filing of the company's transportation electrification plan (TEP) report, which is due to be filed in June 2027. Given Consumers' explanation that it would need to develop the telematics infrastructure to facilitate the collection of hourly EV charging load shape data, the company shall include in its TEP report its plan to do so and shall include a timeline for this development and its ability to collect this data. The Commission directs Consumers to include

complete charging-cost data for all of the company's EV and PHEV fleet vehicles as well as hourly EV charging load shape data in its next gas rate case that follows the filing of its TEP in June 2027.

As to the ALJ's adoption of MEC/CUB's recommendation for the company to conduct a TCO analysis for every vehicle category evaluated through the company's Electrification Filter, the Commission finds this recommendation to be overly prescriptive and thus, respectfully declines to adopt this recommendation. The Commission finds Consumers' current approach is reasonable in that it considers vehicles with sufficient operational histories and data. *See*, 2 Tr 903-904, 924-925. However, the Commission expects Consumers to continually update its Electrification Filter to include current TCO data and BCA results for vehicles to gain those operational histories. As to the idling-reduction benefits, the Commission similarly declines to adopt MEC/CUB's recommendation, finding it overly prescriptive and finding Consumers' current approach to be reasonable. Consumers explained that its approach considers operational realities and other means to reduce non-productive idling. *See*, 2 Tr 925-926. At this time, the Commission is not convinced that additional direction is needed but expects the company to continue to evaluate electrification as part of its idle-reduction strategy moving forward.

6. Information Technology and Security

Consumers projected IT-related capital investments of approximately $59.70 million for the bridge period and $39.72 million for the projected test year. 2 Tr 67; *see also*, Exhibit A-12, Schedule B-5.1.

The Staff and the Attorney General proposed several disallowances to the company's IT-related expenditures, which are discussed below.

a. Customer Order Service Tracker

Consumers projected $158,393 in capital expenditures for the test year for the company's Customer Order Service Tracker (COST) project. 2 Tr 687.

The Staff proposed fully disallowing the COST's capital expenditures because, as the Staff contended, Consumers failed to comply with the Commission's directive in Case No. U-21806 to track and quantify O&M savings for the project. 2 Tr 2389-2390. The Staff further asserted that project uncertainties demonstrated a lack of sufficient planning from the company and, further, that Consumers had failed to verify actual demand for the project, noting that the company did not specifically survey customers about the tool or track relevant customer call data. 2 Tr 2390-2392; *see also*, Exhibits S-9.6 and S-9.9. Additionally, the Staff contended that Consumers inflated projected savings for the COST by using the highest possible truck roll expenses without tracking actual order-level costs. 2 Tr 2392-2393; *see also*, Exhibits S-9.6 and S-9.7. Accordingly, the Staff proposed a disallowance of $286,924 for 2025, $791,968 for 10 months ending October 2026, and $158,394 for the test year for the project. 2 Tr 2389; *see also*, Staff's amended initial brief, p. 28.

In rebuttal, Consumers defended the COST and explained that project delays prevented the company from tracking O&M savings data, which Consumers asserted would instead be presented in future rate cases once the tool had been implemented. 2 Tr 210, 655; *see also*, Exhibit S-9.4. The company further noted that projected capital expenditures should be reduced by $90,132 for the 10 months ending October 2026 and $18,026 for the projected test year to correct an initial estimation error. 2 Tr 210-211.

The ALJ recommended disallowing $1,078,892 and $158,394 in capital expenditures in the bridge period and test year, respectively, for the project. PFD, p. 150. The ALJ agreed with the

Staff that recovery for the project should be disallowed until Consumers can produce savings data and demonstrate that savings have been used to offset other expenses, as previously ordered by the Commission. *Id*., p. 149. The ALJ further noted Consumers' agreement in Case No. U-21806 to track savings in its next rate case and remarked that the company chose to seek recovery in this rate case despite failing to comply with the Commission's directive. *Id*., pp. 149-150. Additionally, the ALJ found that it was reasonable to withhold further recovery for the project given the Staff's ongoing concerns about project costs and delays. *Id*., p. 150.

In exceptions, Consumers contends that the Staff's criticisms of the COST related to a lack of data specificity, which the company asserts is unreasonable given that the project "is still in development and specific tool branding does not mean that the components of COST cannot be researched through surveys addressing customer needs." Consumers' exceptions, pp. 35-36. Consumers also defends its truck roll cost estimates, which it claimed were based on planning-level truck roll costs and are therefore reasonable. *Id*., p. 36. Additionally, Consumers explains that the project start date shifted to September 8, 2025, due to resource constraints and that consequently the company was unable to track and quantify O&M savings, as requested in Case No. U-21806. *Id*. However, Consumers avers that it will present O&M savings in future rate case filings once the project is implemented. *Id*. Consumers maintains that the COST "is actively being developed and deployed," and that "a short lapse in the expectation for when costs could start being tracked and the timing of the rate case cycles should not warrant the PFD's recommended disallowances." *Id*., p. 37. Finally, Consumers notes that it identified an adjustment in discovery that reduced projected expenditures by $90,132 for the 10 months ending October 2026 and $18,026 for the projected test year. As a result, the company states that should

the Commission agree to a full disallowance, these adjustments would already be included in the Staff's proposed disallowance amounts. *Id*., pp. 37-38.

In replies to exceptions, the Staff argues that Consumers "seeks to move the goalpost that it helped establish in [Commission] Case No. U-21806, and claims that O&M savings cannot be quantified at this time." Staff's replies to exceptions, p. 2. However, the Staff reiterates that Consumers was not required to file a rate case before tracking costs and instead chose to pursue recovery for the project without complying with the Commission's prior directive. *Id*. (referencing September 30 order). The Staff further contends that there is inadequate planning for the project, as demonstrated by Consumers' failure to seek customer input for the project and failure to track data regarding truck rolls and related O&M savings. Staff's replies to exceptions, pp. 3-4. As a result, the Staff urges the Commission to adopt the ALJ's recommendation on this issue. *Id*., p. 4.

The Commission finds the ALJ's findings and conclusions on this issue to be well-reasoned and supported by the record and therefore adopts the PFD. *See*, PFD, pp. 149-150. The Commission agrees with the ALJ and finds that the record demonstrates that Consumers sought recovery in this proceeding without providing tracked and quantified O&M savings realized from the COST, as previously directed in Case No. U-21806. Furthermore, the Commission is unpersuaded by Consumers' arguments that the company was unable to produce and track such data due to project delays and notes that the company was not required to seek recovery in the instant case. The Commission also finds compelling the Staff's concerns about project delays, rising costs, and Consumers' insufficient method for projecting future savings and agrees with the ALJ that it is reasonable to withhold recovery of expenditures until the company can accurately demonstrate actual O&M offsetting savings. Consequently, the Commission disallows $1,078,892

and $158,394 in capital expenditures in the bridge period and test year, respectively, for the project.

b. Product Family Enhancements–Customer

Consumers utilized a three-year historical average from 2022-2024 to project $793,833 in capital expenditures in each of 2026, 2027, and the projected test year for the company's product family enhancements–customers project. 2 Tr 135, 137; *see also*, Exhibit A-27.

The Staff recommended disallowing expenditures of $661,569 in the 10 months ending October 2026 and a full disallowance of $793,883 in the projected test year for the project because, as the Staff contended, the requested expenditures were for emergent and contingent work that could not be assessed for reasonableness and prudence. 2 Tr 2393-2394; *see also*, Staff's amended initial brief, pp. 32-33. The Staff further argued that two specific projects identified by the company for recovery, the Mobile App and Web Chat AI projects, have previously been disallowed by the Commission and continue to remain uncertain and premature. 2 Tr 2395; *see also*, Exhibits S-9.30, S-9.31, and S-9.34. Additionally, the Staff asserted that Consumers inappropriately relied on historical spending to justify the company's requested expenditures rather than specific project plans. Consequently, the Staff argued that the requested expenditures should only be evaluated and approved once the specific operational needs are known and verifiable. 2 Tr 2396-2397.

In rebuttal, Consumers defended the product family enhancements–customer project and argued that relying on a three-year historical average proved the company's projections were based on actual, reliable spending rather than speculation. 2 Tr 213. Consumers introduced two exhibits to further support the project; however, the Staff contended that this evidence was generic and therefore insufficient to justify the company's requested expenditures. *See*, 2 Tr 213-214,

216-217; Exhibits A-139 and A-170; *see also*, Staff's amended initial brief, p. 33. The company further noted that disallowing the project would degrade key digital service channels and further argued that the Mobile App and Web Chat AI enhancements are critical for meeting evolving customer demand and reducing call volumes. 2 Tr 659-662. Additionally, Consumers argued that using a historical average allowed the company to reduce projected expenditures for the project. 2 Tr 214.

The ALJ recommended disallowing expenditures of $661,569 in the 10-month bridge period, $793,883 in 2026, and $793,883 in the projected test year. PFD, p. 158. The ALJ found that Consumers' projected expenditures for the project were contingent, uncertain, and tied to emergent work. *Id*., p. 157. The ALJ agreed with the Staff that historical averaging was not a reliable basis for estimating future costs and did not demonstrate that the projected expenditures were reasonable and prudent. The ALJ further found that Consumers' evidence lacked sufficient detail to justify the proposed spending and that the company requested expenditures for certain projects despite the Commission previously disallowing those expenditures and without showing progress on those projects, as requested by the Commission. *Id*.

In exceptions, Consumers asserts that it rebutted the Staff's claim that the projected expenditures for the project were placeholders for contingent work and instead argues that the expenditures are based on a historical average of a documented backlog of enhancements. Consumers' exceptions, pp. 30-31 (citing 2 Tr 133, 213; Exhibit A-139). Moreover, Consumers contends that the company "continues to experience persistent demand" for improvements and that, "[a]s a result, historical scope and cost are representative of future activity, and the Company's projections are based on actual spending patterns, not contingent or speculative estimates." Consumers' exceptions, p. 31. The company further reiterates that its use of a

historical three-year average reduced projections for 2026 expenditures for the project and that the use of such a historical average "normalizes enhancement costs and reflects recurring activity over multiple years, moderating year-to-year variability." *Id*., p. 32. Additionally, Consumers defends its Mobile App and Web Chat AI enhancement projects and asserts that these projects are not emergent, but rather, are based on customer feedback and functionality. *Id*., pp. 33-34. Accordingly, Consumers advocates for the Commission to reject the Staff's proposed disallowance and to approve full recovery for the project based on the substantial evidence presented by the company. *Id*., p. 34.

In its exceptions, the Staff notes that the ALJ appeared to inadvertently include an additional amount from 2026 that was not part of the Staff's originally proposed disallowance. Staff's exceptions, pp. 9-10. The Staff clarifies that it is advocating for the Commission to disallow expenditures of $661,569 for the 10 months ending October 2026 and $793,883 for the projected test year, for a total disallowance of $1,455,452. *Id*., p. 10.

In replies, Consumers states that if the Commission adopts the ALJ's recommendation on this issue, the Commission should only disallow expenditures of $661,569 for the 10 months ending October 2026 and $793,883 for the projected test year, as noted in the Staff's exceptions. Consumers' replies to exceptions, pp. 42-43.

In its replies to exceptions, the Staff argues that Consumers' use of a three-year average to "validate" projected costs does not guarantee reasonableness and further that such a method is not a reliable basis for estimating future costs. Staff's replies to exceptions, pp. 5-6. The Staff further contends that Consumers' presentation of a backlog of enhancement work does not mean the work is not emergent, especially in light of the fact that no costs or prioritization of enhancements were outlined. *Id*., p. 6. Moreover, the Staff notes that the company has described the proposed

enhancement projects as meeting emerging needs, thereby reinforcing the Staff's position that the work is contingent. *Id.*, pp. 6-7. Additionally, the Staff argues that Consumers has described the nature of the work for its Mobile App and Web Chat AI projects as meeting non-specified customer needs, again reinforcing the contingent and emergent nature of the work. Consequently, the Staff urges the Commission to adopt the ALJ's recommendation. *Id*., p. 8.

The Commission overall finds the ALJ's findings and conclusions on this issue to be well-reasoned and supported by the record and therefore adopts the PFD. *See*, PFD, pp. 157-158. The Commission agrees with the Staff's argument that Consumers has characterized the project as addressing emerging and evolving needs and that the company's evidence lacks sufficient detail to assess the reasonableness and prudence of fixed, reviewable expenses. *See*, 2 Tr 2394-2397; *see also*, Exhibits S-9.30 and S-9.34. The Commission agrees with the Staff and Consumers, however, that the ALJ appears to have inadvertently included an additional disallowance for 2026. As such, the Commission adopts the Staff's proposed disallowance and clarifies that it disallows expenditures of $661,569 for the 10 months ending October 2026 and $793,883 for the projected test year for the project.

c. Low-to-Moderate Income Customer Support Enhancement

Consumers projected $0.88 million in test year expenditures for its low-to-moderate income (LMI) customer support enhancement project, which it explained was needed for continued monitoring and feedback collection to allow the company to continue to refine the tool and expand its impact for assisting LMI customers. *See*, Exhibit A-12, Schedule B-5.9; *see also*, 2 Tr 704.

The Staff proposed fully disallowing test year expenditures for the program and argued that Consumers' failure to provide an itemized cost breakdown of expenditures for the project demonstrated that the requested costs were emergent and unsupported. 2 Tr 2399-2400; *see also*,

Exhibit S-9.25. The Staff further asserted that funding to integrate the LMI project in the company's mobile app was unnecessary given that this information was already accessible on Consumers' website. 2 Tr 2400-2401. Additionally, the Staff noted that Consumers did not comply with previous Commission directives requiring the company to provide quantifiable metrics, such as improved customer financial stability or reduced disconnections, to justify continued spending. 2 Tr 2401-2402 (citing March 27, 2026 order in Case No. U-21870 (March 27 order), p. 203); *see also*, Staff's amended initial brief, pp. 55-56.

In rebuttal, Consumers argued that the projected expenditures were reasonable, well-defined, and fully aligned with Commission standards. 2 Tr 663. The company asserted that it detailed a specific scope of work for the project and, consequently, had demonstrated the project's necessity and success. 2 Tr 663-665.

The ALJ recommended that the Commission disallow $0.88 million in test year expenditures for the project, finding that Consumers failed to demonstrate that continued expenditures were reasonable and prudent. PFD, pp. 162-163. The ALJ further found that Consumers failed to comply with the Commission's directive in Case No. U-21870 by failing to show "quantifiable improvements for LMI program accessibility, improvements in customers' financial stability, and a detailed explanation of benefits to customers that justify continued expenditures." *Id*., p. 163 (internal quotations omitted).

No party filed exceptions on this issue.

After reviewing the record and arguments of the parties, and noting that no exceptions were filed, the Commission finds the ALJ's findings and conclusions to be well-reasoned and supported by the record. The Commission, therefore, adopts the ALJ's recommendation on this issue. *See*, PFD, pp. 162-163. The Commission notes, however, that it finds value in Consumers' efforts to

support LMI customers and encourages the company to continue to explore enhancements that will improve LMI program accessibility and customers' financial stability.

d. Tracking and Traceability System

Consumers projected $6.62 million in test year expenditures, reduced to $5.30 million with a 20% rough order of magnitude (ROM) adjustment, for its tracking and traceability project, which the company explained was necessary to comply with PHMSA's proposed Plastic Pipe Rule. 2 Tr 76-77, 81, 1543-1544.

The Attorney General proposed a full disallowance of Consumers' projected expenditures, including $2.77 million in expenditures for the 10 months ending October 2026 and $5.30 million in the test year, arguing that the company has made little progress on the project and that the project remained in the investment planning phase. 2 Tr 1924-1926; *see also*, Exhibit AG-33; Attorney General's initial brief, pp. 81-82. The Attorney General further argued that the project had a negative benefit/cost ratio (BCR) and had been postponed to 2027. 2 Tr 1924-1925.

In rebuttal, Consumers asserted that the project is not required to demonstrate cost savings because it is required under PHMSA's proposed rule and further that the project was postponed to 2027 to allow for finalization of the PHMSA Plastic Pipe Rule. 2 Tr 220, 221-222. The company also explained that the project's status in the investment planning phase does not reflect incomplete work or planning for the project, but rather pending funding. 2 Tr 221. As such, Consumers objected to the Attorney General's proposed disallowance and instead advocated for revised projected expenditures that incorporated reductions of $2.77 million for the 10 months ending October 2026 and $1.77 million for the test year. 2 Tr 221-222; *see also*, Exhibits A-157 and A-160; Consumers' initial brief, p. 97.

The ALJ declined to recommend the Attorney General's proposed disallowance and found that the tracking and traceability project was necessary to comply with PHMSA's proposed rule. PFD, p. 166. The ALJ further found that the record supported Consumers' contention that the project was in the investment planning phase due to pending funding approval, as opposed to a lack of progress, and that the company had reasonably adjusted the project's timeline to align with the final PHMSA rule. Accordingly, the ALJ found the expenditures to be reasonable and prudent and, therefore, recommended that the Commission adopt Consumers' revised request. *Id*.

In exceptions, the Attorney General objects to the ALJ's recommendation and again reiterates that the project has no cost savings or financial benefits for customers. Attorney General's exceptions, p. 37. She further asserts that the project is still in the preliminary stage and that "only high-level requirements have been identified and not much work done to assess and match detailed system requirements to the prospective system to be acquired or developed." *Id*., p. 38. Additionally, the Attorney General contends that PHMSA regulations have not been finalized and are unlikely to go into effect until there is a change in administration at the federal level. As such, the Attorney General advocates for the Commission to adopt her proposed disallowance. *Id*.

In replies to exceptions, Consumers asserts that the fact that the project is in the investment planning phase does not justify a disallowance because the company completed and approved an IT business case for the project. Consumers' replies to exceptions, p. 45. Regarding the timing of the PHMSA regulations, Consumers argues that:

> [t]he Attorney General's emphasis on the current status of the PHMSA Plastic Pipe Rule does not advance her position. The Company did not ignore that timing issue, but instead adjusted the project schedule and reduced the requested amounts to account for it. [Consumers] testified that the Company deferred the project start to March 2027 to allow for the rules to be finalized and to sequence the project with other ongoing work, and [the company] identified corresponding reductions to bridge-period capital, test year capital, and test year O&M expense. 2 TR 221-222.

> Thus, the record does not reflect an immediate full-scale implementation of a project unconnected from regulatory timing.

Consumers' replies to exceptions, p. 45. As a result, Consumers urges the Commission to reject the Attorney General's exception on this issue.

The Commission respectfully declines to adopt the ALJ's findings and conclusions on this issue. *See*, PFD, p. 166. The Commission finds that Consumers has made little progress on the project beyond developing high-level requirements for the project in 2023. *See*, Exhibit AG-33, p. 1. Additionally, the Commission finds that the record evidence demonstrates that the proposed regulations are on hold and that it is unclear if and when PHMSA's proposed rule will go into effect. *See*, Exhibit AG-72, p. 2. Absent a clearer showing that Consumers intends to pursue the elements outlined in the proposed rule even absent additional action by PHMSA, or the benefits to customers of such an approach, the Commission finds that approval of the proposed expenditures remains premature. Accordingly, the Commission finds that Consumers' projected expenditures for the program are not reasonable and prudent at this time, and the Commission, therefore, adopts the Attorney General's proposed disallowance. *See*, 2 Tr 1924-1926; *see also*, Exhibit AG-33; Attorney General's initial brief, pp. 81-82.

e. Asset Refresh Program–Collaboration

Consumers projected $306,116 in expenditures for the test year for its Asset Refresh Program (ARP)–Collaboration project, which the company explained is needed to replace outdated audio, visual, telephony, and other communication tools and equipment. 2 Tr 95-96; *see also*, Exhibit A-24.

The Staff proposed partially disallowing expenditures for the ARP-Collaboration project. Five of the Staff's proposed adjustments, totaling $122,181 in the 10 months ending October 2026 and $35,235 in the test year, were related to corrections made because of the Staff's audit of

proposed expenditures and were agreed to by Consumers. *See*, 2 Tr 2349-2353; *see also*, Consumers' initial brief, pp. 98-100. The Staff's sixth proposed adjustment, totaling $25,319 in the 10 months ending October 2026 and $5,064 in the test year, related to a disallowance of expenditures for a project to add nine new Microsoft Teams Rooms units. The Staff contended that the addition of these units was unfounded given that Consumers already operates 71 conference rooms with similar capabilities and because the company did not track conference room usage to demonstrate a need for the expanded capacity. 2 Tr 2353-2356; *see also*, Staff's amended initial brief, pp. 37-40.

In rebuttal, Consumers objected to the Staff's proposed disallowance for the company's planned addition of Microsoft Teams Rooms units and argued that equipping certain conference rooms with this technology was necessary for consistent collaboration, especially given the prevalence of hybrid work. 2 Tr 186. Consumers further maintained that the lack of usage tracking data for its conference rooms did not render its planned upgrades unnecessary or imprudent. 2 Tr 187-188; *see also*, Consumers' initial brief, pp. 101-102.

The ALJ recommended adopting the proposed disallowances that Consumers agreed to and further recommended adopting the Staff's proposed disallowance of $25,319 in expenditures for the 10 months ending October 2026 and $5,064 in expenditures for the test year related to the company's nine Microsoft Teams Rooms units. For these expenditures, the ALJ found that Consumers "did not demonstrate that the additional units are necessary or prudent, given that most of its conference rooms already have this technology and the Company has shown no historical need for more." PFD, pp. 169-170. In total, the ALJ recommended disallowing $147,500 in expenditures for the 10 months ending October 2026 and $40,299 in expenditures for the test year for the ARP–Collaboration program. *Id*., p. 170.

In exceptions, Consumers repeats its contention that upgrading the company's nine remaining conference rooms with Microsoft Teams Rooms is necessary to support needed collaboration across facilities, particularly in light of the prevalence of hybrid work. Consumers' exceptions, p. 39. The company further asserts that tracking conference room usage is immaterial to its request to upgrade its conference rooms. According to Consumers:

> [r]easonable planning for reliable collaboration infrastructure does not depend solely on tracking simultaneous usage. [The Staff] failed to recognize the expanded collaboration requirements that the Company needs for effective video conferencing, screen sharing, and real-time collaboration. The Company added the units to close capability gaps in existing conference rooms, improve collaboration and productivity, provide a consistent meeting experience that reduces setup time and technical issues, and better support hybrid work by enabling resources to participate effectively, which improves scheduling flexibility and attendance. 2 TR 187-188. [The Staff] in no way impugned this need.

Consumers' exceptions, p. 40. Accordingly, Consumers urges the Commission to reject the ALJ's recommendation. *Id*.

In replies to exceptions, the Staff contends that Consumers' argument that tracking conference room usage is immaterial fails to recognize that the company bears the burden of proof in this proceeding. Staff's replies to exceptions, p. 9. As the Staff explains:

> [w]hile Staff does not go so far as to claim that conference room usage tracking is the only possible means by which the Company could meet its burden of proof with respect to this request, the Company's blanket assertions that additional hybrid meeting conference rooms are needed because of "evolving collaboration needs across facilities" fall well short of meeting the Company's burden.

Id., pp. 9-10 (quoting Consumers' exceptions, p. 39). Moreover, the Staff opines that because Consumers does not track conference room usage for its existing conference rooms with Microsoft Teams Rooms capabilities, the company cannot demonstrate that its existing collaboration capabilities are inadequate. Staff's replies to exceptions, p. 10. As a result, the Staff advocates for the Commission to adopt the ALJ's recommendation. *Id*., p. 11.

The Commission finds the ALJ's findings and conclusion on this issue to be well-reasoned and supported by the record and therefore adopts the PFD. *See*, PFD, pp. 169-170. The Commission agrees with the ALJ and finds that Consumers has not demonstrated that additional units are needed because the company has failed to adequately show that its existing collaboration capabilities are insufficient. As a result, the Commission finds that Consumers has not demonstrated that the requested expenditures are reasonable and prudent and therefore adopts the Staff's proposed disallowance for this project. Further, noting Consumers' assent to the Staff's remaining proposed disallowance for the ARP–Collaboration program, the Commission adopts a total disallowance of $147,500 and $40,299 in expenditures for the 10 months ending October 2026 and the test year, respectively, for the ARP–Collaboration program.

f. Asset Refresh Program–Field Device Asset Management

Consumers projected $2.04 million in test year expenditures for its ARP-Field Device Asset Management (FDAM) program, which consists of replacement costs and new purchases for field devices. 2 Tr 107. For new devices, Consumers used a four-year historical average of purchases to project future expenditures. 2 Tr 107-109; *see also*, Exhibit A-25, p. 1.

The Staff proposed a full disallowance of expenditures for the 10 months ending October 2026 and the test year for new field devices and argued that Consumers failed to justify the use of a four-year historical average to project expenditures. According to the Staff, Consumers used a four-year historical average to align new device cost projections with the company's four-year refresh cycle for replacement devices. 2 Tr 2356-2359. However, the Staff found this reasoning problematic and asserted that projections for new devices should be driven by demand (i.e., the number of new employees) as opposed to a policy-driven four-year refresh cycle. 2 Tr 2359. Moreover, the Staff contended that Consumers' failure to track new hires that require a new

device, coupled with the dynamics of new device needs (i.e., unit cost and existing units available) rendered the company's methodology unreliable. 2 Tr 2360-2361. By way of example, the Staff explained that Consumers purchased 90 new field devices in 2025 at a total cost of $396,550, which was well below the company's original projection and the four-year historical average projection of costs. 2 Tr 2363-2364. The Staff further contended that even if the Commission does not agree to a full disallowance, the Commission should still require Consumers to utilize an adjusted calculation based upon the number of new hires multiplied by unit cost. 2 Tr 2364-2365; *see also*, Staff's amended initial brief, p. 47.

The Attorney General similarly argued that Consumers' projected expenditures for the ARP-FDAM program were above actual 2025 historical spending and far exceeded historical allocations. 2 Tr 1926. The Attorney General, in turn, used a three-year historical average replacement rate and inflation-adjusted unit costs as the basis for her proposal to disallow $1.27 million in expenditures for the 10 months ending October 2026 and $0.99 million in test year expenditures for the program. 2 Tr 1926-1927; *see also*, Attorney General's initial brief, pp. 83-84.

In rebuttal, Consumers asserted that new device purchases are projected differently than replacement devices, namely by using a four-year average of historical actuals. 2 Tr 191; *see also*, Exhibit A-25. Consumers defended its use of this methodology because, as the company asserted, new device purchases are not solely determined by the number of new hires; rather, new devices are driven only by demand when an existing device is not available for use by a new hire. 2 Tr 192. Additionally, Consumers argued that the Attorney General's three-year average approach inappropriately ignored specific hardware timing, the risks of extending device lifespans, and previous device purchases made under related initiatives. 2 Tr 222-223. Consequently, the

company maintained that its projected costs were fully supported and consistent with prior Commission findings. 2 Tr 190, 222-223; *see also*, Consumers' initial brief, pp. 103-106.

The ALJ recommended adopting the Staff's proposed disallowance of $250,936 in expenditures for the 10 months ending October 2026 and $301,123 in test year expenditures for the program. PFD, p. 177. The ALJ found that the Staff presented compelling evidence to show that Consumers' four-year historical average methodology substantially overstated new device costs and that the company's alignment with its refresh cycle did not justify relying on an inaccurate methodology. *Id*., p. 176. Further, the ALJ recommended rejecting the Attorney General's proposed disallowance and found that her use of a three-year historical averaging approach produced an unrealistically low estimate that ignored devices purchased through other company programs. *Id*., p. 177.

In exceptions, Consumers asserts that the Commission should reject the ALJ's recommended disallowance because the Staff failed to rebut the company's testimony supporting its reasonable four-year historical average approach for new device purchases. Consumers' exceptions, p. 43. Moreover, Consumers argues that it does not base new purchases solely on new hires, but instead, reassigns existing inventory from vacant positions whenever possible and only buys new devices when current stock is insufficient. *Id*., pp. 43-44. The company further avers that a disallowance could lead to negative consequences, namely in the form of decreased productivity, increased safety risks, and stalled communications. *Id*., p. 44. Finally, Consumers argues that:

> [t]he PFD's reliance on a comparison between actual 2025 purchases and prior projected purchases does not justify disallowing all new-device purchases for the bridge period and projected test year. The fact that actual purchases in one year were lower than projected does not establish that the Company will have no need for new field devices in future periods, nor does it undermine the reasonableness of using multiple years of actual historical data to normalize annual variability. Indeed, the very purpose of using a four-year historical average is to avoid over-reliance on a single year that may not be representative of future needs.

> Staff's approach, and the [ALJ's] adoption of it, effectively treats one year of lower-than-projected purchases as dispositive while ignoring the broader historical record and the operational need for timely access to field devices.

Id., pp. 44-45. In turn, Consumers advocates for the Commission to approve the company's requested expenditures for the program. *Id*., p. 44.

The Attorney General also excepts to the ALJ's recommendation and argues that, even if it is assumed that purchases from other programs have any impact on future field device purchases, the Attorney General's use of a "three-year average includes the purchase of devices from 2023, 2024, and 2025, which reasonably approximates likely purchase levels for 2026 and 2027," and, further, it is "not clear that the other purchases in 2022 will repeat in 2026 and 2027, such that they should be considered in projections for those years." Attorney General's exceptions, p. 40. Accordingly, the Attorney General maintains that her methodology provided a reasonable projection of future expenditures that the Commission should adopt. *Id*.

In replies to exceptions, the Staff contends that Consumers demonstrated that new device purchases are not based solely on the number of new hires but, rather, are directly impacted by other variables that cannot be accounted for through use of a four-year historical average. Staff's replies to exceptions, p. 12. Additionally, the Staff counters Consumers' claim that a single year of variance between 2025 projected and actual expenditures does not invalidate the company's methodology by arguing that applying a smoothing model to inherently unpredictable costs disconnects projections from actual demand, which the Staff maintains renders the company's methodology unreliable. *Id*., pp. 13-14. As the Staff contends, because Consumers failed to justify this over-projection or prove that its model will accurately forecast future costs, ratepayers should not be burdened with expenses derived from a flawed methodology. *Id*., pp. 14-15. In summation, the Staff argues that "[t]he [ALJ] accurately noted that the Company failed to directly

address any of Staff's concerns about the accuracy of its projection method, only arguing about the alignment with the four-year refresh cycle and dependability on available devices," and, therefore the Commission should adopt the ALJ's recommendation. *Id*., p. 15.

In its replies to exceptions, Consumers argues that the Commission should reject the Attorney General's exception and again asserts that the Attorney General's use of a three-year average does not adequately account for actual field-device needs and "would instead reduce the forecast based on a narrower historical average that does not capture the full scope of field-device purchases needed to support operations." Consumers' replies to exceptions, p. 48.

The Commission finds the ALJ's findings and conclusion on this issue to be well-reasoned and supported by the record and therefore adopts the PFD. *See*, PFD, pp. 176-177. Although the Commission has previously approved Consumers' projected expenditures for the ARP–FDAM program, the Commission finds that the company did not adequately support its request on the record. Indeed, the record evidence reflects that Consumers' methodology does not account for new device variables the company concedes are part of the demand for new devices, specifically in the form of new hires requiring a new device and unit costs, and further that the methodology produces projections that are significantly misaligned with actual historical spending. *See*, 2 Tr 2361-2363. The Commission further agrees with the ALJ that Consumers' alignment of its projected costs for new devices with a four-year refresh cycle does not justify this inaccurate methodology. *See,* PFD, pp. 176-177. Accordingly, the Commission disallows $250,936 in expenditures for the 10 months ending October 2026 and $301,123 in test year expenditures for the ARP–FDAM program.

g. Asset Refresh Program–Workstation Asset Management

Consumers projected $2.23 million in test year expenditures for its ARP-Workstation Asset Management (WAM) program. 2 Tr 112-113.

The Staff proposed a disallowance of $281,333 in expenditures for the 10 months ending October 2026 and $337,600 in expenditures for the test year associated with new device purchases for the program. 2 Tr 2365; *see also*, Staff's amended initial brief, p. 47. The Staff stated that the basis for its proposed disallowance is consistent with its reasoning for disallowing expenditures for new devices under the ARP–FDAM program, whereby the Staff called into question the validity of Consumers' four-year historical average methodology for projecting new device costs. 2 Tr 2366. Further, the Staff averred that Consumers' combination of historical and projected data introduces inconsistencies, as demonstrated by the variance between 2025 projected and actual expenditures for new workstations. 2 Tr 2367-2368.

In rebuttal, Consumers noted that the Commission previously agreed with the company's projections for new devices in Case Nos. U-21806 and U-21870. 2 Tr 194. Consumers asserted that new workstation purchases are not driven solely by new hires because the company first evaluates whether an existing workstation can be used, which Consumers noted is consistent with its approach for ARP–FDAM new device purchases. 2 Tr 195-196. The company also contended that the lack of a workstation for employees could result in productivity and security issues. 2 Tr 196.

The ALJ recommended disallowing $281,333 in expenditures in the 10 months ending October 2026 and $337,600 in test year expenditures for the program. PFD, p. 180. Like the ARP–FDAM program, the ALJ found that Consumers' four-year historical average methodology overlooks key variables and produced an unreasonable forecast. *Id*., pp. 179-180. The ALJ

further found that aligning the methodology with the company's refresh cycle does not justify utilizing an approach that fails to reflect actual costs and does not factor existing device availability. *Id*., p. 180.

In exceptions, Consumers first contends that the Commission agreed with the company's projected costs based on historical spending in Case Nos. U-21806 and U-21870 and that the company provided further evidence in this proceeding that explained that "the Company reviewed historical spending for new workstation purchases, recognized that prior-year activity included unusual workstation and monitor purchases associated with COVID-19 pandemic guidelines, and reduced the projected amount for 2026 and 2027 to $1 million per year to account for that anomaly." Consumers exceptions, pp. 46-47 (citing 2 Tr 195). Consumers next asserts that it did not base its projections for new workstations solely on the number of new hires, reiterating that new devices are only purchased when existing inventory cannot meet demand. Consumers' exceptions, pp. 47-48. Moreover, Consumers contends that the absence of a workstation for employees can significantly impact operations and security. *Id*., p. 48. As a result, Consumers avers that:

> [t]he [ALJ's] analysis simply identifies, at most, a disagreement over forecasting methodology, and does not provide a record basis to conclude that Consumers Energy will have no need for new workstation purchases in 2026 or 2027. Staff did not impugn [the company's] testimony that the Company first evaluates existing inventory before purchasing new devices. Instead, Staff's position, and the [ALJ]'s recommendation, moves from criticism of the Company's forecast directly to a complete disallowance. The record in no way supports such a result.

Id. Accordingly, Consumers urges the Commission to reject the ALJ's recommendation and to approve the company's projected expenditures for the project. *Id*., pp. 48-49.

In replies to exceptions, the Staff argues that the evidence presented in this proceeding differs from evidence presented in previous cases, thereby rendering the Commission's past support of

Consumers' projected expenditures obsolete. Staff's replies to exceptions, pp. 15-16. The Staff further asserts that, like the deficiencies with the methodology used to project new device costs for the ARP–FDAM program, Consumers' projections for new workstation costs do not reasonably account for existing devices and produces inaccurate results. *Id*., pp. 16-18. In turn, the Staff advocates for the Commission to adopt the ALJ's recommendation. *Id*., p. 18.

The Commission finds the ALJ's findings and conclusion on this issue to be well-reasoned and supported by the record and therefore adopts the PFD. *See*, PFD, pp. 179-180. The Commission agrees with the Staff and finds that, although the Commission has previously approved Consumers' projected expenditures for the ARP–WAM program, the Staff presented new evidence in this case challenging the accuracy of the company's projections. The Commission agrees with the ALJ and finds that Consumers' use of a four-year historical average methodology overlooks key new device variables and results in inaccuracies, as reflected by the discrepancies identified between 2025 actual and projected costs. *See*, 2 Tr 2367-2368. Accordingly, the Commission adopts the Staff's proposed disallowance of $281,333 in expenditures for the 10 months ending October 2026 and $337,600 in test year expenditures for the ARP–WAM program.

h. Operational Technology Data Center Migration Project

Consumers projected expenditures of $1.19 million ($0.95 million ROM adjusted) for the company's Operational Technology (OT) Data Center Migration project for the projected test year. 2 Tr 145. Consumers explained that the project will relocate electrical control systems to an enhanced datacenter at a vendor facility because the company's current facility is unsuitable. 2 Tr 145-146.

The Staff proposed a full disallowance of expenditures for the project, which the Staff stated consisted of $988,365 in expenditures for the 10 months ending October 2026 and $953,489 in expenditures for the projected test year. 2 Tr 2370-2371; *see also*, Staff's amended initial brief, p. 50. According to the Staff, Consumers projected the total capital cost for the project to be approximately $7.75 million, which the Staff noted was greater than the company's estimate to fix climate and water issues at the existing facility. 2 Tr 2372; *see also*, Exhibit A-20, p. 29. Moreover, the Staff asserted that, despite claiming that the project would alleviate issues related to the existing facility's proximity to a railway, Consumers failed to provide evidentiary support on the claim that proximity to a railway is problematic. 2 Tr 2372-2373.

The Attorney General similarly advocated for a full disallowance of costs associated with the project. 2 Tr 1931; *see also*, Attorney General's initial brief, p. 87. The Attorney General argued that Consumers' estimate to fix water and climate issues at the existing facility was less than one-third of the projected overall cost of the project, which she noted was approximately $17.7 million. 2 Tr 1929. She further asserted that Consumers' plan to migrate software applications to the cloud, as well as the fact that the project is still in the investment planning phase, demonstrated that the project is not economically justified. 2 Tr 1930-1931.

In rebuttal, Consumers argued that resolution of climate and water infiltration issues alone would not remedy operational risks associated with the existing datacenter's basement location and proximity to a railway. 2 Tr 201-202. The company further noted that it previously addressed these concerns in Case No. U-21870 and that the Commission approved costs in that case. Additionally, Consumers stated that there was an approved business case for the project and, as such, the fact that the project is still in the investment planning phase does not warrant a disallowance. 2 Tr 201-202.

The ALJ declined to adopt the Staff's and the Attorney General's proposed disallowances. PFD, p. 184. The ALJ noted that the Commission determined in Case No. U-21870 that Consumers had provided additional evidence for the proposed datacenter migration that the project was not premature. *Id*. Moreover, the ALJ found that Consumers had demonstrated that the project's costs are reasonable and prudent and that neither the Staff nor the Attorney General had refuted the company's concerns regarding the existing datacenter's proximity to a water main and railway. *Id*.

In exceptions, the Staff reiterates its position that fixing climate and water issues at Consumers' existing facility "is significantly lower than moving the datacenter to a third party co-location facility." Staff's exceptions, p. 4. The Staff further argues that Consumers' evidence related to the existing facilities' proximity to a main water line and a railway was superficial and that the company "fail[ed] to demonstrate past or present events negatively affecting the datacenter as a result of these two issues. Absent any events in which the datacenter has been negatively impacted, Staff [did] not have anything to directly address regarding the main water pipeline and building proximity to a railway." *Id*., p. 5. In turn, the Staff contends that Consumers failed to meet its burden to demonstrate the reasonableness and prudence of its requested expenditures and, thus, that the Commission should disallow costs for the project. *Id*., pp. 5-6.

In her exceptions, the Attorney General advocates for the Commission to reject the ALJ's recommendation because, as the Attorney General argues, the ALJ "did not take into consideration the Company's moving more of its software applications to cloud computing," and the company had "not presented sufficient evidence that the OT Datacenter Migration is economically justified or necessary, particularly with more data processing shifting to the cloud and the option to replace the current climate control and water filtration systems." Attorney General's exceptions, p. 42.

The Attorney General further contends that Consumers' concerns about the datacenter's proximity to a railway and a water main are speculative and therefore do not provide a justification for the migration project. *Id*., pp. 42-43.

In replies to exceptions, Consumers reiterates that the record fully supports the reasonableness and prudence of the company's requested expenditures for the project and argues that the Attorney General's and the Staff's comparisons of alternatives do not address all the risks identified for the current datacenter's location. Consumers' replies to exceptions, p. 52. Consumers explains that relocating the main water line for the building would be invasive and thus unreasonable and further that the company is not required to wait for an incident to occur prior to mitigating risks associated with the datacenter's location. *Id*., pp. 52-53. Additionally, Consumers advocates for the Commission to reject the contention that the project is premature, explaining that "the investment planning status reflected that the project was awaiting funding, not that it lacked sufficient development or support." *Id*., p. 53. Accordingly, Consumers urges the Commission to reject the Staff's and the Attorney General's exceptions and to approve expenditures for the project. *Id*., p. 54.

The Commission has reviewed the record and the parties' arguments on this issue and respectfully declines to adopt the ALJ's recommendation. While the Commission acknowledges that it approved expenditures for the OT Data Center Migration project in Case No. U-21870, the arguments raised in that proceeding were limited to whether the project was premature. *See*, March 27 order, pp. 207-211. In contrast, the current proceeding features challenges from the Staff and the Attorney General regarding the reasonableness and prudence of the project, especially when considering potential alternatives to migrating the datacenter to a third-party vendor. The Commission finds these arguments compelling and further finds that the company

failed to adequately explore viable alternatives, such as a transition to the cloud, to determine if the proposed migration is the most cost-effective solution. Furthermore, the Commission finds Consumers' focus on a comparison of the project with a non-viable alternative (i.e., fixes at the existing datacenter that fail to address risks presented by proximity to a railway or the main water line) to be insufficient to justify the proposed migration and that such a comparison makes it difficult for the Commission to conduct a proper evaluation of comparative costs, particularly when the risks are not well-supported. As such, given the overall weight of the evidence presented by the Staff and the Attorney General, the Commission finds that Consumers failed to meet its burden and that the expenditures for the datacenter migration project are not reasonable and prudent in this case. Consequently, the Commission adopts the Staff's proposed disallowance of $988,365 and $953,489 in expenditures for the 10 months ending October 2026 and the test year, respectively, for the project.

i. Forward Web Proxy Services

Consumers projected $1.26 million in test year expenditures ($1.01 million ROM adjusted) for the company's Forward Web Proxy Services project. 2 Tr 168-169.

The Attorney General proposed a full disallowance of forecasted expenditures for the projected test year and argued that the project is unnecessary, premature, and not a priority that should be undertaken for the test year. 2 Tr 1929; *see also*, Attorney General's initial brief, p. 85. According to the Attorney General, Consumers stated in discovery that the service issues associated with its current third-party vendor had been resolved, but that despite these fixes, the company still preferred to develop its own system at an estimated cost of $4.5 million. Further, she asserted that Consumers' financial analysis demonstrates that the project has a negative BCR and that the project is still in the investment planning phase. 2 Tr 1928-1929.

In rebuttal, Consumers opposed the Attorney General's proposed disallowance and claimed that the company's issues with its current vendor required additional controls to mitigate risk and improve stability. 2 Tr 223. The company further explained that the Forward Web Services Proxy project is needed to add data loss prevention (DLP) capabilities as a core function that will prevent the unauthorized transmission of sensitive information to unapproved locations. *See*, Consumers' initial brief, p. 119. Consumers also contended that the project is not required to result in cost savings because the project will address cybersecurity and access needs. 2 Tr 223. Additionally, the company maintained that it is inappropriate to disallow expenditures solely because the project is in the investment planning phase. 2 Tr 224.

In briefing, the Staff supported the Attorney General's proposed disallowance and argued that Consumers failed to demonstrate that the company's remaining vendor issue justifies a completely new system. Staff's amended initial brief, pp. 52-53. The Staff emphasized that Consumers provided insufficient detail for the project, offered no new evidence since the Commission's rejection of the project in Case No. U-21806, and failed to demonstrate that the project's costs are reasonable and prudent. *Id*., p. 54.

