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February 23, 2007

Ms. Mary Jo Kunkle
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
Lansing, Michigan 48909

Re: In the matter of the application of **The Detroit Edison Company** to
unbundled and realign its rate schedules for jurisdictional retail sales of
electricity;
MPSC Case No. U-14399

Dear Ms. Kunkle:

In accordance with the Commission's directive at page 37 of its Order in Case No. U-14399, dated December 22, 2005, I am filing the attached "Staff Report On the Cost of Service Study Collaborative." Pursuant to that Commission order the Staff engaged in a collaborative process with The Detroit Edison Company, Consumers Energy Company, and other interested parties for the purpose of developing a Cost of Service Study model. This report details the collaborative process and requests that the Commission adopt an order finding, among other things, that the parties have complied with the Commission's directive and that the collaborative process is concluded.

Sincerely,

Susan Devon
Director, Regulated Energy Division

Enclosures

c. Honorable James N. Rigas, ALJ
All Parties

Staff Report
On the
Cost of Service Study Collaborative

Submitted by
Michael L. Collins
Manager of the Rates & Tariff Section
Regulated Energy Division

Re: In the matter of the Application of **The Detroit Edison Company** to unbundled and realign its rate schedules for jurisdictional retail sales of electricity;
MPSC Case No. U-14399

And

Re: In the matter of the application of **Consumers Energy Company** for authority to increase its rates for the generation and distribution of electricity and for other relief;
MPSC Case No. U-14347

Introduction

In its orders in Case Nos. U-14347 and U-14399, dated December 22, 2005 the Commission ordered, “The Commission Staff is directed to commence separate collaborative discussions with all interested persons to develop a standardized cost of service study model.” Staff is pleased to report that Cost of Service Study (COSS) Collaborative process has been successfully completed. In the Detroit Edison case No. U-14399, at page 37 the Commission stated:

The Staff requests that the Commission open a collaborative for the purpose of modernizing the rate case process for major electric utilities by developing a standardized COSS model that will not be proprietary, and will take advantage of the electronic data processing capabilities of all parties, in order to allow COSS data to be submitted and analyzed on a desktop personal computer. The Commission is persuaded that it has become vital for the parties to major rate cases to be able to exchange information electronically. The Staff is directed to work with Detroit Edison, Consumers, and other interested parties to develop a standardized COSS model that can be exchanged electronically and that provides sufficient flexibility to allow all parties to understand the bases for the data underlying the COSS.

(Emphasis added, U-14399, page 37)

The Commission made the same statement in the Consumers order in U-14347. Staff interpreted those orders to direct the Staff, Detroit Edison, Consumers, and other interested parties to participate in a collaborative process to develop an electric COSS model that would be used by Detroit Edison and Consumers in their next general rate case and meet the following criteria:

1. The COSS model would not be proprietary in order to facilitate the free exchange of information.
2. The COSS model would permit all parties to view the data and the formulae directly in electronic format.
3. The COSS model should run on a personal computer using Excel-based software, and it should not require the latest version to be executed.
4. The COSS model should have sufficient flexibility to permit any party to run the model as filed by the utility or with different assumptions such as different cost or allocation methodology.
5. The COSS models for Detroit Edison and Consumers should be standardized to the maximum extent possible recognizing that some variation is necessary due to the differences in the two companies. For example Detroit Edison and Consumers have different rate classes so the headings will differ as well as the grouping of the customer classes.

In Staff's opinion all of the above criteria have been met, furthermore both Detroit Edison and Consumers have agreed to use the models in their next rate case filing. The contributions and cooperation of all parties were critically important to the successful completion of this process. This report includes Attachment A - List of Participants and Attachment B - Comments of All Participants. These documents and others, including copies of the COSS models for both Edison and Consumers, are available at <http://www.dleg.state.mi.us/mpsc/electric/COSS/COSSCollaborative.htm>. Staff has established a web page titled "MPSC Electric Cost of Service Study Collaborative" with a link to that page. It can be found on the Commission's web site on the "Electricity" page, under "Spotlight on Electricity". The COSS models are quite large (approximately 8 MG each) but they can be opened and modified with a standard version of Excel.

The COSS Models and the Collaborative Process

The AG wrote in his May 18, 2006 comments, "The "approved" Cost of Service model should move the cost of service debate from arithmetic to cost of service inputs and allocation methodologies." Staff agrees. It is important to understand what a standardized COSS model will do and what it will not do. It will facilitate the exchange of information and formulae and enable all parties with a reasonable level of expertise to modify the models based on a variety of assumptions and compare the results – the impact on the cost of service allocated to various rate groups. The COSS model will not resolve any of the important questions that parties typically pursue in a rate case, such as the proper classification and allocation of costs. For example, the parties will continue debating how production related costs should be classified and allocated – using Staff's MH4CP 25/50/25, or 12CP 75/25, or some other method. The COSS model will permit any party to change the classification and/or the allocation factors applied to a given element of cost and determine the impact of that modification on the cost of service for each rate group in the study.

Summary of the collaborative process: The collaborative process began following the implementation of the Commission's orders on December 22, 2005 in Case Nos. U-14399 and U-14347. Up until that time Edison and Consumers filed their COSS following the filing requirements, but the COSS programs were proprietary, therefore they were not generally available to all parties. Parties could get copies of hundreds of pages of output, but the filing

requirements, written in 1976, did not require the utilities to provide their COSS in electronic format. Consequently, every party to a rate case was forced to rely on the utility COSS or create their own study, which required a tremendous amount of time and effort to construct, load, and verify. The result was that a significant amount of resources were consumed just doing the arithmetic, as the AG called it, which left little time and resources for the important task of evaluating the methodologies that drive the results of the COSS.

With the conclusion of case No. U-14399, Marty Heiser, *Regulatory Economics Consultant in the Pricing Department of the Regulatory Policy and Operations Organization of The Detroit Edison Company*, endeavored to modify his Excel-based COSS model to produce output compatible with the newly unbundled rates format of production (including transmission, fuel, and purchased power) and distribution (including the costs functionalized as customer costs). His COSS model segregates costs into Production and Distribution for purposes of allocation among the various customer groups then sums those into a Total cost of service. On February 15, 2006, Marty released a copy of his COSS model to Eric Keaton, *General Analyst in the Cost and Pricing Section of the Rates Department of Consumers Energy Company*, and Tom Yehl, *Principal Analyst in the Cost and Pricing Section of the Rates Department of Consumers Energy Company*. Eric began to modify the program to adapt it to Consumers' specific requirements, such as different rate classes. On March 27, 2006, Sue Devon, *Director of the MPSC's Regulated Energy Division*, sent a letter to all of the parties to case Nos. U-14399 and U-14347 inviting them to participate in the collaborative process. ABATE accepted Staff's invitation and their consultant, Jim Selecky of *Brubaker & Associates, Inc., consultant for ABATE*, offered their COSS model for use in the collaborative. The Edison and Consumers COSS models were distributed among the approximately 30 participants in April and May of 2006, respectively. Most of the participants elected to be observers, while ABATE and the AG actively participated in the process. Over the course of the spring and summer ABATE, the AG, and the Staff filed comments on the models and Edison and Consumers responded to those comments. Replies to the initial comments were concluded in September, then Edison and Consumers began to reprogram their models to incorporate as many of the suggestions as possible. The reprogrammed COSS models were distributed to the parties on December 1, 2006. On January 5, 2007, Edison and Consumers came to the Commission and delivered a Power Point presentation to the collaborative group

demonstrating the capabilities and features of the models and identifying the differences between the models.

As previously noted, the working copies of the model are available on the Commission's website. It is important to note that the COSS models are spreadsheets, not software packages; accordingly each model is designed to meet the specific requirements of each utility. Each time a utility files a rate case they will provide a COSS to all the parties in the same format as the models developed in this collaborative but the COSS will be loaded with new financial and engineering data.

Comments of the Parties

The full comments of all the parties are included in Attachment B to this report and available on the Commission's web site, therefore they will not be repeated here. The comments of the parties, ABATE, the AG, and Staff can be separated into two broad categories – technical comments about the COSS model and procedural recommendations for handling the information. Each of the parties offered technical comments which Edison and Consumers endeavored to incorporate into their models to make them more user friendly and efficient. Based on the final presentations of Edison and Consumers they appear to have succeeded. There are, however, some unresolved issues that should be mentioned but they do not affect Staff's recommendations. Edison is required to file an electric rate case in the next few months and Staff understands that Consumers will be filing an electric rate case in the same timeframe. Therefore, Staff recommends that full consideration of the unresolved issues be deferred until the next rate case for each utility.

Technical Comments: ABATE commented on one notable difference that remains between the models of Edison and Consumers. Consumers elected to add a tab to its Excel workbook to present the "Allocator Data", while Edison incorporated that data within its other worksheets. ABATE expressed a preference for Consumers approach because having the raw load data more segregated makes it easier for other parties to manage. The data pertains to monthly peak demand by class, energy consumption by rate, and monthly coincident and non-coincident demands. Staff agrees with ABATE that the Consumers approach would be preferable, but does not recommend that Edison be required to modify its model for its pending rate case due to time constraints. The collaborative can be concluded without this modification; however, the issue should be revisited in the next rate case. The parties generally

agreed that the value of some of the technical issues like having the load data segregated could be judged better after going through a rate case with the models. The parties could all make their own recommendations for future filings at that time.

Procedural Issues: These issues are essentially the product of comments by the AG in his Initial Comments, dated May 18, 2006. Staff encourages the Commission to read those comments directly. While many of the AG comments were directed at the technical aspects of the models, the AG also addressed what he characterized as process issues and rate case filing requirements. Edison and Consumers generally objected to those comments as going beyond the scope of this collaborative process. Staff believes that the AG has raised a number of issues that have merit and may serve as the basis for a future collaborative process to update and refine the filing requirements for major electric utilities. Other issues such as a naming convention for tracking each scenario utilized by each party could be considered as part of a future filing requirements collaborative if the Commission so directs. The current rate case procedures provide an adequate method of tracking each party's filed exhibits for the upcoming cases. Staff's focus in this collaborative was to insure that Edison and Consumers would develop COSS models that met the criteria set forth in the introduction to this report, which they did.

The AG, also, recommended that the initial filing of the COSS model should include the most recent system loss study for energy and demand based upon the most recent customer load research. This recommendation was not supported by the other members of the collaborative. Staff recommends that interested parties raise this issue in the upcoming rate cases for Edison and Consumers. Along these same lines, Ralph Miller recommended to Staff that the subject of class load studies should be addressed in a future collaborative. Staff will consider making that recommendation in the upcoming rate cases, but will not make that recommendation here.¹

Consumers' response to the AG was, "the probability of a successful collaborative rests

¹ The content and format of a system loss and class load (class demand) study is completely different from the content and format of a COSS. The collaborative has made no attempt to determine the appropriate content or level of detail of a system loss and class load study, or to establish standard formats and provide for electronic exchange of the information in such a study. The AG or any other party is free to request the latest system loss and class load study as an initial discovery request in a rate case. Staff sees little value in establishing it as a filing requirement unless there is some specification of exactly what is to be provided in response to such a requirement, and we have not yet reached that point.

in keeping the number of issues to a minimum.” Staff agrees. There is a consensus that the COSS models developed by Edison and Consumers achieve the objective of providing the parties with a standardized cost of service study model using an Excel-based program that will allow any party to a rate case to modify the input and allocation factors of the model while insuring that the underlying data is consistent with the utility’s model. This is the beginning of an evolutionary process that will improve the COSS models in future rate cases. The key result of this process is not the models so much as it is the establishment of the principle that Edison and Consumers should be required to provide a fully loaded, working copy of their COSS in electronic format, without any proprietary constraints.

Conclusions

The importance of cost of service studies was highlighted in “Michigan’s 21st Century Electric Energy Plan” which included a regulatory recommendation that “The Commission should move rates toward each customer class’s cost of service.” The COSS models developed through this collaborative process will enable parties to a rate case to focus their energy and resources on the most important issues affecting the results of a COSS. Cost of service studies will remain the realm of experts and the parties will continue to disagree on allocation methodologies and even the proper role of cost of service studies in designing rates, but now we will be more capable of quantifying our differences. Therefore, Staff recommends that the Commission accept this report as the final necessary action in the COSS Collaborative process and adopt the following findings:

1. The Detroit Edison Company and Consumers Energy Company have fully complied with the Commission’s directive to develop a standardized COSS model in collaboration with Staff and other interested parties.
2. The Detroit Edison Company and Consumers Energy Company are directed to utilize the COSS models developed in the collaborative in their next general rate case filings.
3. The Detroit Edison Company and Consumers Energy Company are directed to make available to all parties in their next general rate case their COSS model in electronic format along with supporting documentation.
4. Based on the above findings the COSS Collaborative Process is closed.

Acknowledgments

Staff would like to thank everyone that participated in this collaborative process and extend a special thanks to the following participants:

Marty Heiser, *Consultant, Regulatory Economics in the Revenue Requirement Department of the Regulatory Affairs Organization of The Detroit Edison Company*. Marty provided the Excel-based COSS model that was the foundation, and nearly the final design, for the models that both the Edison and Consumers ultimately adopted. Using his model as a starting point advanced the process significantly.

Eric Keaton, *General Analyst in the Cost and Pricing Section of the Rates Department of Consumers Energy Company*. Eric was responsible for modifying Marty's COSS model to adapt it for Consumers unique requirements such as different rate schedules.

Thomas Yehl, *Principal Analyst in the Cost and Pricing Section of the Rates Department of Consumers Energy Company*. Tom was an early and enthusiastic supporter of this collaborative process and he played a key role in facilitating the process.

Donald Erickson, *Assistant Attorney General*. Don and his consultant, Howard Solganick, provided valuable comments on the technical aspects of the COSS models and the process. Staff appreciates his perspective and insight. His comments were not only helpful in this process but provide key recommendations for future rate cases or collaborative processes.

Howard Solganick, *Principal with Energy Tactics & Services, Inc, consultant for the AG*. Howard's technical expertise was evident in the AG's comments and they are very much appreciated.

Robert Strong of *Clark Hill, counsel for ABATE*. Bob's participation, like the AG's, lends credibility to the process and makes the consensus more meaningful.

James Selecky of *Brubaker & Associates, Inc., consultant for ABATE*. Jim provided valuable comments on the Edison and Consumers models as well as his responses to other participant's comments. Staff would especially like to thank Jim and his firm, BAI, for making their COSS model available to be used as a foundation or for comparative purposes.

Ralph E. Miller, *Consulting Economist for Staff*. Staff is grateful for Ralph's participation in the process, particularly his technical analysis of the COSS models. It is impossible to appreciate the complexity of the COSS models developed by Edison, Consumers, and BAI in this process without examining the models in their electronic format. Like Jim Selecky and Howard Solganick, Ralph's expertise enabled him to examine the features of the COSS models from the programming level through to the input and output levels. The acceptance of the final product by these three experts gives the Staff a high level of confidence that the COSS Models are sound and the process has been successfully completed.

Finally, I would like to thank **Daniel Blair** and **Mark J. Pung**, members of the Regulated Energy Division who greatly assisted in the coordination and execution of this collaborative. Each of the individuals listed above should be commended for their efforts and their contributions to the collaborative process. They all embraced the collaborative process and engaged in an open and meaningful dialogue that resulted in a high quality work product that will facilitate the analysis of cost of service studies in future rate cases.