The ALJ recommended adopting the Attorney General's and the Staff's proposed disallowance. PFD, p. 189. The ALJ found that Consumers had presented "essentially the same evidence that was deemed insufficient in Case No. U-21806, offering no indication that incidents with its third-party provider have increased and acknowledging that prior service issues have been resolved." *Id*. (citing Exhibit AG-34). The ALJ further found that Consumers failed to demonstrate that developing its own platform is more cost-effective than modifying agreements with its current vendors to include DLP functionality. PFD, p. 189. Accordingly, the ALJ found that Consumers had failed to show that the costs for the project are reasonable and prudent. *Id*.

In exceptions, Consumers maintains its contention that the current platform has ongoing operational issues that have limited employee and contractor access to critical resources, which the company asserts has negatively impacted productivity and increased security risks. Consumers' exceptions, p. 54. Consumers further contends that the ALJ's "emphasis on whether incident levels have increased since Case No. U-21806 is short-sighted because the record demonstrates continuing operational and security limitations in the existing platform, even if the Company is not relying on an incident-count increase as the sole basis for the project." *Id*. The company reiterates the benefits of the project and emphasizes that the project will add DLP capabilities that will help prevent unauthorized transmissions of sensitive or regulated information. *Id*., pp. 53-54. Additionally, the company repeats its argument that it is irrelevant that the project is in the investment planning phase because there is a completed and approved business case for the project. *Id*., p. 55. Finally, Consumers pushes back against the ALJ's suggestion that the company modify its existing agreements to overcome issues with the existing vendors and argues that "[m]erely adding DLP functionality to that platform would not address those broader deficiencies or provide the improved resiliency, visibility, and consistent policy enforcement that the new platform is designed to deliver." *Id*., p. 56. Accordingly, Consumers advocates for the Commission to reject the ALJ's recommendation and to approve full recovery of the project's costs. *Id*.

In replies to exceptions, the Staff notes that Consumers asserted that ongoing issues with its vendor occasionally disrupt productivity and that the new platform is needed to support the company's transition to cloud-based solutions. Staff's replies to exceptions, p. 18. However, the Staff argues that Consumers failed to explain why these occasional issues warrant replacing the company's existing vendor and further that Consumers failed to present any new evidence to

support the project beyond what was previously rejected by the Commission in Case No. U-21806. *Id*., pp. 18-19. As a result, because Consumers did not demonstrate why its current system is insufficient, the Staff urges the Commission to adopt the ALJ's recommended disallowance. *Id*., p. 19.

The Commission finds the ALJ's findings and conclusion on this issue to be well-reasoned and supported by the record and therefore adopts the PFD. *See*, p. 189. The Commission agrees with the ALJ and finds that Consumers has presented essentially the same evidence to support the project as it did in Case No. U-21806, which the Commission previously found to be insufficient. Furthermore, the Commission finds that the record in this case demonstrates that Consumers' prior service issues with the company's current third-party vendor have been resolved and that the company has not demonstrated why the current platform is insufficient to address any remaining concerns. *See*, Exhibit AG-34. Additionally, although Consumers has stated that the project is needed for DLP functionality, the Commission agrees with the ALJ and finds that the company failed to demonstrate why developing its own platform is more cost-effective than modifying its current licensing agreements. Accordingly, the Commission finds that the costs for the Forward Web Proxy Services project are not reasonable and prudent and, therefore, disallows $1.008 million in expenditures for the projected test year.

j. Asset Refresh Program–Cyber Security

The Staff recommended a partial disallowance of 2025 expenditures of $12,857 for Consumers' ARP–Cyber Security project, which the Staff calculated using 2025 actual historical costs, as opposed to 2025 projected costs. 2 Tr 2375-2376; *see also*, Exhibit S-14.1, p. 22. In rebuttal, Consumers agreed with the Staff's proposed adjustment. 2 Tr 204; *see also*, Consumers' initial brief, p. 115.

The ALJ recommended adopting the Staff's proposed adjustment and noted Consumers' assent. PFD, p. 191.

No party filed exceptions on this issue.

Noting Consumers' agreement and finding the ALJ's recommendation to be well-reasoned and supported by the record, the Commission adopts the PFD on this issue. *See*, PFD, p. 191.

k. Asset Refresh Program–Physical Security

Consumers projected $713,710 in test year expenditures to upgrade the company's physical security assets. 2 Tr 102. The Staff proposed disallowing $19,392 in 2025 expenditures for deferred Card Access Secure Identity Object and Smart Card Panel replacement, and $4,749 in 2025 expenditures for intercom units that were not installed in 2025. 2 Tr 2376-2378. In rebuttal, Consumers agreed with the Staff's proposed disallowance of $19,392 in 2025 expenditures but disagreed with the Staff's proposed disallowance for intercom units, explaining that the units were purchased in 2025 and are planned to be implemented in 2026. 2 Tr 205-206. The Staff stated that Consumers' explanation addressed its concerns and therefore withdrew its original proposal to disallow expenditures for the intercom units. Staff's amended initial brief, p. 21.

The ALJ recommended adopting the Staff's proposed disallowance of $19,392 in 2025 expenditures for ARP–Physical Security. PFD, p. 192.

No party filed exceptions on this issue.

Noting Consumers' agreement to the Staff's proposed disallowance of $19,392 in 2025 expenditures, as well as the Staff's withdrawal of its proposed disallowance related to intercom units, the Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. The Commission, therefore, adopts the PFD on this issue. *See*, PFD, p. 192.

l. Saviynt Enterprise Identity Government and Access Management Implementation

Consumers projected $71,668 in expenditures for the test year for its Saviynt Enterprise Identity Government and Access Management Implementation project. 2 Tr 171-172. The Staff proposed a partial disallowance of $55,704 in expenditures for the 10 months ending October 2026 and $11,141 in expenditures for the test year based on its review of an audit of the company's projected costs. 2 Tr 2379. In rebuttal, Consumers agreed that it inadvertently overstated 2026 labor projections for the project and agreed with the Staff's proposed disallowance. 2 Tr 208; *see also*, Consumers' initial brief, p. 117.

The ALJ recommended adopting the Staff's proposed disallowance to expenditures in the 10 months ending October 2026 and the test year, noting Consumers' assent. PFD, p. 193.

No party filed exceptions on this issue.

Noting Consumers' agreement and finding the ALJ's recommendation to be well-reasoned and supported by the record, the Commission adopts the PFD on this issue. *See*, PFD, p. 193.

7. Depreciation Reserve

The ALJ recommended that the depreciation reserve be recalculated based upon the Commission's determinations in the final order. PFD, p. 193. The Commission finds that, based on the determinations in the instant case, the depreciation reserve balance is $4,800,670,000.

B. Working Capital

Consumers presented a projected working capital balance of $1.383 billion for the test year. 2 Tr 1305. The Staff projected a working capital balance of $1.373 billion, and the Attorney General projected a working capital balance of $1.29 billion. 2 Tr 2311-2312, 1935. Based on her determinations on the contested issues discussed below, the ALJ recommended approval of a working capital balance of $1.34 billion. PFD, p. 194.

1. Gas Stored Underground and Accounts Payable

Consumers explained that it used the balance sheet method for calculating working capital as required in the Rate Case Filing Requirements and Case No. U-7350. 2 Tr 1306; *see*, Exhibit A-12, Schedule B-4.

The Staff and the Attorney General applied a $12.29 million reduction to gas stored underground and a $2.93 million reduction to accounts payable. 2 Tr 2311-2312, 2484-2485, 1935; Exhibit S-12.1. On rebuttal, the company agreed to these adjustments. 2 Tr 868, 1322; *see also*, Exhibit A-158. The ALJ recommended that the Commission approve the agreed-upon adjustments. PFD, pp. 195-196.

No exceptions were filed on these issues.

After review of the record and arguments by the parties, the Commission finds the ALJ's recommendations on these issues to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on these agreed-upon adjustments. *See*, PFD, pp. 195-196.

2. Cash Balance

Consumers used 1% of test year revenues for initially determining the projected test year working capital cash balance of $25.6 million, based on its use as a rule-of-thumb in certain prior rate cases for calculating this amount. 2 Tr 288-292. The company stated that it did not propose basing the cash balance on the 13-month period ended June 2025 because this would result in a cash balance of $45.7 million, which is too high. 2 Tr 287.

The Attorney General proposed a $13.3 million reduction to the working capital cash balance based on the Commission's decision to reject the 1% approach and approve an approach based on the use of a 13-month average as approved in Case No. U-21870. 2 Tr 1935-1936; Exhibit AG-38.

In the March 27 order, the Commission rejected both the 1% of test year revenues approach initially proposed by Consumers and a three-year average approach proposed by the Attorney General, and approved an alternative approach proposed by Consumers relying on a historical 13-month average (that excluded the unusual years of 2022-2023). *See*, March 27 order, pp. 236-242; *see also*, September 30 order, pp. 149-150, 307. In the instant case, the Attorney General's proposed $13.3 million reduction to Consumers' proposal is based on a three-year average for the three years ending December 2024, which amounts to a cash balance of $12.3 million. 2 Tr 1935-1936. The Attorney General testified that "[h]owever, should the Commission wish to apply the same approach approved in Case [No.] U-21870 and use the 2024 historical year cash balance of $16.8 million, the resulting adjustment to the Company's amount is a reduction in working capital of $8.8 million ($25.6 million – $16.8 million)." 2 Tr 1936. The Attorney General also argued that the company should use its credit and short-term borrowing resources rather than carrying a large cash balance. 2 Tr 1937.

On rebuttal, Consumers supported its original request but also offered an alternative using the five-year historical average, based on the Commission's finding in the March 27 order that an average would work better in that case, which brings the projected cash balance in the instant case down to $23.0 million. 2 Tr 356-358. Consumers contended that the five-year average is more representative of the company's typical cash position than the Attorney General's three-year average which again includes the unusual years of 2022-2023. 2 Tr 356-357.

The ALJ recommended that the Commission approve the Attorney General's proposed $16.8 million cash balance "for the reasons argued by the Attorney General." PFD, p. 199. The ALJ stated that "the Company did not sufficiently justify using a 5-year average cash balance for calculating working capital and instead finds that a 3-year average balance is reasonable for the

arguments made by the Attorney General." *Id*. This decision appears to actually adopt the 2024 historical year cash balance proposed as an alternative by the Attorney General and not the three-year average balance of $12.3 million proposed by the Attorney General.

In exceptions, Consumers argues that the ALJ's recommendation is "self-contradictory and confusing" since it includes adoption of the Attorney General's alternative cash balance of $16.8 million (which is based on the 2024 historical cash balance) but also refers to adoption of the three-year average balance (which is actually $12.3 million). Consumers' exceptions, p. 56 (citing 2 Tr 1936 and Exhibit AG-38). Consumers contends that, in any case, neither recommendation should be adopted and the Commission should approve the company's projected revised $23 million cash balance based on a five-year average. Consumers' exceptions, p. 56 (citing 2 Tr 358).

Consumers explains that its original projection was based on the "1% rule of thumb" but that, after issuance of the March 27 order, the company revised its proposal in the instant case to one based on a five-year average of actual cash holdings. Consumers' exceptions, p. 57 (citing 2 Tr 356). Consumers notes that in the March 27 order, the Commission found that the company had '"sufficiently rebutted the Attorney General's [three-year average] methodology as the years relied upon by the Attorney General included 2022 and 2023, which were unusual due to gas price spikes and weather incidents."' Consumers' exceptions, p. 57 (quoting the March 27 order, p. 242). Since the Attorney General's three-year average proposed in the instant case includes those same years, the company argues that it conflicts with the Commission's findings in the March 27 order. Consumers references the spike in gas prices resulting from the invasion of Ukraine by Russia in 2022 and the catastrophic storms in Michigan in 2023, and argues that both of these events caused the company to use more cash than it had anticipated in 2022-2023.

Consumers contends that its proposed five-year average helps to smooth out the effects of those years and better captures normal variations in cash flow. Consumers objects to the use of the single year of 2024, both because it is only a single year and because the company was still recovering from 2023. Consumers urges the Commission to reject the two conflicting recommendations made by the ALJ. Consumers' exceptions, pp. 58-59.

In reply, the Attorney General argues that her proposed three-year average "normalizes peaks and valleys in cash balances and avoids the problem of unusual events" and she advocates adoption of $12.3 million. Attorney General's replies to exceptions, p. 36. She contends that the company's proposed $23 million cash balance came too late in the proceedings to allow the evidence to be tested, and she notes that "the Company shows significant increases in cash balances between May and September 2025, ranging from $240 million to $859 million, that are not typical when compared with the prior four years" for which Consumers provided no explanation. *Id*., p. 37 (citing Exhibit AG-75). The Attorney General also supports her alternative approach (relying on the March 27 order) of $16.8 million. Attorney General's replies to exceptions, p. 38 (citing 2 Tr 1936).

The Commission disagrees with the ALJ's recommendation to adopt the three-year average, as that average includes the unusual years of 2022-2023 which were previously rejected. However, the Commission agrees with the ALJ's recommendation to adopt the Attorney General's proffered alternative approach based on the 2024 historical year, which is similar to the approach used in the March 27 order but relies on a somewhat different historical period from the approach that Consumers applied (which would result in a $45.7 million cash balance). *See*, 2 Tr 287, 1936. Thus, the Commission adopts $16.8 million for the cash balance in the instant case.

The Commission continues to direct Consumers to demonstrate why its proffered approach is the reasonable and prudent approach. This demonstration should be based on showing how large this buffer is required to be, in light of how the cash balance is typically used; thus, the company needs to show what this money is used for, why it is needed, and how the spending is justified, rather than simply basing its justification on the balance it has held in the past. The Commission recognizes that the 1% approach, in recent years, has come to seem arbitrary in some cases, and that a five-year average would offer the ability to smooth over anomalous years; but the Commission does not find that either approach has been shown to offer the most accurate calculation in all cases—in other words, neither a rule-of-thumb nor a simple reliance on past amounts actually constitutes a demonstration of how the money is used and why a particular level is needed. In the instant case, the Commission notes that Consumers supported the use of the 1% approach by showing that its cash balances approximated this 1% figure if three of the years on a seven-year chart were removed. 2 Tr 291. The company testified that the 1% approach reduces reliance on short-term borrowing and helps the company obtain a lower interest rate on long-term debt issuances. 2 Tr 289-292. None of this evidence addresses how the money is typically spent or relied upon. Consumers testified that "[w]hile there are myriad factors that affect cash balances at any point in time (such as weather, storm costs, and gas prices) making actual cash balances higher or lower than expected, the Company consistently projects normal cash levels which equate to approximately 1% of test year revenues." 2 Tr 289. The Commission finds that in future rate cases Consumers should endeavor to present evidence on the myriad factors that dictate the actual use of the cash balance and should base its proposed calculation methodology on a demonstration that those factors will be addressed.

3. Riverside Storage Asset

Consumers presented evidence showing that the Commission addressed the sale of the Riverside Storage Field (Riverside) in Case Nos. U-21656 and U-21806, and argued that the Commission approved Consumers' request to record the expected loss on the sale as a regulatory asset for recovery in a future rate case. 2 Tr 849-850, 1314. Consumers stated that the sale had an expected closing date of December 2025. In the September 30 order, the Commission adopted the administrative law judge's recommended "approval of the proposed regulatory asset offset if the asset is sold during the test year. PFD, p. 119[.]" September 30 order, p. 94; *see also*, July 23, 2024 order in Case No. U-21656 (July 23 order), pp. 1-3 (approving the use of the regulatory asset for the loss expected from the sale). Thus, Consumers applied a $1.2 million offset to the $12 million estimated loss from the sale and projected the remainder as the sale-related revenue requirement in the instant case, for a net loss of $10.8 million. 2 Tr 1314-1315; Exhibits A-12, Schedule B-4, and A-13, Schedule C-6.

The Attorney General proposed a reduction of $9.7 million to the $10.8 million projected loss and thus to working capital, arguing that the company should not earn a return on this asset since the asset no longer exists and is not used and useful. 2 Tr 1935-1938; Exhibit AG-38. Alternatively, she argued that the Commission could allow recovery of the loss through annual amortization outside of working capital. 2 Tr 1938-1939. The company responded that the Commission already approved the recovery of the deferred loss from the sale in a future rate case. 2 Tr 1323-1324.

The ALJ found that:

> the Commission has already decided that the sale of the Riverside Storage assets was a benefit to customers and authorized the Company to implement cost deferral accounting related to a loss from the sale. And because the sale of the assets

> occurred during this case, this PFD finds the loss is properly presented here and declines to adopt a disallowance related to it.

PFD, p. 204 (citing the July 23 order, pp. 1-3).

In exceptions, the Attorney General argues that Consumers improperly included the deferred balance of $9.7 million from the sale of Riverside in working capital because this asset no longer exists and is not used and useful. Attorney General's exceptions, pp. 43-44. She argues that the company should not be earning a return on this amount and that it should be removed from working capital, though the Commission may want to allow recovery through annual amortization of the remaining balance. The Attorney General contends that, in the prior cases, the Commission allowed regulatory asset treatment but did not allow cost recovery and Consumers has not demonstrated that the loss was reasonable and prudent. The Attorney General points to two prior cases in which the Commission allowed amortization for recovery of a similar asset but did not allow a return on the deferred costs. *Id*., pp. 45-46 (citing the January 19, 2016 order in Case No. U-17767, p. 6 (concerning Fermi 3 costs); and the April 12, 1983 order in Case No. U-5732, pp. 41-44 (concerning Marysville plant costs)).

In reply, Consumers argues that, by selling this asset, the company has avoided decommissioning costs that would otherwise have fallen on ratepayers of at least $24 million. Consumers' replies to exceptions, p. 54 (citing 2 Tr 1324). Consumers argues that the July 23 order authorized the company to defer the loss on the sale and to record it as a regulatory asset until recovery could be addressed in a future rate case, and that the September 30 order authorized the company to offset the regulatory asset with amounts collected from a sale until rates were reset in a future rate case. Consumers states that:

> when Riverside was ultimately sold, the Company offset, by $1.2 million, the Riverside-related revenue requirement embedded in rates. This reduced the estimated loss from $12.0 million to a net $10.8 million, which the Company

> proposed to amortize over five years in this case. 2 TR 1314-1315. . . . The Company never claimed that it did not need to show the Riverside loss was reasonable. Indeed, it has already shown this. The Riverside sale benefited customers to the tune of $24 million in avoided decommissioning costs, 2 TR 1324, and a $10.8 million loss for a $24 million benefit is more than reasonable.

Consumers' replies to exceptions, p. 55. Consumers notes that regulatory assets are routinely included in working capital and argues that Riverside differs from the examples cited by the Attorney General in that "Riverside was a long-used operating storage asset that provided service for years before the Company sold it. The deferred balance does not reflect a failed or speculative investment[.]" *Id*., p. 57.

After review of the record and arguments by the parties, the Commission finds the ALJ's recommendation on the Riverside issue to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue and declines to adopt the Attorney General's proposed reduction. *See*, PFD, p. 204.

4. Accrued Taxes

Consumers projected accrued taxes of $172.15 million for the test year in working capital. Exhibit A-12, Schedule B-4.

The Attorney General proposed a reduction to accrued taxes of $45.9 million. 2 Tr 1939-1941. She argued that Consumers improperly removed $45.9 million from accrued taxes by showing that amount as paid, but did not reflect that, thereafter, the company would receive additional income from rate relief during the test year and thus would accrue more taxes.

In the March 27 order, p. 246, in response to the same argument from the Attorney General, the Commission stated that "Consumers adequately explained and supported its accrued tax calculation and finds that the company's accrued tax methodology is consistent with previously approved practice." Thus, the ALJ recommended that the Commission approve the company's

proposal, finding that the Commission rejected the same argument from the Attorney General in the March 27 order and the Attorney General failed to show why the issue should be treated differently in the instant case. PFD, p. 206.

In exceptions, the Attorney General argues that Consumers' accounting is unreasonable because "the Company does not replace the Accrued Income Taxes during the projected test year with new income tax accruals to reflect the additional income it will generate during the period from June 2025 to October 2027, other than for a relatively small amount of $354,000." Attorney General's exceptions, p. 46; *see*, 2 Tr 1939-1941. The Attorney General contends that Consumers admitted in discovery that it did not consider any incremental revenue in making its adjustment. Exhibit AG-38; 2 Tr 1387-1388; *see*, Exhibit AG-86. She argues that simply because this treatment has been allowed in the past does not mean that it should continue, as it causes an unnecessary increase to working capital on which the company will earn a return. She adds that the reduction should be disallowed and her proposed treatment should be adopted as standard procedure.

In reply, Consumers argues that:

> [r]atemaking principles require synchronization between the capital structure and rate base. 2 TR 1387. Since additional deferred income taxes are included in the capital structure, and accrued taxes are included in rate base, the Company's adjustment to accrued taxes ensures these components are in unison. *Id*. If the Company projects additional deferred income taxes included in the capital structure but does not recognize the corresponding change in accrued taxes or rate base, the result would cause a normalization violation under the Internal Revenue Code. *Id*. The consistency rules in the Internal Revenue Code require four components of cost of service to remain in synchronization: (1) depreciation expense; (2) tax expense; (3) reserve for deferred taxes; and (4) rate base. 2 TR 1387. The Company's downward adjustment ensures compliance with the Code. 2 TR 1387-1388. . . .
>
> The Attorney General's proposal also fails to consider any taxable income projection or timing differences related to the projected test year. Consideration of these factors is necessary because book and tax timing differences require equal consideration when adjusting accrued income taxes that are derived from current

> tax expense and deferred income taxes that are derived from deferred income tax expense. *Id*. It would simply be incorrect to adjust only one side of this equation. 2 TR 1388-1389.

Consumers' replies to exceptions, p. 59. The company contends that its calculation is consistent with the long-standing methodology used in prior cases and notes that "no other working capital items are adjusted to reflect requested rate relief[.]" *Id*., p. 60. Finally, Consumers notes that the Commission considered and rejected the Attorney General's argument in the March 27 order, pp. 242-246.

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 accrued tax issue and declines to adopt the Attorney General's proposed reduction. *See*, PFD, p. 206.

5. Information Technology Project Deferred Balance

Consumers stated that it plans to transition to a new enterprise resource planning software as part of the multi-year SAP S/4HANA implementation project. 2 Tr 147-163, 1316-1317. The company requested to delay the start of the 15-year amortization period until all phases of the project are complete and can be reviewed by the Commission. Consumers stated that the corrected working capital amount of the deferred balance of $28.31 million is based on the projected 13-month average of IT SAP S/4HANA regulatory asset investments costs. 2 Tr 154-159, 228; Exhibit A-12, Schedule B-4; Confidential Exhibits A-21, A-28 (Revised), and A-29. Noting that in the September 30 order, pp. 106-107, the Commission cautioned Consumers against submitting information confidentially that directly impacts the calculation of the revenue deficiency in a rate case, Consumers provided testimony that, in the instant case, the company:

> classified the capital expenditures and O&M expense amount related to the SAP S/4HANA Implementation project as confidential due to the impact of publicly

> disclosing the total projected costs of the project. Publicly disclosing the total projected project costs would impact the Company's ability to competitively bid contractor and software costs, impacting the cost-effectiveness of the project for customers.

2 Tr 162.

The Attorney General contended that the actual costs incurred during the first four months of this project are 50% less than what Consumers projected it would incur during that time. On that basis, she proposed a reduction of 50% from the deferred balance in working capital, which, applying the corrected amount projected by Consumers, would amount to $14.16 million. 2 Tr 1941-1942; Confidential Exhibit AG-39; Confidential Exhibit A-28 (Revised). Without the disallowance, she argued, the company will earn a return on overstated costs. Consumers countered that it derived its projection from third-party information, requests for proposals (RFPs), and executed contracts. 2 Tr 227.

The ALJ noted the Commission's statements in the September 30 order cautioning the company against the use of confidential evidence regarding projections that affect the revenue deficiency. PFD, p. 209 (citing the September 30 order, pp. 227, 307). Against this background, the ALJ found it:

> troubling that the Company was not more accurate with its projected costs for the first four months of the project given that the SAP S/4[HANA] Implementation project began a mere two months after that Order was issued. The Company does not dispute the validity of this divergence from its forecast. Indeed, as part of this case Consumers lowered the total projected costs for the project. This PFD agrees with the Attorney General that it is likely this lower expense level will continue into future months and recommends the Commission adopt her recommendation to reduce the deferred balance included in working capital by $14,156,928 (50% of the calculation presented in Revised Confidential Exhibit A-28, L 1).

PFD, pp. 209-210 (citation omitted).

In exceptions, Consumers argues that this effort is a necessary modernization of the SAP enterprise resource planning platform because maintenance for the existing platform ends on

December 31, 2027. Consumers' exceptions, p. 49 (citing 2 Tr 147-149). The company states that this project "is critical to filtering out unwanted or harmful Internet content and protecting against cyberattacks." Consumers' exceptions, p. 56. Consumers argues that:

> [i]n Case No. U-21870, Consumers Energy requested to amortize the cloud implementation costs for the SaaS [software as a service] solutions that will be a part of the SAP S/4HANA Implementation project over a 15-year asset life and to adjust working capital to reflect projections for cloud computing subscriptions and implementation costs. The Commission's [Case No.] U-21806 Order, pages 103-107 and 225-227, approved the request. Company witness Baker's Confidential Exhibit A-28 (SHB-13) Revised set forth the Company's Projected 13-Month Average of the IT S/4HANA Regulatory Asset for the projected 13-month balance ending April 30, 2027. The exhibit provides a summary of the gas allocation of projected deferred IT Investments O&M expense associated with the SAP S/4HANA Implementation project. 2 TR 154.

Consumers' exceptions, p. 49. Consumers contends that the Attorney General's proposed disallowance is based on "four months of preliminary actuals data from November 2025 through February 2026[.]" *Id*., p. 50 (citing Exhibit AG-39, p. 4). Consumers maintains that the ALJ's decision relies on an "unsupported extrapolation from a limited four-month period" and that the Attorney General "does not establish that the same spending pattern will continue throughout the remaining deferral period." Consumers' exceptions, pp. 50-51. Consumers maintains that its forecast is based on more reliable data including "third-party support, RFP-based estimates, and executed contracts" and argues that a 50% cut is arbitrary. *Id*., p. 51 (citing 2 Tr 227). Consumers contends that the ALJ relied on hindsight and limited information.

Turning to the issue of transparency, Consumers states that "the Company does not intend to maintain the confidentiality of its test year capital expenditures, O&M expense, and cloud implementation costs in this case. It only intends to maintain the confidentiality of total project costs in this case due to the impact of publicly disclosing the total projected costs of the project." Consumers' exceptions, p. 52. Consumers notes that in the September 30 order, p. 307, the

Commission directed the company to meet quarterly with the Staff to discuss the progress of the SAP S/4HANA implementation project and that the first quarterly meeting was held in December 2025. *Id*. (citing 2 Tr 162-163). Consumers adds that the "four month variance may justify further monitoring, but it certainly does not justify halving the deferred balance." Consumers' exceptions, p. 52.

In reply, the Attorney General reiterates that the actual costs for the first four months of the project are half of what was projected and, in light of the fact that the company earns a return on the deferred expense balance, customers should be protected from an overstated cost. Attorney General's replies to exceptions, pp. 38-40.

The Commission agrees with the ALJ that the four-month variance does justify halving the company's proposed deferred balance. The Attorney General showed that the actual costs, which are quite recent, are half of what was projected. 2 Tr 1941-1942, 2645; Confidential Exhibit AG-39; Confidential Exhibit A-28 (Revised). Thus, the Commission adopts the ALJ's recommendation. PFD, pp. 209-210. The Commission reiterates the paramount importance of transparency in the calculation of the revenue deficiency, and again cautions Consumers that information that is claimed to be confidential, such as the total costs of a project, must meet the criteria defined by, for example, commercially sensitive information or critical energy infrastructure information—the claimed confidentiality must not arise from a desire to screen customers from an unpleasantly large total project number but instead must arise from valid competitive or security concerns, and this must be demonstrated anew in each rate case.

C. Unamortized Manufactured Gas Plant Balance

Consumers identified 23 former manufactured gas plant (MGP) sites and presented a projected net unamortized MGP balance of $14.77 million. 2 Tr 1265-1271; Exhibit A-12, Schedule B-1.

Based on cost offsets from insurance recoveries, the Staff recommended an MGP balance of $13.84 million. 2 Tr 2426-2427, 2311; Exhibit S-2, Schedule B-1; Exhibit S-12.0. On rebuttal, Consumers agreed to the Staff's adjustment. 2 Tr 648-649, 1320-1322; Consumers' initial brief, pp. 134-135. The ALJ recommended that the Commission adopt the Staff's adjustment. PFD, p. 212.

No exceptions were filed on this issue.

After review of the record and arguments by the parties, the Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on this agreed-upon adjustment. *See*, PFD, p. 212.

D. Rate Base Summary

The Commission finds that, based on the determinations in the instant order, the working capital balance is $1,349,334,000 and the approved rate base is $12,184,275,000.

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. Common Equity Ratio

Consumers initially proposed a capital structure with an equity layer of 50.75% but revised the request to 51.75% in rebuttal. 2 Tr 302-303. The Staff, the Attorney General, and ABATE each recommended continuing the company's currently authorized capital structure of 50% equity and

50% debt. 2 Tr 1703, 1942, 2449-2452. MEC/CUB proposed a capital structure of 50% common equity, 49.75% long-term debt, and 0.13% preferred stock. 2 Tr 2102.

The ALJ thoroughly reviewed the positions of the parties, including testimony and briefing, regarding capital structure and analyzed the arguments at pages 213 through 240 of the PFD, which will not be extensively repeated here. After this review, the ALJ found Consumers' various reasons for deviation from the currently authorized balanced capital structure to be unpersuasive. PFD, p. 241. The ALJ further agreed with the intervenors that "Consumers has not shown financial changes or market changes that warrant a deviation from the currently approved structure." *Id*. The ALJ was not persuaded by the company's claim that the Moody's Investor Services (Moody's) reports demonstrated a new or significant change in circumstances to justify modification of the current capital structure. Continuing, the ALJ also indicated that peer utility equity ratios were considered and that this review supports maintaining the balanced structure. In addition, the ALJ found that, "not only has Consumers' financial health remained strong, its credit quality metrics are generally the same" and that the company "has not proven that even if its credit is downgraded in the near future, its credit rating will no longer be healthy such that customers would be harmed for the reasons argued by Staff, the Attorney General, MEC/CUB, and ABATE." PFD, pp. 241-242. In sum, the ALJ found that the company had not demonstrated with substantive evidence that a 51.75% equity layer is appropriate and, in reviewing the record as a whole, recommended maintaining a balanced ratio of 50% equity to 50% debt.

In exceptions, Consumers argues that the ALJ's "central rationale" for rejecting the company's proposed 51.75% equity layer was that the company failed to demonstrate financial or market changes to support a deviation from the currently authorized capital structure and that "[t]he record evidence demonstrates otherwise." Consumers' exceptions, p. 59. Consumers

reiterates its testimony and exhibits and claims that the ALJ overlooks "uncontroverted testimony demonstrating measurable deterioration in Consumers Energy's credit profile." *Id*., p. 60. Consumers further contends that Commission precedent indicates that in times of heavy infrastructure investment the equity ratio needs to be adjusted. *See*, *id*., pp. 60-61 (citing February 28, 2017 order in Case No. U-17990). Consumers also argues that the ALJ did not place an appropriate amount of weight upon the 2026 Moody's credit opinion and incorrectly accepted intervenor positions to conclude that Moody's concerns reflect capital spending levels rather than the authorized capital structure. *See*, Consumers' exceptions, pp. 61-62. Reiterating record testimony and briefing, the company further contends that the ALJ improperly afforded more weight to intervenor peer-equity analysis and minimized the company's evidence. *Id*., pp. 63-65.

Consumers further disputes the accuracy of the ALJ's conclusions about the company's financial health, claiming that the record evidence shows that recent credit metrics are trending negatively "and have already triggered adverse action from a nationally recognized rating agency." *Id*., p. 66. The company next recites the *Bluefield* and *Hope* standards to argue that the ALJ "appears to transform the financial-integrity inquiry into a heightened legal standard requiring proof of an imminent downgrade during the test year." *Id*., p. 67. Continuing, the company reviews record testimony and exhibits to support its position that the ALJ too narrowly focused the analysis to an "imminent downgrade" and contends that the "testimony reinforces that the proper inquiry is proactive financial integrity and credit support, not whether the Company can prove the precise timing of a downgrade." *Id*., p. 70; *see also*, *id*., pp. 67-71.

Next, Consumers claims that the ALJ erred in analyzing the equity ratio as a standalone issue rather than combined with the authorized ROE, and, therefore, the company claims the ALJ "fails to evaluate the combined effect of declining regulatory support." *Id*., p. 71. The company states

that the ALJ's finding that the company's concerns are overstated is erroneous given the concerns from prior cases have "already materialized in the form of deteriorating credit metrics and a negative outlook action from Moody's." *Id*., p. 72. Consumers indicates that reliance upon the lack of an actual credit downgrade misunderstands the process of credit deterioration and reiterates testimony regarding the March 2026 Moody's credit opinion. *Id*., p. 73. Similarly, the company opines that the ALJ erred in not considering the effect of the ROE on credit ratings in this analysis. *Id*., pp. 73-74. The company also contends that the ALJ erroneously focused on the present credit rating and did not provide enough weight to "outlook, projected metrics, downgrade thresholds, and forward-looking commentary from the rating agencies." *Id*., p. 74.

The company contends that the ALJ "similarly conflate[d] current credit standing with prospective risk" and "selectively relie[d] on Moody's statement that Michigan's regulatory framework is more credit supportive than most other states." *Id*., pp. 74-75. Consumers avers that the general statement does not indicate that a reduction in ROE would not impact the company's ratings or that the framework will continue to be "supportive" regardless of authorized returns and that "broadly supportive regulation does not eliminate the need for constructive outcomes in this case, particularly given the Company's capital program and pressured credit metrics." *Id*., p. 75. The company contends that the ALJ also afforded excessive weight to "generalized testimony that utility stocks can serve as a safe haven during periods of market uncertainty" and that, "[e]ven if utility stocks may be less volatile than the broader market as an asset class, company-specific evidence from Moody's and Fitch is more probative of Consumers Energy's actual credit and financing risk." *Id*., p. 76. Consumers claims that the ALJ's analysis and recommendation "compounds the problem because it would maintain the 50% equity ratio while also recommending a lower ROE" and that "[t]reating the equity-ratio recommendation as though it

can be justified without considering the simultaneous ROE reduction ignores the combined effect of the PFD's recommendations on cash flow, leverage, FFO[funds from operations]-to-Debt, and credit quality." *Id*., p. 77. Consumers summarizes its exceptions on this issue stating that:

> [t]he record demonstrates that: (1) utility commission-authorized equity ratios nationally average well above 50% and even above the 51.75% equity ratio requested by the Company in this case; (2) Consumers Energy's credit metrics have deteriorated materially; (3) Moody's recently revised Consumers Energy's outlook to negative; (4) Moody's specifically identified higher equity support as part of maintaining credit quality; and (5) Consumers Energy faces significant capital investment needs. Exhibits A-33 (MRB-10), A-36 (MRB-13), A-140 (MRB-21); 2 TR 262-265; 2 TR 337-340; 2 TR 362-363.

Consumers' exceptions, p. 78. Given this, the company argues that the Commission should reject the ALJ's recommendation and authorize an equity layer of at least 51.75% as requested by the company. *Id*.

The Staff replies that the company made several arguments in exceptions, which the Staff contends "are ultimately unconvincing" and include "general references to the *Hope* and *Bluefield* cases to argue against the PFD's equity ratio and ROE recommendations." Staff's replies to exceptions, p. 20 (citing Consumers' exceptions, pp. 66-105). The Staff indicates that "the Company offered nearly 20 pages of arguments against the PFD's recommended 50.0% equity-based capital structure" and that the company erroneously alleges that the ALJ ignored Consumers' "substantial arguments for a 51.75% equity-based capital structure and a 10.25% ROE." Staff's replies to exceptions, p. 21. Specifically, the Staff contends that Consumers over emphasizes the March 2026 Moody's credit opinion, which was "a lone outlier because neither Fitch nor S&P [Standard and Poor Global, Inc.] offered a negative outlook over the same period," and that Consumers' "current elevated capital spending plan appeared to be a key factor in the Moody's outlook change." *Id*., p. 23 (citing Staff's reply brief, p. 10, and PFD, pp. 226-228). The Staff encourages the Commission to reject the exaggerated notion regarding the

impact of the Moody's report and find persuasive the multiple parties' analysis in support of a balanced capital structure. Staff's replies to exceptions, p. 23. The Staff also argues that the ALJ "correctly pointed to numerous pieces of evidence sponsored by various intervenors of recent rating agency reports that the Company was in good standing with respect to its credit rating and the Company's ability to safely finance its capital investment program was not in danger." *Id*., p. 24 (citing PFD, pp. 222-240). Contrary to the company's position, the Staff argues that the Commission should not accept the company's request to increase equity prior to a credit downgrade, noting that the company does not consider the other options (including reducing its capital spending plan to avoid a potential downgrade), and that "[i]t is not reasonable to further burden ratepayers with higher, more expensive, equity in the capital structure based on the Company's exaggerated pleas of imminent danger to its credit rating." Staff's replies to exceptions, p. 24. In sum, the Staff requests that the Commission adopt the ALJ's recommendation to maintain the well-supported balanced capital structure.

In replies to exceptions, the Attorney General states that she relies upon her briefing, which comprehensively addresses the issues raised by Consumers in exceptions. The Attorney General indicates that the ALJ addressed the company's financial standings and potential market changes in the PFD. Attorney General's replies to exceptions, p. 42. Further, the Attorney General states that, while the Commission has not deemed the 50% equity layer to be permanent, it has established a balanced structure as the standard unless there is justification for deviation. *Id*., p. 43. The Attorney General reviews prior Commission orders and directives to indicate that, "[c]learly, the Commission's preference is for a balanced debt-equity ratio to balance the interest of investors and customers, unless the Company can demonstrate an unbalanced capital structure is appropriate." *Id*., p. 44. Continuing, the Attorney General states that the company did not

demonstrate that its earnings were negatively impacted or that it was unable to fund its capital programs due to the authorized 50% equity ratio, and the company's exceptions do not justify deviation from a balanced structure. *Id*., pp. 44-45.

Regarding the company's claims surrounding the March 2026 Moody's credit opinion, the Attorney General indicates that the ALJ did not improperly discount the significance of the report and contends that Consumers "places the emphasis on the wrong part of the Moody's statement." *Id*., p. 46. The Attorney General argues that the excessive capital expenditures are the cause of the pressure according to Moody's and that, even though "Moody's moved the Company's credit outlook from stable to negative, in its March 2026 report, it affirmed the Company's credit ratings, including its 'A1' senior secured First Mortgage Bond rating and the Prime-2 commercial paper rating." *Id*. Further, the Attorney General states this is the first change in the outlook since the Commission first approved a balanced structure, which supports a conclusion that the concern is not primarily the result of the currently authorized capital structure. Specifically, the Attorney General points to testimony which states that "the negative outlook also seems to be based on the Company's issuance of additional debt in 2025 and a lag in equity infusions from CMS Energy [Corporation]." *Id*., p. 47 (citing 2 Tr 1949-1950).

The Attorney General also contends that the ALJ did not err in relying upon the peer group analysis or in evaluating the company's credit downgrade risk. *See*, Attorney General's replies to exceptions, pp. 49-54. With respect to the peer group analysis, the Attorney General reviews her briefing, indicating that the comparison of the company to a proxy group of publicly traded companies is a useful reference. *Id*., p. 50. The Attorney General disputes the company's claim that the ALJ's recommendation is not consistent with the constitutional standard, arguing that the company misapplies the standards from *Bluefield* and *Hope*. The Attorney General states that:

> [i]n *Bluefield* and *Hope*, the Supreme Court refers to a rate of return or fair return, but the Court does not appear to discuss an "overall rate of return" or the companies' equity ratio. The Company attempts to stretch *Hope* to fit its analysis. However, in *Hope* the Supreme Court discusses[] investor interest and the return to the equity owner, which is what ROE provides. Second, the Commission does not have an absolute duty to "ensure" the financial soundness of the Company. The Supreme Court did not require it because the utility has a role in making that happen through the efficient and economical management of its business. Inflating the rate of return to shield the Company from the risk of its own operation is not constitutionally required nor reasonable to ratepayers. The Company has no right to an exorbitant return. The return should help the Company to maintain and support its credit and for reasons discussed below, and in the Attorney General's briefs, the PFD's recommendation attempts to do that.

Attorney General's replies to exceptions, pp. 52-53. The Attorney General further explains that the ALJ's reference to "imminent risk of downgrade[] appears to be directed to the fact that merely having a singular FFO-to-debt ratio below the threshold for downgrade means a downgrade will immediately occur." *Id*., p. 54.

Regarding the company's claims surrounding the capital structure and ROE being interconnected components, the Attorney General states that there are different considerations underlying each analysis and that each must be evaluated on its own merits. The Attorney General states that, contrary to the company's contentions, her "witness performed a pro-forma calculation which shows that the FFO-to-debt ratio if the Company earns a 9.70% ROE with a 50% equity ratio would be 19.8%," which "is above Moody's downgrade threshold." *Id*., pp. 55-56 (citing 2 Tr 1947 and Exhibit AG-48). The Attorney General further contends that the company has not demonstrated that a credit downgrade will occur, but, even if Consumers is downgraded, the Attorney General states that this would be in line with the company's other ratings and "would not have a material impact on the Company's credit rating or the cost of issuing new debt, if at all, and certainly would not even approach the incremental cost to customers of the Company carrying a higher equity ratio above 50%." Attorney General's replies to exceptions, p. 56. Overall, the

Attorney General contends that the company's objections have not demonstrated that the ALJ erred, the company has not provided substantive evidence to support its request for an increased equity layer of 51.75%, and the Commission should adopt the ALJ's recommendation. *Id*., pp. 57-58.

MEC/CUB reply that the ALJ properly considered the whole record, including "Consumers' evidence and arguments in favor of increasing its equity layer, which the PFD found 'unpersuasive.'" MEC/CUB's replies to exceptions, p. 9 (quoting PFD, p. 241). MEC/CUB further state that the ALJ's decision is supported by competent, material, and substantial evidence, which has "demonstrated that a balanced capital structure for Consumers remains sound policy and best balances investor and customer interests." MEC/CUB's replies to exceptions, p. 10. MEC/CUB aver that Consumers' exceptions largely repeat the company's record arguments and that, overall, Consumers is merely asking the Commission to afford more weight to the company's evidence than the ALJ did in the PFD. In sum, MEC/CUB argue that the ALJ's recommendation is supported and should be adopted.

ABATE also replies, indicating that "a utility that raises its capital structure request mid-case—after every other party has recommended a balanced capital structure, and after the ALJ recommended one—is not responding to record evidence of changed circumstances." ABATE's replies to exceptions, p. 7. ABATE argues that a balanced capital structure is not an aspirational goal but is rather the standard. ABATE further states that the company's reliance upon the Moody's report is not reliable because: (1) Moody's flagged that the pace of capital spending and not an inadequate equity ratio was the root concern, (2) Moody's noted that extreme storms were the primary cause for a weakened FFO-to-Debt ratio, and (3) an outlook change is not equivalent to a credit downgrade and "Consumers' A3 senior unsecured rating from Moody's remains

unchanged despite the credit report." *Id*., p. 8. Therefore, ABATE contends that the company's exceptions on this issue should be rejected.