Attachment A

List of Participants In the COSS Collaborative For U-14347 & U-14399

COSS Collaborative for The Detroit Edison Company & Consumers Energy Company, Case Nos. U-14399 & U-14347
Distribution List

<u>Name</u>	<u>Company</u>	<u>Representing</u>	<u>Phone</u>	<u>Fax</u>	<u>Email</u>
Blair, Dan	MPSC	MPSC	517-241-6067		djblair@michigan.gov
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Kurtz, Michael L.	Boehm, Kurtz & Lowry Law Firm	The Kroger Company, counsel	513-421-2255	513-421-2764	Mkurtz@bklawfirm.com
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Zakem, Alex	WPS ESI		734-751-2166		azakem@wpsenergy.com

(a) Not active participant, keep on mailing list.

Attachment B

Comments

Of Participants

In the COSS Collaborative

For

U-14347 & U-14399



BRUBAKER & ASSOCIATES, INC.

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St. Louis, Missouri 63141
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E-Mail: bai@consultbai.com
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Via: E-Mail

May 16, 2006

Robert A. W. Strong, Esq.
Clark Hill
255 S Woodward Avenue, Suite 301
Birmingham, MI 48009

Re: Cost of Service Study Collaborative

Dear Bob:

Brubaker & Associates, Inc. (BAI) has reviewed the cost of service models developed by The Detroit Edison Company (DECo) and Consumers Energy Company (Consumers) in connection with a collaborative initiated by the Michigan Public Service Commission (MPSC) to develop a uniform cost of service model that could be used in future electric rate proceedings. Both DECo and Consumers have provided cost of service models. However, the models are identical except for the applicable rate classes.

The cost of service models that were provided seem quite workable. The models have features that make them easy to work with and understand. Because the models are quite large, it was not possible at this time to test for accuracy. It would be more cost effective for this to be done in connection with a rate proceeding.

The cost of service models appear to be flexible, which would permit changes to the allocation factors used to assign plant to various rate classes. However, it is important that the cost of service model contain all the necessary load data or allocation factors so that it is possible to select or develop the appropriate allocation factor from the provided data. It should be noted that it appears the models do have this flexibility.

Based on BAI's review of the model, I provide the following recommendations.

1. Any links to any other spreadsheet should be eliminated or provided with the model. The provided copy of the model includes a link to another spreadsheet that was not provided.
2. The models should have the ability to change the title of the case study, and the title should appear on all of the pages. There does not appear to be an easy way to change the description of the allocation method that is utilized in the cost of service study for production and/or distribution plant.



Robert A. W. Strong, Esq.

Clark Hill

May 16, 2006

Page 2

3. The model has a switch to utilize either a 4 CP allocation or a Staff method allocation for purposes of allocating production plant. The allocation method that is utilized to allocate production plant should be an input on one of the two input spreadsheets that are provided in the cost of service model.

In summary, it appears that the cost of service models provided by DECo and Consumers (which appear to be identical) are workable. This of course assumes that all formulae are provided in the cells.

If you have any questions about this letter or any of the information contained in it, please do not hesitate to call me.

Sincerely,

BRUBAKER & ASSOCIATES, INC.

James T. Selecky

James T. Selecky

STATE OF MICHIGAN
DEPARTMENT OF ATTORNEY GENERAL



MIKE COX
ATTORNEY GENERAL

P.O. Box 30212
LANSING, MICHIGAN 48909

May 18, 2006

Michael Collins, Manager
Rates & Tariff Section
Regulated Energy Division
Michigan Public Service Commission
6545 Mercantile Way
Lansing, MI 48911

Dear Mr. Collins:

Re: Attorney General's Initial Comments for the COS Collaborative

The Attorney General appreciates the opportunity to participate in the Cost of Service Model Collaborative ordered by the Public Service Commission. This endeavor should pay dividends to the customers of the participating utilities and lead to better proposals by all parties in future rate cases. Your April 20 letter requested interested parties to submit initial comments after reviewing the models provided by Detroit Edison and Consumers Energy. The Attorney General offers the following initial comments.

Goals

As the collaborative begins, we expect that each party will suggest goals for the collaborative process as a guide to the end result. Our suggested goals for the collaborative include:

- The end result of the collaborative should build confidence in the Cost of Service model chosen as the standard for Michigan electric utilities.
- The process used during the collaborative should build relationships among the parties that will facilitate future rate cases.
- The “approved” Cost of Service model should move the cost of service debate from arithmetic to cost of service inputs and allocation methodologies.
- To facilitate rate cases, the collaborative should develop a process that results in an easily developed Cost of Service model scenario that accurately (and repeatedly) represents a proposed position.
- A successful collaborative will result in the reduction in the overall cost of the cost of service portion of the rate case.

Process Issues

As suggested by most parties in the previous cases, the Cost of Service model should be compatible with Excel although it should not require the latest version to be run on a party's computer. The collaborative should define an update/release process for rate cases to ensure that all parties will be working with a common starting point. A predefined scenario naming convention for each party should be developed to allow all parties to develop their position(s) and then submit them as exhibits with their testimony. For clarity each allocator (including functionalization) used should have a unique number, and the collaborative should develop a predefined allocator numbering convention and designate a custodian of the process.

Rate Case Filing Requirements Defined

- The Cost of Service Model should be provided simultaneously with a utility's general rate case filing.
- The model should contain the utility's Cost of Service proposal(s).
- The initial Cost of Service Model filing should include an extended allocator (including functionalization) package, which would preload within the model all reasonably expected allocators whether needed for the utility's position or not.
- At a minimum, most if not all, of the allocation methodologies described in the NARUC Electric Utility Cost Allocation Manual should be developed by the utility from its records in manner that is consistent with its filing.
- Parties should have the ability to request the development and inclusion of new allocators, which should be included if requested within a time period defined by this collaborative.
- The utility's response to an allocator development request should be completed within a time limit that has been determined by this collaborative.
- The initial Cost of Service Model filing should include supporting documentation for all model inputs.
- The calculation of each allocator should be clearly documented back to the source data.
- All information should be based upon relevant units (\$, kW, kWh, customers, etc.) and each line with the Cost of Service model should be clearly defined as to units.
- The initial filing of the Cost of Service model should include the most recent system loss study for energy and demand, which should be based upon recent customer load research.
- Supporting documentation should be provided.

Model Capabilities

The Cost of Service Model should include the ability to create scenarios consisting of multiple (major and significant) allocators and other items. This scenario capability (similar to the proposed model's present capability to switch between the utility's and Staff's power supply allocator) would allow all parties to circulate their cost of service results supporting their position. The Cost of Service model should print important information on each page of the printout including the scenario name, party sponsoring the scenario, date and time produced. This simple information will help all parties to stay "on the same page" during a rate case.

The Cost of Service model should allow for a change in any allocator for any cost item from one location within the model. At present it appears that the allocator selection is not linked across worksheets and this could be a cause of unintentional errors by any party.

The Cost of Service model should include space for all K/M adjustments to be included and clearly identified. In the same spirit, the Cost of Service model should include available additional cost input lines properly "summed" into the ratemaking formula (must accommodate a negative value). By including the additional lines at this point potential programming errors can be eliminated.

Both zero allocators and combined allocators should be available within the model. These capabilities will allow a party to develop special scenarios easily. It appears that the proposed model does have these capabilities.

The present capabilities of jurisdictional allocation and columns for all rate classes and subclasses should continue to be supported.

Error checking such as allocator summation (percentages and base inputs) and cost item checking should be implemented so that the casual observer can rapidly confirm that new allocators (including functionalization) and inputs have been calculated accurately.

Model Input Capabilities

To insure accuracy, inputs should be restricted to highlighted (unprotected) cells on a limited number of sheets although a party could make further changes by "unprotecting" portions of the Cost of Service model.

A party's scenario should be defined and documented on one worksheet. Ideally this "scenario definition" worksheet sheet would also contain the scenario selection capability. By centralizing changes into one worksheet (or at least detailing them on one worksheet) changes from the Company's base case should be apparent to all parties and any other observer.

The Cost of Service model should allow for increasing or reducing any cost item (including K/M changes) by a fixed percentage (including zero). This capability can be added within the proposed model. The proposed model already has lines reserved for normalization issues.

Revenue change capabilities should be integrated into Cost of Service model. These revenue change methodologies should include equal % change, % of Company's revenue request and direct assignment of revenue by class or subclass. These capabilities will allow the parties to investigate all potential rate change concepts. The tax implications of a pure incremental/decremental revenue change should be programmed into the Cost of Service model.

Output Requirements

At a minimum, the Cost of Service model should calculate class and subclass rate of return before the requested increase and at the utility's requested increase. The Cost of Service model should also calculate the MPSC Jurisdictional Index of Earnings and the revenue increase (and %) to provide an equal rate of return for all classes at a specified (input) return on equity.

A party using the Cost of Service model should have the ability to create scenarios covering a % of Company's requested increase (or decrease), an equal % increase for each class and subclass, and a total increase spread as across each class and subclass.

The Cost of Service model should have printing formatted for 8 ½ by 11 paper and include on each page date and time tracking, party name, scenario tracking and exhibit tracking.

Rate Design

As the utility and other parties propose to use rate schedules to send information to customers about the cost of their usage, rate design capabilities are important. As acknowledged within the proposed Cost of Service model, unit costs (demand, energy, customer) for class, subclass and voltage levels have not yet been implemented and they should be. Additionally, revenue proofs based upon actual (and normalized) billing determinants by blocks should be provided early in the process. The collaborative process should remain open until these capabilities are added.

Centralized Support

The collaborative should define a minimum level of support to be provided by the utility for the Cost of Service model. Within a defined period after the filing, a technical conference covering the Cost of Service model and its data inputs should occur. In a timely fashion, upon the reasonable request of any party, the utility should be responsible for developing additional allocators and additional cost information consistent with the filed model. Additionally, the utility should provide a data repository for scenarios submitted to it and release and distribute new scenarios, allocators and additional cost information on a weekly basis to all parties of record.

While these incremental duties will have a modest impact on the utility they will facilitate the "arithmetic" process and reduce litigation time. In most cases the adept utility will have already run (before filing) cases that are likely to represent a party's position and the incremental burden on the utility would be negligible.

In conclusion, the Attorney General appreciates the initial efforts of Detroit Edison and Consumers Energy in providing a common proposed Cost of Service model with significant capabilities. With this positive attitude within the collaborative the resolution of outstanding issues can be rapidly resolved and changes and enhancements made to the model that will serve all parties to the rate case process.

Please add to your participant list for the collaborative, the Attorney General's consultant: Mr. Howard Solganick, 810 Persimmon Lane, Langhorne, PA 19047, email howard@energytactics.com, and telephone (215) 378-2280.

Yours truly,

Donald E. Erickson
Assistant Attorney General

c Mark Pung-Collaborative Coordinator
COS Collaborative Participants

**From: Michael Collins, Manager
Rates & Tariff Section
Regulated Energy Division, MPSC**

**August 10, 2006
(517) 241-6126
mlcolli@michigan.gov**

TO: Cost of Service Study Collaborative Participants

Subject: Staff's Comments on the Draft COSS Models

First, I would like to express Staff's deep appreciation for the willingness of Edison, Consumers, and BAI to share their work products and expertise in this collaborative process. Their input has already made this collaborative a great success. I, also, want to thank all the participants for your initial comments and your patience while Staff prepared its comments.

Staff's collaborative consultant, Ralph Miller, has reviewed the three cost of service study (COSS) spreadsheets that have been provided to the collaborative by Detroit Edison, Consumers Energy, and Brubaker & Associates, Inc. (BAI). As a result of that review and after further discussion, Staff is suggesting some additional refinements to the Detroit Edison and Consumers Energy COSS models that may help other parties to use those models, and that will further narrow the relatively small differences between them and the BAI model. Staff also has identified some further questions about the model design for consideration and comment by the collaborative.

At the request of Staff, Mr. Miller has implemented some of the further changes that Staff suggests for consideration by the collaborative. He has made these changes on a trial basis in the Consumers COSS model, but not for the Detroit Edison model. A copy of the Consumers COSS model with these suggested modifications accompanies this memo (Accompanying Model). If the collaborative agrees that these changes are desirable, we expect to ask Consumers and Detroit Edison to complete the suggested changes for their models.

Suggested Changes to the Model

Staff's suggested changes include the following modifications to the "Input1" spreadsheet:

1. Add a column showing the aggregation of the input cost data to complete the Total Electric (Consumers) or Input Juris Electric (Edison) column, which at present appears only on the "Total" tab. Including a similar column in the Input1 spreadsheet would enable the user to obtain a complete picture of the Total Electric data when working with the inputs, and it would help to verify any data entry or changes to data entry. The suggested addition is column E on the Input1 tab of the Accompanying Model.
2. Calculate the functionalization of Total Electric costs on the Input1 tab. At present, the only place to find the functionalized costs is in the Total Electric columns on the Prod and Dist tabs. The functionalization appears in columns H, I, and J on the Input1 tab of the Accompanying Model.

- a. The data for functionalization of revenues comes from the Input2 tab, and is picked up in columns E, H, and J of Input1. Lines 195-201 were added to the Input2 tab to complete the functionalization of revenues there. All of the other information needed for the functionalization already appears on Input1. A few of the functionalization formulas had to be revised to use the data already on Input1, rather than work through the Prod and Dist tabs, but these revisions do not affect the results.
 - b. Restriction of the functionalization calculation to the Input1 tab eliminates the circularity that the Detroit Edison and Consumers models avoid by using an “Image” copied manually from the “Live” functionalization table.
 - c. In the Accompanying Model, the functionalization (and everything else) on the Input1 tab works even if the Total, Prod, and Dist spreadsheets are deleted completely.
3. Identify the allocation factors to be used for each line item of input cost. In the Accompanying Model, columns N, P, and R on the Input1 tab are copies of the values (and formats) — not the formulas — in the “Alloc” column (column F) on the Total, Prod, and Dist tabs. The copies of the factor numbers from the Prod and Dist tabs start at line 180, where the allocations begin.
 - a. Column F (“Allocator”) on Input1 of the Consumers COSS (column G in the Accompanying Model) is the functionalization factor; it is not used for the allocation of costs among customer classes.
 - b. Column J (“Alloc”) on Input1 of the Consumers COSS (column K in the Accompanying Model) has an allocation factor reference, but it is apparently not used in the model. The allocation factors actually used in the Prod, Dist, and Total tabs are in column F on each of those three tabs, and the cell entries there are input data, not formulas.
 - c. A review of the Accompanying Model shows that on a few lines, the allocation factors in columns K, N, P, and R are not all the same. Juxtaposition of these columns on the Input1 tab helps to identify the places where the differences occur, so they can be explained or addressed.
 4. Modify the “Alloc” columns on the Total, Prod, and Dist tabs to use the allocation factor designations added to the Input1 tab as columns N, P, and R. A user of the COSS model could then change the allocations by changing the factor references on Input1; at present, a user of the model must make any such changes directly onto the Prod, Dist, and/or Total tabs. This suggested change is not yet implemented in the Accompanying Model.