The Commission finds that the ALJ's decision to maintain the currently authorized capital structure is well-supported on the record. While the company contends that the ALJ erred in failing to adequately consider its evidence, the Commission finds that the ALJ thoroughly reviewed the positions of the parties, weighed the parties' evidence, and made a recommendation based upon the record as a whole. *See*, PFD, pp. 213-242. Many of Consumers' objections pertain to the weight afforded by the ALJ to the parties' positions and the record evidence. In that regard, the Commission does not find that the ALJ erred in the weighing of the evidence. As stated by the ALJ:

> [a]lthough Consumers offers various arguments in favor of increasing the equity ratio, this PFD finds those arguments to be unpersuasive. Staff, the Attorney General, ABATE, and MEC/CUB argue that Consumers has not shown financial changes or market changes that warrant a deviation from the currently approved structure and this PFD agrees.

PFD, p. 241.

The Commission further notes agreement with the ALJ with respect to the company's reliance and weight provided to the March 2026 Moody's credit opinion. The Commission acknowledges that the credit opinion modified Consumers' rating outlook from stable to negative. *See*, Exhibit AG-52. However, as noted by the Attorney General:

> [a]t the same time, Moody's affirmed the Company's credit ratings, including its "A1" senior secured First Mortgage Bond rating and the Prime-2 commercial paper rating. This is the first change by Moody's in its outlook since the Company first received a 50% equity ratio in Case No. U-21389, which indicates concerns with issues beyond the Company's equity ratio.

Attorney General's initial brief, pp. 106-107 (citing March 1, 2024 order in Case No. U-21389, (March 1 order) p. 129). Additionally, the Commission finds that the record further contains

support for the weight afforded to the credit opinion, including the Attorney General's testimony indicating that she "attributed the change in outlook to the Company's further escalation in capital spending," and that Consumers "can alleviate Moody's concern and improve the credit outlook by throttling back its capital spending plans over the next few years." 2 Tr 1948-1949; *see also*, Exhibit AG-52. Overall, the Commission finds that the ALJ did not err in concluding that the Moody's credit opinion does not reflect a "new and significant change that justifies [Consumers'] requested equity ratio." PFD, p. 241.

Similarly, the Commission finds that the ALJ did not err in the review of the entirety of the record to conclude that "Consumers has not shown financial changes or market changes *that warrant a deviation from the currently approved structure . . . .*" *Id*. (emphasis added). Consumers' argument that the record shows that its credit health is "trending negatively" is overstated, and the Commission is not persuaded that the company's evidence show any changes that warrant a deviation from the currently authorized balanced capital structure.

With respect to Consumers' claims relating to the standards set forth in *Bluefield* and *Hope*, the Commission finds that the standards indicate that a utility's returns must be reasonably sufficient but not that they become overly burdensome on ratepayers. Thus, the ALJ did not err in reviewing the entirety of the record to conclude that "Consumers' capital structure evenly balanced between debt and equity [] reflects the most appropriate balances of interests of the utility and its customers." PFD, p. 241 (citing 2 Tr 1703, 1942, 2102, 2442). Overall, the Commission finds that the ALJ's recommendation is well-supported on the record as a whole. As such, the Commission adopts the ALJ's recommendation and authorizes a balanced capital structure of 50% equity and 50% debt. *See*, PFD, pp. 241-242.

2. Capital Structure Balances

The parties presented long-term, short-term, and other capital structure balances consistent with their capital structure presentations. The ALJ reviewed these positions at pages 242 through 244 of the PFD. Consistent with the adoption of a balanced capital structure, the ALJ found the Attorney General's recommended long-term debt balance of $14.554 million should be adopted. *See*, PFD, p. 243; *see also*, Attorney General's initial brief, p. 117. With regard to the short-term debt balance, deferred federal income tax balance (FIT), preferred stock balance, and the federal investment tax credit balance, the ALJ found that there was no dispute with respect to the company's proposals for these amounts, and therefore, the ALJ adopted the company's proposed balances. *See*, PFD, pp. 243-244.

No exceptions were filed specifically pertaining to the capital structure balances and the ALJ's recommendations.

Given the above, the Commission finds that the ALJ's findings and conclusions with respect to the capital structure balances are reasonable and supported on the record. The Commission, therefore, adopts the ALJ's recommendation with respect to the capital structure balances. *See*, PFD, pp. 242-244.

B. Debt Cost Rates

1. Long-Term Debt Cost Rate

Consumers proposed a long-term debt rate of 4.53% "starting with the debt issuances outstanding as of December 31, 2024" then adding "the two debt issuances in May 2025" and "the planned new debt issuances in May 2026, August 2026, May 2027, and August 2027." 2 Tr 281; *see also*, Exhibit A-14, Schedule D-2. The Staff proposed a long-term debt cost rate of 4.46%, which differs from the company primarily due to "the cost rates projected for Consumers[']

referenced new debt issuances in 2026 and 2027." 2 Tr 2453; *see also*, Exhibit S-4, Schedule D-6. The Attorney General, however, recommended a rate of 4.51%, utilizing a lower 30-year treasury rate which "was sourced from the June 2, 2025 Blue Chip Financial Forecast report provided by the Company." 2 Tr 1958 (citing Exhibit AG-53); *see also*, Exhibit AG-40. Upon rebuttal, the company updated its proposed long-term debt cost rate to 4.55%, based upon updated Treasury projections. *See*, 2 Tr 328.

The ALJ described the positions of the parties at pages 244 through 246 of the PFD. Noting no objection in rebuttal, the ALJ found that the Attorney General's "forecast should be used, which used the same, albeit lower, 30-year Treasury rate used by Consumers with regards to ROE." PFD, p. 246. Given this, the ALJ recommended "that the Commission adopt the Attorney General's long-term debt cost rate of 4.51%." *Id*.

No exceptions were filed on this issue.

The Commission finds that the ALJ's findings and conclusions on this issue are well-reasoned and supported on the record. Therefore, the Commission adopts the ALJ's recommendation to approve the long-term debt cost rate of 4.51%. *See*, PFD, p. 246.

2. Short-Term Debt Cost Rate

Consumers proposed a short-term debt cost rate of 4.87% for the test year. 2 Tr 284; Exhibit A-14, Schedule D-3, pp. 1-2. The Staff, however, recommended a short-term debt cost rate of 4.38%, resulting from the removal of the ScotiaBank revolver. 2 Tr 2452, 2454-2456; Exhibit S-4, Schedule D-3. The Attorney General utilized the company's proposed short-term debt rate in her calculations and recommendations. 2 Tr 1959.

The ALJ provided a summary of the parties' positions at pages 246 through 251 of the PFD. The ALJ found persuasive the Staff's contentions regarding the ScotiaBank revolver. Specifically,

the ALJ indicated that Consumers does not dispute that the ScotiaBank revolver is not used except for letters of credit and that "Consumers' exhibit confirms all the costs, including annual commitment and upfront fees, associated with the Scotiabank Revolver." PFD, p. 252 (citing 2 Tr 2455; Exhibit A-14, Schedule D-3, p. 2). The ALJ further found that the company's testimony and credit reports contradict Consumers' assertions that the Scotiabank revolver is not part of the total liquidity capacity available to the company. PFD, p. 252. In support of this conclusion, the ALJ reviewed both the September 15, 2025 S&P credit report and the May 29, 2025 Moody's credit report. The ALJ also reviewed the Staff's evidence comparing Consumers' and DTE Energy Company's (DTE's) short-term debt facilities, finding that DTE's revolver capacity decreased rather than increased, which was argued by Consumers in rebuttal. PFD, p. 253 (quoting 2 Tr 332-333). Therefore, the ALJ recommended that "the Commission accept Staff's recommendation to disallow the cost of the Scotiabank Revolver and thereby reduce Consumers' short-term debt rate from 4.87% to 4.38%." PFD, p. 253.

In exceptions, Consumers claims that "the ScotiaBank revolver is one of the least expensive short-term credit facilities in the Company's portfolio and is an important part of the Company's short-term credit portfolio that cannot simply be dispensed." Consumers' exceptions, p. 110. Consumers further argues that, contrary to the ALJ's findings, "the ScotiaBank revolver is regularly used and necessary. Without the existence of the revolver, there would not be the required backstop for the letters of credit issued under the ScotiaBank revolver." *Id*., p. 112. Further, the company states that the ALJ's conclusion that it could use the JP Morgan revolver for letters of credit is incorrect. Specifically, Consumers states that:

> [c]ompany witness Bleckman testified that the ScotiaBank letters of credit are "related to the Midcontinent Independent System Operator, Inc. ('MISO') which are critical financial instruments for a utility participating in MISO's energy and transmission markets." 2 TR 330. Perhaps Mr. Bleckman could have been clearer

> on this point in his testimony, but his point was that the ScotiaBank revolver *uniquely* enables the Company's access to those MISO-related letters of credit because the Company's other short-term credit facilities do not. MISO has a peculiar requirement related to letters of credit in its tariff that requires same-day funding under certain circumstances. See MISO, FERC Electric Tariff, Attachment L, Exhibit II (FERC Docket No. ER24-340-000). That requirement is not common or typical in transactions with other businesses or entities and creates additional risk for the funding banks that support the letters of credit. As a result, many banks – including JPMorgan – generally refuse to issue MISO-related letters of credit. There are only a few banks willing to do it. ScotiaBank is one that will. Contrary to the ALJ's presumption, if the Company is forced to discontinue its ScotiaBank revolver because it is no longer funded through rates, it will create a problem for the Company's transactions with MISO until an alternative credit facility can be identified and secured. And, because of the MISO situation, the Company <u>will</u> have to replace the ScotiaBank revolver with something else, potentially at [a] higher cost.

Consumers' exceptions, p. 112 (emphasis in original; footnote omitted).

Consumers further indicates that the ALJ's recommendation does not fully consider the company's position regarding the Intercompany Borrowing facility. Specifically, the company indicates that the testimony provided demonstrates that the Intercompany Borrowing facility is not a dedicated financing option and that:

> it *might sometimes* be available and, when it is available, it *might* be lower cost than the ScotiaBank revolver, but it might not. The uncertainty is such that the Company cannot count on it as source of liquidity because it *might not be available at all* when needed. And, by extension, the Company cannot count on it as a replacement for the ScotiaBank revolver specifically both because of its lack of consistent availability and because, even when it is available, it might be more expensive than the ScotiaBank revolver – to say nothing of the fact that there is no evidence to show that it can be used as a backstop for letters of credit to MISO, which is the ScotiaBank revolver[']s most important active use.

Id., p. 114 (emphasis in original). The company further reviews its record testimony and exhibits, including the company's liquidity position, indicating that of significance, "even after acknowledging the existence of the Intercompany Borrowing facility, S&P did not list it as one of Consumers Energy's 'Principal liquidity sources'" and that, "[u]nlike S&P, Moody's credit

opinion did not acknowledge the Intercompany Borrowing facility in its discussion of Consumers Energy's liquidity position at all." *Id*., pp. 115-116. Consumers states that:

> the evidence actually shows is that the only consistently reliable source of short-term borrowing available to the Company that is lower cost than the ScotiaBank revolver is the Company's Commercial Paper facility. The ScotiaBank revolver is, generally, the second cheapest form of short-term credit available to the Company and, as discussed above, vital to support the Company's letters of credit related to MISO transactions.

Id., p. 116. The company also indicates that the ALJ unreasonably rejected the company's testimony surrounding comparisons of the short-term borrowing capacity of DTE and Consumers. *Id*., p. 117.

In sum, the company states that "[t]here is no valid reason to exclude the ScotiaBank revolver from the calculation of Consumers Energy's short-term debt rate" and that the Commission should "adopt the Company's calculated short-term debt rate of 4.87% for calculating the rates in the case." Consumers' exceptions, p. 118.

In reply, the Staff contends that the company claims it needs the ScotiaBank revolver to issue letters of credit to MISO, but Consumers has not refuted the Staff's claim that the company does not draw upon or use the ScotiaBank revolver. Staff's replies to exceptions, pp. 28-29 (quoting Staff's reply brief, p. 13; citing PFD, p. 252). Further, the Staff states that Consumers has not provided any evidence to support its claim that its JPMorgan revolver cannot be utilized to provide letters of credit with MISO, as described in the company's exceptions. Staff's replies to exceptions, p. 29. Further, the Staff states that "[t]he issuance of letters of credit is not reason enough to burden ratepayers with an expensive and wholly unused revolver that is simply not needed to meet the Company's short-term debt requirements. Removing the cost of the ScotiaBank Revolver would save ratepayers thousands of dollars annually in unnecessary

expenses." *Id*. Therefore, the Staff reiterates its position to adopt its proposed short-term debt rate and adopt the PFD on this issue.

On this record, the Commission finds that the company has demonstrated that the ScotiaBank revolver is useful in meeting financing needs. The Commission finds persuasive Consumers' testimony surrounding the need for the ScotiaBank revolver in relation to MISO's tariff requirement for letters of credit that necessitates the ability for the company to secure same-day funding under certain circumstances. *See*, 2 Tr 330. Therefore, the Commission respectfully declines to adopt the ALJ's recommendation on this issue. *See*, PFD, p. 253. As such, the Commission finds that the company's short-term debt cost rate of 4.87% for the test year should be adopted. *See*, 2 Tr 284; Exhibit A-14, Schedule D-3, pp. 1-2.

3. Deferred Federal Income Tax and Other Cost Rates

The company, the Staff, and the Attorney General set forth a preferred stock cost rate of 4.50%, a 0% cost rate for deferred income taxes, and a blended cost rate of the permanent capital structure with regard to the federal investment tax credit. Consumers' initial brief, p. 229; Staff's amended initial brief, pp. 71-72; Attorney General's initial brief, p. 139.

The ALJ noted that there was no dispute surrounding these cost rates and, therefore, recommended the Commission adopt the rates as agreed to by the parties. *See*, PFD, p. 254.

No exceptions were filed on this issue.

The Commission finds that the ALJ's recommendation on this issue is reasonable and should be adopted. *See*, PFD, p. 254.

C. Return on Common Equity

Consumers, the Staff, the Attorney General, ABATE, and MEC/CUB offered analyses and recommendations for the appropriate ROE in this proceeding. Consumers requested an ROE of

10.25%, the Staff recommended an ROE of 9.75%, the Attorney General set forth a rounded ROE recommendation of 9.70%, ABATE suggested an ROE of 9.45%, and MEC/CUB recommended an ROE of 8.88%.

Consumers stated that it "estimated the market-based cost of equity by applying traditional estimation methodologies to a proxy group of comparable utilities, including[:]" (1) the constant growth and quarterly growth form of the discounted cash flow (DCF) model, (2) the capital asset pricing model (CAPM), (3) the empirical CAPM (ECAPM), and (4) a bond yield plus risk premium (risk premium) analysis. 2 Tr 396. The company further noted that it took "into consideration the business, regulatory and financial risk of the Company relative to the proxy group, and current and prospective capital market conditions." 2 Tr 396. Consumers indicated that, in considering these analytical results of the models and other considerations, it determined a recommended ROE range of 10.25% to 11.25%. 2 Tr 399.

The Staff indicated that its recommended ROE of 9.75% is the midpoint of its range of 9.50% to 10.00%. The Staff stated that it used six publicly traded gas or gas/electric utility companies for its proxy group. 2 Tr 2442. The Staff further explained that it utilized the traditional DCF and CAPM methods, along with the bond yield plus risk premium analysis. 2 Tr 2442-2443. The Staff provided a "review of gas ROE authorizations from other state jurisdictions from 2022-September 2025," which it indicated further supports its recommended ROE of 9.75%. 2 Tr 2443.

To determine a reasonable ROE, the Attorney General provided three approaches, the DCF method, the CAPM method, and the utility risk premium approach. 2 Tr 1961. The Attorney General indicated that this analysis resulted in an average ROE of 9.68% but noted her recommendation for the company was 9.70%. 2 Tr 1961; *see also*, Exhibit AG-41.

ABATE utilized the DCF, CAPM, and risk premium approaches, including variants to set forth an ROE range of 9.00% to 9.90%. 2 Tr 1749. ABATE indicated that, considering the company's overall risk profile, it recommended an authorized ROE of 9.45%, which is the midpoint of its indicated range. 2 Tr 1749.

MEC/CUB provided the CAPM and the DCF methods, which they averred "are widely accepted methods for calculating ROE." 2 Tr 2080. MEC/CUB indicated that their analysis resulted in an average of 8.21% for the DCF method and 7.73% for the CAPM method for an overall average of 7.97%. 2 Tr 2081. Based on this analysis, MEC/CUB recommended an ROE of 8.88%, which is the midpoint between their overall average and the currently authorized ROE of 9.8%. 2 Tr 2081.

The ALJ summarized and reviewed the evidence and positions of the parties with respect to ROE at pages 254 to 319 of the PFD, which will not be exhaustively repeated here. The ALJ noted that the parties selected proxy groups of comparable publicly traded utilities and that she "will generally not disturb the parties' choice of proxy groups or their constituent companies because there can be value in a diversity of proxy group components even if each constituent company within a proxy group is flawed as a comparator in some way." PFD, p. 319. The ALJ further noted that ABATE's proxy group was the most dissimilar and appropriate weight would be afforded given this consideration. *Id*.

The ALJ noted that having a variety of inputs and models on record is valuable and will be afforded appropriate weight when justified and reasonable. With respect to the company's ECAPM, the ALJ found that the model and results should not be given any weight, noting "that the Commission has found it reasonable to exclude the ECAPM model results from the evidence that is considered in a rate case." *Id*., p. 320 (citing March 27 order). In review of the CAPM,

DCF, and risk premium models, the ALJ found the evidence supports varying results with a broad range of ROEs from 7.51% to 11.39%. PFD, p. 321.

In reviewing the modeling, the ALJ noted her agreement with the Staff, the Attorney General, ABATE, and MEC/CUB that Consumers' CAPM results were excessive. *Id*. She also noted that she was persuaded that "Consumers' market risk premiums [] improperly inflate the CAPM results." *Id*. (citing 2 Tr 1754-1755, 2087, 2470). Given her analysis, the ALJ concluded that Consumers' CAPM analysis results would not be afforded any weight. PFD, p. 324. With regard to the DCF method, the ALJ agreed with the Attorney General that the proxy, Southwest Gas, had an excessive earnings growth rate and that "Consumers and Staff's short-term 3-year growth rate is misleading as a short-term growth rate cannot exceed the anticipated growth rate for the economy as a whole." *Id*. Therefore, the ALJ noted that Consumers' and the Staff's DCF analysis, including Southwest Gas, would be given less weight. *Id*.

The ALJ rejected Consumers' criticisms that ABATE did not weigh its modeling consistent with prior cases noting that it is not a relevant consideration. The ALJ also rejected the company's argument that the low-end modeling should be excluded because it was unsupported. *Id*., p. 325. The ALJ found persuasive the Staff's, the Attorney General's, and MEC/CUB's "reasoning to reject a risk premium analysis based on authorized ROEs (as opposed to based on realized ROEs)" and gave little weight to Consumers' and ABATE's risk premium results. *See*, *id*., pp. 325-327. The ALJ further indicated that the various other objections to the modeling results did not appear to change the results and that the "differences do not demonstrate that one approach necessarily is more accurate or meaningful than another approach." *Id*., p. 327.

Conversely, the ALJ found the presentations regarding recently authorized ROEs by the Staff, the Attorney General, and ABATE to be persuasive. In review of these presentations, the ALJ

noted an average of recently authorized ROEs to range from 9.63% to 9.83%. *See*, *id*., p. 328. The ALJ further explained that:

> [a]lthough the Company objects to taking the current authorized ROE into account when forecasting the ROE, the Commission has previously considered other ROEs and has stated that it will continue to do so. In addition, the Supreme Court's standards provide that equity returns should be "commensurate with returns on investments having corresponding risks" and other regulated utilities are enterprises with the most closely corresponding business model risks to those of Consumers. Therefore, this PFD finds that the average of recently authorized ROEs from other states is between 9.60% - 9.70%. The combined average of the results of the remaining models that have been considered with full weight by this PFD are in the range of the recently authorized ROEs throughout the country.

Id. (footnotes omitted). The ALJ also noted that she found persuasive the Staff's presentation of the recently authorized ROEs of the companies in its proxy group with a range of 9.40% to 9.75% and an average of 9.60%. The ALJ indicated that ABATE's assertion that the company "actually earned a 10.7% ROE in 2024, above the authorized 9.8% ROE, has not been contested." *Id*., p. 329 (citing ABATE's reply brief, p. 2).

The ALJ found, after review of the company's concerns regarding trends regarding the FFO-to-debt and overall market conditions, that Consumers' concerns were overstated, including the need for a higher ROE based on a "potential change in consumers' credit metrics," and found, "[c]ommensurate with the low risk nature of the regulated utility industry, Consumers' current credit ratings from the three main credit reporting agencies – Moody's, S&P, and Fitch – have consistently been within the middle of the multiple levels of 'investment grade' ratings categories." PFD, pp. 329-330. Reviewing the credit ratings of the proxy companies, the ALJ found that Consumers has a higher credit rating than most proxy companies and "that Consumers is not at a higher risk than the proxy group." *Id*., p. 332. With respect to flotation costs, the ALJ indicated that "the Commission has rejected the recovery of flotation costs, finding those costs are not incurred by the regulated utility and[, consequently,] inappropriate to include . . . in the

calculation of Consumers' return on equity." *Id*. (citing December 22, 2005 order in Case No. U-14347, p. 24).

Overall, the ALJ found that:

> even if a change in the ROE might lead to a credit rating downgrade, Consumers' credit rating will remain within the upper to middle levels of investment grade credit ratings, which ensures the maintenance of its credit and its ability to attract capital. Further, this PFD finds that the record evidence in this case supports a finding that all of the ROEs proposed by Staff, the Attorney General, ABATE, and CUB, and the ROE recommended in this PFD are each more than sufficient for Consumers to maintain its credit and attract capital.

PFD, p. 333 (footnotes omitted). The ALJ also noted that she was not persuaded by the company's claims regarding an increased ROE resulting in cost savings for customers.

In summary, the ALJ indicated that:

> the ROEs recommended by Staff, the Attorney General, ABATE and MEC/CUB are each reasonable, but for the discussed issues, commensurate with recently authorized returns for regulated utilities and commensurate with ROEs for members the respective proxy groups. This PFD further finds that the ROEs recommended by Staff, the Attorney General, and ABATE, as well as the ROE recommended in this PFD are more than sufficient for Consumers to maintain its credit and attract capital, and that Consumers' recommended ROE is unnecessary to do so. And taken altogether are between 9.60% and 9.80%. Accordingly, this PFD recommends that the Commission adopt Staff's recommendation for an ROE of 9.75%.

PFD, p. 334.

In exceptions, the company argues that that the ALJ misapplied the standards from *Bluefield* and *Hope*, namely, Consumers argues, that these "decisions establish the requirements for the minimum ROE that is constitutionally permissible" and the ALJ's statement that the requested 10.25% ROE was "contrary" to those standards is misguided. Consumers' exceptions, p. 78 (emphasis in original). Further, Consumers avers that the ALJ's statement that the company's requested ROE is unsupported is contrary to the extensive record on the issue and that in actuality

"the ALJ failed to correctly evaluate and credit the extensive evidence in the record supporting the 10.25% ROE recommendation." *Id*., p. 79.

Consumers next raises concerns with the application of the quantitative models, albeit noting general agreement with the ALJ that a variety of models is beneficial. However, the company argues that "the ALJ did not take care to ensure that was the case with the inputs proposed by Staff and intervenors in this case." *Id*. Consumers avers that it appears the ALJ reviewed the evidence through an improper framework and that "the ALJ assigned greater weight and credibility to those parties because they outnumbered the Company in the similarity of their results. But, if those parties all used similarly flawed and inappropriate inputs, it is tautological that they would have similar results even if those results were not valid." *Id*., p. 80.

With respect to the DCF model, the company claims that the ALJ erroneously found the proxy Southwest Gas to be an outlier. Further, Consumers posits that FERC orders are not binding on the Commission, and the Commission has acknowledged that it is not limited to FERC-approved methodologies. Overall, Consumers states that:

> [b]ecause the ALJ's reasons for criticizing the Company's DCF model are invalid, and because the ALJ has not addressed the numerous criticisms Company witness Bulkley offered of the two-stage and multi-step DCF analyses offered by other parties, the Commission should reject her conclusion that the Company's DCF analysis should be accorded lower weight in this case. The Company's DCF analysis is analytically sound and should be given primary weight in relation to the other parties' DCF analyses when setting the ROE used to calculate rates.

Id., pp. 84-85. Next, the company reviewed the CAPM model, noting that the ALJ erroneously excluded from consideration the company's modeling due to inclusion of companies that are not paying dividends. Consumers also argues that the ALJ's claims regarding the 2015 Fed Report are meritless and the information cited by the ALJ supports the company's analysis rather than undermines it. *Id*., p. 87. Further reviewing its record position, Consumers disputes the ALJ's

conclusion and states that "[t]here was no valid basis for the ALJ to disregard Ms. Bulkley's CAPM analyses. The Commission should reject the ALJ's approach and consider the Company's CAPM results in setting the ROE in this case." *Id*., p. 90; *see also*, *id*., pp. 87-90.

The company further argues that the ALJ erroneously excluded its ECAPM analysis merely because the Commission has not previously recognized its usage. *Id*., p. 90. Again, the company notes that the Commission is not bound by FERC decisions and claims that the ECAPM model is a traditional approach utilized and the use of which is supported by academic research. Consumers opines that the Commission has not expressly adopted a finding regarding the use of ECAPM and that the Commission should consider this approach in its review. *Id*., pp. 91-92. With respect to the bond yield risk premium, the company disputes the ALJ's decision to afford the approach little weight. As it did with the prior methods, the company claims states the Commission is not bound to FERC decisions and the record supports consideration of this method. *Id*., pp. 92-94.

With respect to the reliance upon the average of authorized ROEs nationally, Consumers argues that the ALJ incorrectly stated that she objected to the consideration of this data when this data actually indicates that:

> the *indiscriminate* use of national averages of approved ROEs should be assigned little weight due to the *Hope* and *Bluefield* requirements that the ROE must be set "equal to that generally 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." *Bluefield*, 262 US at 692-93. This reminder is consistent with the Commission's own conclusions about the proper use of the RRA [S&P's Regulatory Research Associates] data. The Commission has previously held that it "declines the invitation to give significant weight to ROE determinations resulting from evidentiary records that are not a part of this proceeding and that are exclusively related to geographically and structurally different utilities." [] Case No. U-17895, September 8, 2016 Order, page 20.

Consumers' exceptions, p. 95. The company further argues that this data is backwards looking and "cannot tell the Commission anything about the ROE that investors will be expecting for those same utilities during the future test year of this case." *Id*., p. 96.

Consumers avers that ABATE's position that the company actually earned a 10.7% ROE in 2024 should be rejected. *Id*., pp. 97-98. The company further reiterates its record testimony pertaining to the impact on its credit metrics and ratings. *See*, *id*., pp. 98-104. Consumers contends that the ALJ afforded:

> far too little weight to the seriousness of a credit downgrade. A downgrade is not merely an abstract rating-agency event or a bookkeeping label that can be brushed aside because the Company's credit rating would remain investment grade. It is a concrete financial harm that signals higher credit risk and directly increases financing costs.

Id., p. 99. Additionally, the company indicates that the ALJ especially discounted the credit significance a reduction in the currently authorized ROE would have. *Id*., p. 100. The company reiterates its position that the credit rating agencies have their own methods and that they cannot be treated as interchangeable. *Id*., p. 101 (citing 2 Tr 308-309). Consumers argues that the ALJ erred in finding that the company does not have greater risk than proxy companies merely because its current credit ratings are more favorable. Further, the company argues that the ALJ "selectively" relies upon the reporting agency's statements which should be rejected. Consumers' exceptions, p. 102-103. Overall, the company continues to emphasize its position that the record supports actual deterioration of its credit metrics and "[r]ather than endorsing the ALJ's wait-and-see approach to downgrade risk, the Commission should act on the record evidence now to preserve credit quality and avoid imposing higher financing costs on customers later." *Id*., p. 104. The company also claims that the ALJ improperly minimized the impact that a reduction in ROE would have upon its access to capital on reasonable terms. Specifically, Consumers states

that "[e]ven if Consumers Energy retains access to debt capital after another downgrade, lower credit ratings mean that capital will be more expensive." *Id*., p. 105. The company claims that the ALJ's recommendation should be rejected because "[t]he record shows that a lower ROE would increase financing risk, weaken the Company's ability to attract both debt and equity capital on reasonable terms, and reduce the financial flexibility needed to withstand adverse market conditions." *Id*., p. 106.

With respect to annual savings relating to improved credit ratings, Consumers avers that the ALJ misinterpreted the company's position and that the total cumulative savings are much greater than noted by the ALJ. Consumers' exceptions, p. 107. In sum, the company claims that:

> [t]he ALJ's reasoning for rejecting the Company's proposed 10.25% ROE and for recommending a reduction of the current ROE to 9.75% is invalid. The ALJ has failed to address nearly all of the Company's valid criticisms of the other parties' ROE analyses, while simultaneously accepting their meritless critiques of the Company's ROE analysis. The ALJ has done this despite the clear warning from credit rating agencies that the Company's credit quality and credit metrics have deteriorated and require additional support – not less. The Commission should reject the ALJ's recommendation and instead use a ratemaking ROE of 10.25% to calculate rates in this case.

Id., p. 108.

The Attorney General also takes exception to the ALJ's recommendation. Specifically, the Attorney General states that, "[w]hile the Attorney General is not opposed to a lower ROE, based on the PFD's analysis, it should be no higher than 9.70% which is the midpoint of the range of ROE outcomes that the PFD deemed reasonable." Attorney General's exceptions, p. 50.

In reply, the company points to its exceptions and argues that the Attorney General's exception should be disregarded. Consumers states that, as explained in exceptions, "the PFD's recommendation was unreasonably low – not inappropriately high as the Attorney General has argued." Consumers' replies to exceptions, p. 60. Further, the company contends that the

Attorney General did not support her claim that the Commission should rely upon the midpoint of the range when setting the ROE. Further reiterating its position, Consumers states that "[t]he Commission should reject the Attorney General's Exceptions and the PFD's inappropriately low ROE recommendation. Instead, the Commission should increase the Company's ratemaking ROE." *Id*., p. 61.

The Staff also replies and argues that Consumers' claims "that different inputs into cost of equity models do not help with ROE estimation is belied by [the company's] own ROE analysis." Staff's replies to exceptions, p. 25. The Staff opines that Consumers' criticisms of the ALJ's recommendations are unpersuasive and that the ALJ included a "thorough analysis that makes a robust case against the Company's excessive ROE request." *Id*., p. 26. The Staff avers that the ALJ properly relied on the record evidence demonstrating that the company's credit risk profiles were solid and claims otherwise should be rejected. *Id*., pp. 26-27. Overall, the Staff contends that the ALJ:

> noted that recent ROEs rendered by other states' commissions were informative and landed between 9.60%–9.70%. The PFD also found the authorized ROEs of Staff's proxy group persuasive, which included primarily all of the companies selected in the Company's proxy group. The average ROE for that group was 9.60%. The PFD used the data, along with the average results from the cost of equity models of Staff and the other intervenors, to conclude that all of the ROE recommendations between 9.60% and 9.80% were reasonable. The PFD weighed the model results of the Company, as well as Staff and the other intervenor's model results accordingly. The ROE models used by Staff, the Attorney General, and ABATE were all relatively similar, the inputs were reasonable, and the ROE results were all in the range of one another. The Company's analysis used inputs to its ROE models that were substantially higher and led to an unreasonable ROE recommendation. The PFD rightfully rejected this recommendation.

Id., pp. 27-28 (internal citations omitted). In sum, the Staff indicates that the company's requests for an increased equity layer and ROE were simply unreasonable and were properly rejected by the ALJ.

In reply, the Attorney General argues that:

> [t]here is no merit to the [company's] claims as the PFD painstakingly [went] through the parties' various positions and evidence and applied the appropriate standards in reaching appropriate ROE recommendations. Likewise, the [company's] claims [that] the PFD incorrectly limited the weight of its qualitative models and therefore its quantitative analyses are meritless.

Attorney General's replies to exceptions, p. 59. Reviewing the decisions in *Bluefield* and *Hope*, the Attorney General avers that the company's position must be rejected by the Commission. *Id*., pp. 59-60. With respect to the quantitative models, the Attorney General reviewed record positions to counter the company's various claims. *See*, *id*., pp. 61-70. Overall, the Attorney General avers that the ALJ did not err in her analysis of the various methods.

ABATE also replies, arguing that Consumers' claims that the *Bluefield* and *Hope* standards set a floor rather than a ceiling is not a fair reading of the precedent. ABATE's replies to exceptions, p. 9. Specifically, ABATE emphasizes that the cases only require a "sufficient" return and that overall analysis regarding the appropriate rate of return must be "an objective survey of the financial condition of the utility, quantitative metrics, credit considerations, and 'business conditions' generally, which inevitably includes rate affordability concerns." *Id*. ABATE continues, reiterating much of its briefing and testimony, to refute the company's exceptions. *Id*., pp. 10-12. In sum, ABATE contends that "the Commission should reject the Company's Exceptions related to cost of capital, maintain a balanced capital structure of 50% equity and 50% debt, and adopt ABATE's proposed ROE of 9.45% or, in the alternative, an ROE no higher than the 9.75% the PFD recommended." *Id*., p. 13.

MEC/CUB further reply that the ALJ's "recommendation to decrease Consumers' ROE is supported by competent, material, and substantial evidence, and the Commission should adopt the PFD's recommended 9.75% ROE or a lower ROE as recommended by CUB, ABATE, or the

Attorney General." MEC/CUB's replies to exceptions, p. 11. MEC/CUB contend that it is the company rather than the ALJ that misunderstands the Supreme Court standards which provide that a utility does not have a "'right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures'" and that the interests of the investors and the consumers must be balanced. *Id*., p. 12 (quoting *Bluefield*, 262 US at 692-93). MEC/CUB further state that:

> [a]s in its exceptions to the PFD's capital structure recommendation, Consumers largely repeats arguments made in previous briefing and discusses its own evidence in a vacuum. Essentially, Consumers asks the Commission to consider the portions of the record that support increasing its authorized ROE while ignoring the evidence that supports a decrease.

MEC/CUB's replies to exceptions, p. 12. Overall, MEC/CUB claim that substantial evidence on the record refutes Consumers' proposal for an increase in its authorized ROE and rather supports an ROE of 9.75% or lower. *Id*.

The Commission first acknowledges the company's many objections to the ALJ's analysis in its exceptions. However, having reviewed the exhaustive record on this issue, the Commission is unconvinced by the company's various arguments that the "ALJ has failed to address nearly all of the Company's valid criticisms of the other parties' ROE analyses, while simultaneously accepting their meritless critiques of the Company's ROE analysis." Consumers' exceptions, p. 108. Rather, the Commission finds that the ALJ extensively reviewed the parties' arguments and afforded proper weight to the various claims and methodologies on record. *See*, PFD, pp. 254-334. As discussed above with respect to capital structure, Consumers' contentions relating to the impacts on its credit metrics and ratings are overstated, and the Commission does not find an error in the ALJ's analysis in that regard.

Notwithstanding this, the Commission respectfully declines to adopt the ALJ's recommendation to reduce the ROE from the currently authorized 9.80% to 9.75%. Rather, the

Commission finds that the current ROE of 9.80% is within the ranges proposed by a number of the parties on the record and also within the range of reasonable ROEs identified by the ALJ. In addition, considering the record evidence involving countervailing currents in approved ROEs in other states and the overall interest rate environment the Commission finds the evidence on the record supports maintaining the currently authorized ROE. Therefore, the Commission adopts an authorized ROE of 9.80%.

D. Overall Rate of Return

Based upon the foregoing analysis, the Commission adopts a 50% equity layer, a long-term debt cost rate of 4.51%, a short-term debt cost rate of 4.87%, an ROE of 9.80%, and an overall weighted cost of capital of 6.17%, as shown on the table below:

Description	Amount ($000)	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	$14,553,687	42.58%	4.51%	1.92%
Preferred Stock	$37,315	0.11%	4.50%	0.00%
Common Equity	$14,590,699	42.69%	9.80%	4.18%
Short-Term Debt	$162,200	0.47%	4.87%	0.02%
Deferred FIT	$4,669,000	13.66%	0%	0.00%
JDITC Debt	$82,787	0.24%	4.51%	0.01%
JDITC Preferred Stock	$213	0.00%	4.50%	0.00%
JDITC Equity	$83,000	0.24%	9.80%	0.02%
Total	$34,178,901	100%		6.17%

VI. ADJUSTED NET OPERATING INCOME

As noted by the ALJ, net operating income (NOI) constitutes the difference between a company's operating revenue at current rates and its operating expenses including depreciation, taxes, and allowance for funds used during construction (AFUDC). Adjusted net operating

income (ANOI) includes the ratemaking adjustments to the recorded test year NOI for projections and disallowances. PFD, p. 335.

Consumers projected an ANOI of $620.948 million for the projected test year. *See*, Exhibit A-3, Schedule C-1. Upon briefing, the company set forth a revised ANOI of $624.288 million. Consumers' initial brief, p. 319. The Staff initially recommended an ANOI of $624.288 million and in briefing adjusted its ANOI recommendation to $629.783 million. *See*, 2 Tr 2303; Exhibit S-3, Schedule C-1.1; Staff's initial brief, pp. 115-116.

The ALJ reviewed issues that were not contested on the record and were, therefore, recommended for approval. PFD, pp. 335-337. The Commission finds the ALJ's analysis and determinations related to these uncontested issues to be well-reasoned and supported in the record. Therefore, the Commission adopts the ALJ's recommendations on the following uncontested issues regarding Consumers': (1) sales revenue of $2.404 billion, (2) transportation revenue of $123.394 million, (3) other miscellaneous gas revenue of $30.892 million, (4) gas injuries and damages operating expense of $2.186 million, (5) gas insurance operating expense of $14.362 million, (6) gas portion of the operating expense for digitizing company records of $740,000, and (7) manufactured gas plan (MGP) direct project management operating costs of $1.076 million. *See*, PFD, pp. 336-337.

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) cost of gas sold and gas storage (PFD, pp. 337-339); (2) lost, unaccounted for, and company use gas (PFD, pp. 339-341);

(3) field operations services (PFD, pp. 349-353); (4) overall gas operations division O&M expense disallowance (PFD, pp. 358-359); (5) the application currency program (PFD, pp. 419-420); (6) the application currency-corporate project (PFD, p. 420); (7) incident command system management software (PFD, p. 421); (8) energy assistance and maintenance annual update project (PFD, pp. 421-422); and (9) rate changes maintenance project (PFD, pp. 422-423). The remaining contested issues are addressed *ad seriatim*.

Consumers notes in its exceptions that the ALJ's projection was significantly higher – almost $20 million more than the next highest projection – coming in at $647.745 million. Consumers exceptions, p. 118 (citing PFD, Appendix A, line 2).

A. Distribution Operations and Maintenance

1. Distribution Pipeline

Consumers projected test year spending of $13.797 million for the Distribution Pipeline program. 2 Tr 1132. In 2024, the actual expense was $11.542 million. 2 Tr 1133. Consumers testified the program includes work to alter existing gas mains and services (e.g., a new business branch or service relocations) and non-leak-related maintenance (NLM), such as repairing or replacing valves, replacing plastic and copper risers, lowering main or service facilities if grade has changed, installing and pumping drips on the standard (low) pressure system, property restoration costs, and site checking for regulatory compliance, and includes costs for gas distribution regulation at the Huron Compressor Station. 2 Tr 1132-1133.

Consumers testified that it is requesting $1.414 million over the rate of inflation. 2 Tr 1133; Exhibit A-120, line 2, column (d). Consumers stated that NLM work is identified through surveillance activities and can be impacted by geographical area, the type of facility, or customer activities. 2 Tr 1134. Consumers also testified that the main driver of the cost increase for the test

year is a projected increase in expected number of NLM orders and increased hours/units for the program. 2 Tr 1134. Consumers provided an analysis of historical numbers for the hours/units for the program and a comparison of those to the test year. 2 Tr 1134-1135; Exhibit A-121.

The Attorney General recommended that the Commission disallow $2.529 million from the projected expense, which reduces the test year amount to $11.268 million. The Attorney General argued that Consumers did not provide any specific quantification or explanation why some or most of the increased work cannot be managed within existing resources. The Attorney General looked at the work activities from 2021 to 2025 for this program with the annual rate of expenses. 2 Tr 1986. The Attorney General found that in "the most recent three years, 2023-2025, the company completed on average 16,223 work orders employing 51,723 hours to complete that work at an average hourly rate of $208.73." 2 Tr 1986. The Attorney General based the recommended disallowance on a three-year average of work hours and an average hourly rate, adjusted for inflation.

The ALJ found the Attorney General's arguments to be more persuasive and recommended the Commission disallow $2.529 million of the $13.797 million forecasted O&M for the Distribution Pipeline program in the test year. PFD, p. 344. The ALJ reasoned that the company provided examples of activities that are involved in NLM work but did not provide evidence to support the significant increase in the number of orders projected. *Id*.

Consumers excepts to the ALJ's findings. Consumers' exceptions, pp. 119-122. Consumers argues that the company did support its projections for the category because the main drivers of the projected test year were the increase in the identification of NLM work due to the rotation of areas being surveyed and the increased number of trainings to ensure all NLM work is identified. *Id*., p. 120 (citing Table 9, 2 Tr 1135). Consumers argues that this increase is not due merely to

inflation but rather to a change to the company's work plan, which includes scope adjustments and operational efficiencies. Consumers' exceptions, p. 120 (citing 2 Tr 1133).

Consumers further argues that the ALJ did not give the proper weight to the company's surveying activity and the resulting NLM work. Consumers points out the ALJ recommended that the Commission approve the Leak Repair and Survey Program. PFD, p. 357; *see also*, below. Consumers contends that the ALJ should have recognized that the additional surveys will identify additional NLM conditions. Consumers' exceptions, p. 120.

Consumers also argues that the ALJ incorrectly relied on backward looking three-year averages as a substitute for the company's forward looking test year forecast. Consumers proffers it placed evidence in the record that does not merely assert that NLM work would increase. The company points to several different rationales behind the increase, including "the rotation of the areas being surveyed, the increased number of surveys, and improved training to ensure that NLM conditions are identified during surveillance activities." *Id*., p. 121. Therefore, Consumers asks the Commission to adopt the company's proposed spending for this category.

In her replies to exceptions, the Attorney General reiterates that from 2023-2025, Consumers completed, on average, 16,223 work orders employing 51,723 hours to complete that work at an average hourly rate of $208.73. But for all future periods, the company forecasted higher work order numbers of 22,700 with 66,100 hours of work at a higher expense amount. The Attorney General argues that Consumers never provided a justification for the higher forecasted activity. Instead, the Attorney General recommends using the most recent three-year average number of work hours of 51,723 at the average rate of $208.73 adjusted for inflation for 2026 and the 10 months of 2027. The result is a forecasted expense level of $11.268 million for the projected test year. Attorney General's replies to exceptions, pp. 70-72.

The Attorney General responds to Consumers' arguments that the ALJ did not give proper weight to the company's surveying activity and that NLM work will increase if more surveys are completed. The Attorney General argues that Consumers is only speculating that the NLM work will actually increase. *Id*., p. 72. The Attorney General also responds to the data provided by Consumers that there will be an increase in units/orders and hours associated with the Distribution Pipeline O&M workplan by arguing that the projections are based on presumptions about the outcome of surveys to be done and that ratepayers should not have to pay for costs that may not be incurred. *Id*. Therefore, the Attorney General argues that her proposed expense level ($11.268 million as opposed to $13.797 million), while based on historic levels plus inflation, provides a reasonable increase in expense while not unreasonably burdening ratepayers. *Id*., pp. 71-72. The Attorney General asks that the Commission adopt the ALJ's recommendation. *Id*., p. 72.

The Commission has reviewed the record and the parties' arguments and finds the ALJ's recommendations for the Distribution Pipeline program to be well-reasoned and supported by the record. PFD, pp. 342-344. The Commission agrees that, while the company provided examples of activities that are involved in NLM work, the increase in the number of orders projected was not supported by the record. *See*, 2 Tr 1132-1135. Although Consumers provided ample evidence on why an increase in leak surveys will lead to additional leak repairs and how that benefits customers, as detailed below, for this instant issue, Consumers did not provide sufficient evidence that an increase in surveys will lead to the level of additional work for which the company is requesting recovery. Instead, Consumers makes a conclusory statement that its work plan that provides for additional surveys will lead to additional NLM work. Given Consumers' lack of evidence on the record to support its projections, the Commission finds that the Attorney

General's reliance on historical data, adjusted for inflation, is warranted. Therefore, the Commission finds a disallowance of $2.529 million of the $13.797 million forecasted O&M for the Distribution Pipeline program in the test year to be reasonable and prudent.

a. Enhanced Infrastructure Replacement Program Training

Consumers requested that the Commission approve a total O&M expense of $4.44 million for the test year. The 2024 expense was $3.0333 million. 2 Tr 1217. Consumers testified that "[t]hese expenses include training for the company's gas construction workforce, [along with] salaries and expenses for the field supervisors and managers, tools, and facilities maintenance." 2 Tr 1217. EIRP training ensures that the seasonal workforce is properly staffed and trained. 2 Tr 1217.

Consumers testified that it is requesting $1,185,627 above the rate of inflation for this program in the test year. 3 Tr 1217 (citing Exhibit A-120, line 26, column (d)). Consumers stated that the main driver of cost above inflation for the program year is an increase in headcount and expenses. 2 Tr 1218. Consumers testified that the EIRP workforce is the largest group of new hires and experiences higher transfers to other departments and the NGDP will increase the need for training. 2 Tr 1218.

The Attorney General asked that the Commission disallow $1.864 million from the projected expense, which reduces the test year to $2.756 million. The Attorney General contended that the data shows that the amount requested does not match the number of projected hires. 2 Tr 1991; Exhibit AG-59. The Attorney General argued that the program is a "mature program" that should already have trained employees and that there is not enough evidence of turnover to justify the expense. 2 Tr 1992. The Attorney General testified that adjusting the 2025 actual expense for inflation is a more reasonable expense. 2 Tr 1992.

MEC/CUB initially testified that the Commission should disallow $1,086,220 for the training item, but in briefing, MEC/CUB withdrew its objection on this issue. 2 Tr 2164; MEC/CUB's revised initial brief, pp. 68, 74.

Consumers responded to the Attorney General by arguing that the maturity of the program is irrelevant because new hires will always need training. 2 Tr 1251. Consumers testified that since 2020, there has been an 83% turnover rate in Operating Maintenance, and Construction (OM&C) employees. Consumers further testified that it plans to hire a total of 160 new employees for 2026 and 2027. 2 Tr 1252.

The ALJ recommended that the Commission adopt the Attorney General's recommendation to disallow $1.864 million for the EIRP training expenses. PFD, p. 348. The ALJ found that, with an 83% turnover rate, the company failed to prove that increasing the spending on employees who are likely to leave the program is reasonable and prudent. *Id*. The ALJ also reasoned that, even if the turnover rate is not as high as Consumers argues it is, the employees that remain are part of an established program and new hires or transfers are not necessary. *Id*., p. 349. The ALJ found that, even though the disallowance is more than the total proposed increase for the EIRP program, it does not exceed the total requested for the EIRP Labor OM&C training line item. The ALJ found the reduction reasonable because Consumers did not adequately support the total, given the reduction in the number of employees over the last five years. The ALJ concluded by recommending the Commission disallow $2.525 million in O&M expense for the EIRP Training program. *Id*.

In exceptions, Consumers argues that the Commission should reject the recommendation in the PFD for several reasons. Consumers' exceptions, pp. 125-129. First, Consumers points out that the recommendation section of the PFD contains two different disallowance numbers:

$1.864 million and $2.525 million. Consumers contends that the Attorney General argued for a $1.864 million disallowance, not $2.525 million, so if the Commission adopts a disallowance, which the company asserts it should not, the disallowance would be $1.864 million, not the higher amount. *Id*., p. 126.

Second, Consumers argues that the ALJ should not have relied on the Attorney General's testimony that the program is "mature" because the company will always have to train new employees no matter how established the program may be. *Id*., p. 127 (citing 2 Tr 1251). Consumers contends that there is a need to train new hires because employees transfer to other operating departments, new hires will be needed to implement the NGDP, and new hires are needed to implement the EIRP work plan. More specifically, the EIRP work plan calls for increasing miles from 135.0 miles of plastic in 2026 to 167.9 miles of plastic in 2027.

Third, Consumers argues that a high turnover does not equate to a lack of needing to train. Consumers reiterates that there is a turnover rate of 83% since 2020. Consumers argues that it arrived at 83% as follows:

> EIRP Program had a headcount of 495 OM&C employees at the end of 2020. From the end of 2020 to the end of 2025, the program lost 354 employees due to headcount reductions but also needed to hire 231 new OM&C employees to replace some of the 372 OM&C employees that remained after the headcount reductions. Thus, a total of 354 employees left Gas Construction during this time period.

Consumers' exceptions, p. 127 (citing Exhibit AG-59, p. 4). Consumers contends that, although the ALJ assumes that turnover makes training wasteful, "but for a safety-critical construction program it makes training unavoidable." Consumers exceptions, p. 128.

Fourth, Consumers argues that the Attorney General's request for a $1.864 million disallowance is overstated on its face. Consumers' exceptions, p. 128. Consumers proffers that the total EIRP Labor OM&C training the Attorney General challenged is only $1,086,220

($2.933 million test year amount minus $1,846,780 actual 2024 amount). Consumers also argues that the amount exceeds the increase for the EIRP Program as a whole. *Id*. (citing 2 Tr 1252). Consumers contends that the ALJ erred when she based the disallowance on historical numbers and disregarded Consumers' evidence that the amount is based on future projections, not historical costs. Consumers' exceptions, p. 128.

Lastly, Consumers argues that the Attorney General did not provide any evidence of what training is needed to safely execute the EIRP work plan; instead the Attorney General concludes that the program is mature and that fewer employees should require less training. Consumers' exceptions, p. 129. Consumers contends that the Commission should instead consider that newly hired, promoted, and transferred employees will need training before performing this work.

The Attorney General filed exceptions to clarify that the disallowance amount should be $1.864 million, not $2.525 million. Attorney General's exceptions, pp. 50-51.

Consumers filed a reply to the Attorney General's exceptions and flagged that the Attorney General also identified that the ALJ appears to have incorrectly identified the disallowance amount as $2.525 million instead of $1.864 million. Consumers' replies to exceptions, p. 81.

In her reply to exceptions, the Attorney General argues that Consumers provided no calculations to show how the increase in expense for training was determined, other than Consumers' assertion that the increase is due to expansion of the workforce assigned to EIRP work. Attorney General's replies to exceptions, p. 73. The Attorney General contends that historical information shows that the training expense has declined for two years in a row while the company experienced turnover in employees working on the EIRP. The number of employees hired for the program declined to 15 in 2025 and for the prior three years the number hired ranged from 23 to 38 employees. *Id*. (citing Exhibit AG-59; 2 Tr 1992).

The Attorney General maintains that the turnover is not as high as the company suggests and that the EIRP is a mature program where employees should already be knowledgeable without additional training. Attorney General's replies to exceptions, pp. 73-74 (citing 2 Tr 1992). Therefore, the Attorney General recommends the PFD be adopted, with the clarification as to the amount the Attorney General provided in her exceptions. Attorney General's replies to exceptions, pp. 72-75.

The Commission has reviewed the record and the parties' arguments and finds the ALJ's recommendations for the EIRP training program to be well-reasoned and supported by the evidence in the record. PFD, pp. 345-349. The record reflects that there has been a substantial turnover of employees over the last few years. Whether that number is a concerning 83% (like Consumers argues) or a lesser percentage (like the Attorney General argues), Consumers did not support the total increase in spending with fewer employees overall. *See*, Exhibit AG-59, p. 4. Consumers' testimony indicates that the growth in employees is a planned growth that has not been actualized. *See*, 2 Tr 1218. In addition, if there is an 83% turnover as Consumers argues, then it is not reasonable and prudent to increase funding until turnover is reduced and staff numbers actually increase. The Commission acknowledges the importance of training to promote a safe construction program and can review funding for EIRP training in the event Consumers submits evidence in future rate cases that head count growth has been stabilized to determine if an increase to O&M is warranted. Given the evidence on the record, the Commission finds that the Attorney General's reliance on historical data, adjusted for inflation, is warranted. The Commission adopts the ALJ's reasoning that, even though the proposed disallowance is more than the total proposed increase for the EIRP program, it does not exceed the total requested for the EIRP Labor OM&C training line item. PFD, p. 349. Therefore, the Commission directs a

disallowance of $1.864 million for the projected EIRP training expense to be reasonable and prudent. The Commission notes that the ALJ did include in her recommendation paragraph a disallowance of $2.525 million, but no party has argued for that amount and the Commission finds a disallowance of $1.864 million is better supported by the evidentiary record. *Id*.

B. Other Operations and Maintenance Expenses

1. Compression Storage

According to Consumers, Gas Compression units provide the ability for the company to move gas in and out of storage fields. 2 Tr 1200. Consumers testified that its projected O&M expenses were determined by prioritizing reliable operation and compliance with the Michigan Gas Safety Code, evaluating requirements to improve plant condition, and with the overall objective of safe and reliable compression operations. 2 Tr 1202. The costs for O&M vary by station. 2 Tr 1200-1201. Consumers states that the 2024 actual expenses were $17,141,996 and projected test year expenses were $20.463 million, with inflationary impacts incorporated through adjustments to material and labor costs. 2 Tr 1201; Exhibit A-121. The test year funding requested is $2.072 million above the rate of inflation. Consumers attributed the three main drivers of the increase to: (1) top end and gas compressor overhauls at the Ray and White Pigeon compressor stations, (2) gas compression valve replacement project at the Ray Compressor station, and (3) compression unit hourly interval inspections due on all units. 2 Tr 1204.

The Attorney General argued that Consumers was too vague about why it is requesting an increase of $3.321 million. 2 Tr 1994-1995. The Attorney General testified that the compression expense has averaged $18.3 million during the past three years and that Consumers already identified several labor costs increases between 2024 and the projected test year that should already be reflected in the 2026 expense forecast. 2 Tr 1994-1195. Therefore, the Attorney

General testified that the 2026 forecasted O&M expense was a sound base for the projected test year and resulted in a forecast of $17.938 million for the test year when adjusted for inflation. 2 Tr 1994-1995. As such, the Attorney General recommended that the Commission remove $2.525 million from the Compression expense (the difference between her calculation and the company's forecast for the projected test year). 2 Tr 1995.

In rebuttal, Consumers responded to the Attorney General's argument that the company was vague about why it was requesting a $3.2 million increase. Consumers testified that the following explains the changes to the test year:

- Top End and Gas Compressor Overhauls at the Ray and White Pigeon compressor stations of $1,350,550;
- Process gas compression valve replacement project at Ray Compressor station. These are obsolete compressor valves that need to be replaced. The cost of the valves is $240,000;
- Compression unit's (engine/compressor) hourly interval inspections are coming due on the units. All inspections are Original Equipment Manufacturer ("OEM") recommended. Engine side interval inspections are required as part of the unit's renewal operating permits. Additionally, increased emission testing and preventative maintenance on engines and compressor station equipment. This is an incremental increase of $128,766;
- Crews performed local capital program work in 2024 that is not in the test year plan. This contributes $595,074 to the perceived program increase; and
- Salaries for Technicians was removed from this program in mid-2024. This resulted in a $243,390 reduction to the program.

2 Tr 1256. Additionally, Consumers testified that, with less capital work in the test year, the O&M program would realize an increase. Moreover, the company planned to fill two union vacancies with the remainder of the increase due to contractual wage increase and cost of living adjustments for OM&C, and the O&M portion of non-union merits an increase. 2 Tr 1257.

Consumers testified that the Attorney General only applied inflation to the 2026 forecast and did not include the identified expenses unique to the test year. Lastly, Consumers testified that the company no longer required $709,000 to perform overhauls at the White Pigeon compressor station because that work was determined to be a capital expense. Consumers concluded the Commission should reject the Attorney General's disallowance of $2.525 million and recommended the Commission approve test year funding of $19.754 million, reflecting a $709,000 reduction to the company's original request. 2 Tr 1257.

The ALJ recommended that the Commission approve the company's revised Compression O&M request of $19.754 million. The ALJ found that the company's position was persuasive, addressed the Attorney General's concerns about vagueness, and recognized that a backward-looking disallowance would not eliminate the need to perform the staking and locating work reflected in the forecast and that the company had removed the $709,000 for the White Pigeon compressor station from O&M. PFD, p. 358.

The Attorney General filed exceptions to the PFD and argues that, although the ALJ assumes that the company addressed the Attorney General's concerns around vagueness, the Attorney General maintains that the company's explanation for the cost increase was vague. In addition, the Attorney General contends that a backward-looking disallowance would not eliminate the need to perform the staking and locating work reflected in the forecast and the timeframe for the expense is unclear because the company seems to apply the expenses to historical years (e.g., Consumers identifies several labor cost increases between 2024 and the projected test year, which should already be reflected in the company's expense forecast for 2026, which the Attorney General used as a base for projecting expenses for the test year). Lastly, the Attorney General argues that reorganizing costs as capital expenditures does not make them more reasonable. The Attorney

General requests that the Commission adopt the Attorney General's recommendation to remove $2.525 million from the Compression expense. Attorney General's exceptions, pp. 50-51.

Consumers replied to the Attorney General's exceptions. Consumers' replies to exceptions, pp. 78-80. Consumers argues that the Commission should adopt the PFD for several reasons. First, the gas compression program is necessary for "the safe operation, maintenance, and performance of the natural gas-fired engines that provide the pressure necessary to move gas in and out of storage fields." Consumers' replies to exceptions, p. 79 (citing 2 Tr 1200). Second, the cost varies because engines vary in "age, size, type, design, and operating condition, and because storage compression engines operate across a wider range of pressures and flow rates than transmission compression engines." Consumers' replies to exceptions, p. 79 (citing 2 Tr 1200-1201).

Consumers argued that the Commission should reject the Attorney General's argument that the company's request was vague because Consumers provided specific data on why the expense was higher for the test year. Consumers' replies to exceptions, p. 79 (citing 2 Tr 1203-1204, 1257). Consumers also removed the White Pigeon compressor station overhauls from O&M because the work was determined to be capital. Consumers replies to exceptions, p. 79 (citing 2 Tr 1257).

Consumers also contends that the Attorney General's use of the 2026 forecast as a basis for the test year is without merit because this approach does not take into account the specific test year maintenance and cost drivers. Consumers replies to exceptions, p. 80 (citing 2 Tr 1200-1203). Therefore, Consumers requests that the Commission adopt the ALJ's recommendation and approve the revised $19.754 million Compression O&M request. PFD, pp. 357-358.

The Commission has reviewed the record and the parties' arguments and finds the ALJ's recommendation for the O&M expenses for the Compression sub-program to be well-reasoned and supported by the record. PFD, pp. 353-358. The Commission finds that Consumers provided evidence that the amount requested is reasonable and prudent because the Compression stations' needs vary, the work provides for safety, the company provided specifics as to the amount of the increases, there would be less capital work in the test year, and the company planned to fill two union positions. Moreover, the cost to perform overhauls on the White Pigeon compressor station was removed "from [Consumers'] O&M request for this program." 2 Tr 1257. Therefore, the Commission finds that Consumers' revised Compression O&M request of $19.754 million should be approved.

2. Operations and Compliance

a. Advance Methane Detection Operations and Maintenance Expense

Consumers testified that the O&M expenses for the AMD project include license fees and costs associated with performing the surveys and studies with the technology. 2 Tr 1051. Consumers requested $527,508 for the test year. 2 Tr 1054.

The PFD states the following:

> Consistent with [Attorney General witness] Mr. Coppola's proposal to disallow the AMD project and remove the related capital expenditures [2 Tr 1897] this PFD considers whether the O&M costs should be removed. . . . Because this PFD recommends disallowing all capital expenditures associated with the AMD program, it also recommends disallowing the $527,508 in associated O&M expense.

PFD, p. 360.

Both Consumers and the Staff filed exceptions pointing out that the ALJ did not recommend a disallowance of any AMD capital expenditures and thus ask the Commission to decline to adopt

the $527,508 O&M disallowance here. Consumers' exceptions, p. 119 (citing PFD, p. 105); Staff's exceptions, p. 3.

No replies to exceptions were filed.

Therefore, for all of the reasons described on this issue above in the rate base section, the Commission approves the company's projected AMD O&M expense of $527,508.

b. Leak Repair Survey

Consumers testified that, in 2024, the actual O&M expense for the Leak Repair and Survey sub-program was $19,866,696, and for the projected O&M expense for the test year the company is requesting $33.840 million. 2 Tr 1150-1151, Table 22. Consumers stated that the Leak Repair and Survey program includes labor and contractor services for annual mobile and walking leak surveys and classification of leaks on mains, services, and meter stands called in by customers or found during leak survey activity. 2 Tr 1150. The program also includes leak repairs to mains, services, and meter stands, including installation of leak repair fittings and clamps, tightening of fittings and clamps, partial service replacement, and rebuilds of meter installations. 2 Tr 1150. The company testified that the work is done on the company's distribution system and helps to ensure public safety. 2 Tr 1150.

Consumers testified that the total source of the projected expenses for the program include:

- The method and technology of leak survey changed through the implementation of mobile AMD. The leak survey scheduling approach changed by going from an individual asset approach to a Geographic Grid approach. These changes will add efficiencies to program.

- There is an increase in survey units of 637,497 and classification units of 4,992. Leak Survey and Leak Classifications unit increases, and Line Patrols result in an expense increase of $4,025,820.

- The repair units increased by 16,637 units. Increasing the number of units and miles being surveyed results in an increase in the expected number of leaks found during leak

survey. The Company plans to maintain a leak backlog at the lowest achievable level. The increase in the number of repairs contributes $9,796,628 to the program increase.

2 Tr 1151-1152.

Consumers explained that the projected expense for this year increased for several reasons. Consumers stated that some of the increase is due to inflation for material and labor costs. 2 Tr 1151; *see also*, 2 Tr 1153, Table 24 (chart of rates for labor and vehicles). But most of the increase—namely, the $12,526,050 above the rate of inflation—is due to program changes in the scope of the program. 2 Tr 1151; Exhibit A-120, line 7, column (d). Consumers testified that there are three categories of costs that are the main cost drivers for the program test year: (1) methodology/technology/scheduling; (2) an increase in survey units; and (3) and an increase in repairs. 2 Tr 1153-1161.

First, as to methodology/technology/scheduling, the company testified that it is transitioning from walking leak surveys to mobile AMD technology. Consumers also plans to move from an individual asset compliance date approach to a geographic grid approach. 2 Tr 1153-1154. With the geographic grid approach, the company's system is divided into grids. The grid will allow for the company to finish leak surveys in one geographical location before moving onto the next. Consumers testified the geographic grid approach will eliminate the prior scattered individual asset surveys that are completed based on dates and can require the company to return to the same area multiple times a year to complete the surveys. 2 Tr 1154. However, Consumers testified that there will be a three-year transition period where it will continue individual asset compliance survey dates (in order to maintain compliance with state and federal regulations for leak survey requirements) while the company transitions to the geographic grid approach. 2 Tr 1154-1155. Consumers explained that the grid approach benefits customers because it is more efficient, it is conducted in a logical route instead of driving many miles between surveys, it will lower fuel

costs, and it will cause less wear and tear on vehicles. Consumers contended this will lead to lower costs in the future when approach is fully implemented. 2 Tr 1155-1156. Consumers also testified that its customers will benefit from the use of AMD technology because it can detect more leaks and it can cover more distance in less time. 2 Tr 1156.

Second, Consumers testified that another driver of the cost increase is the number of survey units. 2 Tr 1156-1159. Survey units are the number of services/meters that require a survey and are subject to a schedule based on specific requirements in regulations. 2 Tr 1152. Consumers stated that it plans to increase the frequency of its surveys of the entire system from every five years to every three years. 2 Tr 1156-1157. This will impact areas that include residential neighborhoods, rural or suburban zones, and industrial areas not classified as business districts, and open land or undeveloped regions. 2 Tr 1157. Consumers testified that customers will benefit from the increase in survey units because customers will no longer be the first line of defense for detecting hazardous conditions. 2 Tr 1157-1158. Consumers will also be able to detect leaks earlier and prevent the cost and disruption of emergent repairs. 2 Tr 1157-1158. Consumers provided several examples of leaks that were detected early with AMD technology and more frequent surveys in St. Louis, Bay City, and Lake City, Michigan. 2 Tr 1158. Consumers also provided examples of other states that are successfully surveying more frequently including: Nevada, Texas, New York, and Pennsylvania. 2 Tr 1159.

The third reason Consumers testified that it is requesting a rate increase over the rate of inflation is that the company plans to increase the leak repair frequency. 2 Tr 1160-1164. Consumers argued that because it is increasing the leak surveys, the company expects to find additional leaks that need repair. 2 Tr 1160. Consumers also testified that it plans to continue its prior plan to maintain its lowest achievable leak backlog at the end of the 2027 calendar year,

which the Commission already found was a reasonable and prudent expense by the company to support safe and reliable natural gas service. 2 Tr 1162-1163. Consumers testified that customers will benefit from an increase in the amount of leak repairs because it will reduce safety risks and methane emissions. 2 Tr 1163. Prompt repairs prevent larger, more expensive repairs later. Consumers explained that the grid approach also allows for multiple repairs to be bundled at the same time spreading fixed costs over more repairs. In addition, Consumers also stated that increasing leak repairs supports the MI Healthy Climate Plan's goal of reducing greenhouse gas emissions. 2 Tr 1164. Consumers proffered that by implementing these changes there will be a reduction in methane emissions by 2,393 metric tons or 50,253 metric tons of carbon dioxide equivalent emissions. 2 Tr 1164.

The Attorney General objected to Consumers' forecasted amount of $33.840 million and recommended that the Commission approve the expense of $24.053 million for the projected test year and disallow $9.787 million. 2 Tr 1987-1989. The Attorney General arrived at her recommendation by taking the actual O&M spending for 2024 (the highest number of surveys completed since 2021) and adjusted the amount for inflation. 2 Tr 1988-1989.

The Attorney General took issue with Consumers' request because Consumers claimed that the company would have a significant increase in leak survey activity because of AMD technology but that technology has been in use for several years. 2 Tr 1988. The Attorney General also argued there were inconsistencies in Consumers' spending on leak surveys – the actual expenses in 2024 were $19.867 million, in 2025 they increased to $23.047 million, in 2026 the spending forecast shows a dip in spending to $15.350 million, and now the current request is $34.754 million (more than double the prior year). 2 Tr 1987-1988. In addition, the Attorney General argued that Consumers did not present evidence that an increase in surveying "all or most

of the company's facilities annually is advantageous and cost justified versus a two- or three-year cycle with priority ranking of higher risk locations or facilities." 2 Tr 1988.

ABATE also testified that it has several objections to the company's proposed approach to leak surveys. 2 Tr 1660-1661. First, ABATE argued that it disagreed with the timing of the transition and that the new survey system should be synchronized with the timing of the current system to avoid excess cost. Second, ABATE testified that it did not make sense that the company claims to be more efficient and yet projects an increase in the frequency of inspections in an area. 2 Tr 1660. As a result, ABATE recommended a disallowance of $4.026 million for this subprogram as tied to the rise in survey and classification units driven by the transition to AMD and the move to more frequent three-year and annual cycles. 2 Tr 1661. ABATE also recommended the Commission disallow the company's projected $9.797 million in additional repair costs from the more frequent and sensitive surveys, finding this level of spending may not be necessary if the gradual approach to expansion is implemented. ABATE ultimately recommended that the Commission reduce the O&M expense by $12.5 million. 2 Tr 1161.

MEC/CUB testified that they did not oppose the use of the AMD technology but recommended phasing it in at a slower pace. 2 Tr 2158. They also testified that the increase in survey units will not have a comparable increase in benefit to customers and argued that Consumers should use the company's current standards because Consumers' proposed plan is not tied to any regulatory requirement. 2 Tr 2158-2159. MEC/CUB recommended that the Commission should disallow $10.5 million in addition to the inflation adjustment for O&M test year spending, which reflected an amount "about the same as actual 2025 spending." 2 Tr 2159.

Consumers responded to the intervenors' arguments. Consumers testified in response to the Attorney General's recommendation that the company should have a slower and more measured

approach, stating that the company already did a limited deployment to confirm the capability and potential of AMD. Consumers began the process with two units and by 2024, Consumers testified it expanded to cover 60% of the distribution system. 2 Tr 1245-1246. In 2025, Consumers stated that it expanded the fleet to eight units to cover all of the distribution footprint.

Consumers also responded to the Attorney General's confusion that the company would undertake a surge in 2027 when the AMD technology was already in place. 2 Tr 1245 (citing 2 Tr 1988). Consumers argued that possession of the equipment does not mean that the project was quickly seeded and stated that the company has spent time training, revising schedules, creating new models, and enhancing data systems to have the ability to address higher leak detection and repair volumes without creating a backlog. Consumers stated it now has the ability to roll out the project at scale in 2027 with all of that work complete. 2 Tr 1246-1247.

Consumers also responded to the critique regarding the survey schedule by arguing that annual survey frequency is proposed only for higher-risk facilities. Other asset classes remain on longer cycles, including three-year cycles for certain non-business district assets that were previously surveyed on five-year intervals. Consumers asserted that the schedule is a targeted, risk-based adjustment, not a blanket application of annual surveys across the gas distribution system. 2 Tr 1248-1250.

Consumers responded to ABATE by arguing that it cannot uncouple the new grid approach with the current walking strategy. In order to complete the transition, there will necessarily be some overlap. As time goes on, however, there will be less and less overlap. 2 Tr 1238-1240.

Consumers also responded to MEC/CUB's arguments, noting that the benefits of leak surveying and repair are not linear and therefore cannot be evaluated through a generalized theory of diminishing returns. 2 Tr 1240. Consumers testified that gas leak risk is driven not

only by the number of leaks present but by how long leaks remain undetected and whether they escalate over time. Consumers proffered that increased survey activity using improved technology does not simply "find more leaks" in a diminishing fashion; it reveals risk that previously went unidentified and unmanaged. 2 Tr 1241. That improved visibility fundamentally changes the company's understanding of its gas distribution system and the duration of exposure associated with existing practices. 2 Tr 1241.

The ALJ found the company's proposal reasonable and prudent because the plan to address leaks will reduce risk and methane emissions and recommended that the Commission reject the proposed disallowances of the intervenors. PFD, p. 367.

The Attorney General excepts to the PFD for two main reasons. First, the Attorney General argues that the large swings in expense levels from one year to the next casts doubt on the company's expense projections. Attorney General's exceptions, p. 53 (citing Exhibit AG-57). The Attorney General argues that Consumers did not provide evidence that surveying all or most of the company's facilities annually is advantageous and cost effective versus a two- or three-year cycle with priority ranking of higher risk facilities. Attorney General's exceptions, p. 54 (citing Attorney General's initial brief, pp. 143-146). She argues that the Commission should adopt her approach that will allow for a continued slow escalation in leak surveys and asks that the Commission disallow the excess amount of $9.787 million. Attorney General's exceptions, pp. 54-55.

Consumers replied to the Attorney General's exceptions and reiterates its argument that the increase in costs is driven by an increase in the use of AMD, the move to geographic grid scheduling, an increase in survey units, an expected increase in existing leak backlogs, and management of existing leak backlogs. Consumers' replies to exceptions, p. 68 (citing 2 Tr 1153-

1164, 1238-1239). In addition, Consumers argues that surveying frequency is based on asset type, material, and risk profile. Longer inspection intervals increase the risk that leaks will worsen or are discovered only when they become an emergency. Consumers' replies to exceptions, p. 69 (citing 2 Tr 1248-1249). Furthermore, the AMD technology has already discovered potentially dangerous methane emissions that were not scheduled for survey under the existing compliance schedule. Consumers' replies to exceptions, pp. 69-70 (citing 2 Tr 1098, 1158).

ABATE also excepts to the PFD for several reasons. ABATE's exceptions, pp. 11-14. First, ABATE argues that the PFD contains only a conclusory single sentence for analysis and did not address the intervenors' arguments. ABATE contends that the analysis "does not permit the 'comparative review of the reasonableness and prudence of the projections' the Commission requires, and it cannot support a conclusion that Consumers carried its burden." *Id*., p. 12 (quoting the May 8, 2020 order in Case No. U-20561, p. 13). Second, ABATE points out that Consumers claimed that the move to AMD technology would be more efficient but is requesting $4.026 million for the transition to AMD and more frequent surveys–an argument that is counterintuitive. ABATE's exceptions, pp. 12 -13. ABATE argues that Consumers' response that it is moving to expand the technology to the entire system and will incorporate a geographic approach does not demonstrate that recovery is reasonable. *Id*. As a result, ABATE argues that the Commission should not adopt the PFD and instead disallow $12.5 million ($4.026 million in survey costs and a substantial portion of the projected $9.797 million increase in repair costs resulting from the increased rate of surveys). *Id*., p. 14.

Consumers argues that the Commission should reject ABATE's arguments because the record evidence supports that the forecast is grounded in the work that will be performed during the year including the technology transition, the geographic grid scheduling, the increase in survey units,

the expected increase in existing leak backlogs, and management of existing leak backlogs. Consumers' replies to exceptions, p. 62 (citing 2 Tr 1151-1164). Consumers also argues that, although there may be some overlap as the company transitions from the walking surveys to the geographic surveys, some overlap is inherent in order to be able to comply with required survey due dates while transitioning to the more efficient approach. Consumers' replies to exceptions, p. 63 (citing 2 Tr 1153-1154, 1238-1240). Consumers also contends that there is an advantage to surveying more frequently: it reduces "the possibility that leaks will worsen or be discovered only after escalation, including through customer odor calls or emergency events, and that AMD can identify smaller leaks that legacy walking surveys may not detect." Consumers' replies to exceptions, p. 64 (citing 2 Tr 1248-1249). In addition, Consumers reiterates that the frequency of surveys will depend on the asset type, material, and risk material. Higher-risk facilities will be surveyed annually while other facilities will be on longer two- or three-year cycles. Consumers' replies to exceptions, p. 64 (citing 2 Tr 1248). Lastly, Consumers argues that there is value to customers to transition to AMD technology, move to the geographic grid method, and increase the leak surveys because there are safety, operational, and environmental benefits. Consumers' replies to exceptions, pp. 64-65 (citing 2 Tr 1050-1051, 1098, 1158, 1244-1245, 1250).

MEC/CUB except to the PFD on the grounds that the PFD does not satisfy the requirements of the Michigan Administrative Procedures Act (APA). MEC/CUB's exceptions, pp. 10-11. MEC/CUB argue that the PFD must "contain a statement of the reasons therefor and of each issue of fact and law necessary to the proposed decision." *Id*., p. 10 (citing MCL 24.281(2)). MEC/CUB state that the ALJ provided no reasons for finding that Consumers proposed spending was reasonable or why the intervening parties' arguments were rejected. MEC/CUB's exceptions, p. 10. CUB/MEC further argues that there is "competent, substantial, and material evidence on the

record" that supports disallowing a portion of the company's proposed spending–all of the intervenors presented evidence that rebut Consumers' arguments that "any amount of health and safety benefit, no matter how small, is worth the cost, no matter how great." *Id*., pp. 10-11. MEC/CUB argue that Consumers did not address the argument that the number and frequency of surveys does not generate enough benefit to be worth the affordability impacts to customers. *Id*., p. 11. Therefore, MEC/CUB argue that, for all of the reasons they argued previously in this case, the Commission should not adopt the PFD and instead disallow $10.5 million in Leak Repair & Survey O&M spending (or in the alternative, the Commission should adopt a disallowance as recommended by the Attorney General or ABATE). *Id*.

In response, Consumers reiterates that it entered evidence into the record that supports its forecast as discussed above. Consumers' replies to exceptions, p. 66 (citing 2 Tr 1153-1164). Consumers argues that MEC/CUB's affordability arguments do not justify the requested disallowance. Consumers contends that the survey frequency changes are targeted by type and risk profile and prevent the escalation of leaks into emergent situations. This analysis supports the reasonableness of the proposed survey acceleration. Consumers' replies to exceptions, p. 67 (citing 2 Tr 1248-1249.)

The Commission adopts the PFD on this issue, finding the ALJ's recommendation to be supported by the evidence on the record. *See*, PFD, p. 367. The Commission finds that Consumers presented credible evidence that the main drivers of the cost increase for this sub-program are reasonable and prudent. Consumers submitted evidence that the company is forecasting the increase because of its full implementation of AMD technology, the transition to a geographic grid survey approach, an increase in survey units, and an increase in repairs.

2 Tr 1153-1161. The Commission finds Consumers' evidence persuasive that the company has spent the time since acquiring the AMD technology in 2021 preparing to ramp up its use via training, planning, and a limited deployment. 2 Tr 1246. In addition, the company explained that it already did a limited deployment of the technology to confirm the capability and potential of AMD. Consumers began the process with two units. 2 Tr 1245. By 2024, Consumers testified it expanded to cover 60% of the distribution system. 2 Tr 1246. In 2025, Consumers stated it expanded the fleet to eight units to cover all of the distribution footprint. As such, the Commission finds that Consumers effectively rebutted the intervenors' arguments and provided sufficient justification for the current increase in cost.

The Commission also finds that, even though there is an increase in the projected costs while the company transitions from the individual asset survey approach to the geographic grid approach, the company provided evidence that it cannot implement the new approach without some overlap with the old approach. The overlap is to ensure mandated scheduled leak surveys are completed during the transition. 2 Tr 1155-1156. The Commission finds credible Consumers' evidence that, once the geographic grid approach is implemented, the new approach will lower costs because it is more efficient, it will be conducted in a logical route instead of driving many miles between surveys, it will lower fuel costs, repairs can be done in a bundled approach, and it will provide less wear and tear on vehicles. 2 Tr 1155-1156.

The Commission also finds credible Consumers' evidence that it is reasonable and prudent to increase the survey units. The minimum requirements found in the applicable regulations are just that– minimum requirements–and as such should function as a floor and not a ceiling. For example, 49 CFR 192.723 regulates distribution line leak surveys minimum requirements but prefaces the outlining of the minimum requirement with the following: "[t]he type and scope of

the leakage control program must be determined by the nature of the operations and the local conditions[.]" The Commission finds that the evidence supports that Consumers has evaluated the nature of the operations and the local conditions and supported the increase in survey units.

Consumers provided credible evidence that customers will benefit from increased surveys because it will allow the company to find potential leaks before they become larger issues. Consumers also provided examples of other states that implement a similar leak detection schedule. 2 Tr 1159. While intervenors argue that annual surveys are unnecessary, Consumers credibly responded that its annual survey frequency is proposed only for higher-risk facilities. Other asset classes remain on longer cycles, including three-year cycles for certain non-business district assets that were previously surveyed on five-year intervals. Consumers' evidence that the schedule is a targeted, risk-based adjustment, not a blanket application of annual surveys across the gas distribution system is credible and a prudent way of approaching leak detection. 2 Tr 1248-1250. In addition, some of the regulations require a one-year survey schedule that

Consumers is required to follow. *See*, e.g., 49 CFR 192.723(b)(1)[17] and 49 CFR 192.706.[18]

The Commission also finds that customers will benefit from this program because it will increase leak repair. This will assist with leak backlog reductions, will reduce methane emissions and will result in controlled, prompt repairs that should prevent larger, more expensive repairs later. 2 Tr 1162-1163.

Accordingly, the Commission adopts the ALJ's recommendation on this issue and approves the level of spending as proposed by the company.

c. Staking

Consumers explained that its staking and locating program involves the staking and locating of the company's gas distribution facilities in compliance with the MISS DIG 811 Underground Facility Damage Prevention and Safety Act (MISS DIG) requirements. According to Consumers, the work and costs for this program is typically performed on a shared contractor model by

---

[17] 49 CFR 197.723(b)(1) governs leak surveys for distribution systems and states:

> A leakage survey with leak detector equipment must be conducted in business districts, including tests of the atmosphere in gas, electric, telephone, sewer, and water system manholes, at cracks in pavement and sidewalks, and at other locations providing an opportunity for finding gas leaks, at intervals not exceeding 15 months, but at least once each calendar year.

[18] 49 CFR 197.706 governs leak surveys for transmission lines and states:

> Leakage surveys of a transmission line must be conducted at intervals not exceeding 15 months, but at least once each calendar year. However, in the case of a transmission line which transports gas in conformity with § 192.625 without an odor or odorant, leakage surveys using leak detector equipment must be conducted—
>
> (a) In Class 3 locations, at intervals not exceeding 7 1⁄2 months, but at least twice each calendar year; and
>
> (b) In Class 4 locations, at intervals not exceeding 4 1⁄2 months, but at least four times each calendar year.

third-party contractors that provide work for other utilities in addition to the company, there is also company labor that acts as stand-in support, and that there are statutory fees for the MISS DIG system. 2 Tr 1167-1168. For the test year, Consumers projected O&M expense totaling approximately $26.804 million. 2 Tr 1168-1169.

Consumers outlined the components of the test year expense increase, explaining that the total expense amount includes dedicated contractor staking and locating predicted to cost $23,794,765; company labor of $2,136,095; and licenses, permits, and fees of $872,772. 2 Tr 1168, Table 29. Consumers stated that the test year request includes $10,262,976 above the general rate of inflation. 2 Tr 1168. Consumers testified that the main drivers of the increase are: $2,603,004 of the increase is based on an anticipated 91,835 increase in contractor ticket volume; $736,444 is due to increased labor rates and increased hours/units; $306,701 stems from increased MISS DIG 811 membership fees; and $7,739,623 is based on expansion of the Dedicated Staking model to all of the company's gas service territory in 2025, coupled with contractor rate increases. 2 Tr 1169.

Consumers added that spending on the program is primarily driven by staking request volumes (units) and the cost of staking contractors. 2 Tr 1170. The company stated that it anticipated a 7% volume increase for units for the test year, relative to 2025, which Consumers asserted was in alignment with the trend of historical data and staking forecasts for the state. 2 Tr 1170-1171, Table 31. Consumers also contended that MISS DIG data shows a continued growth of staking and locating tickets for the entire state of Michigan. 2 Tr 1171, Table 32. Consumers contended that increased fiber optic installation and other infrastructure work would increase staking requests so that the actual staking demand the company experiences in the future may exceed forecasted requests. Specifically, grant programs to increase broadband infrastructure like Realizing Opportunities with Broadband Infrastructure Networks (ROBIN) and the Broadband Equity,

Access, and Deployment Program (BEAD) are expected to have completion dates in 2026 and approximately 2029. 2 Tr 1172.

Consumers also testified about the implementation of the company's Dedicated Contractor staking strategy. The strategy began in a limited portion of the company's gas service territory with the goal of improving timeliness and accuracy of staking for public safety, and the program was adopted for the entire gas service territory based on it costing less when compared to shared contractor resources, along with other benefits. 2 Tr 1174-1175.

The Staff testified it did not object to Consumers' $43.03 per unit forecasted cost for 2026 and $44.70 per unit cost forecasted for 2027. But the Staff did take issue with the company's forecast of 504,868 tickets for 2026 and 540,207 for 2027. 2 Tr 2432-2433. The Staff argued that the actual staking ticket volume for 2025 was lower than the company projected, but Consumers still projected its 7% year-over-year ticket volume growth based on the projected number, which was based on projected statewide staking growth, not company growth. 2 Tr 2433. As a result, the Staff provided a new projected growth rate of 4.3% for 2026 and 2027 based on actual three-year growth at Consumers specifically. The Staff supported a staking volume of 481,564 for 2026 and 502,265 for 2027. This reduced staking volume resulted in a downward adjustment of $1,580,478 for 2027, with the Staff supporting total Staking and Locating O&M of $25,223,154 for 2027. 2 Tr 2433-2424; Exhibit S-10.1.

MEC/CUB argued for a disallowance of the forecasted costs. MEC/CUB averred that Consumers' projection is based on a projection for 2025 of 471,839 units, where there were only 461,717 actual staking requests in 2025. 2 Tr 2160. MEC/CUB recommended a staking unit count of 483,209 for 2027 from a linear extrapolation of historical internal and contractor staking unit counts from 2020 to 2025. 2 Tr 2160-2161. MEC/CUB also argued that the increase in unit

cost was likely based on the new Dedicated Contractor model approved in Case No. U-21806 and recommended limiting recovery because the costs were not reasonable or prudent and asked for scrutiny of costs where customers were not receiving better services. 2 Tr 2161-2162. MEC/CUB asked for a specific BCA of the dedicated contractor staking model regarding timeliness and costs avoided by averting damaged tickets. 2 Tr 2161-2162. Ultimately, MEC/CUB recommended a disallowance of $3.717 million for staking and locating, recommending approval of only $23.087 million in staking expenses. MEC/CUB's recommendation is based on a linear forecast of a staking volume of 483,209 tickets for 2027, adjusting the $22.3 million in 2025 actual expenses for 467,146 tickets for PAI, then multiplying by the ticket volume, then subtracting the projected $23.087 million expense from Consumers' forecasted $26.804 million for the test year. 2 Tr 1163.

ABATE recommended a disallowance of $10,342,627 in spending increases for the dedicated contractor model, arguing that the use of third-party contractors introduces substantial operational risks. 2 Tr 1664. ABATE referenced the volume of staking demand stemming from the company's internal projects, which ABATE recommended be reduced. ABATE advocated that ratepayers be protected from the costs of the dedicated contractor model until the company demonstrates the model's safety and efficiency. 2 Tr 1664.

In rebuttal, the Attorney General supported the Staff's recommended reduction of $1,580,478 for staking and locating for the projected test year. 2 Tr 2031-2033.

In rebuttal, Consumers also agreed with the Staff's reduced ticketing forecast and the proposed expense reduction, so long as the deferred accounting mechanism is approved to accommodate fluctuations in staking growth. 2 Tr 1229. Consumers also testified that the company's internal projects are capital projects charged to the appropriate capital costs and a

reduction in the scope of those programs would have no effect on staking and locating O&M expenses. 2 Tr 1233. Consumers also presented the evidence from Case No. U-21806 and supplemented it to discuss the benefits of the dedicated contractor model. 2 Tr 1231-1232.