In addition to these specific suggestions for enhancing the COSS model, Staff

also suggests consideration of the following questions, which could lead to some further changes:

5. Would it also be helpful to add yet another column to the Input1 tab, showing the formulas for calculating all of the subtotals alongside the numerical data, as illustrated by the example in line 293 on the Accompanying Model? This information is useful mostly for a printed report of the input data, as someone working on the live spreadsheet can see the formulas in each cell. (If these formulas are added for printed reports, then it would also be desirable to have an initial column showing the row index for each line; that is provided in the Accompanying Model as column U on the Input1 tab.)
6. It appears that all of the class allocations in the BAI model are performed on the Prod and Dist tabs, and that the Total tab is just a cell-by-cell sum of the Prod and Dist tabs. In the Consumers and Edison models, the allocation process appears to occur also on the Total tab. Which approach is preferable?
 - a. Conceptually, the BAI approach is more flexible, because it allows independent choices for the allocation methods on the Prod and Dist tabs. If costs are allocated on the Total tab too, then there must be a specific arithmetic relationship among the three allocation factors (Total, Prod, and Dist) and the functionalization percentages for each line item, in order to make the allocation on the Total tab match the sum of the allocated amounts on the Prod and Dist tabs. This relationship is ordinarily achieved for most line items with typical allocation choices, but not always. It is not achieved for revenues, and the Consumers model gets around this problem by using special instructions for the revenue lines (290, 291, and 296).
 - b. Allocation directly on the Total tab has the advantage of enabling one to look only at the Total tab to understand the allocation of total costs. But with a large Choice program, that advantage may not be worth much.
 - c. As noted above, a few lines had to be added to the Input2 tab to complete the functionalization of revenues there. In the Consumers implementation, that functionalization is accomplished by an interaction of the revenue lines on the Total, Prod, and Dist tabs. The additional lines on Input2 would make it possible to develop the revenue amounts on the Prod and Dist tabs without first calculating revenues on the Total tab.
7. Would it be desirable show absolute numbers, not percentages, as the input for each allocation factor, and then show the percentages calculated on a second line? This question applies specifically to the number of customers and to the class demand and energy allocation factors. It appears that there are no source notes for these allocation factors, and the absolute quantities would be easier for a user to relate to other data in a rate case. The BAI model provides the absolute

quantities in the Input Allocation Schedules on the DistFactorCalc and ProdFactorCalc tabs.

8. There is a similar question about the presentation of internally calculated allocation factors, based upon subtotals of previously calculated lines in the COSS. The BAI model includes a line showing the calculated subtotal, then a second line for the allocation factor. (See the Calculated Allocation Schedules on the DistFactorCalc and ProdFactorCalc tabs.) It may be safer and easier to set up the model this way, especially if the subtotal is not displayed as a line in the COSS, as with BAI factor 600, O&M expense excluding fuel and purchased power. There is less need for an added line when the calculated allocation factor is based on an already calculated subtotal, such as BAI factor 500, PIS.
9. Some allocation factors are obtained by recognizing only some, but not all, of the customer classes. Examples are the various subgroups of customers, and class loads at secondary voltage. Would it be appropriate to standardize the method for calculating these allocation factors?
 - a. One possibility is to use a mask (a row of zeros and ones, indicating which classes are included in the allocation factor, and which are not). The formula would then be a standard multiplication of the unmasked factor (or unmasked absolute input quantities such as number of customers) times the mask on a column-by-column basis, divided by the sum of the products across all rows. A possible advantage is that the formula would be the same for all masked factors; only the row number of the unmasked factor and the row number of the mask would change.
 - b. Masks also work nicely for weighted customers, with class weights instead of ones for the included classes.
 - c. An alternative would be to add a row for the absolute quantities used for each factor after masking (*e.g.*, showing the loads at secondary voltage, with zero for classes served at higher voltage).

Next Step

The next step in this process will be to give everyone some time to consider and comment on Ralph Miller's suggested changes (modifications) to the models. I know that most of the participants in this collaborative have very busy schedules, so it may be most expedient to have Detroit Edison and Consumers comment first on the feasibility of Ralph's suggestions and then we can take up any additional comments that the rest of the participants may have. I would like to set the date for those comments as **September 8th**. If anyone else would like to comment on Ralph's suggestions, please send them out to the group by September 8th, too. In the meantime it would be useful to get some feedback on the Attorney General's comments as well.

Thanks, again to Edison, Consumers, and others for their input so far.

Consumers Energy's Response to the Attorney General's Initial Comments for the Cost of Service Collaborative

On December 22, 2005, the Michigan Public Service Commission issued its Order in Case No. U-14347 and directed the MPSC Staff "to work with Consumers, Detroit Edison, and other interested parties to develop a standardized COSS model that can be exchanged electronically and provides sufficient flexibility to allow all parties to understand the bases for the data underlying the COSS."

In order to comply with the above directive, Consumers Energy has converted its cost of service process to an Excel-based workbook. It is the Company's intent to file this Excel workbook and all workpapers that support the Company's position in any future electric rate cases.

However, it appears that some of the items contained in the Attorney General's comments go beyond the Commission's intended scope of this collaborative. The Company's interpretation of the collaborative's intent is that the collaborative does not include rate case filing requirements, rate design, and centralized support provided by the Company.

It is the position of Consumers Energy that the probability of a successful collaborative rests in keeping the number of issues to a minimum.

Eric Keaton
ejkeaton@cmsenergy.com
517-788-0862

9-1-06 Consumers' Email Response to Staff Comments:

Consumers Energy agrees with Staff's positions on points 1, 2, 3, 4, 6, 7 and 9 and has implemented or is in the process of implementing them now. Suggestion 5 seems like more work than is necessary and is of little value to someone that has the electronic version of the model. Suggestion 8 will be taken care of by adding lines in the model that will sum lines together so that calculated allocators will use only 1 line from the reports as input where possible.

Eric Keaton
517-788-0862

[Detroit Edison's 9-1-06 Response to AG Comments.]

RE: Detroit Edison's response to the Attorney General's Initial Comments for the COS Collaborative

Detroit Edison's response, below, is arranged by the major headings found within the Attorney General's comments.

Goals:

Detroit Edison believes that the goal of the collaborative was clearly stated in the Commission's December 22, 2005 Order in Case No. U-14399 as follows:

"The Staff requests that the Commission open a collaborative for the purpose of modernizing the rate case process for major electric utilities by developing a standardized COSS model that will not be proprietary, and will take advantage of the electronic data processing capabilities of all parties, in order to allow COSS data to be submitted and analyzed on a desktop personal computer. The Commission is persuaded that it has become vital for the parties to major rate cases to be able to **exchange information electronically**. The Staff is directed to work with Detroit Edison, Consumers, and other interested parties to develop a standardized COSS model that can be **exchanged electronically and that provides sufficient flexibility to allow all parties to understand the bases for the data underlying the COSS.**" (Order page 38, emphasis supplied)

Process Issues:

Detroit Edison agrees that the Cost of Service model should be compatible with Excel.

Rate Case Filing Requirements Defined:

Detroit Edison views the Attorney General's attempt to redefine filing requirements beyond incorporating the standardized COSS model into the filing requirements as being outside the scope of this collaborative.

In the discussion section of the December 22, 2005 Order in Case No. U-14399, the Commission wrote:

"The Staff recommends that the Commission direct Detroit Edison to participate in a collaborative process with the Staff, Consumers Energy Company (Consumers), and other interested parties, to develop a standardized COSS model **to be incorporated into the filing requirements** for electric utilities within 12 months of the date of this order. The Staff advocates an electronic format that would allow parties to readily verify complex calculations and exchange information more easily. (Order page 14, emphasis supplied)

Model Capabilities/ Model Input Capabilities/ Output Requirements:

Given the fact that the base COSS model is an Excel worksheet, Detroit Edison believes that each party's ability to create scenarios will be limited only by their proficiency in using Excel and/or the limitations of the Excel software itself.

Rate Design:

Detroit Edison believes that rate design is outside the scope of this collaborative. Rate design takes place "downstream" of the COSS. The COSS serves as only one of many considerations taken into account in the rate design. Rate design is performed at a greater level of detail than is required for the COSS. For example, the COSS consolidates rate classes, whereas rate design addresses each tariff.

Centralized Support:

Detroit Edison sees no need to depart from current rate case practice. Namely, the utility is responsible for filing its own position and other parties are responsible for creating and distributing their position(s).