The ALJ declined to recommend MEC/CUB and ABATE's disallowances because she found the arguments largely based on Consumers' change to the dedicated contractor model, which the Commission already found reasonable and prudent in Case No. U-21806. PFD, pp. 381-382. The ALJ also declined to implement MEC/CUB's disallowance because the evidence relied on was from expired contract rates that will not return and was based on in-house staking that is not properly included in distribution pipeline O&M expense. *Id*. The ALJ noted that the recommendation to apply a PAI factor was addressed in the inflation section. *Id*., p. 383. The ALJ also declined to recommend a BCA regarding the dedicated contract model because staking and locating is not a voluntary program–it is statutorily required, and the specific model has already been approved by the Commission. The ALJ noted that any future shortfalls of the system will be discoverable and analyzed in future rate cases, and the ALJ recommended that meetings with the Staff regarding efficacy and implementation of the staking and locating program be required to continue. *Id*. The ALJ ultimately recommended an application of the staking volume growth rate of 4.3% and the Staff's recommendation of a $1,580,478 disallowance, because the evidence was compelling, even without the company's acquiescence. The ALJ found that the Staff based both its growth rate and recommended disallowance on a three-year historical average that includes actual 2025 staking volumes. The ALJ stated that the "recommendations are mathematically sound and incorporate the most recent numbers available that are specific to Consumers." PFD, pp. 384-385.

ABATE excepts to the ALJ's recommendation to decline to adopt ABATE's and MEC/CUB's disallowances that are based on Consumers' change to the dedicated contractor staking model. ABATE's exceptions, pp. 14-16. ABATE argues that the ALJ erred because Consumers' use of a dedicated contractor model was not the sole basis of the recommended disallowance, and the ALJ did not adequately address the reasonableness of the forecast increase. *Id*., p. 14.

ABATE also excepts to the ALJ's finding that ABATE implied "without evidence that it would be cheaper for the company to do its own staking." *Id*. (citing PFD, p. 381). ABATE excepts to the ALJ's finding because it mistakes the burden in this case, and the statement ignores historical data when expense projections are unsupported (like in the instant issue). Here, ABATE argues that Consumers' cost projections are not supported and should not be approved because the costs for the program are driven by external infrastructure that Consumers cannot control. Moreover, ABATE argues that Consumers has not demonstrated that the costs are reasonable and prudent given the company's failure to provide an analysis comparing the staking and locating accuracy for contracted employees as opposed to internal employees. ABATE's exceptions, pp. 14-15.

ABATE also excepts to the ALJ's application of the finding from Case No. U-21806 because the evidence presented in that case is not evidence in this case and therefore is not an appropriate basis for the Commission to make a decision here. ABATE argues that the ALJ improperly relied on the prior case instead of the evidence in this case to determine if the costs associated with staking and locating are reasonable and prudent. *Id*., p. 15.

Lastly, ABATE excepts to the ALJ's recommendation because it argues that Consumers' dedicated contractor approach entails significant operational risks which can increase costs beyond a reasonable level. *Id*., p. 16 (citing ABATE's initial brief, pp. 50-52.) Consumers' staking

volume is driven by external requests for which Consumers has no control. *Id*. Therefore, ABATE requests that the Commission disallow cost recovery of $10,342,627 in projected spending increases associated with the expansion of the dedicated contractor model and the projected surge in ticket volumes. *Id*. ABATE notes that this amount is directed at the projected increase of third-party contractor costs and ABATE's recommendation is also incremental to the $1,580,478 disallowance the ALJ has already recommended; the additional relief ABATE seeks is therefore approximately $8.76 million. *Id*., n. 1.

Consumers replies that it provided evidence in the record of all the cost drivers in the forecast including: MISS DIG ticket volumes, including excavation and infrastructure work initiated by third parties; fiber optic deployment associated with ROBIN and BEAD; and other third-party infrastructure work, which is all expected to increase uncertainty in staking volumes during the test year. Consumers' replies to exceptions, p. 71 (citing 2 Tr 1164-1172). Consumers also responds to ABATE's argument that the company's dedicated contractor approach entails operational risks that could increase costs beyond a reasonable level by proffering that ABATE ignores the "benefits to overall accuracy, timeliness, and excavator communications on projects since implementation in February 2023." Consumers' replies to exceptions, p. 71. Consumers points to evidence and data about how the Dedicated Contractor model provided improvements as follows:

> In 2023, with the Dedicated Contractor resource model in place, two-thirds of Oakland County (compared to the Shared Contractor resources model in 2022) yielded the following results:
>
> • Accuracy related to at-fault damage reduction improved by 87.3%.
>
> • Field timeliness for the Dedicated Contractor model averaged 98.7% compared to 97.3% for the Shared Contractor resource model in 2023.

For 2024, year-to-date month ending September, the Dedicated Contractor model in place for Oakland and Kent Counties compared to the Shared Contractor resources model yielded the following results:

- Accuracy related to at-fault damage reduction improved by 78.6% from 2022.

- Field timeliness for the Dedicated Contractor model averaged 99.5% (including 24 hour re-transmits) compared to 95.2% for the Shared Contractor resource model in 2024.

For 2024 year-end, the Dedicated Contractor model in place for Oakland and Kent Counties, compared to the Shared Contractor resources model, yielded the following results:

- Accuracy related to at-fault damage reduction was 0.17 damages per 1000 tickets for the Dedicated Contractor and 0.51 Damages per 1000 tickets for the shared model contractor.

- Field timeliness for the Dedicated Contractor model averaged 99.7% (including 24 hour re-transmits) compared to 95.1% for the Shared Contractor resource model in 2024 (not including 24 hour re-transmits).

For 2025 year-end, the Dedicated Contractor model in place with full statewide roll out yielded the following results:

- Accuracy related to at-fault damage reduction was 0.35 damages per 1000 tickets.

- Field timeliness for the Dedicated Contractor model averaged 96.0% (including 24 hour re-transmits).

Consumers' replies to exceptions, pp. 71-72 (citing 2 Tr 1230-1232).

Consumers also replies to ABATE's argument that program costs are not reasonable because they are primarily driven by external infrastructure projects outside of Consumers' control. Consumers argues that ABATE's argument actually supports the company's forecast since the staking and locating work is driven by locate-ticket volume and Consumers must respond to protect its gas facilities, satisfy its operational obligations, and comply with MISS DIG requirements. Consumers' replies to exceptions, pp. 72-73 (citing 2 Tr 1164-1172).

MEC/CUB also excepts to the PFD. MEC/CUB's exceptions, pp. 11-13. MEC/CUB reiterates their argument that Consumers' forecasted increase in staking volume growth is unsupported by recent data and was driven by the expansion of the dedicated contractor staking model. *Id*., p. 12 (citing 2 Tr 2160). MEC/CUB also state that they do not seek to relitigate whether the Commission should have approved the dedicated contractor model in Case No. U-21806, nor is MEC/CUB asking to return to contract rates that expired; rather, they are requesting that the Commission require "an updated cost-benefit analysis with current data so that the Commission may assess the cost-effectiveness of the dedicated contractor model going forward." MEC/CUB's exceptions, pp. 12-13. MEC/CUB argues that gains in safety and reliability need to be balanced against their costs–and here, since 2024, Consumers has only a 1% improvement in timeliness and difference of 0.16 damages per 1,000 tickets. MEC/CUB's exceptions, p. 13 (citing 2 Tr 1231-1232). MEC/CUB argues these numbers do not support a 74% program spending increase. MEC/CUB requests the Commission adopt the recommendation to direct Consumers to conduct a BCA of the dedicated contractor model and adopt their recommended disallowance. MEC/CUB's exceptions, p. 13.

In response, Consumers argues that the ALJ correctly declined to recommend a BCA of the dedicated contractor model because the record shows that the sub-program supports MISS DIG compliance and gas distribution pipeline staking and locating for public and employee safety. Consumers' replies to exceptions, p. 75 (citing 2 Tr 1167). Consumers also argues that the data shows there is improved staking accuracy and timeliness and references the data above used to respond to ABATE's arguments. Consumers' replies to exceptions, p. 75 (citing 2 Tr 1230-1232). Consumers also argues that monthly Staff performance reviews already address staking timeliness and accuracy and that monetizing public-safety outcomes, including injuries or fatalities, is not

appropriate. Consumers' replies to exceptions, p. 75 (citing 2 Tr 1232, 1235). Consumers again reiterates that cost drivers in the forecast include; MISS DIG ticket volumes, including excavation and infrastructure work initiated by third parties; fiber optic deployment associated with ROBIN and BEAD; and other third-party infrastructure work, which is all expected to increase uncertainty in staking volumes during the test year. Consumers' replies to exceptions, p. 75 (citing 2 Tr 1168-1172).

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. PFD, pp. 381-384. The Commission adopts the ALJ's recommendation and approves the company's projected test year O&M expense with the Staff's disallowance of $1,580,478. PFD, p. 384. The Commission finds persuasive the company's explanations about the drivers of costs. 2 Tr 1164-1172. The Commission also finds persuasive the Staff's recommended staking volume growth rate of 4.3% since it is based on a three-year historical growth pattern, including historical staking volumes from 2025. 2 Tr 2432-2433. The Commission also directs Consumers to continue to meet with Staff regarding efficacy and implementation of the staking and location programs. PFD, pp. 383-384.

d. Staking and Locating Regulatory Deferral Mechanism

In Case No. U-21806, the Commission approved Consumers' request for a deferred accounting mechanism for the staking and locating program because the ROBIN and BEAD grant programs for high-speed internet infrastructure may cause unanticipated fluctuation in staking volumes. September 30 order, pp. 211-212. The Commission also directed that the deferral mechanism would not be open ended but would rather be tied to fluctuations in ticket volume variability, resulting in a regulatory deferral mechanism that would recover up to the base unit

ticket volume with a refund to customers if the projected ticket volume was not met for the test year and the capped recovery. *Id*., p. 212.

Consumers testified that it was requesting that the deferral mechanism continue because of the variability of the ROBIN and BEAD programs.[19] As noted above in the prior section, Consumers stated that it is projecting a 2027 calendar year base unit ticket volume of 540,207, with an average unit cost of $44.70. 2 Tr 1172-1173. As a result, Consumers proposed a refund or recovery equation for 2027 to be: Refund (-) / Recover (+) = (2027 actual staking volume - 540,207) x $44.70. The company proposed no refund or recovery due to the uncertainty in staking volumes, largely attributed to the variability of the BEAD rural broadband program. 2 Tr 1173.

The Staff objected to Consumers' staking volume and testified that it should be 502,265 in ticket volume, as discussed in the prior section. The Staff testified the resulting equation should be: Refund (-) / Recover (+) = (2027 actual staking volume - 502,265) x $44.70. 2 Tr 2435. The Staff testified that it supported Consumers' request for no limit to the refund/recovery amount with the Staff's modified equation. 2 Tr 2435.

The Attorney General objected to the use of the deferral mechanism and argued that Consumers had not justified the growth rate and that it will disadvantage customers. 2 Tr 2020-2033.

The ALJ recommended approving Consumers' request to continue to extend the deferral mechanism through 2027 subject to the Staff's adjusted equation. PFD, p. 388. The ALJ reasoned that, since ROBIN projects are expected to be complete by the end of 2026 and the BEAD program subgrantees have four years to complete their projects, late 2026 and 2027 is the period

[19] ROBIN projects are anticipated to be complete by the end of 2026, and BEAD subgrantees have four years to complete their infrastructure projects and begin delivering service, with most of the subgrantees to have been chosen by the end of 2025. 2 Tr 1172.

when "staking volume is likely to hit its zenith." *Id*., p. 389. Taking the Attorney General's concerns regarding use of deferral mechanisms being appropriate only in the face of actual expense volatility, the ALJ recommended that, without more information to support Consumers' volume volatility in the future, the deferral mechanism should end by 2028 when BEAD projects are likely to have already commenced and ROBIN projects will have reached completion. *Id*., p. 390. The ALJ also recommended that the Staff's volume equation be adopted since it was based on actual volumes from 2025. The ALJ found that the Attorney General's argument that the deferral mechanism should not be approved because there is not enough evidence of volume volatility "does not address the potential problem of a rate shock if the volumes suddenly spike due to BEAD or ROBIN." *Id*.

The Attorney General excepts to the ALJ's recommendation for several reasons. First, the Attorney General argues that the ALJ erred in her decision because Consumers has argued for several years that broadband expansion could result in unanticipated fluctuations, but those fluctuations have not materialized. Attorney General's exceptions, p. 56. "Second, [the Attorney General argues that] the proposed deferral mechanism is a solution looking for a problem." *Id*. The Attorney General argues that there is no evidence that staking requests have been unpredictable or that there has been a significant variation in expense–which is the main reason Consumers argues in support of the deferral mechanism. *Id*., pp. 56-57. The Attorney General next argues that, given the rate at which Consumers files rate cases, there is no regulatory lag between the company incurring costs and being able to seek recovery as part of a rate case, thus negating the need for the deferral mechanism. *Id*., p. 57. Lastly, the Attorney General argues that the Staff's proposed equation makes things worse for ratepayers because projecting a lower

number of staking requests only makes sense when determining capital expenditures, and the regulatory deferral mechanism makes it so that ratepayers will have to pay more. *Id*.

Consumers first responds to the Attorney General's argument that the evidence shows the work has not fluctuated enough to warrant deferral mechanisms. Consumers argues that the uncertainty regarding this work is forward-looking and tied to future staking volumes, and looking at historical trends is not appropriate. Consumers argues that the future uncertainty is tied to MISS DIG ticket volumes, including excavation and infrastructure work initiated by third parties; fiber optic deployment associated with ROBIN and BEAD; and other third-party infrastructure work. Consumers claims that all of this work is expected to increase uncertainty in staking volumes during the test year. Consumers' replies to exceptions, p. 77 (citing 2 Tr 1164-1172). Consumers also argues that it relied on data from the State of Michigan's Department of Labor and Economic Opportunity's website, which showed that, as of 2023, close to 500,000 households were unserved or underserved by high-speed internet infrastructure and that the company thus anticipated it would need to fill those needs. Consumers' replies to exceptions, p. 77 (citing 2 Tr 1172).

Consumers also replied to the Attorney General's argument that a deferral mechanism is not needed by the company because it files annual rate cases. Consumers argues that the deferral mechanism is not designed to recover ordinary, predictable staking and locating costs. Rather, Consumers claims that it is designed to "true up material volume-driven costs arising during the test year from third-party excavation and broadband-related activity outside the Company's control." Consumers' replies to exceptions, p. 78. Consumers contends that, if the company files another rate case at a later date, it will not address the mismatch that can occur when actual MISS

DIG ticket volumes materially exceed the level reflected in rates during the period Consumers performs the work. *Id*.

Consumers also replied to the Attorney General's argument that the Staff's revised formula makes the mechanism unreasonable. Consumers states that, the "Staff's use of updated 2025 actual staking volumes to set the threshold calibrates the mechanism to more current record evidence, and recovery remains limited to costs tied to actual volumes above the approved threshold." *Id*. Therefore, Consumers argues that the Staff's formula is reasonable. Consumers requests that the Commission adopt the recommendation of the ALJ to continue the deferral mechanism but with the Staff's revised formula. *Id*., pp. 76-78.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. PFD, pp. 388-390. The Commission adopts the ALJ's recommendation and approves Consumers' request to continue to extend the deferral mechanism, through the end of 2027 subject to the Staff's adjusted equation. The Commission finds persuasive the company's explanations about the staking volatility due to the BEAD and ROBIN grant programs. 2 Tr 1164-1172. The Commission, however, cautions Consumers that, without more information to support the company's concerns regarding staking volume volatility in the future, the deferral mechanism will conclude by the end of 2027 when BEAD projects are likely to have already commenced and ROBIN projects will have reached completion. PFD, p. 389.

e. Regulatory Compliance Operations and Maintenance Maximum Allowable Operating Pressure Transmission

Consumers noted that while costs varied every year, it was projecting $2.654 million in MAOP Transmission O&M expense "to comply with regulations and improve system safety." 2 Tr 1441; Consumers' initial brief, p. 270 (citing Exhibit A-72, 2 Tr 1439-1440). MEC/CUB suggested that the Commission apply the PAI factor which would result in a disallowance of

$77,825. MEC/CUB's revised initial brief, p. 77 (citing 2 Tr 2169). MEC/CUB also argued that "inflation must be embedded in [the company's] assumptions about the cost of the planned work" as most of the "spending is attributed to contractor costs, which undoubtedly reflect inflation." MEC/CUB's revised initial brief, p. 77.

In rebuttal, Consumers argued that MEC/CUB's use of a PAI factor is inappropriate and that "the costs in this program are not projected using inflation." Consumers' initial brief, pp. 270-271. Meanwhile, MEC/CUB rebutted Consumers, stating that regardless of whether the company "uses an explicit inflation factor . . . inflation must be embedded in its assumptions about the cost of planned work." MEC/CUB's revised initial brief, p. 77.

The ALJ rejected MEC/CUB's inflation-based disallowance, stating that "[w]ith inflation being the only reason for the recommended disallowance, this [ALJ] rejects the disallowance . . . in the amount of $77,825." PFD, pp. 391-392.

No party filed exceptions on this issue.

After review of the record and arguments of the parties, and in light of the fact that no exceptions were filed, the Commission finds the ALJ's recommendation to be well-reasoned and supported by the record and adopts the ALJ's findings and conclusions with respect to Consumers' MAOP Transmission O&M expense. *See*, PFD, pp. 391-392.

f. Regulatory Compliance Operation and Maintenance – Corrosion Control – Transmission

Consumers stated that its corrosion control O&M expense takes on special projects, such as large atmospheric painting projects, that are usually identified in yearly surveys, with the projected expense based on historical averages in an amount of $2.261 million for the test year. Consumers' initial brief, p. 271 (citing 2 Tr 1434; Exhibit A-72). MEC/CUB argued that the company had requested a 93% increase over the 2024 actual spend without establishing the need for such a large

increase. MEC/CUB's revised initial brief, p. 75 (quoting 2 Tr 2166). MEC/CUB further argued that if Consumers "wishes to increase the baseline level of activity in this subprogram going forward, it should either present evidence that it is not satisfying regulatory obligations or that increased maintenance costs will have positive net present value[,]" otherwise, MEC/CUB suggested a disallowance of $562,000. 2 Tr 2166; *see also*, MEC/CUB's revised initial brief, pp. 75-76.

Consumers rebutted MEC/CUB's assertion that expenses should remain at the company's 2025 actual expense as such are "'routine maintenance[,]'" arguing instead that this expense represents additional work which "will not only allow the Company to continue to meet the regulatory obligations for corrosion control but also will ensure and enhance the safety of its natural gas delivery systems and reduce the number of repeat visits." Consumers' initial brief, p. 271 (quoting 2 Tr 1434; citing 2 Tr 1435).

The ALJ found that Consumers demonstrated "that the proposed expense for the test year is based on necessary and reasonable pre-planned projects" and as such, recommended rejecting MEC/CUB's proposed $562,000 disallowance. PFD, p. 394.

No party filed exceptions on this issue.

After review of the record and arguments of the parties, and in light of the fact that no exceptions were filed, the Commission finds the ALJ's recommendation to be well-reasoned and supported by the record and adopts the ALJ's findings and conclusions with respect to Consumers' corrosion control O&M expense. *See*, PFD, p. 394.

g. Regulatory Compliance Operation and Maintenance – Pipeline Integrity – Transmission

Consumers projected $26.351 million to fund "inspection, remediation, and related integrity-management work required to maintain compliance with federal and state pipeline safety

requirements and to support safe and reliable operation of the transmission system." Consumers' initial brief, p. 272 (citing 2 Tr 1428). Consumers stated that this expense "also includes the performance of bending strain analyses and pipeline movement studies" along with "running Electro Magnetic Acoustic Transducer ('EMAT') tools on pipelines" which has allowed the company to detect and remediate various anomalies. 2 Tr 1429.

Using the most recent historical expense for years 2023-2025, the Attorney General posited a $7.907 million disallowance as Consumers inspected only half the number of pipeline miles in 2025 compared to 2024. Attorney General's initial brief, pp. 151-152. MEC/CUB noted that Consumers was requesting a 43% increase over its 2024 actual expense, and thus, MEC/CUB suggested a "'modest increase' of 10% from 2025 to the test year . . . including a PAI adjustment, resulting in a recommended disallowance of $9,742,100." MEC/CUB's revised initial brief, p. 76 (quoting 2 Tr 2168-2169).

In rebuttal, Consumers argued against the Attorney General's recommended disallowance, stating that the company "explained that the Attorney General's average-mileage and average-cost methodology does not reflect how the Company develops its forecast." Consumers' initial brief, p. 273. Consumers also argued that MEC/CUB's adjustment did not reflect "how the work in this program is planned" because costs vary yearly and "[t]he cost increase is commensurate with increasing costs for EMAT tool runs, which have nearly tripled, and required pipeline cleaning costs." Consumers' initial brief, pp. 272-273 (citing 2 Tr 1409, 1430).

In rebuttal, MEC/CUB asserted that Consumers did not refute MEC/CUB's position that the company "has consistently over-projected and under-spent in this program." MEC/CUB's revised initial brief, p. 76.

The ALJ noted that Consumers "does not dispute the significant variance in historic[al] actual versus projected expenses . . . which resulted in an over-recovery of approximately $11,800,000." PFD, p. 399. As such, the ALJ found that the Attorney General's proposed three-year average of actual expenses "is a reasonable and prudent measure of future performance and will offset any cost differences in the applicable contracts given the large over-recovery in prior years" and suggested adoption of the Attorney General's $7.907 million disallowance. *Id*., p. 400. However, the ALJ rejected MEC/CUB's recommended disallowance, finding MEC/CUB's proposed 10% increase in 2025 actual expenses to be "seemingly arbitrary." *Id*.

In its exceptions, Consumers asserts that the ALJ ignored the record the company established because while the company's O&M "expenses were lower than projected, its 2024 and 2025 Pipeline Integrity Transmission capital expenditures were higher." Consumers' exceptions, p. 130. Instead, Consumers avers, "the actual number of capital and O&M remediation digs will vary based on the condition of the pipe. The fact some remediation digs resulted in capital work as opposed to O&M is not a reasonable basis" for the ALJ to "adopt a three-year average of actual [expenses]." *Id*., pp. 130-131 (citing PFD, p. 400). Consumers again reminds the Commission that the company's expenses are partially based "on annual inspection mileage driven by HCA [high consequence area] compliance dates and specific segments scheduled for inspection within the Company's six-year cycle, not by a fixed annual mileage target" with assessment costs "based on the contract costs of the specific inspection tools required for the asset and threat presented" and remediation costs "forecasted by analyzing prior inspection results for the particular asset to estimate the likely number of digs required after the inspection is completed and the results are reviewed." Consumers' exceptions, p. 131 (citing 2 Tr 1407-1408). Thus, Consumers concludes,

"[t]his variation would not be reflected in a three-year average" and as such, the Commission should reject the ALJ's recommendation. Consumers' exceptions, p. 131.

In her replies, the Attorney General argues that the company admitted "that the number of capital vs O&M remediation digs will vary which will continue to result in overestimates of O&M expense," whereas her proposed three-year average "smooths out high and low expenses and can alleviate that tendency." Attorney General's replies to exceptions, p. 77. Furthermore, the Attorney General asserts that her three-year average "can also take into consideration variations in projects that are determined after inspections." *Id*.

The Commission finds the ALJ's recommendation to be well-reasoned based on the evidence on the record and therefore, adopts the Attorney General's proposed $7.907 million disallowance. *See*, PFD, pp. 399-400. While the Commission does not find fault in the content of Consumers' plans, the underspend in recent years shows an inability of Consumers to execute those plans at the level of spending the company has projected. As noted by the ALJ, an overrecovery of the magnitude seen as a result of the discrepancy between the actual and projected expenses in this category is "an unreasonable burden on customers and calls into question Consumers['] forecast for the projected test year." PFD, p. 400. The Commission agrees.

h. Regulatory Compliance Operations and Maintenance – Pipeline Integrity – Transmission Operated by Distribution

Consumers projected $913,000 in TOD program O&M expenses, which it stated "fund[s] assessments and remediation work on TOD pipe segments that are subject to transmission safety regulations." Consumers' initial brief, p. 274 (citing 2 Tr 1431). Consumers asserted that "these O&M expenses reflect a targeted, compliance-driven, and risk-reduction program for TOD assets." Consumers' initial brief, p. 275. Meanwhile, MEC/CUB "recommended applying a PAI

adjustment resulting in a recommended disallowance of $23,217." MEC/CUB's revised initial brief, p. 77 (citing 2 Tr 1431).

In rebuttal, Consumers asserted that MEC/CUB used an incorrect methodology because the company's O&M expenses vary yearly, "and the costs within these programs are based on proposed assessment schedules and historical cost estimates" whereas MEC/CUB's adjustment is "arbitrary." Consumers' initial brief, p. 275 (citing 2 Tr 1409).

In rebuttal, MEC/CUB asserted that regardless of whether Consumers "uses an explicit inflation factor . . . inflation must be embedded in the cost of the planned work" and thus, the Commission should adopt its disallowance. MEC/CUB's revised initial brief, p. 77.

The ALJ stated that as inflation was "the only reason for [MEC's] recommended disallowance," she suggested that MEC/CUB's $23,217 disallowance be rejected. PFD, p. 402. The ALJ further found that MEC/CUB "produced no evidence to support [their] claim that inflation is embedded in the projection costs" whereas Consumers "contends that it has not projected costs for this program using inflation factors." *Id*.

No party filed exceptions on this issue.

After review of the record and arguments of the parties, and in light of the fact that no exceptions were filed, the Commission finds the ALJ's recommendation to be well-reasoned and supported by the record and adopts the ALJ's findings and conclusions with respect to Consumers' Pipeline Integrity – TOD O&M expense. *See*, *id*.

3. Meter Technology and Management System, Including the Smart Meter Pilot

Consumers ultimately projected $3.668 million[20] in O&M expense for its Meter Tech and Management System subprogram in the test year, including O&M expenses for the company's proposed smart meter pilot. Consumers' initial brief, pp. 260-261 (citing Exhibit A-117, line 14; Exhibit A-160, line 6; 2 Tr 1190-1191). The Attorney General disagreed with the company's projection as she instead "used the 2025 actual expense of $3,073,557," adjusting for inflation which produced an "amount [that] is $645,000 lower than the Company's forecast of $3,853,000." Attorney General's initial brief, pp. 141-142 (citing 2 Tr 1990). Additionally, the Attorney General recommended completely rejecting the Smart Meter Pilot program. *See*, 2 Tr 1990.

The ALJ found that "Consumers did not adequately support its projections for this [Meter Tech and Management System subprogram] expense and finds the Attorney General's arguments to be persuasive." PFD, p. 405. The ALJ noted that Consumers' projected expenses were "more than double the actual expenditure in the historical test year" for gas meter correctors and that such a significant increase was neither reasonable nor prudent. *Id*., pp. 405-406. Thus, the ALJ recommended adopting the Attorney General's $645,000 disallowance; however, consistent with her capital expenditure recommendation above, the ALJ recommended approving Consumers' requested O&M expenses for the Smart Meter Pilot. *See*, *id*., p. 406; *see also*, *id*., p. 102.

In its exceptions, Consumers argues that the Commission should reject the ALJ's recommendation because the company's expense has more than doubled "from 2024 to the projected test year." Consumers' exceptions, p. 123 (citing 2 Tr 1255). Consumers asserts that just because:

[20] Initially, on page 260 of its initial brief, Consumers requested $3.853 million in O&M expense for its Meter Tech and Management System subprogram, but it revised this amount in rebuttal, as shown in 2 Tr 1189.

> spending began to return toward more normal levels in 2025 does not establish that the 2025 level was itself a reasonable ceiling for the projected test year. Rather, the test-year forecast reflects increased unit usage and the need to replenish inventory after several years in which purchases were artificially low.

Consumers' exceptions, pp. 123-124 (citing 2 Tr 1191). Additionally, Consumers avers that because it no longer plans to fill two union vacancies, it already withdrew $184,457 in expense, thus providing "no basis for adopting the Attorney General's broader $645,000 disallowance, which also includes . . . [the] Smart Meter Pilot O&M expense that the [ALJ] separately recommends approving." Consumers' exceptions, p. 124. This reduces the company's initial request of $3.853 million in O&M expense for its Meter Tech and Management System subprogram to $3.668 million.

Regarding its Smart Meter Pilot O&M expense, Consumers asserts that the ALJ erred because she approved the expense yet "nevertheless adopts the Attorney General's full $645,000 disallowance" which "does not give effect to the [ALJ]'s recommendation to approve the Smart Meter Pilot O&M expense." *Id*. The company asserts that if the Commission agrees with the ALJ's recommendation to approve the smart meter expense, "the Commission cannot also adopt the Attorney General's full $645,000 disallowance because it contains the $240,000 that the [ALJ] approves" such that the Commission "should reduce any disallowance by $240,000" for the smart meter expense. *Id*., pp. 124-125.

No replies to 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 the Attorney General's $645,000 disallowance, minus the $240,000 in O&M expense for Consumers' Smart Meter Pilot, as the pilot has been approved. *See*, PFD, pp. 405-406. Thus, the Commission disallows a total of $405,000 in expense for this issue.

4. Information Technology Operations and Maintenance Expense

a. Customer Order Service Tracker

Consumers projected a COST O&M expense of $40,415. 2 Tr 92. The Staff recommended a full disallowance of COST O&M expenses because in Case No. U-21806, Consumers "was ordered to track and quantify O&M savings stemming from the COST in its next gas rate case," yet the company "has failed to do so" and Consumers has "not justified the costs for this project." 2 Tr 2389-2390 (internal citation omitted).

Consumers rebutted the Staff's position, stating that it "did not start the COST project as planned due to resource constraints with other in-flight work" which caused the company to be unable "to track and quantify O&M savings stemming from COST." 2 Tr 210. Furthermore, Consumers noted that it "conceded a reduction of $90,132 for the 10-month bridge period ending October 31, 2026 and $18,026 for the test year, for this project." Consumers' reply brief, p. 35. Consumers also noted the Staff's mention of Case No. U-21806, while asserting that "the project has not yet been implemented," so the company could not begin such tracking. *Id*., pp. 35-36 (citing 2 Tr 210).

The Staff also rebutted Consumers, stating that the company has not tracked and quantified its realized O&M savings from the COST and that the company mischaracterized the Commission's order in Case No. U-21806 because Case No. U-21806 made it "clear that savings from the COST were to be tracked in the Company's '*next* rate case', which is the instant case." Staff's amended initial brief, p. 28 (internal citations omitted) (emphasis in original). The Staff states that Consumers was aware of its original and revised implementation dates, "yet chose to file the instant case and request recovery for this project anyway, in defiance of the Commission's

previous order[,]" and further, the company "has not justified the costs requested for this project." Staff's amended initial brief, p. 28.

The ALJ referenced her rationale from the Rate Base – IT section above in recommending that the Commission disallow $40,415 in O&M expenses for the COST project in O&M expenses. PFD, p. 409. The ALJ further agreed with the Staff that Consumers should not be allowed recovery for the COST project "until the Company can produce the savings data the Commission ordered it to report and demonstrate that those savings were used to offset other expenses" and that, per Case No. U-21806, anticipated COST O&M savings "should be disallowed." *Id*. (citing September 30 order, p. 240). The ALJ noted the change in the company's position between Case No. U-21806 and the instant case regarding Consumers' tracking of its COST O&M savings, finding the Staff's concerns regarding the company's "inadequate method for estimating future savings" as "reasonable to withhold further recovery until the Company demonstrates actual offsetting O&M savings" such that she recommended adopting the Staff's $40,415 disallowance. PFD, p. 410.

In its exceptions, Consumers contends that the Staff's criticisms of the company are unreasonable "because COST is still in development and specific tool branding does not mean that the components of COST cannot be researched through surveys addressing customer needs." Consumers' exceptions, pp. 35-36. Regarding Case No. U-21806, Consumers asserts that the Commission "recognized that 'savings to offset the entire costs for this project will not accrue immediately but will rather accrue over time . . . . '" *Id*., p. 36 (quoting September 30 order, p. 242). The company states that "once the COST project is implemented, the Company will track and quantify the resulting O&M savings and present them in future rate case filings consistent with the Commission's order." Consumers' exceptions, p. 36 (citing 2 Tr 210).

In replies, the Staff notes that "it is reasonable to assume [adoption of the Staff's $40,415 recommended disallowance] was intended along with the PFD's adoption of Staff's recommended disallowance of all bridge and test year capital expenditures for the COST." Staff's replies to exceptions, p. 4.

The Commission finds the ALJ's recommendation to be well-reasoned based on the evidence on the record and therefore, adopts the Staff's proposed $40,415 disallowance. *See*, PFD, pp. 409-410. The company still did not produce quantified savings, real or estimated, to demonstrate the reasonableness and prudence of this project even though it had been underway for almost a year by the time of filing this rate case. *See*, 2 Tr 2390. The company acknowledged that the savings would be known in its next rate case, and in the September 30 order, supported the cost savings tracking decision. September 30 order, p. 240 (citing PFD in Case No. U-21806, p. 409). The Commission took the company at its word in Case No. U-21806 that it supported this cost tracking method and expects the company to show savings related to implementation.

b. Customer Product Family Enhancements

Consumers projected an O&M expense of $45,888 in O&M expenses for its Product Family Enhancements-Customer-Capital project, and $111,105 for Product Family Enhancements-Customer-O&M projects, which "are smaller, short-cycle technology efforts to implement new or improved functionality and provide the flexibility needed to respond to rapidly changing business and customer conditions" based on a three-year historical average from 2022 to 2024. Consumers' initial brief, p. 90-93; *see also*, 2 Tr 133, 137, 214. The Staff recommended a full disallowance "because the Company has not quantified how the requested [expenses] for these projects will be spent" such that "those [expenses] do not allow for Staff and intervenors to analyze them for reasonableness and prudence." 2 Tr 2393-2394.

In rebuttal regarding its Product Family Enhancements-Customer-O&M project, Consumers asserted that while the three-year O&M average was $170,764, the company was only requesting $111,105 for the test year. Consumers' initial brief, p. 92. Consumers further averred that its "historical scope and cost are representative of future activity, and the Company's projections are based on actual spending patterns, not contingent or speculative estimates." 2 Tr 213-214. The company also stated that it "reduced its projected 2026 gas allocation capital expenditures for the Product Family Enhancements-Customer-Capital project in this case compared to its projections in its prior rate case, Case No. U-21806." Consumers' initial brief, p. 92 (citing 2 Tr 137, 215; Exhibit A-20, line 282, column (*l*)).

The ALJ stated that "[f]or the same reasons discussed in the Rate Base – IT section above, this PFD recommends the Commission disallow $156,993 in test year O&M ($45,888 for the Product Family Enhancements-Customer-Capital project and $111,105 for the Product Family Enhancements-Customer-O&M project)." PFD, p. 411.

In its exceptions, Consumers argues that the Commission should not adopt the Staff's proposed O&M disallowance for the same reason it avers the Commission should not adopt the Staff's proposed disallowance for the associated capital project. Consumers' exceptions, p. 29. Consumers reiterates arguments from its initial brief while stating that it has explained the use of its three-year historical average data such that it prioritizes the enhancements "using an impact-versus-effort methodology" while "cross-functional business teams review and approve enhancements for funding before scheduling implementation, ensuring delivery of the highest-value work." *Id*., p. 32.

In reply, the Staff reiterates its position for a full disallowance for both the Product Family Enhancements-Customer-Capital and the Product Family Enhancements–Customer–O&M projects

because Consumers' "three-year average . . . is no guarantee that the requested expenditures are reasonable and prudent" and that the ALJ was correct "regarding the Company's use of historical costs for this project." Staff's replies to exceptions, pp. 5-6. The Staff also avers that "the work to be completed for these projects is, by the Company's own explanation, emergent as it is inextricably tied to customers' evolving needs and expectations, none of which the Company knows ahead of time[,]" and, as such, the Staff's recommended disallowance should be adopted. *Id*., p. 8.

The Commission finds the ALJ's recommendation to be well-reasoned based on the evidence on the record and therefore, adopts the Staff's disallowance of $156,993 in test year O&M, which includes the proposed $45,888 disallowance in Product Family Enhancements-Customer-Capital O&M project and the proposed $111,105 disallowance for the Product Family Enhancements-Customer-O&M project. *See*, PFD, p. 411.

c. Tracking and Traceability

Consumers projected $508,607 in O&M expenses for the test year to comply with PHMSA's proposed Plastic Pipe Rule, "which would require utilities to maintain lifetime tracking and traceability data for new and replacement plastic pipe installations, including manufacturing, material, and location information for pipe, fittings, and fusions." Consumers' initial brief, p. 96 (citing 2 Tr 1543).

The Attorney General noted that this current matter "is the third rate case where the Company has proposed undertaking the project and it has not advanced much, if at all, from the initial proposal" as the project "is still in the Investment planning phase and the detailed requirements phase has not started" and thus, she recommended a full disallowance of $509,000 in O&M expense. Attorney General's initial brief, pp. 81-82.

In rebuttal, Consumers asserted that if the Commission does adopt the Attorney General's position, "the Commission should account for the fact that the Company has already conceded $169,773 in the test year O&M for this project (Company's Initial Brief, page 83) and ensure that the conceded amount is not counted twice." Consumers' reply brief, p. 105.

The ALJ recommended that the Commission reject the Attorney General's disallowance "[f]or the same reasons discussed in the Rate Base – IT section above." PFD, p. 412.

In her exceptions, the Attorney General relies on her reasoning used in this case to reject the ALJ's recommendation in the Tracking and Traceability capital expenditure. In the capital expenditure section, she argues that "[n]o cost savings of financial benefits have been identified . . . meaning the project entails only costs and no financial benefits." Attorney General's exceptions, p. 37 (citing 2 Tr 1925). She also asserts that the project is in its preliminary stages, and that Consumers' "attempts to justify the implementation of the Tracking and Traceability system by referencing the PHMSA regulations" is disingenuous as "PHMSA does not mandate any specific system" and "the PHMSA regulations have not been finalized and are on hold." Attorney General's exceptions, p. 37 (internal citations omitted). Thus, the Attorney General maintains that the Commission should adopt her $509,000 proposed disallowance.

In reply, Consumers asserts that the Attorney General's argument "lack[s] merit" because "the fact that a project is in the Investment Planning phase means only that it awaits funding, and does not indicate that it is incomplete or lacks information." Consumers' replies to exceptions, p. 45 (citing 2 Tr 221). The company explains that projects "are not released for further planning and implementation activities until funding is approved." Consumers' replies to exceptions, p. 45 (citing 2 Tr 221). Lastly, Consumers avers that the company merely "deferred the project start to

March 2026 to allow for the [PHMSA Plastic Pipe] rules to be finalized and to sequence the project with the ongoing work." Consumers' replies to exceptions, p. 45 (citing 2 Tr 221-222).

Similar to the decision relating to capital costs for this issue detailed above, the Commission respectfully declines to adopt the ALJ's recommendation for this issue. As noted above, the fact that Consumers has not advanced this project beyond the investment planning phase suggests that the projected expenses associated with this issue are unlikely to be incurred in the test year. As such, the Commission adopts the Attorney General's proposed disallowance of $509,000, minus the $169,773 already conceded to by the company. *See*, Attorney General's initial brief, pp. 81-82; Consumers' reply brief, p. 105.

d. Operational Technology Datacenter Migration

Consumers contended that it requires $349,382 in O&M expenses for the test year "to modernize and relocate its current datacenter for the OT environment from the Parnall Data Center." Consumers' initial brief, p. 111 (citing 2 Tr 145). The Staff recommended a full disallowance "because the Company has not demonstrated the reasonableness and prudence of moving the current datacenter to a new co-location facility at this time." Staff's amended initial brief, p. 106 (citing Appendix C, line 12; 2 Tr 2371-2372). The Attorney General suggested a $349,000 disallowance[21], asserting that Consumers could replace its current climate control equipment and water filtration system for less than one-third of what it would cost to migrate the OT datacenter to a new location. *See*, Attorney General's initial brief, pp. 86-87; *see also*, 2 Tr 1930.

[21] While on page 42 her initial brief, the Attorney General recommends a $149,000 disallowance, as shown in 2 Tr 1930, Consumers is requesting $349,000 in O&M development costs for the OT Data Center Migration Project. Thus, it is believed that the Attorney General is requesting a disallowance of $349,000 for this issue.

In rebuttal, Consumers argued against the Staff's position, stating that "addressing the aging climate control equipment and continuing water infiltration problems would not address the risk posed by the datacenter's location." Consumers' initial brief, p. 113. The company also rebutted the Attorney General's position, arguing that the OT datacenter migration project "will remove the risk of systems critical to the control of gas pipelines and the electric grid so they are no longer in close proximity to a railway system and the main water pipe for the building." *Id*., p. 114 (citing 2 Tr 145-147, 225). Consumers also noted that in the March 27 order, pp. 208-211, the Commission "approved the OT Datacenter Migration project, and adopted the ALJ's recommendation to reject the Attorney General's disallowance" and stated that the same should be done in this instant case. Consumers' initial brief, p. 115.

The ALJ declined to adopt the Staff's and Attorney General's disallowances "[f]or the same reasons discussed in the Rate Base – IT section above[.]" PFD, p. 414.

In exceptions, the Staff continues to argue that Consumers did not suggest a feasible option when it suggested to migrate the Parnell Data Center to a third-party facility. The Staff avers that the cost of fixing the existing datacenter's "issues is significantly lower than moving the datacenter to a third-party co-location facility." Staff's exceptions, p. 4 (citing 2 Tr 2372; Staff's amended initial brief, p. 51). The Staff also responds to the ALJ's statement that the Staff only addressed the climate-control and water-filtration issue costs, ignoring the room and building's location. While the Staff acknowledges that it "did not directly address these two additional issues," it "did note that it understands the estimate provided by the Company only addresses two of the four issues." Staff's exceptions, p. 5 (citing Staff's amended initial brief, p. 52). Furthermore, the Staff asserts that Consumers "bears the burden to demonstrate by a preponderance of the evidence" that its requests are "reasonable and prudent[;]" however, the company "did not provide any detailed

discussion related the proximity to the railway." Staff's exceptions, p. 5 (citing PFD, p. 10; 2 Tr 201). Instead, the Staff avers, "the Company simply announces these two additional issues and why they could not be fixed" and did not provide information about those issues nor "any events in which the datacenter has been negatively impacted." Staff's exceptions, p. 5. Thus, the Staff maintains that the Commission should disallow the OT Datacenter Migration project costs.

In her exceptions, the Attorney General relies on her prior reasoning used to reject the ALJ's recommendation for the capital expenditure portion of the OT Data Center Migration project. In the capital expenditure section, she argues that "the ongoing migration of data processing to the cloud lessens the need for a new location" which the ALJ failed to consider. Attorney General's exceptions, p. 41 (citing 2 Tr 1930). She further asserts that the ALJ erred in failing to consider migration to the cloud along with the fact that Consumers "has not presented sufficient evidence that the OT Datacenter Migration is economically justified or necessary" while "the risk from the current datacenter's location near its water line and railway line is based more on speculation than a demonstrated probability that some harm is likely." Attorney General's exceptions, pp. 42-43. Thus, the Attorney General argues, Consumers did not justify building a new datacenter and as such, she continues to recommend her proposed $349,000 disallowance.

In replies, Consumers avers that the Commission should adopt the ALJ's recommendation because the company "explained that OT systems support the electric grid, electric generation, gas compression, and natural gas pipeline operations, and are critical to the safe and reliable delivery of gas and electric service" while stating that "the current OT datacenter at the Parnall Data Center is not suitable." Consumers' replies to exceptions, p. 52 (citing 2 Tr 145-146). The company states that the Staff's and Attorney General's proposed disallowances "would not address all of the risks identified on the record" as it "leaves unresolved the very location risks the project is

intended to mitigate." Consumers' replies to exceptions, pp. 52-53. Lastly, Consumers argues that "[t]he record does not require" the company "to wait for a[n] . . . event to affect critical OT systems before acting to mitigate the risk" and that the company "support[ed] the need to modernize and relocate the OT environment to a secure co-location facility in order to reduce the physical and location risks associated with the current Parnall Data Center." *Id*., p. 53 (citing 2 Tr 145-147, 201-202).

The Commission respectfully declines to adopt the ALJ's recommendation. Upon a review of the whole record and for the reasons delineated by the Staff above, the Commission finds that Consumers' entire $349,382 in O&M expenses for the test year should be disallowed. *See*, Staff's amended initial brief, p. 106 (citing Appendix C, line 12; 2 Tr 2371-2372); Staff's exceptions, pp. 4-5 (citing 2 Tr 201, 2372; Staff's amended initial brief, p. 51; PFD, p. 10). The company did not provide information about why the water main or railroad necessitates moving the datacenter nor "any events in which the datacenter has been negatively impacted." Staff's exceptions, p. 5. Moreover, Consumers failed to demonstrate why shifting to cloud computing is not a feasible alternative to the capital and O&M costs associated with its proposed datacenter, and thus, did not carry its burden to show the associated costs are reasonable and prudent.

e. Forward Web Proxy Services

Consumers projected requiring $149,133 to replace its "existing web proxy service platform with a new, modern, and more resilient platform designed to support both secure internet access and advanced data loss prevent capabilities." 2 Tr 168. The Attorney General recommended a full disallowance, stating that as there was no BCA that justifies the project while the project is still in a planning phase, the project was "not necessary, it is premature, and not a priority project that should be undertaken for the projected test year." Attorney General's initial brief, p. 85; *see also*,

2 Tr 1928-1929. The Staff agreed with the Attorney General's disallowance. *See*, Staff's amended initial brief, p. 109.

The company rebutted the Attorney General's proposed disallowance, stating that she "failed to consider that the Company no longer uses some of the functionality of the current product and that additional controls to mitigate risk had to be put in place in order to reduce impact and improve stability" and asserted that "[c]ost savings is not the basis for the project's viability." Consumers' initial brief, pp.118-119 (citing 2 Tr 223).

The ALJ recommended adoption of the Attorney General's $149,133 disallowance "[f]or the same reasons discussed in the Rate Base – IT section above." PFD, p. 415.

In exceptions, Consumers asserts that the Commission should reject the ALJ's adoption of the Attorney General's disallowance. The company reasons that its "current web proxy platform, implemented in 2021, has caused ongoing operational issues related to web filtering, inconsistent policy enforcement, and intermittent connectivity" which limits its employees' and contractors' access "to critical Internet and cloud-based resources, impacting productivity and increasing security risk." Consumers' exceptions, p. 54. The company further avers that "[t]he new platform will provide high availability, improved performance, and enhanced visibility" and will support "flexible deployment models for remote, hybrid, and field-based workers, thereby ensuring that security policies apply consistently regardless of location." *Id*. Consumers contends that there is no basis for disallowance because "the project is in the Investment Planning phase" and that, indeed, "significant requirements are complete" such that "the Company fully plans to spend the projected [costs] based on the project timeline in this case." *Id*., p. 55 (citing 2 Tr 224). Lastly, Consumers argues that the ALJ's recommendation should be rejected because the Forward Web

Proxy Services "project is critical in filtering out unwanted or harmful Internet content and protecting against cyberattacks." Consumers' exceptions, p. 56.

In replies, the Staff contends that Consumers did not explain "why the current system is no longer sufficient," and that while the company provided "the positive outcomes that will result from this project, these factors do not justify why the current third-party vendor is no longer acceptable." Staff's replies to exceptions, p. 19.

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 Attorney General's proposed $149,133 disallowance, as supported by the Staff. *See*, PFD, p. 415.

f. Information Technology Security

Consumers requested $7.64 million for its IT Operations O&M expense, which it said included fixed and variable ongoing costs, and provided:

> the required level of operational support, reliability, and security for technology investments; maintenance for security facilities and systems to ensure system reliability, vulnerability assessments, and penetration tests; and fulfillment of all state and federal laws and regulations, perimeter protection, guards, card access, cameras, executive protection, and investigative services.

2 Tr 52, 57. The company asserted that this expense is justified because it is necessary "to fund continued investment in programs to sustain and improve customer reliability as the Company continues investing to maintain, improve, and secure critical enterprise systems and migrate applications to the cloud." 2 Tr 57. The Attorney General asserted that Consumers included duplicative costs in addition to costs that "are not incremental to the IT department or the Company" due to a 2025 reorganization. 2 Tr 2003-2004.

Consumers rebutted the Attorney General with its argument that she "incorrectly stated that the Company's $1.2 million increase" for various projects was "duplicative." Consumers' initial

brief, p. 278; *see also*, 2 Tr 228. The company further argued that the Attorney General incorrectly argued that $0.4 million in network costs should be removed because network "costs are neutral to the overall IT Department costs, the costs that were an increase in Security Operations were offset by a reduction to IT Operations O&M costs." 2 Tr 228; *see also*, Consumers' initial brief, p. 278.

In her own rebuttal, the Attorney General noted that Consumers' $0.4 million of network costs "are not incremental to the IT department of the Company and should be removed from the IT Security expense for the projected test year" as the "savings were not identified and therefore cannot be validated." Attorney General's initial brief, p. 154 (internal citations omitted).

The ALJ partially agreed with the Attorney General and found that a disallowance of $0.4 million for network costs was appropriate "because the Company did not provide adequate evidence showing that the increase in IT Security O&M was offset by a reduction in IT operations O&M[,]" but the ALJ also recommended that the Commission reject the Attorney General's other proposed $1.2 million disallowance relating to cloud subscription costs. PFD, pp. 417-418.

In its exceptions, Consumers argues that the ALJ erred in agreeing to disallow $0.4 million. The company asserted that it "explained that the costs are neutral to the overall IT Department costs. The costs that were an increase in Security Operations O&M were offset by a reduction to IT Operations O&M costs." Consumers' exceptions, p. 132 (citing 2 Tr 228). Consumers asserts that the Attorney General failed to "identify a duplicate cost, did not show that the Company included the same expense twice, and did not quantify any actual overstatement of the total IT O&M" and therefore, the company concludes that the ALJ had "no evidentiary basis" to agree with the Attorney General. Consumers' exceptions, p. 132.

In her exceptions, the Attorney General asserts that Consumers did not provide enough detail to justify its $1.2 million request for an increase in its cloud subscription costs, and that "the subscription costs . . . have been included in either IT Operations or IT Investment O&M expenses and it is duplicative to include those expended also under the IT Security area." Attorney General's exceptions, p. 58. Thus, the Attorney General continues to urge the Commission to adopt her recommended $1.2 million disallowance for cloud subscription costs.

In its replies, Consumers contends that the Commission should reject the Attorney General's exception. Consumers argues that it directly rebutted the Attorney General's contention that $1.2 million in cloud subscription costs is duplicative because the cloud subscription costs are from "the Digital-Hybrid Cloud" and migration projects "moving applications to the cloud, which increases costs associated with the cloud platforms' built-in security features that help protect devices, applications, identities, and data from cyber threats." Consumers' replies to exceptions, p. 82 (citing 2 Tr 228, 2003-2004). Consumers also states that the Attorney General's exception does not address the company's "further explanation that cloud-related cost changes must be viewed together" because "hardware and software costs have decreased as applications have moved to the cloud and software has been retired, but those cost savings have been offset by cloud service costs" whereas the Attorney General "provided no evidence that projected test-year expenses failed to include those savings." Consumers' replies to exceptions, p. 82 (citing 2 Tr 229-230).

In her own replies, the Attorney General relies on her initial brief, stating that "the cost shift *and savings* were not identified and therefore cannot be validated" and as such, the Commission should adopt the ALJ's recommendation. Attorney General's replies to exceptions, p. 79 (citing Attorney General's initial brief, p. 154; Exhibit AG-72, pp. 3-4) (emphasis in original).

The Commission finds the ALJ's recommendation to be well-reasoned based on the evidence on the record and therefore, adopts a partial disallowance of $0.4 million relating to network costs while rejecting the Attorney General's proposed $1.2 million disallowance for cloud subscription costs. *See*, PFD, pp. 417-418.

g. Information Technology Operations Operations and Maintenance Savings

The Attorney General noted Consumers' discovery response, in which "the Company identified annual operational cost savings" of $1.42 million and recommended a full disallowance of that amount because "[t]his expense reduction has not been reflected in the projected test year expense forecasted by the Company." 2 Tr 2004.

Consumers rebutted the Attorney General's arguments, arguing that it "has reduced hardware maintenance and software licensing & maintenance costs as applications have migrated to the cloud and decommissioned hardware" with those costs being "offset by cloud services costs." Consumers' initial brief, pp. 279-280 (citing 2 Tr 229). Consumers further averred that while it "did not indicate whether or not the projected annual IT Operations O&M cost savings are already included in cost projections or not[, . . . t]hese cost savings have been offset by cloud services costs." 2 Tr 229. Furthermore, the company asserted that the Attorney General offered "no support" for her "claim that the projected test year expense does not reflect the cost savings." 2 Tr 230.

The ALJ suggested adopting the Attorney General's $1.42 million disallowance because Consumers "admits that annual IT Operations O&M cost savings were expected" and the company "did not indicate whether or not the projected cost savings are already included in its cost projections in this case." PFD, p. 419.

In its exceptions, Consumers explains that while it did not indicate whether its O&M cost savings were already included in its cost projections, it explained in rebuttal "that the Company had reduced hardware maintenance and software licensing & maintenance costs as application have migrated to the cloud and decommissioned hardware." Consumers' exceptions, p. 133. As those "cost savings have been offset by cloud services costs[,]" Consumers asserts that the ALJ should have rejected the Attorney General's proposed disallowance as the company did provide that its "projected cost savings were included in its cost savings in this case." *Id*. (citing 2 Tr 229).

No replies to 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 the Attorney General's proposed $1.42 million disallowance. *See*, PFD, p. 419. While claiming that IT Operations O&M cost savings were expected in one part of this case, Consumers later retracts this statement, saying that the cost savings were already included and "offset by cloud services costs." Consumers' exceptions, p. 133 (citing 2 Tr 229). Contrary to Consumers' statement that the Attorney General offered "no support" for her "claim that the projected test year expense does not reflect the cost savings[,]" it is, in fact, Consumers' burden of proof to clearly show where the projected cost savings have been included in its case. 2 Tr 230; *see also*, PFD, p. 10 (internal citations omitted).

h. ISIS Papyrus 2026 Upgrade

Consumers projected requiring $13,397 to "upgrade the Papyrus Objects suite of applications to the most recent version available per vendor recommendation[,]" stating that "the ISIS Papyrus application is critical to creating electronic and paper correspondence for customers, including bills and dunnings." Consumers' initial brief, p. 108 (citing 2 Tr 125).

The Staff recommended a full $13,397 reduction in O&M expense for the test year. Staff's amended initial brief, p. 109 (citing 2 Tr 2368). The Staff contended that the company's request was premature, and "due to this uncertainty, the Company's request for these costs now is not prudent" as there is no current date as to when the program's support will cease. Staff's amended initial brief, p. 110 (citing 2 Tr 2370). The Staff noted that "the vendor has continued providing the necessary updates to users on the current system for two years and has given no indication this will stop." Staff's amended initial brief, p. 111.

In rebuttal, Consumers noted that the "Staff did not impugn" the company's testimony that there are security risks as "[t]he application has not been updated in over two years, and delaying the upgrade increases the risk of technical obsolescence and exposure to security vulnerabilities." Consumers' initial brief, p. 110 (citing 2 Tr 198). Furthermore, Consumers noted that in Case No. U-21870, the Commission agreed that the company proved that the ISIS Papyrus 2026 expenditures were reasonable and prudent to avoid security risks. 2 Tr 199.

In its own rebuttal, the Staff discounted the company's obsolescence claims, noting that the vendor did not "communicate an upgrade deadline to all users." Staff's reply brief, p. 7. The Staff noted that Consumers "has only provided possible issues," and argued that just because the company "does not agree with Staff's position, it does not follow that Staff failed to present a clear and reasoned position." *Id*., p. 8.

The ALJ found that the "Staff has not presented any new information that would warrant a different outcome from Case No. U-21870, where the Commission approved the upgrade—at a significantly higher cost—because delaying the 2026 upgrade would create security risks even without a definitive vendor-support end date." PFD, p. 426 (citing March 27 order, pp. 191-192). Thus, the ALJ suggested that the Commission reject the Staff's proposed $13,397 disallowance,

instead allowing the $13,397 in test-year O&M expenses for Consumers' ISIS Papyrus 2026 upgrade. PFD, pp. 426-427.

The Staff reiterates that it recommended its "disallowance based on a lack of information provided by the Company through audit to support the immediate need for this project. The Company confirmed in the present case that it had not received any new information from the vendor." Staff's exceptions, p. 6 (citing Staff's amended initial brief, p. 110). The Staff also notes that it "discovered a decrease in the projected costs due to the removal of previously planned efforts" and that "the Company still cannot provide a definitive end date, issued by the vendor, for when support will stop being provided to users who have not upgraded to the newest version." Staff's exceptions, p. 6 (citing Staff's amended initial brief, p. 110; 2 Tr 2369; Exhibit S-14.1). The Staff further states that it "is skeptical that no further changes will occur and questions whether the project is needed at this time." Staff's exceptions, p. 7 (citing Staff's amended initial brief, pp. 110-111; 2 Tr 2369; Exhibit S-14.1). The Staff notes that it relied on the updated information that Consumers provided through audit and that "[t]hus far the Company has indicated support remains available under the maintenance agreement." Staff's exceptions, p. 7 (citing 2 Tr 197-198; Exhibit S-14.1, p. 13, part d). The Staff further avers that it is not stating that the project is unnecessary, but rather that the Commission should not award the company "costs to address a change that has not been formally communicated yet," proving the project's uncertainty. Staff's exceptions, p. 8. Thus, the Staff continues to assert that the Commission should disallow the ISIS Papyrus 2026 Upgrade project costs.

In reply, Consumers asserts that the Commission should adopt the ALJ's recommendation because "[t]he record supports the need for the ISIS Papyrus 2026 Upgrade" as the program. Consumers' replies to exceptions, p. 49. The company also asserts that "[t]he absence of a

definitive vendor-support end date does not make the project unreasonable" since "delaying the upgrade would increase technical obsolescence, cybersecurity vulnerabilities, and risk to customer correspondence." *Id*., p. 50 (citing 2 Tr 125-126, 198). Consumers again reminds the Commission that similar upgrade costs were already approved "in Case No. U-21870, despite uncertainty regarding the timing of vendor support." Consumers' replies to exceptions, p. 50 (citing PFD, pp. 426-427).

The Commission finds the ALJ's recommendation to be well-reasoned based on the evidence on the record and therefore, rejects the Staff's proposed disallowance, instead allowing the $13,397 in test-year O&M expenses for Consumers' ISIS Papyrus 2026 upgrade. *See*, PFD, pp. 426-427, *see also*, Consumers' initial brief, p. 108 (citing 2 Tr 125).

5. Corporate Services Operations and Maintenance Expense

Consumers provided background on its Corporate Services, briefly explaining what each area within the company's Corporate Services entailed. 2 Tr 618-621. The company also explained how its Corporate Services expenses were allocated between the electric and gas businesses using cost-type-specific allocators, including customer counts, labor levels, and the three-factor allocation method. 2 Tr 621. Consumers provided that the total Adjusted Corporate Services O&M expense for the gas portion of the test year was $25.171 million, which reflected the 2024 actual O&M expense amount, with one-time costs removed; disallowed items related to corporate giving and lobbying payments excluded; inflation applied; and an additional $30,000 increase included for rising credit rating agency fees. 2 Tr 621-623; Exhibit A-58.

The Attorney General recommended a $6.280 million disallowance from Consumers' Corporate Services projected test year, arguing that the company's forecasted expenses are highly inflated and excessive. 2 Tr 2006. In addressing the company's Exhibit A-58, the Attorney

General noted that Consumers showed Corporate Services O&M expenses for the projected test year totaling $37.512 million, which she argued was an increase of more than 50% when compared to the company's $24.424 million expense in 2024. 2 Tr 2006. The Attorney General claimed that, based on discovery responses and Consumers' actual Corporate Service O&M expenses allocated to the gas business for 2025, the 2025 expenses provided a more accurate and reasonable basis to forecast the expenses for the projected test year. 2 Tr 2005-2006. The Attorney General asserted that, when comparing Consumers' projected test year expenses with the 2025 expenses (adjusted for inflation for 2026 and the 10 months in 2027), there was a $6.280 million difference, which the Attorney General recommended that the Commission remove from the company's test year forecast. 2 Tr 2006.

Consumers rebutted the Attorney General's assertion that the company's Corporate Services O&M expenses were 50% higher in the test year than in 2024, arguing that the Attorney General's proposed adjustments do not represent an accurate calculation of the projected test year expense. 2 Tr 645. The company explained that the "$37,512,000 amount identified by [the Attorney General] does not remove Employee Incentive Compensation Plan (EICP) expense, does not include normalizations, and does not remove the giving and communications expenses." 2 Tr 645. Consumers asserted that, as reflected in Exhibit A-58, the company's projected test year Corporate Services O&M expenses totaled $25.170 million, which was $1.747 million (or 7.4%) higher than the comparable 2024 expense. 2 Tr 645-646.

The ALJ disagreed with the Attorney General's disallowance, finding that Consumers' Corporate Services O&M expenses are reasonable when analyzed in the context of recent historical expenditures. PFD, p. 429. The ALJ also found that, "[c]ontrary to the Attorney General's claim, . . . the Company's witness testified that it based its test year projected expense

on the 2024 actual expenses and adjusted for expenses for one-time costs or otherwise inapplicable to the test year." *Id*., pp. 429-430. As such, the ALJ recommended that the Commission adopt the company's requested Corporate Services O&M expenses of $25.171 million. *Id*., p. 430.

In exceptions, the Attorney General contends that part of the ALJ's consideration was the Attorney General's initial position on the amount of expense being requested by Consumers, but this was adjusted downward in the Attorney General's initial brief after further discovery. Attorney General's exceptions, p. 61 (citing PFD, pp. 429-430); *see also*, Attorney General's initial brief, pp. 161-162 (wherein the Attorney General changed her proposed disallowance to $2.368 million after the company provided additional information on the actual corporate services expenses allocated to the gas business for 2025).

In replies to exceptions, Consumers contends that the Commission should reject the Attorney General's recommended reduction, arguing that the Attorney General reduced her recommendation for the first time in her initial brief. Consumers' replies to exceptions, p. 84. The company asserts that it reasonably projected its costs for this expense. *Id*.

The Commission finds the ALJ's recommendation to approve Consumers' requested Corporate Services O&M expenses of $25.170 million to be well-reasoned and supported by the record. *See*, PFD, pp. 429-430. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue.

6. Pension and Benefits Expense – Active Health Care, Life Insurance, and Long-Term Disability

Consumers provided background on its retirement and health care plans and its projected O&M expenses for the company's retirement and insurance benefit plans offered to employees and retirees. 2 Tr 729-760; Exhibits A-78 and A-79. The company provided its gas O&M

expense for the active health care, life insurance, and long-term disability (LTD) benefits for the projected test year to be $20.3 million. 2 Tr 749. Consumers explained that:

> [t]he portion of the Company's total program expenses attributable to the gas utility was allocated based upon an annual study by the [company's] Accounting Department of the relationship of the number of employees in the gas utility to the total number of employees in both the electric and gas utility. The amount allocated to the gas utility is allocated between O&M expense and capital expense based upon the [company's] Accounting Department's formula. For the projected years 2025 through the 12 months ending October 31, 2027, costs were split using 56% electric and 44% gas, with 64% capital on gas expenses.

2 Tr 748.

The Attorney General recommended that the Commission reduce the company's active health care, life insurance, and LTD expense by $870,000, arguing that during discovery Consumers identified $870,000 of incremental cost savings that were not reflected in the company's projected test year expense. 2 Tr 2007.

Consumers rebutted the Attorney General's recommendation, asserting that the savings the Attorney General identified are for electric and gas before capitalization and the amount of savings for gas O&M expense is $137,808, not $870,000. 2 Tr 763. The company argued that the Attorney General wrongly assumed the program savings were not included in the projections for this case; these savings were included in the projected rates used to forecast the expense and the company continues to experience health care expense increases despite the savings. 2 Tr 762-763. While Consumers noted that its actual gas O&M expense for active employee health care, life insurance, and LTD benefits for 2025 was approximately $200,000 more than was projected, the company reiterated its request for the Commission to accept its $20.3 million projection in this case. 2 Tr 763. The company also noted that the Commission rejected similar arguments on pages 228-230 of the September 30 order. Consumers' initial brief, p. 284.

The ALJ declined to recommend the Attorney General's proposed healthcare disallowance, finding Consumers' argument that "any allocated savings were already incorporated into the company's projections but were more than offset by rising healthcare costs persuasive." PFD, p. 432.

In exceptions, Consumers agrees with the ALJ's rejection of the Attorney General's proposed active healthcare O&M disallowance but raises concerns with the ALJ's revenue-deficiency calculation. Consumers' exceptions, p. 133. The company explains that the ALJ's revenue-deficiency calculation does not match her findings in the PFD and should be corrected to remove the Attorney General's $870,000 disallowance. *Id*.

The Attorney General excepts to the ALJ's recommendation, arguing that "[w]hile the Company claims to have already incorporated the cumulative savings into its projections, it is not clear where and how they were incorporated." Attorney General's exceptions, p. 62. The Attorney General contends that the ALJ accepted Consumers' argument but did not address how this incorporation of savings incurred, stating that there is no documentation to support that the savings were offset by increased costs. *Id*., pp. 62-63. As such, the Attorney General asserts that, without documentation to demonstrate that the savings were offset by increased costs, the Commission should reduce the company's Active Health Care expense as she proposed. *Id*., p. 63.

In replies to exceptions, Consumers contends that the Commission has rejected similar arguments in Case No. U-21806 wherein the "Commission adopted in that case the ALJ's finding that cost savings were incorporated in the Company's projections and that, despite those savings, the company's actual health care, life insurance, and LTD expense still outpaced projections." Consumers' replies to exceptions, pp. 86-87 (citing the September 30 order, pp. 228-230). The company asserts that this same situation persists in this case. Consumers' replies to exceptions,

p. 87. Thus, Consumers argues that the Commission should approve all of the company's projected pension and benefits expenses that are well-supported in the record. *Id*.

The Commission finds the ALJ's recommendation to decline the Attorney General's disallowance and approve the company's requested gas O&M expense for its retirement and insurance benefit plans to be well-reasoned and supported by the record. *See*, PFD, p. 432. Therefore, the Commission adopts Consumers' gas O&M expense for the active health care, life insurance, and LTD benefits for the projected test year of $20.3 million.

7. Employee Incentive Compensation Plan Expense

Consumers provided an overview of its Employee Incentive Compensation Plan Expense (EICP) and requested $1.1 million in O&M expense for its EICP. 2 Tr 596-598; Exhibit A-53.

The Attorney General recommended that the Commission disallow $529,000 (or 49%) of Consumers' request, arguing that the company should only recover 51% of the EICP expense. 2 Tr 2015. The Attorney General explained that:

> [i]n forecasting the amount of EICP expense of $1,080,000 included in the forecasted test year, the Company assumed that all operating measures would be achieved at least at 100% of target for both the officer and non-officer EICP. The results of the last five years do not support this expected performance level. Customers should not pay for expected performance that does not materialize. Therefore, recovery of incentive compensation at less than 100% of target is warranted. Using the 51% average performance achievement rate, the most that the Company should be allowed to recover in this rate case is $551,000 ($1,080,000 x 51%). The remaining amount of $529,000 should be disallowed.

2 Tr 2015. Moreover, the Attorney General argued that Consumers made it easier for the company to pay out incentive compensation, and the company's short-term incentive plans are weighted too heavily toward financial measures that mostly benefit shareholders and not customers. 2 Tr 2010-2011.

Consumers rebutted the Attorney General's assertion, arguing that the company is only seeking recovery for the gas business portion of the incentive costs at target levels associated with operational goals, not the financial metrics, and that achieving those goals provides qualitative and quantitative benefits for customers. 2 Tr 608-612. The company also noted that Consumers has used the same approach for many rate cases with the Commission approving recovery of the costs. 2 Tr 610.

While the Attorney General reiterated her recommendation for the $529,000 disallowance in her initial brief, she argued in her reply brief that, "[b]ecause Consumers' EICP programs for both non-officers and officers do not provide a benefit to ratepayers commensurate with the cost, none of the $1.1 million should be included in rates." Attorney General's reply brief, p. 42; *see also*, Attorney General's initial brief, pp. 165, 174.

The ALJ declined to accept the Attorney General's recommended disallowance for the EICP, finding that the Commission has already addressed in prior rate cases the same issues the Attorney General raised with the EICP program in this case. PFD, p. 438. The ALJ opined that:

> [i]n [the September 30order in] Case No. U-21806, the Commission approved the majority of the requested EICP expense, but disallowed the amount associated with the top five officers and cautioned the Company to provide sufficient support for its allocation of a portion of the costs to the gas side of the business. Here, the Company's calculation amount and methodology for allocating the gas portion of EICP has not been challenged. Similarly, the Company has not included an amount associated with incentive compensation for a top officer. [Because t]he Attorney General has not presented a compelling reason to deviate from the Commission's past findings, her reasons for disallowing the expense are rejected. Thus, this PFD recommends the Commission authorize the $1.1 million EICP expense consisting of $245,000 in officer incentive compensation and $835,000 in non-officer incentive compensation.

PFD, pp. 438-439.

The Attorney General excepts to the ALJ's recommendation to decline the Attorney General's proposed disallowance. Attorney General's exceptions, p. 63. The Attorney General argues that

the ALJ did not offer any detailed analysis on how the Attorney General's arguments failed and merely conforming to the September 30 order is insufficient. *Id*., p. 64. The Attorney General also argues that the ALJ did not attempt to evaluate the arguments she laid out in her testimony and briefs on the merits. *Id*., pp. 64-67.

In replies to exceptions, Consumers contends that the ALJ correctly rejected the Attorney General's arguments. Consumers' replies to exceptions, p. 89. As such, the company asserts that the Commission should approve the full portion of its EICP expense tied to the company's operational goals. *Id*.

Consistent with its past decisions, the Commission finds the ALJ's recommendation to decline the Attorney General's disallowance and approve the company's $1.1 million EICP expense to be well-reasoned and supported by the record. *See*, PFD, pp. 438-439. Therefore, the Commission adopts Consumers' $1.1 million in O&M expense for its EICP.

8. Customer Experience Operations and Maintenance Expense

a. Customer Interactions – Customer Contact Center

Consumers provided background on its customer contact center and requested $13.767 million in O&M expense for the test year. 2 Tr 700; Exhibit A-132. The company explained the projected $900,000 O&M increase from the $12.871 million expended in 2024 was due to new union contract wage increases and merits for customer service representatives. 2 Tr 700.

The Attorney General recommended that the Commission disallow $1.757 million from the O&M expense. 2 Tr 1999. The Attorney General opined that through discovery it was evident that Consumers is experiencing a decrease in the number of customer calls to the company's Contact Center and is forecasting reductions in the number of customer service representatives needed in future years due to digital customer self-service tools. 2 Tr 1998. However, the

Attorney General argued that the decrease in customer calls and projected reduction of customer service representatives is not reflected in Consumers' forecasted expense for the projected test year. 2 Tr 1998. Thus, the Attorney General recommended a $1.757 million disallowance based on a 6% annual rate of decline in customer calls and a forecasted 20% reduction of customer service representatives for 2027. 2 Tr 1998-1999.

MEC/CUB recommended that the Commission disallow $2.766 million from the O&M expense. 2 Tr 2171. MEC/CUB argued that:

> [t]he Company ascribes increased labor costs to annual wage and merit increases and details 4% annual wage increases for union employees for 2025-2027. This explanation is unpersuasive in two respects:
>
> First, the number of calls handled by the [company's Contact] Center is projected to decline by about 20% from 2024 through 2027. 4% annual wage increase in three years compounds to about 12.5%. The decline in calls should more than offset the wage increase.
>
> Second, the [company's Contact] Center should become more productive. Per [our] introductory testimony about productivity, increased pay should generally be offset by increased productivity. The Company, however, projects that its Call Center representatives will become dramatically less productive from 2024 to 2027. In 2024, 281 Call Center FTEs [full-time employees] handled 2,625,313 calls, or 9,307 calls per FTE. In 2027, the Company projects that 266 representatives will handle 2,100,000 calls, or 7,895 each – 15% fewer calls per FTE than in 2024. This productivity decrease is utterly confounding for a sub-program that has committed significant investments in IT so that customers can serve themselves online, using the app or interacting with the IVR [interactive voice response] system.

2 Tr 2171-2172.

Consumers rebutted the Attorney General's and MEC/CUB's recommendations, arguing that it was "not reasonable to assume that call volume reductions translate directly into proportional cost reductions." 2 Tr 671. The company explained that appropriate staffing remained critical and that staffing reductions were phased to preserve continuity, emergency responsiveness, and reliability, rather than based on short-term volume trends. 2 Tr 670. The company also explained

that reducing staffing slowly based on average call volume would impair its ability to respond during periods of elevated customer needs. 2 Tr 671. Consumers also disagreed with using a cost per call standalone measure to determine the company's Contact Center expenses, arguing that the cost per call is projected to increase despite declining call volumes and planned staffing reductions due to the "growing complexity of remaining calls, longer handle times, and the fixed and semi-fixed costs necessary to maintain 24/7 service availability." 2 Tr 671. The company noted that customer calls handled per FTE were an incomplete productivity measure and asserted that productivity was better measured through improved first-call resolution, reduced repeat calls, fewer supervisor escalations, and higher service quality. 2 Tr 672. Thus, Consumers argued that the disallowances recommended by the Attorney General and MEC/CUB would "cause longer wait times, reduced responsiveness, and diminished emergency readiness, particularly during storms, outages, and periods of heightened customer need[, and that] . . . [t]he test year [the company] forecast[ed] reflects the least-cost staffing level necessary to fulfill these responsibilities reliably." 2 Tr 673-674.

The ALJ agreed with the Attorney General's recommended disallowance of $1.757 million, finding that Consumers did not present sufficient evidence that the customer call volume decline would not continue during the test year. PFD, p. 443. The ALJ explained that she found it reasonable to expect some savings in Consumers' Customer Contact Center O&M expenses for the test year when compared to historical expenses given that call volumes are declining by 6% annually, the average number of employees are declining, and IT investments intended to divert calls from the Customer Contact Center will come into effect. *Id*. The ALJ was also "persuaded by the Attorney General's argument that the purported increase in costs due to wage increases and merits will be offset by the reduction in future labor needs and finds it reasonable to accept the

more conservative $1,757,000 amount for partial disallowance over MEC/CUB's recommendation." *Id*.

Consumers excepts to the ALJ's recommendation, arguing that the ALJ relied on an incomplete analysis from the Attorney General that "declining call volumes will, with certainty, lead to lower Cost Center expenses." Consumers' exceptions, p. 138. The company asserts that this contention is inconsistent with the evidence and notes that a 6% decrease in call volumes does not lead to proportional cost reductions. *Id*. Moreover, the company argues that:

> [s]taffing levels do not merely reflect overall annual call volumes but include other costs such as training, and technology platforms. Additionally cost per call metrics are expected to increase over the next years, thus a disallowance based on call volume alone does not reasonably capture the actual costs associated with the projected Cost Center expenses. Yet, this is the only metric which the PFD bases the recommended disallowance on. PFD, page 443. While the PFD brushes off wage and merit increases it does not address the Company's other arguments related to the data the Company used to project its expenses as explained above. The PFD relies on oversimplified metrics tied to declining call volume to reach a $1.8 million dollar disallowance while ignoring the evidence the Company provided to show why annual call volume decline alone does not lead to reduced expenses such as the projected increases the Company projected for costs per call. 2 TR 671. The Commission should reject the PFD's proposed disallowance.

Consumers' exceptions, pp. 138-139.

In her replies to exceptions, the Attorney General contends that the Commission should adopt the ALJ's recommendation. Attorney General's replies to exceptions, p. 81. The Attorney General notes that the company "admits that a reduction in call volume does result in at least some cost reductions[; h]owever, the Company does not quantify why the reduction would not be proportional." *Id*. The Attorney General also asserts that Consumers does not explain the basis for its claim that call metrics are expected to increase. *Id*. Moreover, the Attorney General argues that it is not reasonable or prudent to maintain higher staffing levels in case there is some elevated need when call volumes are decreasing overall. *Id*.

The Commission finds the ALJ's recommendation to approve the Attorney General's disallowance of $1.757 million from the O&M expense to be well-reasoned and supported by the record. *See*, PFD, p. 443. As noted by the ALJ, it is certainly reasonable to expect some savings in Consumers' Customer Contact Center O&M expenses given that call volumes are declining by 6% annually, the average number of employees are declining, and IT investments intended to divert calls from the Customer Contact Center will come into effect. *Id*. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue.

b. Customer Interactions – Analytics and Outreach

Consumers provided an overview of its Analytics and Outreach team and requested $2.905 million in test-year O&M expense. 2 Tr 706; Exhibit A-132. The company explained that it requests $1.6 million more for this O&M expense than the $1.3 million it expended in 2024 to fully staff the Customer Strategy team, purchase a Voice of the Customer Enterprise Feedback Management Solution, and increase IT and contracted labor costs. 2 Tr 706.

The Attorney General recommended that the Commission disallow $720,000 from the O&M expense, which was the difference between her calculations for the expense and the company's forecast for the projected test year. 2 Tr 2001. The Attorney General explained that her calculation showed an expense of $2.185 million (which was based on Consumers' actual reported expense for 2025 with inflation factors for 2026 and the 10 months of 2027) and this amount was $720,000 lower than the company's forecasted amount of $2.905 million. 2 Tr 2001. The Attorney General noted that the company during discovery attributed its increase in the projected O&M expense, which is more than double the 2024 expense, to increased employee numbers, branding work, and various reorganizations affecting the 2024 expense base; however, the

Attorney General argued that Consumers did not explain or justify any of these new initiatives. 2 Tr 2000.

MEC/CUB recommended that the Commission hold the Analytics and Outreach O&M to 2024 levels with inflation, resulting in a disallowance of $1.514 million. 2 Tr 2174. MEC/CUB argued that Consumers' explanation for the 219% increase over historical test-year costs does not align with the company's limited business growth and the state's climate goals, which require a focus on customer service rather than expansion. 2 Tr 2173.

Consumers rebutted the Attorney General's and MEC/CUB's recommended disallowances, asserting that the "O&M requested for the test year does not represent a new initiative or expansion of scope, but rather reflects the cost of continuing existing analytics, reporting, and outreach functions necessary to support regulatory compliance, affordability programs, and customer communications." 2 Tr 674. The company explained the reason for the increase in projected costs and argued that the proposed disallowances would undermine coordinated customer strategy and digital transformation efforts by leaving key roles unfunded or fragmented across the organization. 2 Tr 674-677. Consumers also argued that, without resources to maintain analytics platforms, IT, and customer strategy, the company would lose efficiency gains achieved through consolidation resulting in higher long-term costs. 2 Tr 677.

The ALJ agreed with the Attorney General's recommended disallowance of $720,000 from the projected test year. PFD, p. 447. The ALJ found that Consumers' full forecast for Analytics and Outreach, which more than doubled the historical expenses for the program without the company articulating any clear initiatives to justify the increased expense, was unreasonable for the reasons provided by the Attorney General. *Id*.

Consumers excepts to the ALJ's recommendation, asserting that the ALJ provided "little reasoning" for her decision and "erroneously relie[d] on incomplete Attorney General arguments that failed to address the support offered by the Company." Consumers' exceptions, pp. 134-135 (citing PFD, p. 447). The company argues that it would be unreasonable to disallow these costs when the Attorney General's arguments are simply summarized as "[c]osts are higher and therefore should be disallowed." Consumers' exceptions, p. 135. Consumers contends that the Attorney General's arguments do not present a valid basis for disallowance and should thus be rejected. *Id*. As such, Consumers asserts that the Commission should reject the ALJ's proposed disallowance and approve full recovery of the company's Analytics and Outreach expenses. *Id*.

In replies to exceptions, the Staff contends that Consumers "reiterated [in its exceptions] its claim that the rising costs in Analytics & Outreach area stem from the internal growth of this area, yet the Company fail[ed] to explain why this area is supposedly growing so much, or why these costs are reasonable and prudent[,]" and this "consistent failure to justify the increase in costs for this area is evident through the record of the instant case." Staff's replies to exceptions, pp. 32-33. As such, the Commission should approve the ALJ's recommended disallowance for the Analytics & Outreach. *Id*., p. 33.

The Commission finds the ALJ's recommendation to approve the Attorney General's disallowance of $720,000 from the O&M expense to be well-reasoned and supported by the record. *See*, PFD, p. 447. While Consumers attempts to claim that the Attorney General's recommended disallowance is not sufficiently supported, the Staff's argument in its replies to exceptions is convincing. The Staff points out that Consumers claims that "the rising costs in Analytics & Outreach area stem from the internal growth of this area, yet the Company fail[ed] to explain why this area is supposedly growing so much, or why these costs are reasonable and

prudent." Staff's replies to exceptions, pp. 32-33. The Commission agrees. It is the company's burden to demonstrate that its requests are reasonable and prudent. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue.

c. Customer Interactions – Business Customer Center

Consumers provided an overview of the company's Business Customer Care (BCC) and requested $2.5 million in O&M expenses for the test year. 2 Tr 700-701; Exhibit A-132. The company explained that its request for an increase of $1 million from the $1.5 million expended in 2024 was directly attributed to both Growth team labor and outside services added to the existing Economic Development team. 2 Tr 700-701.

The Staff recommended a disallowance for the BCC of $1 million, arguing that Consumers did not explain or justify the creation of the new Growth team and the related expenditures of more than $1 million to support this new BCC area. 2 Tr 2402-2403; Exhibits S-9.10 and S-9.11. The Staff explained that it calculated its recommended disallowance by removing "the $1,302,504 increase in O&M from the actual historical costs" to reach the Staff's projected test year amount of $1,517,305, which the Staff argued "brings the test year O&M down to the historical 2024 amount[and] . . . more accurately reflects the future costs for this area." 2 Tr 2406. The Staff also noted that, as a regulated monopoly, Consumers does not need a new team to attract new customers, and BCC's costs, while borne by the company's entire customer base, are not demonstrated to benefit its entire customer base. 2 Tr 2402-2403.

The Attorney General also recommended removing $1 million from the forecasted BCC expense, arguing that Consumers did not adequately justify the additional employees or the increase in expense. 2 Tr 2002. The Attorney General asserted that some of the responsibilities listed for the Growth team in discovery "are more appropriate for government agencies that have

economic development teams in place[, and i]t would be duplicative and unnecessary for the Company to undertake such roles outside its function of delivering utility services." 2 Tr 2002.

Consumers rebutted the Staff's and the Attorney General's recommended disallowances, maintaining that the BCC O&M is reasonable, prudent, and recoverable. 2 Tr 666. The company explained the purpose of the Growth team's creation, denied that it would duplicate state or local economic development efforts, and argued that immediate near-term savings are not required for an expense to be considered reasonable. 2 Tr 666-669. The company also explained that the Growth team activities benefit all customers by supporting long-term system efficiency and cost stability. 2 Tr 668.

The ALJ recommended that the Commission approve the Staff's recommended partial disallowance in the amount of $1.033 million for the test-year BCC O&M expense. PFD, p. 452. The ALJ agreed with the Staff and the Attorney General that Consumers did not justify the creation of the new Growth team within the BCC and agreed that, as a regulated monopoly, the company does not need to attract new customers or facilitate business retention, which the company provided as goals for the Growth team. *Id*. The ALJ also found Consumers' description of the members of the team as a realignment of previously disparately located personnel from within the company as misleading given the additional labor costs that are requested. The ALJ also noted that, while immediate near-term savings may not be required for reasonableness, she was not convinced that the creation of the Growth team would result in more efficient service to business customers or that all customers would benefit and should therefore pay the costs for it. *Id*., pp. 452-453.

Consumers excepts to the ALJ's recommendation. While Consumers contends that the ALJ correctly described some functions of the Growth team in her PFD, the company argues that the

ALJ inappropriately diminished the work of the team and incorrectly treats the team's work as more akin to a marketing function when the record clearly shows that this is not the case. Consumers' exceptions, pp. 136-137(citing PFD, p. 452). Consumers also disagrees with the ALJ's contention that the company was misleading in its description of the costs as a realignment of dispersed employees due to additional labor costs, arguing that the record shows most of the additional labor costs stem from shifting cost centers and not new employees. Consumers' exceptions, p. 137.

In replies to exceptions, the Staff asserts that the ALJ correctly recommended disallowance of the requested O&M expenditures, arguing that Consumers has not supported the need for the new Growth team, and the costs related to the BCC Growth team are neither reasonable nor prudent. Staff's replies to exceptions, p. 31.

The Commission finds the ALJ's recommendation to approve the Staff's partial disallowance of $1.033 million for the BCC O&M expense to be well-reasoned and supported by the record. *See*, PFD, p. 452. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue.

9. Gas Uncollectible Expense

Consumers projected an uncollectible expense of $17.14 million for the test year. 2 Tr 625; Exhibit A-60. The company explained that the projected test year uncollectible expense was based on a three-year historical average Bad Debt Loss Ratio (BDLR) of uncollectible accounts expense to gas service revenue for the years 2022 through 2024, representing the ratio of uncollectible accounts expense to gas service revenue. 2 Tr 625. The company also explained that it applied the average BDLR to test year gas service revenue plus energy waste reduction surcharge revenue to arrive at the test year uncollectible accounts, which incorporated updated natural gas commodity

cost projections. 2 Tr 625. Consumers provided that the projection methodology using the three-year average most effectively captured recent trends affecting uncollectible accounts, such as economic conditions, customer payment behavior, collection practices, low-income assistance funding levels, and weather impacts. 2 Tr 625-626. Consumers also stated that it implemented several mitigation strategies over the last several years to reduce uncollectible expenses, including preventing customers with unpaid balances from opening new accounts until the balances are resolved and prioritizing collection of high risk and high volume past due accounts to reduce the company's overall arrears balance. 2 Tr 626.

MEC/CUB recommended that the Commission depart from the previously approved methodology, asserting that Consumers' three-year average approach is unreliable for forecasting test year uncollectible expenses. 2 Tr 2174. MEC/CUB explained that the net write-offs from 2022 through 2024 fluctuated significantly, and the spike in 2023 was likely a post-COVID-19 outlier that unnecessarily increased the average used for forecasting. 2 Tr 2174-2175. As a result, MEC/CUB recommended using only 2024 and 2025 actual figures escalated for test year sales, which MEC/CUB estimated at $16.7 million, using the same BDLR factor and accepting Consumers' gas service revenue amount. 2 Tr 2175.