STATE OF MICHIGAN
DEPARTMENT OF ATTORNEY GENERAL



MIKE COX
ATTORNEY GENERAL

P.O. Box 30212
LANSING, MICHIGAN 48909

September 8, 2006

Michael Collins, Manager
Rates & Tariff Section
Regulated Energy Division
Michigan Public Service Commission
6545 Mercantile Way
Lansing, MI 48911

Dear Mr. Collins:

**Re: Attorney General's Response to Comments from the parties to the
COS Collaborative**

The Attorney General thanks all of the active participants in the collaborative for their inputs at the conceptual, operational (model) and procedural levels. In our initial comments we suggested that overall goals should be set for the collaborative. Clear successes have occurred in defining a common COSS model for the major electric utilities. We believe the questions raised by the Attorney General, Staff, and ABATE/BAI frame a next round of model changes, and the support of Detroit Edison and Consumers in model development and commitment has been invaluable and very positive.

At this point the collaborative should begin to explore the needs of participants for a minimum level of information to be provided by the utility along with and/or embedded within the model. A common COSS model without relevant supporting data is only one of the necessary steps. As noted on page 1 of Staff's Statement of Work for the Collaborative, specifying the minimum level of information available within the model will, "make comparative studies more feasible and provide the Commission with better record evidence upon which to base its final decisions."

Additionally, with the use of a common COSS model and without a clear method of identifying each party's work the potential for misunderstanding and miscommunication increases. As BAI suggested, "The models should have the ability to change the title of the case study, and the title should appear on all of the pages" [BAI comments by James T. Selecky, May 16, 2006, page 1]. The Attorney General has proposed a centralized scenario support or at least a standardized convention for naming allocators and other information. If the collaborative does not also develop proposals in this area, we risk constructing a Tower of Babel.

At present, no other party has raised the need for a revenue allocation function within the COSS. This incremental function can be easily added within a COSS revenue module and would allow any party to test its own proposed interclass revenue allocation and provide a consistent means of presenting its impact to the Commission.

The Attorney General again calls upon the collaborative to discuss whether rate design capabilities should be an output of the COSS model. All of the elements for this capability are already in the model either as allocators or cost inputs. Only appropriate output reports need to be generated.

Our concerns for consistency and centralized support are rooted in the knowledge that the rate case process will become more efficient if concerns such as source data and calculation accuracy are removed by a measure of centralized support or at least scenario management. The Attorney General's specific responses to each party that has sent comments follow.

Attorney General's Response to Staff's Comments on the Draft COSS Models

The Attorney General has reviewed Staff's comments and suggestions and supports the Staff's recommended modifications. The Staff suggested nine changes (plus subparagraphs) to the "Input1" spreadsheet. In addition to the Attorney General's concurrence, the Attorney General responds to some of the questions raised by Staff as follows:

5. Would it also be helpful to add yet another column to the Input1 tab, showing the formulas for calculating all of the subtotals alongside the numerical data, as illustrated by the example in line 293 on the Accompanying Model? This information is useful mostly for a printed report of the input data, as someone working on the live spreadsheet can see the formulas in each cell. (If these formulas are added for printed reports, then it would also be desirable to have an initial column showing the row index for each line; that is provided in the Accompanying Model as column U on the Input1 tab.)

The Attorney General supports this recommendation as long as it can be easily suppressed if not needed.

6. It appears that all of the class allocations in the BAI model are performed on the Prod and Dist tabs, and that the Total tab is just a cell-by-cell sum of the Prod and Dist tabs. In the Consumers and Edison models, the allocation process appears to occur also on the Total tab. Which approach is preferable?

- a. Conceptually, the BAI approach is more flexible, because it allows independent choices for the allocation methods on the Prod and Dist tabs. If costs are allocated on the Total tab too, then there must be a specific arithmetic relationship among the three allocation factors (Total, Prod, and Dist) and the functionalization percentages for each line item, in order to make the allocation on the Total tab match the sum of the allocated amounts on the Prod and Dist tabs. This relationship is ordinarily achieved for most line items with typical allocation choices, but not always. It is not achieved for revenues, and the Consumers model gets around this problem by using special instructions for the revenue lines (290, 291, and 296).

The Attorney General supports the BAI approach as preferable because it provides both flexibility (independent allocation) and reduces the chances for errors. The model should not calculate any value twice (on different sheets or locations) because this provides a high potential for errors. Thus the Total tab should be just that a total(ing) tab.

- b. Allocation directly on the Total tab has the advantage of enabling one to look only at the Total tab to understand the allocation of total costs. But with a large Choice program, that advantage may not be worth much.

The Attorney General suggests that this alternative offers little advantage and increases the potential for error.

- c. As noted above, a few lines had to be added to the Input2 tab to complete the functionalization of revenues there. In the Consumers implementation, that functionalization is accomplished by an interaction of the revenue lines on the Total, Prod, and Dist tabs. The additional lines on Input2 would make it possible to develop the revenue amounts on the Prod and Dist tabs without first calculating revenues on the Total tab.

The Attorney General supports this approach because the development of revenues on the Prod and Dist tabs allows more flexibility.

7. Would it be desirable show absolute numbers, not percentages, as the input for each allocation factor, and then show the percentages calculated on a second line? This question applies specifically to the number of customers and to the class demand and energy allocation factors. It appears that there are no source notes for these allocation factors, and the absolute quantities would be easier for a user to relate to other data in a rate case. The BAI model provides the absolute quantities in the Input Allocation Schedules on the DistFactorCalc and ProdFactorCalc tabs.

The Attorney General supports the recommendation to first provide the absolute values and then calculate the percentages. All input variables should be provided in their original value with appropriate units (financial or engineering). Parameters such as customer counts, demand in kilowatts, energy in kilowatt-hours and costs in dollars are then easily confirmed from source data. Absolute and order-of-magnitude errors then are more easily detected. Combined with Consumers' position of filing all workpapers then the development of new allocation factors from the absolute values (in correct units) would be easier for all parties.

8. There is a similar question about the presentation of internally calculated allocation factors, based upon subtotals of previously calculated lines in the COSS. The BAI model includes a line showing the calculated subtotal, then a second line for the allocation factor. (See the Calculated Allocation Schedules on the DistFactorCalc and ProdFactorCalc tabs.) It may be safer and easier to set up the model this way, especially if the subtotal is not displayed as a line in the COSS, as with BAI factor 600, O&M expense excluding fuel and purchased power. There is less need for an added line when the calculated allocation factor is based on an already calculated subtotal, such as BAI factor 500, PIS.

The Attorney General recommends the BAI alternative (showing the calculated subtotal) because it provides clarity and reduces the potential for error. A reference to the row in the model, which produced the subtotal, should be readily apparent.

9. Some allocation factors are obtained by recognizing only some, but not all, of the customer classes. Examples are the various subgroups of customers, and class loads at secondary voltage. Would it be appropriate to standardize the method for calculating these allocation factors?
 - a. One possibility is to use a mask (a row of zeros and ones, indicating which classes are included in the allocation factor, and which are not). The formula would then be a standard multiplication of the unmasked factor (or unmasked absolute input quantities such as number of customers) times the mask on a column-by-column basis, divided by the sum of the products across all rows. A possible advantage is that the formula would be the same for all masked factors; only the row number of the unmasked factor and the row number of the mask would change.

The Attorney General has previously suggested that zero allocators be available. The use of a properly developed mask would be an advantage.

- b. Masks also work nicely for weighted customers, with class weights instead of ones for the included classes.

The Attorney General supports this concept if supported by properly documented workpapers from the Company. Without the base information from the utility this concept has limited value.

- c. An alternative would be to add a row for the absolute quantities used for each factor after masking (*e.g.*, showing the loads at secondary voltage, with zero for classes served at higher voltage).

The Attorney General believes that this can be a workable alternative. As previously stated by the Attorney General, the most recent system loss study for energy and demand should be part of the COSS filing requirements to form a basis for further changes by any party.

Attorney General's Response to Brubaker & Associates, Inc. (May 16, 2006)

The Attorney General has reviewed BAI's comments and suggestions and supports all of BAI's recommendations:

1. Any links to any other spreadsheet should be eliminated or provided with the model. The provided copy of the model includes a link to another spreadsheet that was not provided.
2. The models should have the ability to change the title of the case study, and the title should appear on all of the pages. There does not appear to be an easy way to change the description of the allocation method that is utilized in the cost of service study for production and/or distribution plant.
3. The model has a switch to utilize either a 4 CP allocation or a Staff method allocation for purposes of allocating production plant. The allocation method that is utilized to allocate production plant should be an input on one of the two input spreadsheets that are provided in the cost of service model.

The Attorney General suggests that recommendations #2 and #3 are best accomplished with some form of scenario management system as detailed in the Attorney General's comments dated May 18, 2006 (page 3).

Attorney General's Responses to Comments of Consumers Energy

The Attorney General appreciates Consumers Energy's commitment to the goals of the collaborative and "the Company's intent to file this Excel workbook and all workpapers that support the Company's position in any future electric rate cases."

As the Commission said in its order in Case U-14347 (Consumers Energy):

The Staff requests that the Commission open a collaborative for the purposes of modernizing the rate case process for major electric utilities by developing a standardized COSS model that will not be proprietary, and will take advantage of the electronic data processing capabilities of all parties, in order to allow COSS data to be submitted and analyzed on a desktop personal computer. The Commission is persuaded that it has become vital for the parties to major rate cases to be able to exchange information electronically. The Staff is directed to work with Detroit Edison, Consumers, and other interested parties to develop a standardized COSS model that can be exchanged electronically and that provides sufficient flexibility to allow all parties to understand the bases for the data underlying the COSS." (Page 76)

Also, as the Commission said in its order in Case U-14399 (Detroit Edison)

"The Staff advocates an electronic format that would allow parties to readily verify complex calculations and exchange information more easily." (Page 14)

"The Commission finds that while the standard filing requirements have worked well in the past, that does not preclude the possibility of improvement. Based upon the evidence and analysis presented by the Staff, the Commission finds that it is appropriate to initiate this change." (Page 36)

"The Commission is persuaded that it has become vital for the parties to major rate cases to be able to exchange information electronically. The Staff is directed to work with Detroit Edison, Consumers, and other interested parties to develop a standardized COSS model that can be exchanged electronically and that provides sufficient flexibility to allow all parties to understand the bases for the data underlying the COSS." (Page 37)

From the above Commission statements, the Commission refers not just to individual utility positions, but also to positions of the various parties, including the Staff. Those parties are to be able to:

- exchange information electronically
- provide sufficient flexibility
- allow COSS data to be submitted by all parties

In the Staff's Statement of Work for the Collaborative it stated:

The purpose of the collaborative is to develop a standardized cost of service study model using an Excel-based program that will allow any party to a rate case to modify the input and allocation factors of the model while insuring that the underlying data is consistent with the utility's model. This model will allow all participants in future Consumers and Edison rate cases to view the utility's critical cost of service information and underlying allocation formulas in their original electronic format, thereby making the cost allocation process more transparent. This will make comparative studies more feasible and provide the Commission with better record evidence upon which to base its final decisions. The collaborative will have the cost of service study programming experts from Consumers and Edison work in concert with each other, the Staff, and the other parties to develop cost of service study models for each utility. (Page 1)

The Staff's Statement of Work seems to contemplate the following goals:

- allow any party to a rate case to modify the input and allocation factors of the model,
- insure that the underlying data is consistent with the utility's model,
- make comparative studies more feasible, and
- provide better record evidence upon which to base the final decisions.

From the above references it appears that Consumers' objections that the collaborative has a limited scope is due to a viewpoint that "the collaborative does not include rate case filing requirements, rate design, and centralized support provided by the Company." [Consumers e-mail August 29, 2006] But the Commission has clearly stated, "The Commission finds that while the standard filing requirements have worked well in the past, that does not preclude the possibility of improvement."

Beside the advantages highlighted by the Commission within its orders, Consumers comments overlook one important advantage. A well developed COSS model and strong efficient support will reduce the time for parties to develop, explain and defend their positions on cost of service and rate design. This time reduction could lead to earlier rate relief for the utility, which would be a substantial benefit.

A secondary advantage to the utility, which could be obtained by virtue of providing centralized support is that the utility will be able to see, and thus prepare to rebut (if it desires), each party's potential cost of service and rate design position. While some parties might wish to shield their strategies, such an exchange should be cost effective for each party's constituency.

The Attorney General is surprised that Consumers has taken such a narrow view of the collaborative when economic benefits of the collaborative would also accrue to utilities.

Attorney General's Response to Comments of Detroit Edison

The Attorney General appreciates Detroit Edison's recent comments [Martin Heiser, September 1, 2006] specifically its willingness to provide the COSS in Excel.

In response to Detroit Edison's comment, "Detroit Edison views the Attorney General's attempt to redefine filing requirements beyond incorporating the standardized COSS model into the filing requirements as being outside the scope of this collaborative." The Attorney General believes the Commission has not limited the collaborative to a narrow task of solely incorporating a standardized COSS in the filing requirements.

The Commission has clearly stated, "The Commission finds that while the standard filing requirements have worked well in the past, that does not preclude the possibility of improvement." [Case U-14399 (Detroit Edison), page 36]

The Attorney General's comments are suggestions that improve the overall cost of service process within a rate case and are not limited to very useful conversion of proprietary models into a common Michigan COSS.

In response to Detroit Edison's comment, "Given the fact that the base COSS model is an Excel worksheet, Detroit Edison believes that each party's ability to create scenarios will be limited only by their proficiency in using Excel and/or the limitations of the Excel software itself," the Attorney General responds that the use of a common Excel based COSS will allow any party to develop scenarios to meet its needs.

However, the Commission faces a choice because the utility is the source of relevant data. The Commission can only order the use of a common COSS or it can decide that the common COSS can include information that active parties will request during the discovery process. Thus the common COSS can be one method for the Commission to reduce costs and expedite the rate process for all participants including the utility.

Detroit Edison's comments state, "Detroit Edison believes that rate design is outside the scope of this collaborative. Rate design takes place “downstream” of the COSS. The COSS serves as only one of many considerations taken into account in the rate design. Rate design is performed at a greater level of detail than is required for the COSS. For example, the COSS consolidates rate classes, whereas rate design addresses each tariff."

The Commission said in its order:

“The Staff advocates an electronic format that would allow parties to readily verify complex calculations and exchange information more easily.” [Case U-14399 (Detroit Edison), page 14]

“The Commission finds that while the standard filing requirements have worked well in the past, that does not preclude the possibility of improvement. Based upon the evidence and analysis presented by the Staff, the Commission finds that it is appropriate to initiate this change.” [Case U-14399 (Detroit Edison), page 36]

“The Commission is persuaded that it has become vital for the parties to major rate cases to be able to exchange information electronically. The Staff is directed to work with Detroit Edison, Consumers, and other interested parties to develop a standardized COSS model that can be exchanged electronically and that provides sufficient flexibility to allow all parties to understand the bases for the data underlying the COSS.” [Case U-14399 (Detroit Edison), page 37]

Therefore, the Attorney General believes the Commission’s order in the Detroit Edison case does not limit the collaborative but is open and receptive to improvements. Rate design is the next step after cost of service and requires complex calculations and large volumes of data. The Attorney General requests the parties to the collaborative to respond with substantive reasons, if any, why his suggestion that a reasonable level of rate design information should not be included within the COSS model.

Detroit Edison's comments state, "Detroit Edison sees no need to depart from current rate case practice. Namely, the utility is responsible for filing its own position and other parties are responsible for creating and distributing their position(s)." The Attorney General’s reply is similar to his response to Consumers Energy on a similar position.

The Commission has clearly stated, "The Commission finds that while the standard filing requirements have worked well in the past, that does not preclude the possibility of improvement." [Case U-14399 (Detroit Edison), page 36]

Beside the advantages highlighted by the Commission within its orders, Detroit Edison's comments overlook one important advantage. A well developed COSS model and strong efficient support will reduce the time for parties to develop, explain and defend their positions on cost of service and rate design. This time reduction could lead to earlier rate relief for the utility, a substantial benefit.