Consumers rebutted MEC/CUB's recommendation to change the approved method of using a three-year average BDLR. 2 Tr 647. The company contended that the use of the most recent three-year average BDLR is consistent with previous Commission determinations, providing that the Commission in the March 1 order noted the "'long-standing practice of adopting the most recent three-year average BDLR.'" 2 Tr 647 (quoting the March 1 order, p. 202). The company also contended that the most recent three-year average BDLR smoothed out variations, noting that the Commission in the March 1 order "agreed with the [administrative law judge in that case] that

'the multi-year average will smooth the variations that occurred in 2020 and 2021.'" 2 Tr 647 (quoting the March 1 order, p. 202).

The ALJ declined to accept MEC/CUB's recommendation for partial disallowance of the company's uncollectible expense, finding it "reasonable and prudent, and consistent with the Commission's precedent, to use the most recent 3-year average BDLR, to calculate uncollectible expense[.]" PFD, pp. 456-457. The ALJ noted that:

> in Case No. U-21389, Consumers sought to omit 2020 and 2021 from the 3-year average BDLR, but Staff and the Attorney General opposed removing those COVID[-19] years. The [administrative law judge in that case] agreed that the omission was inappropriate, and the Commission [in the March 1 order] adopted the [administrative law judge]'s recommendation as reasonable, prudent, and consistent with its long-standing practice of using the most recent 3-year average. Both the [administrative law judge] and the Commission noted in that case that the 3-year average will smooth out the variations in 2020 and 2021. This PFD further notes that in [the September 30 order], no party challenged the Company's forecast which was based on the 3-year average BDLR of uncollectible expense to gas service revenue for the years 2021, 2022, and 2023.

PFD, p. 457 (footnotes omitted). Although MEC/CUB noted that Consumers overestimated actual uncollectible expenses by almost $2 million and attributed this to the company using the outlier amount from 2023 in its projection, the ALJ was not convinced that using the $16.7 million amount MEC/CUB recommended for uncollectible expense would offset any potential windfall. PFD, p. 457. As a result, the ALJ recommended that the Commission adopt the company's forecasted uncollectible expense of $17.14 million. *Id*.

MEC/CUB except to the ALJ's recommendation. MEC/CUB's exceptions, pp. 14-15. MEC/CUB argue that a smoothing out year-to-year variation is not a sufficient reason to use the three-year average methodology and should not be conflated with yielding accurate results and assert that "[t]he Commission should not, simply for the sake of consistency, apply that same methodology in this case when inclusion of 2023 practically ensures the Company is

overcompensated again." *Id*. MEC/CUB also argue that the use of the methodology in Case No. U-21389 over the company's objections (and ostensibly to the company's detriment) does not justify applying the same methodology to the company's benefit in this case. *Id*., p. 15. Further, MEC/CUB argue that the ALJ's reliance on the parties' non-objection in Case No. U-21806 to the use of a three-year average that included 2023 is erroneous and improper. *Id*. Lastly, the MEC/CUB argue that it is unreasonable to reject their recommendation because it may not fully offset the company's cost overrecovery. *Id*., p. 16.

In replies to exceptions, Consumers contends that the Commission should not change this longstanding methodology for calculating the projected expense. Consumers' replies to exceptions, p. 91. Consumers asserts that this methodology does not overcompensate the company as MEC/CUB allege; rather, because the uncollectible accounts expense can be affected by many factors, the three-year average methodology reduces these year-to-year fluctuations and smooths out variations in the expense. *Id*., pp. 90-91.

The Commission has reviewed the record and the parties' arguments and adopts the ALJ's findings on this issue. *See*, PFD, pp. 456-457. Over the last several rate cases, the Commission has used the most recent three-year average BDLR to calculate the uncollectible expense. While acknowledging the arguments made by MEC/CUB on the record in this case, the Commission is not persuaded to deviate from this past precedent and continues to find, as noted by the company, that "the three-year average methodology reduces [] year-to-year fluctuations and smooths out variations in the expense." Consumers' replies to exceptions, p. 91. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue.

10. Rate Case Expenses

The Attorney General recommended that the Commission disallow recovery of at least 50% of the $733,000 estimated rate case costs Consumers reported during discovery and remove that amount from the projected test year O&M expense in this case, which amounts to $367,000. 2 Tr 2009. The Attorney General also recommended that the Commission require the company to establish a mechanism to keep track of all costs to complete future rate cases and provide that cost with each new rate case filing, noting that company does not currently track rate case costs. 2 Tr 2008-2009. The Attorney General argued that, "[a]lthough the Company estimate provides a minimal cost estimate, the actual costs included in the Company O&M expenses remain a significant burden to customers if the utility continues to recover 100% of that expense." 2 Tr 2008. The Attorney General also noted that other states disallow or share rate case expenses between shareholders and customers. 2 Tr 2009.

Consumers rebutted the Attorney General's recommendation to disallow $367,000 of rate case expense from the projected test year O&M expense, arguing that the Attorney General's proposed 50% disallowance is arbitrary and unsupported by the record evidence. 2 Tr 975. The company asserted that the Attorney General provided "no analysis demonstrating that any portion of the Company's rate case expenses were imprudently incurred, unreasonable in amount, or excessive[, and a]bsent such a showing, a blanket reduction is inconsistent with cost causation principles and long-standing ratemaking practice." 2 Tr 975. While the company understands the Attorney General's desire for transparency, Consumers argued that tracking the rate case expenses "would impose additional administrative and compliance costs that would outweigh any incremental informational benefit to customers or the Commission[,]" and is unnecessary since the rate case preparation costs are prudently incurred expenses and costs of providing service. 2 Tr 976.

The ALJ noted that Case Nos. U-21860 and U-21973 addressed this issue in recent cases involving another Michigan utility, and the Commission declined to apply the partial disallowance but found it reasonable and prudent for the utility to provide a detailed and robust description and justification for expenses on external rate case consultants and to establish a mechanism to track all costs to complete future rate cases and provide that cost with each new rate case filing. PFD, p. 462 (citing the September 10, 2026 order in Case No. U-21973, p. 224; the February 19, 2026 order in Case No. U-21860, p. 372). The ALJ recommended that the Commission take similar action in this case. PFD, p. 462.

While the ALJ agreed with the Attorney General that the estimated rate case expenses reported by Consumers of $733,000 were significantly understated and that shareholders benefit from rate cases, the ALJ did not find that the record contained sufficient evidence to support the Attorney General's disallowance of those costs. *Id*., pp. 462-463. The ALJ also contended that the Commission "directing the Company to provide detailed rate cases information in the future will enable a more effective review of the reasonableness and prudency of those costs in accordance with MCL 460.6j(6)." *Id*., p. 463.

In exceptions, Consumers asserts that the ALJ's recommendation to provide detailed rate case information in future rate cases is unnecessary. Consumers' exceptions, p. 139. The company finds the ALJ's direction unclear, asserting that a recommendation for the company to establish a mechanism to track all costs incurred in future rate cases and provide this information with each new filing should be rejected as unreasonable. *Id*. Because rate case expenses are prudently incurred regulatory costs and costs of doing utility business, Consumers argues that the Commission should reject a new requirement that would increase costs without any showing of corresponding customer benefit. *Id*.

In her exceptions, the Attorney General argues that in addition to the ALJ's recommendation to require Consumers to track and provide detailed rate case information in the future, the Commission should disallow 50% of the company's requested rate case expense. Attorney General's exceptions, p. 69. The Attorney General contends that she disagrees with the company's rate case expenses benefitting ratepayers but "only recommend[s] that ratepayers and the Company (and shareholders) share the costs for an expense that clearly benefits [the company] and its shareholders in terms of increased rate base and return on equity." *Id*.

In replies to exceptions, the Attorney General contends that the Commission should require the company to keep track of its rate case expenses, asserting that Consumers "has the burden of demonstrating that its expenses are reasonable and prudent, just because they are expenses for rate cases that it initiates does not confer [a] presumption of reasonableness and prudence." Attorney General's replies to exceptions, p. 82. Moreover, the Attorney General argues that Consumers admits to certain company witnesses keeping track of their time spent on non-utility functions and tasks, but the company does not explain why it would be more onerous to keep track for rate case purposes. *Id*.; *see also*, Exhibit AG-82.

In its replies to exceptions, Consumers argues that the Attorney General did not support her recommended disallowance, and as such, the Commission should reject it. Consumers' replies to exceptions, p. 92.

The Commission finds the ALJ's recommendation to be well-reasoned based on the evidence on the record, and therefore, adopts the ALJ's findings and conclusions on this issue. *See*, PFD, pp. 462-463. As noted, the Commission has previously rejected similar proposed 50% disallowances in other Michigan utility cases and finds the evidence in this case supports the same conclusion; however, the Commission finds merit in directing Consumers to provide detailed

information and justification for the cost of rate case consultants and other costs for preparing and litigating a rate case to assist the Commission in finding the company's full request in its next gas rate case to be reasonable and prudent. Therefore, the Commission directs Consumers to establish a mechanism to track all costs to complete future gas rate cases and provide those costs with each new gas rate case filing.

11. Inflation Rate

According to Consumers, the company used S&P Global inflation factors from the June 2025 *U.S. Economic Outlook* publication of 2.8% for 2025, 2.4% for 2026, and 2.3% for 2027 to prepare for this rate case. 2 Tr 1302. The company claimed it clearly identified and explained the variances in the testimony and exhibits presented in this case in accordance with the September 30 order. 2 Tr 951 (citing the September 30 order, p. 247); *see also*, Exhibit A-13, Schedule C-5.1; Exhibit A-24. Consumers explained that the forecasted cost increases differed from the Consumer Price Index (CPI) because CPI tracks consumer trends, not natural-gas-specific cost drivers such as extreme weather, supply-chain pressures, and contractual escalation clauses. 2 Tr 951. The company also outlined productivity improvements it has taken to offset inflationary cost increases. 2 Tr 951-953.

MEC/CUB recommended that the Commission hold rate increases below the expected rate of inflation, arguing that Consumers' proposed O&M cost increases significantly outpaced inflation. 2 Tr 2137. MEC/CUB asserted that utility rates should rise slower than inflation due to utilities lacking competitive pressures that otherwise would incentivize productivity. 2 Tr 2137-2138. MEC/CUB suggested applying a Productivity-Adjusted Inflation (PAI) factor (defined as inflation minus expected productivity gains) to constrain cost growth, explaining that "[a]pplying PAI ensures that utility rates rise only to the extent that cost increases are not offset by improved asset

utilization, better procurement practices, workforce optimization, or other operational efficiencies." 2 Tr 2136-2137. MEC/CUB also suggested that the Commission adopt PAI-derived spending targets based on total factor productivity (TFP) data from the Federal Bureau of Labor Statistics (BLS), which using a TFP of 0.87% resulted in PAI rates of 1.93% in 2025, 1.53% in 2026, and 1.43% in 2027. 2 Tr 2145-2146. MEC/CUB described how the Commission had previously instructed Consumers to provide detailed evidence of productivity gains; however, MEC/CUB contended that Consumers' total spending and the absence of quantified examples of productivity improvements demonstrates that the company has not satisfied Commission directives to document productivity improvements. 2 Tr 2139-2144; *see also*, the March 27 order, pp. 351-352; the March 21, 2025 order in Case No. U-21585, pp. 355-356. As a result, MEC/CUB recommended an O&M test-year spending target of $305.65 million (which is approximately $40.8 million less than the company's proposal) based on historical spending plus compound PAI adjustments. 2 Tr 2155. MEC/CUB also recommended that the Commission approve PAI-derived benchmarks to ensure customers benefit from reasonable productivity gains. 2 Tr 2154-2155.

Consumers rebutted MEC/CUB's recommendation, arguing that the use of inflation factors to project future costs does not remove the company's incentive to improve productivity. 2 Tr 968. The company asserted that MEC/CUB's recommendation to base rates on a PAI metric is inconsistent with fundamental ratemaking principles and represents a fundamental change from established practice. 2 Tr 969. The company also asserted that MEC/CUB, as the proponent, bears the burden of proving that a PAI framework will produce more accurate, just, and reasonable cost projections, which they have not done, and the company's historical costs do not support adopting such a constraint. 2 Tr 969.

Consumers also disagreed with MEC/CUB's presumption that rates must rise below inflation, arguing that this will systematically bias cost recovery downward, risk underrecovery when costs rise due to uncontrollable factors, and conflict with the Commission's obligation to maintain the company's financial integrity while ensuring reasonable rates. 2 Tr 970. The company also noted that the Commission previously declined to set rates based on the PAI rate after finding insufficient evidence that the methodology produced a reasonable projection of future costs. 2 Tr 970 (citing the March 27 order, p. 352).

The ALJ declined to accept MEC/CUB's proposed PAI framework and recommended Consumers' unadjusted inflation projections be approved where applicable throughout this case, finding sufficient evidence on the record demonstrating that the company took reasonable steps to offset inflation with productivity increases. PFD, pp. 469-470. The ALJ found that Consumers complied with the September 30 order by providing detailed evidence of the company offsetting inflation with productivity increases through its witness testimony and exhibits. PFD, p. 470 (citing September 30 order, pp. 243-247). The ALJ also noted that:

> this issue was also addressed in Consumer[s]' recent electric rate cases, Case Nos. U-21585 and U-21870, and Consumers presented similar witness testimony and exhibits that the Commission found sufficient to demonstrate that the Company's efficiencies and productivity improvements were reasonable and did not require implementation of a PAI or other mechanism for adjusting inflation. Still, this PFD recommends the Commission direct the Company, like it did in [the March 27 order in] Case No. U-21870, to fully incorporate productivity gains into its cost projections and adjust expenses accordingly, and provide details on its productivity offset that demonstrate measurable improvements and benefits for customers in its next gas rate case.

PFD, p. 470 (footnotes omitted).

No exceptions were filed on this issue.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. *See*, PFD, pp. 469-470. The Commission finds that this decision is consistent with Case

No. U-21585 and will help to provide more accurate cost projections and better transparency into how productivity gains are incorporated into the company's cost projection requests in future gas rate cases. Accordingly, the Commission adopts the ALJ's findings and conclusion on this issue.

With this decision, the Commission also finds that based on the company's testimony and exhibits presented in this case, Consumers could go further to demonstrate, in detail, that the company is fully incorporating productivity gains into its cost projections, and that expenses have been adjusted accordingly to drive further efficiencies. Therefore, the Commission directs Consumers, in its next rate case, to provide details on its productivity offset that demonstrate measurable improvements and benefits for customers.

E. Depreciation and Amortization – Non-Manufactured Gas Plant

Consumers forecasted its test year non-MGP depreciation expense at $392.471 million in the projected test year. Exhibit A-13, Schedule C-1; Exhibit A-13, Schedule C-6; Consumers' initial brief, p. 317.

The Staff recommended a $1.841 million reduction in the company's non-MGP depreciation expense based on the Staff's adjustments to Consumers' historical and projected capital expenditures, along with a $111,000 reduction in the company's test year projected amortization expense as a result of the Staff's proposal to reduce the 2025 MGP deferred expenditures. 2 Tr 2312-2313.

In rebuttal, Consumers agreed to reduce the depreciation expense to $388.985 million because of adjustments in capital spending. 2 Tr 1321. The company also agreed to reduce the amortization expense to $8.972 million. 2 Tr 648-649.

In its initial brief, the Staff recommended that the Commission approve a depreciation expense of $387.351 million, which is $1.635 million less than the company's rebuttal projection of

$388.985 million and correlates with the Staff's capital expenditure adjustments on depreciation expense. Staff's amended initial brief, p. 112. The Staff reiterated its recommendation for the Commission to approve the company's adjusted amortization expense of $8.972 million. *Id*., pp. 112-113.

The ALJ recommended that the Commission approve the amortization expense of $8.972 million as uncontested. PFD, p. 472. The ALJ also recommended that the depreciation expense be recalculated based upon the determinations in the Commission's final decision because the dispute between Consumers and the Staff is related to the differences in capital expenditure amounts. *Id*.

No exceptions were filed on this issue.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. *See*, PFD, p. 472. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue.

F. Amortized Manufactured Gas Plant Expense

Consumers requested $1.633 million in deferred expenses over 10 years and $1.124 million in non-deferred O&M expenses for costs related to investigation and remediation of MGP sites. 2 Tr 1265-1266.

The Staff determined Consumers' environmental response activities and actual costs are reasonable and prudent but argued that the total amount requested is not. 2 Tr 2424; Exhibit S-8. The Staff explained its analysis of the MGP expenses that were actually incurred by the company from January 2025 to December 2025 shows that Consumers in its initial filing included estimated and forecasted costs for activities that had not actually occurred, which cannot be reviewed by the Commission for their reasonableness and prudence. 2 Tr 2426. Therefore, the Staff recommended

that the Commission approve $524,063 as reasonably and prudently incurred costs for the environmental response activities at the company's former MGP sites from January 2025 to December 2025, which is a $1.1 million reduction in costs. 2 Tr 2425-2426.

In rebuttal, Consumers agreed with the Staff's adjustments to the unamortized MGP balance and the test year projection of MGP amortization expense, and the company adjusted its originally filed revenue deficiency by decreasing its unamortized MGP costs by $935,000 and the associated amortized expense by $111,000. 2 Tr 648-649, 1321-1322.

The ALJ recommended the Commission approve the Staff's reduction of the amortized MGP expense by $111,000, resulting in a total amortization expense of $8.972 million. PFD, p. 474. The ALJ noted that the evidence and the company both supported the reduction. *Id*.

No party filed exceptions on this issue.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. *See*, PFD, p. 474. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue.

G. Taxes

Consumers provided that the property tax rate for the projected tax year was 0.013931555% as set forth in Exhibit A-125. 2 Tr 1379. The company noted that the estimated property taxes for the gas portion of the business were $208.7 million for 2025. 2 Tr 1380. The company also proposed an additional charge of $1.493 million of excess deferred taxes in this case, explaining that this amount represented the company's regulatory asset recorded as of year-end 2023. 2 Tr 1382.

The Staff recommended a reduction of the company's test year projection by $525,000, explaining that the adjustment represents the corresponding effect on property tax expense

resulting from the test year plant change from the Staff's adjustments to Consumers' historical and projected capital expenditures multiplied by the company's property tax rate of 1.39315553642358%. 2 Tr 2313.

The Attorney General recommended that the Commission reduce Consumers' property tax expense by $4.6 million, which reflects adjustments the Attorney General made to the company's proposed capital expenditures. 2 Tr 1934.

In its initial brief, Consumers conceded to reduce the projected property tax expense for the test year to $212.023 million based on adjustments to capital expenditures and net plant. Consumers' initial brief, p. 318.

For the FIT expense, Consumers originally projected a FIT expense of $92.790 million in the test year but adjusted this projected expense to $95.811 million to address changes to the company's proposed revenue and expenses. Consumers' initial brief, p. 318.

The Staff recommended a FIT expense of $96.125 million, which is more than the company's rebuttal projection. Staff's amended initial brief, p. 115.

For the state and local tax expenses, Consumers originally projected a state income tax expense of $28.159 million and a local tax expense of $912,000 in the test year, respectively. Consumers' initial brief, p. 319. The company adjusted these projected expenses to $28.956 million and $936,000, respectively, to address changes to the company's proposed revenue and expenses. *Id*.

The Staff recommended state income taxes of $29.038 million and local taxes of $939,000, both of which are more than the company's rebuttal projection. Staff's amended initial brief, p. 480.

For the general taxes, Consumers projected general taxes of $20.520 million in the test year. Consumers' initial brief, p. 319. The Staff agreed with Consumers' projection. Staff's amended initial brief, p. 114.

The ALJ recommended that the "property tax expense be recalculated based upon the Commission's determinations in the final [decision] because [the] difference in the proposed depreciation reserves provided by the parties arise from differing capital expenditure amounts." PFD, p. 480.

No exceptions were filed on this issue.

The Commission finds that the property, federal, state, local, and general tax amounts should reflect the decisions pertaining to projected revenues and expenses in this order.

H. Allowances for Funds Used During Construction

Consumers calculated AFUDC of $12.821 million for the projected test year as forth in Exhibit A-13, Schedule C-11. Consumers' initial brief, p. 319. The Staff recommended that the Commission approve this projection. Staff's amended initial brief, p. 115.

The ALJ recommended that the Commission approve Consumers' projected AFUDC, finding that no party recommended an adjustment. PFD, p. 481.

No exceptions were filed on this issue.

Based on the decisions in this order, the Commission finds that AFUDC is $12.821 million.

I. Calculation of Adjusted Net Operating Income

Based on the findings and recommendations above, Consumers' jurisdictional adjusted NOI is $647.358 million.

VII. REVENUE DEFICIENCY

Consistent with the findings and determinations made in this order, the Commission finds that Consumers has a jurisdictional revenue deficiency for the test year of $139,176,000 computed as follows:

Rate Base	$12,184,275,000
Overall Rate of Return	5.31%
Required Rate of Return	6.17%
Income Required	$751,370,000
Adjusted Net Operating Income	$647,358,000
Income Deficiency	$104,011,000
Revenue Conversion Factor	1.3381
Revenue Deficiency	$139,176,000

VIII. COST OF SERVICE, RATE DESIGN, AND TARIFF ISSUES

A. Cost of Service Study

Consumers prepared two versions (V1 and V2) of its cost of service (COS) study (COSS), explaining that V1 employs the cost allocation methodologies previously adopted by the Commission in Case No. U-21806 with routine updates for historical and test year data and V2

starts with V1 and then incorporates four company proposals.[22] The company also stated that it removed the cost classification step[23] in preparing both versions and advocates for use of V2 in this case. 2 Tr 1345-1355; Exhibit A-16, Schedule F-1 (V1) and Schedule F-1.1 (V2). The Staff also presented two COSSs, with the first similar to the company's V1 and the second similar to the company's V2 but only adopting two of Consumers' proposed changes, rejecting the other two (breaking out Transmission Plant and Storage Plant into categories and consolidating certain small Other Revenue accounts), and with the Staff advocating for use of its own second COSS version in this case. 2 Tr 2412-2416; Exhibit S-6, Schedule F-1 (Version 1 of Staff's COSS) and Schedule F-1.1 (Version 2 of Staff's COSS); Staff's amended initial brief, pp. 116-117. ABATE, on the other hand, presented an alternative COSS using the Design Day Demand allocation method instead of the A&P allocator[24] used by Consumers in both V1 and V2, with ABATE asserting that the A&P method is internally inconsistent with the company's own planning rationale and double counts average demand when allocating costs, whereas the peak day demand

---

[22] Consumers' four proposals are to:

> (1) break out Transmission Plant and Storage Plant into categories that align with the current Commission approved cost drivers; (2) create an Average and Peak ("A&P") Distribution allocator that excludes transmission only customer volumes; (3) consolidate the pension and payroll cost line items; and (4) consolidate certain small Other Revenue accounts.

2 Tr 1346.

[23] Consumers described three parts or steps involved in performing a COSS: (1) functionalization, (2) cost classification, and (3) cost allocation. Cost classification, being the second step, "involves the categorization of functionalized costs according to the primary cost drivers." 2 Tr 1348. For why it removed this step in this case, the company stated that it did so "because [this step] added significant model and formula complexity and was not relied on to allocate costs or design rates," and "[b]ecause it was not used, its removal has no impact on the COSS results or rate design." 2 Tr 1350.

[24] Some parties also refer to the A&P allocator as the Peak and Average (P&A) allocator. Whichever used in this case, the Commission considers them synonymous.

approach is most closely tied to cost-causation and the way Consumers designs its gas delivery system. However, to temper the results of this proposal but still allow for meaningful movement toward the results, ABATE recommended a revenue apportionment methodology to design rates in this case to limit the rate increase for any customer class to no more than 1.5 times the system average increase. 2 Tr 1592-1608; Exhibit AB-1, p. 3; Exhibit AB-2; Exhibit AB-20, pp. 1-12; ABATE's initial brief, pp. 17-26. LBWL/MSU recommended that the Commission adopt the company's V2 COSS, with a revised forecast for Rate XXLT gas deliveries based on an average of actual gas deliveries in 2024 and 2025. LBWL/MSU also supported ABATE's request to limit any class-specific rate increase to no more than 1.5 times the system average. 2 Tr 2234-2235, 2237-2245; LBWL/MSU's initial brief, pp. 2-4. In rebuttal, Consumers withdrew its first proposal to break out Transmission Plant and Storage Plant into categories in its V2 COSS but defended its fourth proposal to consolidate certain small Other Revenue accounts and also asserted that limiting class increases to a fixed multiple of the system average does not result in equity but instead favors transportation customers at the expense of sales customers. The company also did not oppose LBWL/MSU's revised Rate XXLT forecast and accordingly made adjustments during rebuttal. 2 Tr 1370-1372; Exhibit A-160, line 3; Consumers' initial brief, pp. 230-232, 320-324.

After discussing the throughput and rate design disputes presented by ABATE and LBWL/MSU, the ALJ recommended that the Commission approve Consumers' V2 COSS applying the company's second and third proposals for setting rates and adopting LBWL/MSU and the company's agreed forecast for Rate XXLT gas deliveries based on an average of actual gas deliveries in 2024 and 2025. Along with this, the ALJ accepted Consumers' withdrawal of its first proposal to break out Transmission Plant and Storage Plant into categories and rejected ABATE's Design Day Demand allocation methodology proposal considering prior rate cases, including Case

No. U-21806 wherein the Commission reaffirmed the use of the A&P allocator. PFD, p. 491 (citing September 30 order, pp. 261-267; September 26, 2019 Order in Case No. U-20322, pp. 111-119; and December 9, 2016 Order in Case No. U-17999, pp. 57-59). Agreeing with the Staff, the ALJ also recommended that the Commission reject the company's fourth proposal to consolidate certain small Other Revenue accounts, finding that this proposal "decreases the number of allocators and may inhibit a party's ability to accurately adjust [to Other Revenue accounts] as needed." PFD, p. 492.

ABATE objects, arguing that the ALJ's cost allocation method recommendation is based on an inaccurate claim that this case is indistinguishable from previous cases on this issue and thus should be rejected by the Commission as not supported by substantial evidence on the record. Specifically, ABATE asserts that:

> [t]he record in this case is distinguishable from prior proceedings, in that the Company here expressly agreed with ABATE's critique of the A&P method. (Exhibits AB-1 at 3, AB-20 at 1-14; Smith 2 Tr 1370.) When asked to confirm that "double counting a class's average demand within a capacity cost allocator produces a cost of service study which does not accurately reflect cost causation," the Company explicitly agreed that "double counting average demand would lead to less accurate results." (*Id*.) Thus, the Company acknowledged the P&A methodology does not produce an accurate allocation of costs among customer classes. (ABATE Initial Br at 17-26.) The Company's NGDP and admissions in this case demonstrate that it plans its system and incurs costs to meet Design Day Demand, meaning that [the] PFD's recommended cost allocation method for designing rates does not reflect the Company's cost to serve its customer classes. In this case the Company specifically confirmed that the "Design Day Demand method more accurately reflects the cause(s) of the Company's costs than the P&A method." (Exhibit AB-20 at 1-2, 6.) Consumers also admitted "that the 1989 NARUC Gas Rate Design Manual (page 28) states that the P&A method tempers the apportionment of costs between high-load-factor and low-load-factor customers." (Exhibit AB-20 at 5.) Thus, the Company acknowledged the PFD's recommended CCOSS [class COSS] "tempers the apportionment of costs between" rate classes to modify increases and does not best reflect cost causation.
>
> Importantly, in contrast to prior proceedings the Company also admitted it "does not affirmatively object to ABATE witness York's Design Day Demand allocation methodology," that "Consumers is not affirmatively advocating for the use of the

> P&A method to allocate its costs in this case," and that "nothing in Consumers' testimony or exhibits in this case should be construed as a conclusion that the P&A allocator more accurately reflects cost causation than other allocation methods, including the Design Day Demand method." (*Id*. at 10-11.) Thus, in this case the Company admitted it did not object to ABATE's proposed cost allocation. The PFD's disregard for the Company's expressed position in favor of an implicit recommendation deduced from the mechanics of Consumers' filed CCOSS is in error.

ABATE's exceptions, pp. 9-10. Given Consumers' lack of objection, which the Staff also notes, and the company's own explicit confirmation that ABATE's proposal more accurately tracks rate class cost causation, ABATE concludes that the record in this case "demonstrates the P&A CCOSS is a flawed basis on which to base rate recovery" and the "Staff's argument that a Design Day Demand allocation would shift approximately $8.4 million toward the residential class does not change this analysis." *Id*., p. 10 (citing Staff's initial brief, p. 121; PFD, pp. 488-489). Whether and how to moderate rate impacts is a rate design question to be addressed below, according to ABATE, and "is not a reason to adopt a cost of service study the Company itself concedes does not accurately reflect cost causation." ABATE's exceptions, p. 10.

Consumers objects and asserts that the ALJ's certain small Other Revenue concerns are unfounded. The company contends that its proposed consolidation of certain small Other Revenue:

> does not complicate adjustments because it does not change the function assigned to the revenues and does not prevent any party from proposing a different treatment in a future case if the record supports one. Concerns to the contrary are amorphous and speculative. Neither the ALJ nor Staff identified any adjustment that would be inaccurate in this case, any revenue item that would be misallocated, or any future adjustment that would be unavailable if the Commission approves the consolidation here.

Consumers' exceptions, p. 142. Consumers thus argues that the Commission should adopt the company's V2 COSS proposal including its certain small Other Revenue allocator proposal.

ABATE responds and argues that the Commission should reject both the company's COSS proposal and certain small Other Revenue allocator proposal, as the company's proposed cost allocation is unsupported and does not reflect cost causation. ABATE also argues that Consumers fails to engage with the evidentiary problem that the company's filed COSS applies the A&P allocator that the company did not defend (which the Staff acknowledges). Further, ABATE asserts that Consumers fails to grapple with the company's own concession about double counting and the P&A method being a tempering method that apportions costs between high-load-factor and low-load-factor customers. ABATE's replies to exceptions, pp. 4-5 (citing 2 Tr 1370 and Exhibit AB-20, pp. 1-2, 5, 6, 10-11). ABATE asserts that the admissions by Consumers are the reason why this case is distinguishable from the prior proceedings that the ALJ relied upon, stating that:

> [e]ach of those orders rested on a record in which the utility affirmatively sponsored and defended the A&P method. That defense is absent here. Filing a study is not the same as supporting it with substantial evidence. There is "no legal presumption that findings of fact should be made in the utility's favor if there is conflicting evidence," and if the Commission were to "rule in the utility's favor whenever substantial evidence supports the utility's position, the Commission would not be performing the legally-required weighing and sifting of evidence and would be committing legal error." *In re Application of DTE Electric Co*, order of the Public Service Commission, entered January 31, 2017 (Case No. U-18014), pp 6-9. A capacity cost allocator that the sponsoring witness declines to defend, that the Company concedes double counts average demand, and that the Company concedes is less accurate than the method ABATE proposes, is not substantial evidence supporting adoption of that cost allocation.

ABATE's replies to exceptions, p. 5. ABATE argues that:

> [t]he Commission's task on this issue proceeds in two steps, and Consumers' exception collapses them. The first step is a determination of which allocation method reflects the manner in which customers cause the Company to incur its costs. On this record, that method is Design Day Demand. The Company's own Natural Gas Delivery Plan and its admissions establish that it plans its system and incurs capacity costs to serve peak day requirements, not annual throughput. (ABATE Initial Br at 17-26; Exhibit AB-2.) The second step is the revenue apportionment the Commission adopts in light of those results. Whether and how

> to moderate class rate impacts is a rate design question, and it is not a reason to adopt a cost of service study that the Company itself concedes does not best reflect cost causation.

ABATE's replies to exceptions, pp. 5-6. With regard to this, ABATE contends that the Staff's objection about shifting $8.4 million (0.7%) to the residential class is directed at the second step, not the first, and ABATE's 1.5 times cap, supported by LBWL/MSU, directly addresses this concern and is not dependent on adoption of ABATE's Design Day Demand study but is rather "a moderation mechanism that applies to whatever class results the Commission adopts, including the Company's or Staff's." *Id*., p. 6. ABATE thus argues that the Commission should reject Consumers' exceptions on this issue, find that the Design Day Demand allocation method most accurately reflects cost causation, and thus apportion the revenue increase among classes subject to a uniform cap of 1.5 times the system average increase.

The Staff responds to ABATE's exceptions about the use of the A&P allocator and, in doing so, reiterates that this same issue has been examined and decided by the Commission previously, asserts that the ALJ's recommendation correctly considered the record and briefing, and reiterates the Staff's support for the A&P method for allocation of distribution mains. Staff's replies to exceptions, p. 33. The Staff also responds to Consumers' exceptions as to Other Revenue allocators and the company's argument "that adopting [the company's] proposed allocations for other revenue items would not remove the possibility that Staff or any party could propose something different in a future case" and asserts that this argument "presupposes that the Company will not change its cost-of-service model by combining items that are currently separated so that they can easily be assigned different allocators." *Id*., p. 35 (citing 2 Tr 2415 and Consumers' exceptions, pp. 142-143). Because of potential impacts on future adjustments, the Staff contends that the ALJ correctly rejected the company's fourth proposal and recommends that the

Commission do the same. However, the Staff states that, "even if the Commission favors the Company's proposed allocation, the cost-of-service model should not be modified to combine line items." Staff's replies to exceptions, p. 35. This way, according to the Staff, "if a party wanted to propose, but also represent an allocator change in the model, that party would be able to quickly and easily do so in the same case in which the change is proposed." *Id*.

In replies, Consumers argues that ABATE largely just repeats arguments made during the case, which the ALJ correctly rejected and the Commission should too. *See*, Consumers' replies to exceptions, pp. 92-95.

The Commission finds the ALJ's recommendation to be well-reasoned and supported by the record. While Consumers confirmed that it does not affirmatively object to ABATE's Design Day Demand allocation methodology, the Commission finds that the A&P method, recognized by the NARUC Gas Rate Design Manual, results in an equitable sharing of fixed infrastructure costs by apportioning costs between high-load-factor and low-load-factor customers. Exhibit AB-20, pp. 5, 10. Accordingly, the Commission adopts the ALJ's findings and conclusions on this issue and finds that Consumers' V2 COSS, with the agreed-upon revised Rate XXLT forecast and as modified to only include the company's second and third proposals, should be approved. *See*, PFD, pp. 491-492.

B. Rate Design

Consumers described its objectives and approach to rate design in this case, explaining that it designed rates in its V2 COSS so that the revenue recovered from each customer class reflects the adjusted costs for that class. Consumers further stated that it also considered establishing rates that promote efficient use of the company's gas system and promoting energy efficiency, establishing rates that promote a favorable business climate, and designing rates that provide the company with

a fair opportunity to collect its revenue requirements. With this, Consumers indicated that it is proposing to:

> (1) maintain its existing residential rate structure for Rate Schedules A and A-1, which includes a fixed monthly customer charge and volumetric distribution charges;
>
> (2) maintain its existing rate structure for General Service Rate Schedules GS-1, GS-2, and GS-3 and maintain the economic breakeven points between them;
>
> (3) increase its contiguous charges for both general service and transportation customers but in amounts below those informed by the COSS;
>
> (4) maintain its existing transportation rate structure with Rate Schedules ST, LT, XLT, and XXLT and maintain the economic breakeven points between them;
>
> (5) maintain the Commission-approved rate design methodology for its Transmission Only Transportation (TOT) rate from Case No. U-21806 but classify Rate TOT revenues as base rate revenue rather than as Other Revenue;
>
> (6) eliminate the Excess Peak Demand Charge on Multifamily Dwelling Service Rate A-1 but retain the rate for regulatory and operational reasons; and
>
> (7) remove the $70 per-meter Remote Meter Charge currently applied to some customers taking service on Gas Transportation Service Class Rates XLT and XXLT.

See, 2 Tr 1356-1360, 1362; Exhibit A-16, Schedules F-2 and F-2.2; Consumers' initial brief, pp. 321-322. These proposals are addressed in greater detail below.

1. Undisputed Proposals

The ALJ noted the Staff's support for company proposal 3 (contiguous charges) and proposal 6 (eliminate Excess Peak Demand Charge on Rate A-1 but keep the rate) and no dispute by any party regarding proposals 3, 6, or 7 (remove remote meter charge for Rates XLT and XXLT). PFD, pp. 493-494 (citing Staff's initial brief, p. 120 and Consumers' initial brief,

p. 322).[25] In turn, the ALJ recommended that these uncontested proposals be approved. PFD, pp. 494-495.

No exceptions were filed on these issues.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions on these issues. *See*, PFD, pp. 494-495.

2. Customer Charges

Consumers proposed a residential customer charge of $20 per month, up from the current charge of $17, and a volumetric distribution charge of $6.3310 if the proposed residential customer charge is approved or a volumetric charge of $6.7125 if the proposed residential customer charge is not approved. The company also proposed a monthly general service customer charge of $27 for Rate GS-1 up from the current charge of $21. 2 Tr 1361-1363; Exhibit A-16, Schedule F-2.1. The Attorney General disagreed with the increases and recommended that the monthly customer charges remain the same, asserting increases to be excessive and burdensome to customers and to have also occurred in the company's last gas rate case. The Attorney General also raised rate shock concerns, along with the contention that fixed monthly charges discourage energy conservation. 2 Tr 1851, 2021-2023; Attorney General's initial brief, pp. 180-181. The Staff recommended a residential customer charge of $19 per month and a general service customer (GS-1) charge of $25 per month for Rate GS-1. 2 Tr 2416, 2417, 2490-2491; Staff's initial brief, p. 117. Consumers disputed the Attorney General's assertions to keep the monthly customer

[25] In the PFD, the ALJ labeled these proposals as (a) through (g). Thus, proposals 3, 6, and 7 are referred to as proposals (c), (f) and (g) in the PFD. *See*, PFD, p. 493.

charges at status quo and argued that the Commission should approve cost-based residential and GS-1 customer charges in this case. 2 Tr 1372-1374; Consumers' initial brief, pp. 324-326.

The ALJ agreed with Consumers and the Staff that customer charges should be based on COS principles with the ultimate amount determined by the final Commission-approved COSS in this case. The ALJ, however, recommended that the Commission:

> limit any increase in the residential customer charge to $2.00 and limit the increase to Rate GS-1 customers to $3.00, as recommended by Staff, with any remaining disparity between the COSS and customer charges to be addressed in future rate cases. The Commission found this approach reasonable in Case No. U-21806 and while this PFD is persuaded that the most vulnerable customers (i.e. those who qualify for the residential income assistance (RIA) provision) are insulated from the hardship imposed by significant rate increases, non-RIA customers and customers that use less than average amounts of gas should also be protected from rate shock.

PFD, p. 498 (footnote omitted; citing September 30 order, pp. 281-285).

Consumers objects and asserts that the Commission should reject the ALJ's recommendation. The company reiterates the need and purpose of customer charges and contends that moving customer-related fixed costs toward the fixed charge "better aligns the rate structure with cost causation and reduces cross-subsidization among customers." Consumers' exceptions, pp. 143-144. Further, per Consumers:

> When customer-related fixed costs are not recovered through the customer charge, those costs do not disappear; they are instead recovered through volumetric delivery charges. Moving those costs into the fixed charge better reflects cost causation and leaves the usage-based charge to more closely reflect the marginal cost of delivering gas.
>
> This cost-based method is consistent with the approach the Commission first endorsed in Case No. U-4331 and has endorsed for many years since. 2 TR 1361. The ALJ's recommendation, however, elevates gradualism principles above cost-based ratemaking principles. This is particularly true for the GS-1 customer charge, where the ALJ is shifting half of the Company's proposed increase to the volumetric charge. This is a big difference and means not only that customers are paying the wrong amount, compared to the costs they are causing, but the resulting misalignment is significant.

> The bottom line is that arbitrary rate-design adjustments that are not tied to cost causation improperly shift revenue responsibility among customer classes. 2 TR 1370. The same principle applies within the residential and GS-1 rate design. Recovering customer-related fixed costs through volumetric charges does not make those costs any less fixed; it only changes which customers pay them. A customer charge increase based on the COSS is not an arbitrary increase to a fixed charge. It is a measured movement toward the costs the Company incurs to provide basic customer access and service.
>
> The Company's proposal does not ignore gradualism; it applies gradualism after first looking to cost causation. That is the right order. Gradualism may support moderating movement toward cost-based rates, but it should not override the evidence showing that customer-related fixed costs should be recovered through the customer charge. By cutting the customer charge – considerably for GS-1 customers – and shifting the balance to volumetric delivery charges, the ALJ's recommendation leaves too much fixed-cost recovery in rates based on usage rather than the costs of providing basic customer access and service.
>
> The Commission has long recognized that customer charges should be tied to the costs directly associated with supplying service to a customer, and the Company's proposed customer charges do that. The Commission should approve the Company's proposed rate design because it is consistent with the Company's COSS and better aligns fixed customer-related costs with the fixed charge designed to recover them.

Consumers' exceptions, pp. 144-145.

The Attorney General also objects and argues that the Commission should reject any increases in the monthly charges. The Attorney General reiterates that these charges were just increased in the company's last gas rate case and that the recommended increases "will result in higher bills without a corresponding increase in gas usage and fixed monthly charges discourage energy conservation since reduced usage does not result in a reduction in gas bills." Attorney General's exceptions, p. 71.

ABATE responds to Consumers' objections presented here—that "the 'Commission should approve the Company's proposed rate design because it is consistent with the Company's COSS and better aligns fixed customer-related costs with the fixed charge designed to recover them'"—and reiterates that the Commission should decline to adopt the rate design proposed by the ALJ

and instead adopt rates set out in ABATE's testimony and briefing in this case. ABATE's replies to exceptions, p. 13 (quoting Consumers' exceptions, p. 145). ABATE, in this regard, argues that the company's acknowledgment "that 'arbitrary rate-design adjustments that are not tied to cost causation improperly shift revenue responsibility among customer classes'" is the "sentiment [that] describes Consumers and the Staff's proposed rate designs in this proceeding." ABATE's replies to exceptions, p. 14 (quoting Consumers' exceptions, p. 144); *see also*, ABATE's initial brief, pp. 17-26, 52-56; ABATE's reply brief, pp. 8-13, 23-27; ABATE's exceptions, pp. 8-11, 17-20. Further, per ABATE, "Consumers and Staff's application of rate stability targets demonstrate that their proposed cost allocations and rate designs are not reasonable;" thus, "[t]he argument is therefore not over whether moderation is necessary, but what form." ABATE's replies to exceptions, p. 14. ABATE, in this regard and as it relates to the ALJ's transportation rates and economic breakeven point recommendations in the PFD, maintains that a uniform 1.5 times system average increase cap for all classes is the most equitable and reasonable approach.

The Staff responds to Consumers' and the Attorney General's objections and argues that the Commission should reject both and adopt the ALJ's recommendation on customer charges. In response to the Attorney General's objections, the Staff asserts that customer charges should reflect COS, and "[t]he Company's ultimate position should also be rejected because its calculation for customer charges is based on a capital structure request that is not likely to be approved by the Commission." Staff's replies to exceptions, p. 34. Moreover, per the Staff, the ALJ "appropriately considered this evidence, along with concerns about preventing rate shock, and made the correct decision," which the Commission should adopt. *Id*. (citing PFD, pp. 495-498).

Responding to the Attorney General's exceptions, Consumers argues that the Attorney General's objections repeat her earlier position in the case and do not answer COS evidence. Consumers states that:

> [t]he monthly customer charge is designed to recover customer-specific costs that the Company incurs to serve a customer regardless of the amount of gas the customer uses. 2 TR 1373. Those costs do not disappear when a customer reduces usage, and shifting more of those fixed customer-related costs into volumetric rates would dilute the cost-based structure of the Company's proposed rate design.
>
> A cost-based customer charge does not eliminate a customer's incentive to conserve energy, as they can still reduce their bills by lowering usage. By contrast, the Attorney General's proposed rate freeze for non-volumetric charges, which she says would promote conservation, would undermine cost-based rates. As [company witness] Mr. Smith explained in rebuttal, if the final Commission-approved COSS supports a residential customer charge above $17.00 and a GS-1 customer charge above $21.00, then those charges should be designed to reflect the higher customer-related costs rather than perpetuating the growing gap between calculated and approved charges. 2 TR 1372- 1373. Past settlements with smaller historical increases have widened that gap over time, and the Company has only recently begun to close the gap. 2 TR 1372.