A secondary advantage to utilities, which is obtained by virtue of providing centralized support is that a utility will be able to see, and thus prepare to rebut (if it desires), each party's potential cost of service and rate design position. While some parties may wish to shield their strategies others may see the exchange as cost effective for their constituency.

The Attorney General is surprised that Detroit Edison has taken such a narrow view of the collaborative when economic benefits from the collaborative will also accrue to the utility.

In conclusion, the Attorney General appreciates the efforts of all parties as we all continue to work within the collaborative process to develop a cost of service process to be followed in rate cases to make them more productive and useful to each utility, to customers, to the Staff, and ultimately to the Commission.

Yours truly,

Donald E. Erickson
Assistant Attorney General

c Mark Pung-Collaborative Coordinator
COS Collaborative Participants



BRUBAKER & ASSOCIATES, INC.

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Via: E-Mail

September 14, 2006

Robert A. W. Strong, Esq.
Clark Hill
255 S Woodward Avenue, Suite 301
Birmingham, MI 48009

Re: Cost of Service Study Collaborative Comments

Dear Bob:

Brubaker & Associates, Inc. (BAI) has reviewed the cost of service comments provided by the Attorney General on May 18, 2006, and the Michigan Public Service Commission (MPSC) Staff on August 10, 2006. As per the MPSC Staff request, BAI is providing the following response to those comments.

Attorney General's Comments

BAI provides the following comments to the Attorney General's May 18, 2006 Initial Comments:

1. The cost of service model should be provided simultaneously with the utility's general rate case filing.
2. The cost of service model should be compatible with Excel, and it should not require the latest version to be executed.
3. The model that is supplied by the utilities in a rate case should not reflect "most if not all, of the allocation methodologies described in the NARUC Electric Utility Cost Allocation Manual."
4. Parties should be able to request necessary data to develop new allocators which can be utilized in the cost of service model.
5. The cost of service model should not have to include the most recent system loss study for energy and demand.
6. The cost of service model should not include rate design capabilities as part of the model.
7. The cost of service model does not have to include revenue proofs based on actual and normalized billing determinants by blocks.



Robert A. W. Strong, Esq.

Clark Hill

September 14, 2006

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8. There should be a minimum level of support provided by the utilities once a cost of service model is selected. This support would exist for a defined period.
9. The utility should be responsible for developing additional allocators and providing supporting documentation for those allocators. This could be conducted as discovery in connection with the rate filing.

Staff Comments

The MPSC Staff provided their comments on August 10, 2006. Consumers Energy, in a September 1, 2006 e-mail, indicated that it was implementing the Staff positions on points 1, 2, 3, 4, 6, 7, and 9. BAI concurs with Consumers Energy's comment regarding point 5 and does not believe that would be of much additional value to someone that has an electronic version of the model. Finally, ABATE concurs with Staff's point 8 and will review the revision discussed in Consumers' September 1 e-mail addressing that item.

If you have any questions about this letter or need any additional information, please do not hesitate to call me.

Sincerely,

BRUBAKER & ASSOCIATES, INC.

James T. Selecky

James T. Selecky

[Detroit Edison 9-15-06 Response to Staff's Comments]

Detroit Edison appreciates the efforts of the other collaborative participants in reviewing the model and believes that the end product will benefit from the synergy of the group. There are some trade-offs that must be weighed in deciding whether to pursue suggested changes. Adding complexity to the model increases the effort required to maintain the model and increases the chances of exceeding the capabilities of Excel.

Detroit Edison suggests prioritizing the changes based on the level of effort required vs. the value added and implementing them in a stepwise manner to see whether they cause the model to exceed the limitations of Excel.

Detroit Edison believes the information requested to be calculated on the input sheets in suggestions 1-“aggregation of input cost data on the input1 tab”; and 2-“display aggregated functional cost data on the input1 tab” are duplicative and nonessential because that information is displayed on other sheets within the model. Alternatively, the suggestions could be implemented without adding complexity to the model by displaying the information in a separate worksheet that links to the model.

Detroit Edison believes the following changes can be implemented with minimum impact: 3-“identify allocators on input tab”; 4-“link allocators from input tab to report tabs Total, Prod, Dist” and; 6-“make the Total tab the arithmetic sum of the Prod and Dist tabs.”

Detroit Edison believes that suggested change 5 to display formulas is a case where the additional effort required to implement and maintain the change exceeds the value added.

Detroit Edison believes that suggestions 7-“show numbers with the percentages for externally generated allocation factors”; and 8-“show numbers with the percentages for internally generated allocation factors” potentially add complexity that could challenge the limitations of Excel. Further evaluation is needed.

Detroit Edison believes that suggestion 9-“use masks to calculate allocation factors that use some, but not all, classes” may be implemented with little effort but wishes to reserve judgment until further evaluation is performed.

Martin L. Heiser
The Detroit Edison Company
Regulatory Policy & Operations - Pricing
1024 WCB, 2000 Second Ave. Detroit 48226
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Marty Heiser email comments attached to Detroit Edison's December 1, 2006 COSS Model.

Attached is the current version of Detroit Edison's Excel-based Cost of Service (COS) model.

The model incorporates Staff's recommended changes as follows:

- 1- "aggregation of input cost data on the input1 tab" complete
- 2- "display aggregated functional cost data on the input1 tab" complete
- 3- "identify allocators on input1 tab" complete (Note: the description shown corresponds to the allocator used for the Prod Function)
- 4- "link allocators from input2 tab to report tabs Total, Prod, Dist" complete
- 5- "display formulas" Not completed because Edison believes the additional effort required to implement and maintain the change exceeds the value added.
- 6- "make the Total tab the arithmetic sum of the Prod and Dist tabs." complete
- 7- "show numbers with the percentages for externally generated allocation factors" Where feasible, the basis for externally generated allocation factors is displayed on the reports that display allocation schedules. For more complex calculations, the basis may be found in referenced workpapers.
- 8- "show numbers with the percentages for internally generated allocation factors" Where feasible, the basis for internally generated allocation factors is displayed on the reports that display allocation schedules. For more complex calculations, the basis may be found in referenced workpapers.
- 9- "use masks to calculate allocation factors that use some, but not all, classes" Masks have been included. In order to match the included/excluded items in the numerator to those in the denominator I used the excel function "sumproduct".

Note: The attached model is adapted from Detroit Edison's test year cost of service from MPSC Case No. U-14838 (Section B). It uses the historic base year data and incorporates known and measurable changes through year-end 2007 as separate line items.

(See attached file: DetEd UCOSB Model.xls)

From: Strong, Robert A. W. [mailto:RStrong@ClarkHill.com]

Sent: Friday, January 05, 2007 12:02 PM

To: Collins, Michael L (DLEG)

Subject:

Mike,

Thank you for arranging for a review of the COSS models. We agree that this effort has been very worthwhile. We have one comment that you can certainly circulate which is we prefer a model that includes the raw data regarding the 12 monthly peaks by class, energy consumption monthly by rate and monthly coincident and non-coincident demands. CEC's model has this but DECo's does not. Otherwise, we have no other initial comments.

Robert A. W. Strong

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STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

STATE OF MICHIGAN)	
)	Case No. U-14399
County of Ingham)	

PROOF OF SERVICE

Angela Castle, being duly sworn, deposes and says that on February 26, 2007, A.D. she served a copy of the attached MPSC Staff Report on the Cost of Service Study Collaborative, by mailing copies thereof by first class mail, postage prepaid, or by inter-departmental mail, to the persons as shown on the attached service list.

Angela Castle

Subscribed to before me this
26th day of February, A.D., 2007

Gloria Pearl Jones
Notary Public, Eaton County, MI
Acting in Ingham County, MI
My Commission Expires June 5, 2007

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