Consumers' replies to exceptions, pp. 97-98. With this, Consumers asserts that customer impact concerns also do not justify rejecting the company's proposed residential customer charge that moves the charge closer to COS, reminding that this charge is fully offset by the RIA credit for low-income residential customers, that collection of revenue from a larger fixed customer charge results in a lower collection of revenue through a variable distribution charge, and that a lower variable charge can reduce monthly winter bills for vulnerable customers when usage is highest. On this basis, Consumers contends that the Commission should reject the Attorney General's recommendation to hold these charges flat and instead approve charges that are cost-based.

The Attorney General also responds and maintains that there should be no increase in the monthly service charges for residential and small commercial customers for the reasons stated in her initial brief and exceptions. Attorney General's replies to exceptions, p. 83.

After review of the record and arguments presented by the parties, the Commission finds that the ALJ's recommendation on this issue is well-reasoned and supported by the record. Accordingly, the Commission adopts the ALJ's findings and conclusions and approves a residential customer charge of $19 per month and a Rate GS-1 charge of $25 per month, as recommended by the Staff.[26]

3. Transportation Rates and Economic Breakeven Points

Consumers indicated that it plans to keep its existing transportation rate structure consisting of Rate Schedules ST (small transport), LT (large transport), XLT (extremely large transport), and XXLT (extra extremely large transport), proposing an overall increase of 26.7% for the transportation rate class as a whole and maintaining the currently established economic breakeven points[27] between Rates ST, LT, and XLT. Consumers further explained its proposal to keep the existing methodology for calculating the TOT rate but to change how TOT revenue is treated (as base revenue versus other revenue) to be more consistent and transparent across all tariff-based transportation services. 2 Tr 1357-1358, 1363-1364; Exhibit A-16, Schedule F-2, p. 1, line 13; Exhibit A-16, Schedule F-2.1. ABATE asserted that maintaining the economic breakeven points is a departure from cost-causation principles that should guide utility rate design and thus create concerning consequences including economic inefficiency, cross-subsidization, competitive

[26] While the ALJ recommended limiting the Rate GS-1 increase to "$3.00," this recommendation is directly followed by "as recommended by Staff," but since the Staff's recommendation was to raise the current Rate GS-1 monthly charge from $21 to $25 (i.e., an increase of $4), the Commission interprets the ALJ's recommendation to be in line with the Staff's recommendation and thus an intention by the ALJ to recommend limiting the Rate GS-1 increase to $4.00. *See*, 2 Tr 2416, 2417, 2490-2491; Staff's initial brief, p. 117; PFD, p. 498. However, if this interpretation is wrong, the Commission still finds the Staff's recommended residential customer charge of $19 per month and a Rate GS-1 charge of $25 per month to be reasonable and prudent in this case. 2 Tr 2416, 2417, 2490-2491; Staff's initial brief, p. 117.

[27] Consumers explained economic breakeven points as "the point of volumetric usage where revenue collected from one rate would equal revenue collected on a different rate." 2 Tr 1363.

distortion, and barriers to efficient rate design. As an alternative rate design approach, ABATE suggested consideration of service-level-based rates instead, to accurately assign costs to transportation customers based on the infrastructure from which they take service. However, acknowledging that developing and implementing alternative approaches requires time and engagement from interested persons, ABATE recommended that the existing transportation structure be maintained for this case but that the company be directed to explore alternative rate designs that can be presented in its next gas rate case that eliminate reliance on arbitrary breakeven points and instead reflect actual differences in costs to serve based on infrastructure used, service level, load characteristics, and other cost-causative factors. 2 Tr 1610-1614, 1628-1631; ABATE's initial brief, pp. 52-56; ABATE's reply brief, pp. 23-27. The Staff provided support for Consumers' rate design method to maintain breakeven points and described the importance of these points between rate schedules. 2 Tr 2491-2492; Staff's initial brief, p. 118; Staff's reply brief, p. 14. On rebuttal, Consumers argued that ABATE's recommendation to explore alternative transportation rate designs was already done without success following Case No. U-21490. Consumers further acknowledged that the breakeven points used within the transportation class are not intended to represent precise cost distinctions but nevertheless asserted that the class level rate design is grounded in COS principles and does not need further redesign at this time. 2 Tr 1371; Consumers' initial brief, pp. 321-324; Consumers' reply brief, pp. 114-115.

The ALJ agreed with Consumers and the Staff that a rate design that includes economic breakeven points for transportation customers is reasonable and should be adopted. As rationale, the ALJ stated that she:

> finds that ABATE's recommendations consistent with the outcomes of its COSS should not be accepted because ABATE's COSS was rejected, as discussed above. In addition, ABATE raised similar concerns and recommendations in Case No. U-21806 that the Commission rejected and, instead, found the Company's

> proposed breakeven points reasonably protected against significant instability in revenue collection and customer confusion, and ABATE has not provided a basis on this record to cause the Commission to deviate from its prior decisions. Therefore, this PFD recommends the Commission adopt the rate design for transportation rates as proposed by the Company, and supported by Staff.

PFD, pp. 505-506.

ABATE disagrees and argues that, in addition to Consumers' rate design not aligning with cost causation, the ALJ's recommendation also failed to address ABATE's proposal for interested parties to collaborate on alternative rate designs. With this, and specifically as to the ALJ's rationale, ABATE asserts again that this case is materially different from Case No. U-21806. ABATE states that:

> First, as discussed above, the record in this case includes explicit acknowledgements by Consumers that the CCOSS underlying the recommended rate design does not best reflect cost of service. (Supra Section III.B.) Further, the record here included cost shifts amongst rate classes to preserve breakeven points which parties have effectively conceded have nothing to do with reflecting actual cost differences in service. (ABATE Initial Br at 52-57.) Indeed, Staff asserted that its own adjustments were made because "customers should actually be on the rate they are proposed to be on to the extent practicable," and preserving breakeven points "deters customers from switching rate classes." (*Id*. (internal citation omitted).) Staff therefore did not provide any analysis or support for cost shifts to preserve breakeven points beyond a predetermined desire to maintain them. Indeed, Staff explicitly acknowledged that its own rate design and cost shifting was based on its finding "that the stability targets used by the Company did not produce reasonable rate increases across the customer classes" and thus Staff adjusted those targets "until a reasonable rate design was attained." (See *Id*.) In other words, this approach to rate design has nothing to do with allocating customers the costs they cause.
>
> Further, in this case the record clearly demonstrates that adjusting rates to fit breakeven points results in customers paying costs they do not cause. Specifically, customers with different usage, but which use the same infrastructure (and cause Consumers to incur the same costs), pay different rates. (*Id*.) This type of arbitrary rate setting inevitably causes customer subsidization. For instance, some customers within Rate ST, LT, and XLT are served from high-pressure distribution mains, while others are served from low-pressure distribution mains, although no XXLT customers are served from the low-pressure distribution mains. Despite this reality, without any distinction in the rates for customers served at different service levels, customers within classes served from the high-pressure distribution system are also

> paying costs associated with the low-pressure distribution system. (*Id.*) This is an identifiable instance of customers being allocated and paying costs they demonstrably do not cause which results directly from the breakeven point approach.

ABATE's exceptions, pp. 17-18. In this regard, ABATE contends that the Commission should not continue approving a rate design that clearly does not accurately allocate costs and argues that a far more equitable approach would be to apply a uniform 1.5 times system average increase cap to all classes, as both the company and the Staff concede that some moderation mechanism is appropriate and noting that the cap is not dependent on adoption of ABATE's Design Day Demand study. ABATE states that:

> [a]pplied at Staff's system average delivery revenue increase of approximately 10.8%, the cap would limit the Rate XLT increase to approximately 16.2%; applied at the Company's system average increase of approximately 14%, it would limit the Rate XLT increase to approximately 21.0%. (ABATE Initial Br at 55-56.) Both remain substantial increases for transportation customers. LBWL/MSU likewise supported limiting any class-specific increase to no more than 1.5 times the system average, and the PFD did not address that support. (PFD at 489.) The cap is therefore a rate moderation tool, similar to the rate moderation tools applied by the Company and Staff, and therefore survives rejection of ABATE's CCOSS. Furthermore, the 1.5 times cap is a more principled, transparent, and evenhanded form of the moderation that Staff and the Company both concede is necessary; it provides a uniform limitation rather than ad hoc revenue shifts among transportation classes to preserve arbitrary volume thresholds.

ABATE's exceptions, p. 19. Lastly, ABATE contends that the ALJ did not make any recommendation regarding its proposal to direct the company to explore alternative rate designs that can be presented in the company's next gas rate case and Consumers' objection that a workgroup convened following Case No. U-21490 without success is not a reason to decline the direction ABATE requests. ABATE, in this regard, argues that "[t]he absence of consensus in a prior voluntary collaborative is not a finding that service-level based rates are unreasonable or infeasible, and it does not answer the record evidence that the existing structure assigns customers

costs they do not cause." *Id*., p. 20. Thus, per ABATE, the Commission should "direct interested parties to produce a specific deliverable in the Company's next gas rate case." *Id*.

The Staff responds and argues that the Commission should reject ABATE's objections to the ALJ's decision regarding breakeven points in this case. The Staff asserts that ABATE merely repeats arguments made throughout the case and that the ALJ explained that these similar concerns were raised and rejected in Case No. U-21806 and found that ABATE did not provide a basis on this record to deviate from prior decisions. The Staff argues that ABATE's objections in exceptions are no more persuasive and states that the Staff explained, in this case, the basis for the use of breakeven analysis, which results in reasonable and prudent ratemaking. Staff's replies to exceptions, p. 36 (citing Staff's reply brief, p. 14). Because the ALJ ruled correctly based on an appropriate consideration of the record, the Staff contends that the Commission should reject ABATE's proposal for an alternative rate design that does not include economic breakeven points.

Consumers also responds and argues that ABATE's new framing of its position in exceptions is no more persuasive than its original framing on the record and in briefs and should thus be rejected by the Commission for similar reasons made by the ALJ. Elaborating on ABATE's three principal arguments in exceptions,[28] Consumers states that:

[28] Per Consumers, ABATE's three principal arguments in exceptions are:

> 1. the ALJ wrongly treated this case like Case No. U-21806,
>
> 2. the ALJ failed to address ABATE's proposed collaborative process to study alternative transportation rate designs, and
>
> 3. the ALJ improperly rejected ABATE's 1.5-times cap on the ground that ABATE's COSS was rejected—even though ABATE says the cap can apply to the Company's or Staff's own COSS results.

Consumers' replies to exceptions, p. 93 (citing ABATE's exceptions, pp. 17-19).

ABATE first claims that the record in this case differs from Case No. U-21806 because, in its view, the class COSS underlying the recommended rate design does not reflect cost causation and the rate design adjusts transportation class revenues to preserve breakeven points. ABATE's Exceptions, pages 17-18. Yet, costs continue to be driven by the same factors that drove costs in Case No. U-21806, and the Company's approach to the COSS mirrors the approach it used in that case. The Company's approach to breakeven points is also consistent across these cases. Thus, the Company's rate design is reasonable, consistent with the record, and consistent with the Commission's recent treatment of the same transportation-rate issues.

ABATE next asks the Commission to direct the Company and interested parties to explore alternative transportation rate designs, including service-level-based transportation rates, in the next gas rate case. ABATE's Exceptions, pages 19-20. The Commission should decline this request. An earlier workgroup convened after Case No. U-21490 did not produce an alternative transportation rate design, and ABATE has not shown that conditions have changed so that another workgroup would be any more promising. The ALJ found the Company's proposed rate design, including breakeven points for transportation rates, to be reasonable and recommended that it be adopted, so she presumably found a collaborative to be unnecessary. The Commission should adopt the ALJ's recommendation and reject the request for a collaborative process to again evaluate transportation rates.

Concerning breakeven points, more specifically, transportation classes are designed around usage and load characteristics, and the breakeven points help preserve the practical relationship among those classes by reducing incentives for uneconomic switching. ABATE's proposed approach would instead apply a mechanical cap that moderates class increases without addressing the customer-migration problem the Company and Staff identified. ABATE's Exceptions, pages 18-19. That means ABATE's proposal would not simply moderate rates; it would undermine a rate-design feature that helps keep customers on rates that fit their service characteristics and helps preserve stability in revenue recovery.

ABATE also argues that customers served from the same infrastructure can pay different rates, and that this supposedly proves the breakeven-point approach misallocates costs. ABATE's Exceptions, page 18. But that argument oversimplifies rate design. Rates are not set by isolating one physical characteristic of service and treating it as dispositive. The Commission considers class costs, rate continuity, bill impacts, customer behavior, and gradualism when designing rates. The Company's proposal reasonably balances those considerations. ABATE's example does not show that the Company's design is unreasonable.

Nor does ABATE's proposed 1.5-times-system-average cap result in a better rate design. ABATE says that the cap can apply even if the Commission rejects ABATE's design-day-demand COSS proposal. ABATE's Exceptions, pages 18-19. But divorcing the cap from ABATE's COSS proposal only highlights

> that the cap is a policy preference, not a cost-based rate design. The Company and Staff sought to preserve the economic breakeven points among transportation classes to discourage uneconomic customer switching. ABATE's cap would impose a blunt ceiling across classes without showing that the resulting rates better reflect cost causation or better protect customers from rate instability.

Consumers' replies to exceptions, pp. 94-95. Consumers thus argues that the ALJ correctly rejected ABATE's recommendations and the Commission should do so too.

The Commission finds the ALJ's recommendation well-reasoned and supported by the record. Considering the evidence and arguments presented in this case, the Commission agrees that maintaining economic breakeven points for transportation customers is reasonable and prudent. 2 Tr 1363-1364, 1371, 2492; Consumers' initial brief, pp. 321-324; Consumers' reply brief, p. 114; Staff's initial brief, p. 118; Staff's reply brief, p. 14. At the same time, the Commission is not persuaded that a 1.5 times system average cap is appropriate or that further workgroup meetings or a company directive to explore alternative transportation rate designs would be fruitful at this time. 2 Tr 1370-1371; Staff's initial brief, pp. 119-120; Consumers' initial brief, pp. 323-324; Consumers' reply brief, pp. 114-115. To the extent, however, parties continue to present alternative transportation rate designs in future rate cases, the Commission will continue to examine them and make decisions accordingly. Therefore, the Commission adopts the ALJ's findings and conclusion on this issue. *See*, PFD, pp. 505-506.

C. Tariff

Consumers summarized and explained its proposed tariff changes, provided a redlined version of its proposed tariff sheets, and asserted that the Commission should adopt the company's proposed tariff revisions, with any adjustments needed to account for Commission findings on disputed capital and O&M issues. 2 Tr 931-933; Exhibit A-16, Schedule F-5; Exhibit A-109; Consumers' initial brief, p. 326.

The ALJ agreed that any tariff-related issue based on capital and O&M updates and rate design should be based on final Commission approvals in this case. PFD, p. 506.

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. 506.

IX. OTHER ISSUES

A. Revenue Decoupling Mechanism Proposal

Consumers requested approval to create a new revenue decoupling mechanism (RDM). The company explained that the most recently approved RDM will not address its current needs and that an "effective mechanism needs to address differences in approved and actual rate case test year sales and it cannot be based on weather normalized sales." 2 Tr 955. The Staff proposed an alternative RDM that would:

> (1) compare weather normalized actual qualifying revenues to authorized qualifying rate case revenues by rate schedule; (2) exempt Rate Schedule GS-3 and all Transportation rate schedules; (3) include qualifying revenue conditions from [Case No.] U-21148 that include exclusion of customer charges, GCR/commodity revenues, and other surcharge revenues and exclude projected test year months from the true-up; (4) include caps on qualifying revenue shortfall of 1.5% for the first reconciliation period and 3.0% for the second and succeeding reconciliation periods; (5) terminate upon implementation of new rates and be reapproved in the next general rate case order; and (6) follow the Commission-approved reconciliation timing[.]

2 Tr 2528-2529.

In rebuttal, the company argued that the Staff's proposal "would produce a mechanism that is not effective in addressing current need for decoupling. An effective mechanism needs to address differences in approved and actual rate case test year sales and cannot be based on weather

normalized sales." 2 Tr 971. The Attorney General opined that there was no compelling evidence that an RDM was necessary and averred that both the company's and the Staff's proposed RDMs should be rejected. 2 Tr 2020, 2034. Similarly, ABATE argued that the RDM should be rejected, or at least that transportation classes should be excluded from the RDM. 2 Tr 1616-1620.

The ALJ reviewed the parties' positions at pages 506 through 516 of the PFD. After this review, the ALJ recommended that the Commission adopt the Staff's alternative RDM. Specifically, the ALJ found that the Staff's RDM is reasonable and in alignment with MCL 460.1089 and Commission practices "[b]y relying on weather normalized sales, limiting bill volatility and keeping the mechanism reasonably bound." PFD, p. 516. The ALJ noted Consumers' agreement with the modification to exclude Rate Scheule GS-3 and transportation customers from the RDM. Further, the ALJ rejected the Attorney General's and ABATE's requests to reduce the ROE if an RDM is approved. Specifically, the ALJ stated that "this PFD does not find a reduction in the Company's ROE necessary at this time since this PFD's recommendation to implement the modified RDM which does not transfer risk from the Company to ratepayers." *Id*., pp. 516-517.

The company takes exception to the ALJ's recommendation, indicating that it opposes the Staff's alternative RDM. Consumers states that the "Staff's alternative RDM did not address the current need for a decoupling mechanism" and that "the Company opposes approval of this mechanism, even if its proposed updated RDM is not approved." Consumers' exceptions, pp. 145-146 (citing 2 Tr 955). Consumers further opines that its RDM should be approved as the company has demonstrated that weather variability has caused significant differences between actual revenues and authorized revenues and that this mismatch is becoming increasingly problematic with warmer-than-normal winters. Consumers' exceptions, p. 146 (citing

2 Tr 955-956). In that regard, Consumers avers that the previously approved RDM was ineffective because it did not reconcile actual sales outcomes and relies on weather-normalized sales. The company claims that the reconciliation of actual sales is a feature that makes its proposed RDM effective. Consumers' exceptions, p. 146.

Consumers further indicates that the Staff's retention of revenue caps in its proposed RDM also "undermines the effectiveness of the mechanism" and that "the ALJ did not identify any evidence demonstrating that the caps are necessary." *Id*. (citing PFD, p. 516). The company further restates its testimony to argue that the automatic termination of the RDM when new rates become effective creates uncertainty in planning and further ignores that parties can seek modification or elimination of the RDM in future proceedings. Consumers' exceptions, p. 147 (citing 2 Tr 972). In sum, the company contends that the ALJ's recommendation should be rejected because, "[b]y retaining weather normalization, imposing unsupported recovery caps, and requiring automatic expiration, the recommended RDM[,] fails to address the revenue volatility that was the reason for Consumers Energy's proposal." Consumers' exceptions, p. 147.

In exceptions, the Attorney General requests that the Commission reject the ALJ's recommendation. More specifically, the Attorney General argues that the ALJ was correct in rejecting the company's RDM request but erred in recommending adoption of the Staff's alternative RDM. The Attorney General indicates that while the Staff's proposal "may be similar to the Company's former RDM[,] it is not needed, especially given the Company's annual gas rate case filing cadence. Taking that into consideration, Staff's RDM also serves to eliminate revenue risk." Attorney General's exceptions, p. 72. Alternatively, the Attorney General opines that the authorized ROE should be reduced to 9.6% if either RDM is approved by the Commission. *Id*.

Consumers replies to the Attorney General's exceptions, stating that the Attorney General's exception is not supported and that a reduction to the ROE is not reasonable. More specifically, Consumers states that "simply because the Company has certain cost-recovery mechanisms does not mean that it is rational or appropriate to reduce its authorized ROE." Consumers' replies to exceptions, p. 101. In sum, the company requests that the Commission reject the Attorney General's exceptions.

The Attorney General replies, reiterating her record position that there is no compelling evidence on the record that an RDM is necessary and the request for an RDM should be rejected. Attorney General's replies to exceptions, pp. 83-85. The Attorney General additionally states that "[t]here is no compelling evidence that revenue lost to warmer weather from time to time, or from other events, is creating a significant detrimental impact on the Company's financial position." *Id*., p. 85.

ABATE also replies that if the Commission is inclined to approve an RDM "it should be narrowly tailored" and "exclude transportation classes," which ABATE avers is consistent with prior practice. ABATE's replies to exceptions, p. 15 (citing 2 Tr 1614-1620). ABATE further indicates support for the Attorney General's position to reject both RDM proposals "and her related point that approval of either mechanism reduces the Company's revenue risk and should be reflected in a lower ROE." ABATE's replies to exceptions, p. 15 (citing Attorney General's exceptions, pp. 71-72).

The Commission finds that the company has not met its burden to demonstrate that its proposed RDM is reasonable. Further, Michigan law expressly provides that the Commission may consider an alternative mechanism other than that proposed by the utility. Specifically, MCL 460.1089 states, in pertinent part:

> [t]he commission shall authorize a natural gas provider that spends a minimum of 0.5% of total natural gas retail sales revenues, including natural gas commodity costs, in a year on commission-approved energy waste reduction programs to implement a symmetrical revenue decoupling true-up mechanism that adjusts for sales that are above or below the projected levels that were used to determine the revenue requirement authorized in the natural gas provider's most recent rate case. In determining the symmetrical revenue decoupling true-up mechanism utilized for each provider, the commission shall give deference to the proposed mechanism submitted by the provider. The commission may approve an alternative mechanism if the commission determines that the alternative mechanism is reasonable and prudent. The commission shall authorize the natural gas provider to decouple rates regardless of whether the natural gas provider's energy waste reduction programs are administered by the provider or an independent energy waste reduction program administrator under section 91.

In this case, the Commission agrees with the ALJ and finds that the Staff's proposal is reasonable and prudent and is preferable to the RDM proposed by the company. *See*, PFD, pp. 516-517. As the ALJ indicated, "[b]y relying on weather normalized sales, limiting bill volatility and keeping the mechanism reasonably bound, the alternative RDM proposed by Staff reasonably and prudently aligns with MCL 460.1089 and Commission past practice." PFD, p. 516.

Notwithstanding this, the Commission finds that in exceptions the company states that "opposes approval of this [alternate] mechanism, even if its proposed updated RDM is not approved." Consumers' exceptions, pp. 145-146. As such, the Commission relies upon the company's rejection of the Staff's reasonable alternative RDM and, therefore, respectfully declines to adopt the ALJ's recommendation regarding the Staff's proposed RDM. In that regard, as requested by the company, the Commission declines to approve an RDM in this case.

B. Affordability

The company generally set forth that it "works to keep its requested price increases to the lowest level it believes is reasonable, while balancing the need for safety, reliability, improved customer service, and increasingly clean natural gas service." 2 Tr 940. MEC/CUB averred that the company's 8.2% proposed increase combined with the November 2025 increase "raises serious

affordability concerns for customers and underscores the importance of rigorous scrutiny of the costs underlying the request." 2 Tr 2185. Thus, MEC/CUB recommended that "to keep long-run rates closer to inflation," Consumers' proposed "capital additions from 2026 through 2035 should be limited to $7.87 billion, a 33% reduction in the Company's current NGDP capital additions." 2 Tr 2060.

The ALJ reviewed the parties' positions pertaining to affordability at pages 517 through 525 of the PFD before declining to adopt MEC/CUB's recommendation to broadly reduce Consumers' proposed capital investments in the company's NGDP by 33%. The ALJ explained that "[t]he Commission has specified its preference to evaluate spending on a more detailed, program-by-program or project-by-project basis and consistently rejects broad approaches such as MEC/CUB's 33% across the board reduction." PFD, p. 525. The ALJ also noted that, while MEC/CUB provided compelling analysis of the long-term cost relating to gas delivery, their disallowance recommendations should be directed to specific capital expenditures. *Id*.

MEC/CUB take exception, arguing that the ALJ misunderstood their recommendation and that in using "inflation as a guardrail to limit the Company's spending" they were not asking to "'replace an evidence-based review of the Company's capital projections.'" MEC/CUB's exceptions, p. 24 (quoting MEC/CUB's revised initial brief, p. 101). Rather, MEC/CUB indicate that the proposal would make clear that the Commission is considering, as part of its reasonableness and prudence review, any "foreseeable affordability impacts" and further "ensures that the Company's financial interests are balanced with ratepayers' affordability interests and that projects are appropriately prioritized to target only the highest-value safety and reliability needs." MEC/CUB's exceptions, p. 24 (citing MEC/CUB's revised initial brief, pp. 101-102). Therefore,

MEC/CUB request that the Commission adopt their affordability recommendations, as outlined in briefing.

In replies, Consumers argues that the ALJ's recommendation is consistent with Michigan law and how rates are set by reviewing the company's evidence on a detailed program-by-program or project-by-project basis. Consumers' replies to exceptions, p. 99. Consumers further states that, although it:

> must retain flexibility to respond to changing conditions, the expenditure levels proposed in this case reflect its commitment to meeting legal obligations and improving service reliability and quality for customers. While arguing that [their] cost reduction is for purposes of affordability, MEC-CUB does not identify a program or project that should be deferred to achieve this reduction, nor [do they] assess the safety and reliability consequences of doing so.

Id., p. 100 (citing 2 Tr 246). Therefore, the company requests that the Commission reject MEC/CUB's affordability proposal and adopt the ALJ's recommendation.

The Commission acknowledges the importance of affordability to Consumers' customers, particularly considering the broader economic forces straining many customers' budgets. Therefore, the Commission has taken the utmost care to review each and every contested issue on this record to ensure that Consumers' recovery requests are reasonable and prudent and in the best interest of customers. Thus, the Commission finds the ALJ's recommendation to be reasonable and consistent with Commission practice to continue to "evaluate spending on a detailed program-by-program or project-by-project basis." PFD, p. 525. Accordingly, the Commission adopts the ALJ's findings and recommendations on this issue. *See*, PFD, p. 525.

C. Natural Gas Distribution Plan

Consumers indicated that its NGDP (Exhibit A-30) does not currently reflect the directives from Case No. U-21806 because its updated NGDP is not due until December 31, 2026; however, the company stated its updated NGDP will address the Commission's directives. 2 Tr 235.

MEC/CUB made several recommendations regarding additional analysis and projections for the updated NGDP. *See*, MEC/CUB's revised initial brief, pp. 84-94.

The ALJ reviewed the record regarding the company's NGDP, including planning for the energy transition and new business projections and line extensions at pages 525 through 537 of the PFD, which will not be exhaustively repeated here. In reviewing MEC/CUB's request that the company update its NGDP, the ALJ concluded that MEC/CUB's recommendations were "generally consistent with the Commission's Order in Case No. U-21806," and therefore adopted:

> MEC/CUB's recommendation that the Company's updated NGDP include an analysis of gas consumption and gas asset utilization and the most up-to-date projections of future gas throughput and customer count, which should factor into the evaluation of proposed gas infrastructure investment and alternatives, such as NPAs [non-pipeline alternatives] and pipeline repair.

PFD, pp. 530-531. However, the ALJ declined to adopt MEC/CUB's recommendation for Consumers to file its updated NGDP in a new docket. *Id*., p. 531.

The ALJ next reviewed MEC/CUB's recommendation for the Commission to require the company to include a revised forecast of new gas service connections that reflects a declining trend in new connections and also includes analysis of factors contributing to the decline. *See*, *id*., pp. 531-536. In that regard, the ALJ declined to adopt MEC/CUB's recommendation finding that "Consumers' forecast that the number will remain flat at 5,950 for 2024 through 2035 is reasonable and notes that the actual number of new connections was about 11% higher than forecasted for 2025." *Id*., p. 536. The ALJ noted that MEC/CUB did not provide an alternative forecast and the claim that the forecast should be lower was not sufficiently supported on this record. The ALJ specifically indicated that, with respect to customer contribution and the Commission's directives in Case No. U-21806:

> this PFD finds that Consumers explained the methodology and assumptions used in calculating the CIAC, as was acknowledged by MEC/CUB, and further explained

> why it would be inappropriate to revise the Company's assumptions for customer demand or customer adoption rates. This PFD agrees with the Company that the use of a 20-year modeling period along with the updated 3-year historical average for consumption, updated annually and reviewed by Staff, is reasonable. However, this PFD emphasizes that it is important for Consumers to continue to monitor its CIAC methodology at least annually and adjust it as necessary to ensure that it is fair and is not causing subsidization.

PFD, pp. 536-537. Finally, the ALJ declined to recommend a CIAC workgroup "because the utilities have already been asked to justify their CIAC methods in individual proceedings" but did recommend that the Commission consider requiring utilities "to demonstrate that their CIAC policies are fair and do not cause subsidization of new customers by existing customers in their rate cases going forward." *Id*., p. 537.

In exceptions, Consumers indicates that it agrees that the ALJ's recommendation is generally consistent with the September 30 order. However, Consumers explains that, to the extent the ALJ is criticizing the company's current NGDP, the updated version of the NGDP is not required to be filed with the Commission until December 31, 2026. Further, Consumers states that "[t]his update to the NGDP will include an evaluation of NPAs, updated demand forecasting, and consideration of the energy transition." Consumers' exceptions, p. 148 (citing 2 Tr 244). The company also states that any additional requirements above those required by the September 30 order would be "premature and redundant" as it is "actively developing the updated NGDP in compliance with that order." Consumers' exceptions, p. 148 (citing 2 Tr 244).

MEC/CUB take exception, arguing that the ALJ's finding that the company's flat forecast through 2035 was reasonable is not supported on this record. Specifically, MEC/CUB state that:

> [c]ontrary to the PFD's finding, the Company's projection that the number of new gas service connections will remain constant over the next ten years is grossly under-supported. Consumers' data shows that the number of new gas service connections has consistently declined since peaking in 2014. The PFD emphasizes that the actual number of connections exceeded Consumers' projection for 2025 but fails to consider that the Company's projections are regularly inaccurate—in fact,

> 2025 was the only year in the last five years that the Company's projection did not overestimate actual gas service connections.

MEC/CUB's exceptions, p. 21 (footnotes omitted). Quoting their revised initial brief, MEC/CUB reiterate that Consumers did not reconcile its flatline projection with the evidence showing that, since 2014, there has been a consistently declining trend in new gas service connections with only sporadic increases. *Id*., pp. 21-22. MEC/CUB also contend that they cannot develop an alternative forecast, as suggested by the ALJ, without understanding the factors affecting the decline over the past 11 years. Therefore, MEC/CUB state that a crucial part of their "recommendation is for the Company to include in the upcoming NGDP update an analysis of the factors that have driven the decade-long decline in new gas service connections, including changing customer preferences and the market share of gas end-use appliances and equipment." *Id*., p. 22 (citing 2 Tr 2217).

Further, MEC/CUB aver that the ALJ's implication that they should provide an alternative forecast improperly shifts the burden onto intervenors given the company is in the best position to perform the requested analysis. In sum, MEC/CUB contend that the record in this proceeding demonstrates a significant decline in new gas service connections in recent years, and "the Company's projection is materially and inexplicably inconsistent with that trend." MEC/CUB's exceptions, p. 22. Thus, they request that the Commission reject the ALJ's recommendation and "order the Company to study the causes behind the recent decline in its number of new gas service connections and incorporate its findings in an updated forecast in the revised NGDP, due December 31, 2026." *Id*.

Consumers replies that the Commission should adopt the ALJ's finding that the company's NGDP forecast is reasonable and that the Commission should not direct the company to lower its forecast for new gas service connections in the NGDP. Consumers' replies to exceptions, p. 101.

Consumers further contends that there is no support for MEC/CUB's request to update the company's forecast and to study the cause behind the recent decline in new gas service connections. The company claims that "[w]hen developing its new service forecast, the Company considers a variety of factors, including customer preference. Both the new service-connection forecasts and the longer-range forecasts used within the NGDP are reviewed periodically by the Company for changes in actual activity and future expectations." Consumers' replies to exceptions, p. 102 (citing 2 Tr 155). In sum, the company claims that MEC/CUB's position is unsupported and should be rejected. Consumers' replies to exceptions, p. 103.

In reply, MEC/CUB state that Consumers' exceptions "encourage[] the Commission to take a wait-and-see approach—if there are still gaps after the updated NGDP is filed, then those gaps can be addressed at some later date. But such an approach is inefficient and imprudent." MEC/CUB's replies to exceptions, p. 13. MEC/CUB aver that directing Consumers to provide additional analysis now, while developing the NGDP, "will help ensure the NGDP is a meaningful tool for evaluating the Company's proposed spending, starting with any infrastructure projects proposed in its next rate case." *Id*., pp. 13-14. As such, MEC/CUB request that the Commission adopt the ALJ's recommendation and further direct Consumers to provide "an analysis of gas consumption and gas asset utilizations and the most up-to-date projections of future gas throughput and customer count, with results factoring into its evaluation of proposed gas infrastructure investment and alternatives" as part of the company's updated NGDP. *Id*., p. 14.

With respect to the issue of CIAC, the Commission finds that, in the September 30 order, the Commission directed the company:

> in its next rate case, to provide a thorough justification of its CIAC and CAP methodologies, inclusive of an explanation as to whether it is appropriate to revise the company's assumptions to include declining natural gas demand, customer adoption rates for the customer attachment programs based on historical experience

> when calculating new attachment surcharges, and how to avoid unfair subsidization by existing customers. MSC's [MEC/Sierra Club/CUB's] unrebutted claim that new gas customers are being imprudently incentivized to connect to the system is concerning, and establishing an accurate CIAC and CAP methodology is imperative.

September 30 order, p. 21. On this record, Consumers indicates that:

> [u]sing the assumptions from 2005, the model estimated the NPV [net present value] cost to install an average service length of 102 feet at $1,543.03. At that time, the projected NPV revenue over a 20-year period—based on a fixed annual consumption of 150 Mcf [one thousand cubic feet]—was $2,566.12, as referenced in Exhibit A-[50] (LAB-7). The NPV revenue calculation exceeded the NPV cost calculation by $1,023.09. However, when subsequently adjusting the model to reflect lower actual average consumption from 2009 to 2024 (94 Mcf per year), the revised NPV revenue is estimated at $1,701.24, as referenced in Exhibit A-[50] (LAB-7). The reduced NPV revenue calculation of $1,701.24 still exceeds the 2005 NPV cost calculation ($1,543.03) by $158.21, indicating that even at this lower average Mcf consumption, the Company has recovered the installation cost of the average service installed in 2005. Furthermore, since the average lifespan of a gas service is currently averaged at 30 to 35 years, this service is expected to continue generating revenue beyond the initial 20-year recovery period. Therefore, there is no basis to forecast a loss in cost recovery.
>
> * * *
>
> [T]he Company believes the line extension policy is justified and the methodologies are sound and reasonable. However, if the Commission is interested in examining the Company's line extension policy, this should be done across all utilities through a work group. Using the same model across all utilities will ensure consistency across the industry.

2 Tr 390-391.

Given this, the Commission finds that the ALJ appropriately found that "Consumers explained the methodology and assumptions used in calculating the CIAC" in response to the Commission's directives in the September 30 order. PFD, p. 536. Further, the Commission agrees with the ALJ's conclusion that it is not "necessary to establish a CIAC workgroup at this time because the utilities have already been asked to justify their CIAC methods in individual proceedings." *Id.*, p. 537. However, the Commission finds that the information provided does not demonstrate the

company's plan to *avoid* unfair subsidization going forward. Therefore, the Commission finds that, in its next gas rate case, it is imperative for the company to provide updated assumptions and projections, and for it to further propose solutions to remedy any current or projected subsidization.

With respect to the NGDP, the Commission adopts the ALJ's findings and conclusions regarding MEC/CUB's recommendations for updates to the company's NGDP. *See*, PFD, pp. 530-531. The Commission further adopts the ALJ's recommendation to reject MEC/CUB's request for the NGDP to be filed in a new docket. *Id*., p. 531. The Commission agrees with the ALJ's determination that it is inappropriate for the Commission to direct the company to "*lower* its forecast for new gas service connections in the updated NGDP." *Id*., p. 536 (emphasis added). Nevertheless, the Commission respectfully disagrees with the ALJ's finding that "Consumers' forecast that the number will remain flat at 5,950 for 2024 through 2035 is reasonable." *Id*. In that regard, the Commission agrees with MEC/CUB's contention that Consumers' "projection is materially and inexplicably inconsistent" with the data, and therefore, finds that a flat projection until 2035 is not supported by record evidence. MEC/CUB's exceptions, p. 22; *see also*, 2 Tr 2216-2217. The Commission further finds that MEC/CUB's recommendation for the company to revise its service connection projections is reasonable. Therefore, Consumers shall, as part of its updated NGDP due December 31, 2026, provide updated forecasting in the revised NGDP and also study the causes behind the recent trends in the number of new gas service connections so it can more accurately project costs going forward.

THEREFORE, IT IS ORDERED that:

A. Based on the findings in this order adopting a test year beginning November 1, 2026, and ending on October 31, 2027, a jurisdictional rate base of $12,184,275,000, an authorized rate of return on common equity of 9.80%, and an authorized overall rate of return of 5.31%, Consumers Energy Company is authorized to implement rates that increase its annual natural gas revenues by $139,176,000, on a jurisdictional basis, over the rates approved in the September 30, 2025 order in Case No. U-21806.

B. Consumers Energy 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 November 1, 2026. The attachments to this order, consisting of Attachment A (a summary of revenue by rate class) and Attachment B (tariff sheets), are under review. The Commission Staff is directed to file the attachments in this docket no later than October 22, 2026. The Commission anticipates issuing an order approving the attachments no later than November 1, 2026.

C. As set forth in the order, Consumers Energy Company shall report additional information about the vintage service lines replaced under the company's Material Condition Renewals program in its Enhanced Infrastructure Replacement Program Performance Report.

D. Before any additional gas smart meter technology pilot or project costs are approved, Consumers Energy Company shall provide detailed results of the gas smart meter technology pilot, including actual costs, implementation details, what smart meter data is collected and how it is used, corresponding customer benefits and a plan for customer data access, a full implementation plan with strategies for using new data and safety features, an estimate of total system-wide costs, a timeline for deployment, and a detailed benefit/cost analysis that projects the costs and benefits of full-program deployment.

E. Consumers Energy Company is directed to collect and report complete charging-cost data for all of the company's electric vehicles and plug-in hybrid electric vehicles and shall include this data in its next transportation electrification plan report due to be filed in June 2027. The company shall also include in its next transportation electrification plan a plan to develop its telematics infrastructure to facilitate the collection of hourly electric vehicle charging load-shape data as a well as a timeline for the collection of this data. In its next gas rate case following the filing of its next transportation electrification plan report, Consumers Energy Company shall include complete charging-cost data for all of the company's electric vehicles and plug-in hybrid electric vehicles and hourly electric vehicle charging load-shape data, as described in this order.

F. As set forth in this order, Consumers Energy Company shall continue to meet with the Commission Staff regarding the efficacy and implementation of the company's staking and locating program.

G. As set forth in this order, the deferral mechanism for the staking and locating program shall continue subject to the terms of this order.

H. In future gas rate cases, Consumers Energy Company shall establish a mechanism to track all costs associated with the preparation and filing of rate cases and shall file the costs associated with the company's previous gas rate case with each new filing.

I. In its next gas rate case, Consumers Energy Company shall fully incorporate productivity gains into its cost projections and adjust expenses accordingly and provide details on its productivity offset that demonstrate measurable improvements and benefits for customers.

J. As set forth in the order, Consumers Energy Company shall, in its next gas rate case, provide updated contributions in aid of construction assumptions and projections, and further propose solutions to remedy any current or projected subsidization thereof.

K. As set forth in the order, Consumers Energy Company shall include an analysis of gas consumption and gas asset utilization, the most up-to-date projections of future gas throughput and customer count, as well as provide updated new gas service connection forecasting as part of its revised Natural Gas Delivery Plan, due December 31, 2026. Consumers Energy Company shall further study the causes behind the recent trends in the number of new gas service connections.

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 October 15, 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-21981

County of Ingham)

Brianna Brown being duly sworn, deposes and says that on October 15, 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 15th day of October 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-21981

Name	On Behalf Of	Email Address
Adam M. Cozort	MPSC Staff	cozorta1@michigan.gov
Alena M. Clark	MPSC Staff	clarka55@michigan.gov
Amit T. Singh	MPSC Staff	singha9@michigan.gov
Anne M. Uitvlugt	Consumers Energy Company	anne.uitvlugt@cmsenergy.com
Benjamin J. Holwerda	Association of Businesses Advocating Tariff Equity	bholwerda@clarkhill.com
Bret A. Totoraitis	Consumers Energy Company	bret.totoraitis@cmsenergy.com
Celeste R. Gill	Department of Attorney General	gillc1@michigan.gov
Christopher M. Bzdok	Citizens Utility Board of Michigan	chris@tropospherelegal.com
Christopher M. Bzdok	Michigan Environmental Council	chris@tropospherelegal.com
Cole V. Lussier	Lansing Board of Water & Light	clussier@dickinsonwright.com
Cole V. Lussier	Michigan State University	clussier@dickinsonwright.com
Consumers Energy Company (1 of 2)	Consumers Energy Company	mpsc.filings@cmsenergy.com
Consumers Energy Company (2 of 2)	Consumers Energy Company	kelly.hall@cmsenergy.com
Evan B. Keimach	Consumers Energy Company	evan.keimach@cmsenergy.com
Gary A. Gensch Jr.	Consumers Energy Company	gary.genschjr@cmsenergy.com
Haylee N. Skank	Energy Michigan	hnskank@varnumlaw.com
Holly L. Hillyer	Michigan Environmental Council	holly@tropospherelegal.com
Holly L. Hillyer	Citizens Utility Board of Michigan	holly@tropospherelegal.com
Jason D. Hawkins	Lansing Board of Water & Light	jason.hawkins@lbwl.com
Jennifer U. Heston	Retail Energy Supply Association	jheston@potomaclaw.com
Laura A. Chappelle	Energy Michigan	lachappelle@varnumlaw.com
Lesley C. Fairrow	ALJs - MPSC	fairrowl1@michigan.gov
Lori Mayabb	MPSC Staff	mayabbl@michigan.gov
Michael C. Rampe	Consumers Energy Company	michael.rampe@cmsenergy.com
Michael J. Pattwell	Association of Businesses Advocating Tariff Equity	mpattwell@clarkhill.com
Monica M. Stephens	MPSC Staff	stephensm11@michigan.gov
Nicholas Q. Taylor	MPSC Staff	taylorn10@michigan.gov
Nolan J. Moody	Lansing Board of Water & Light	nmoody@dickinsonwright.com
Nolan J. Moody	Michigan State University	nmoody@dickinsonwright.com
Sean C. Clark	Citizens Utility Board of Michigan	sean@tropospherelegal.com
Sean C. Clark	Michigan Environmental Council	sean@tropospherelegal.com
Spencer A. Sattler	Consumers Energy Company	spencer.sattler@cmsenergy.com
Stephen A. Campbell	Association of Businesses Advocating Tariff Equity	scampbell@clarkhill.com
Timothy J. Lundgren	Energy Michigan	tjlundgren@varnumlaw.com