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ERIC J. SCHNEIDEWIND
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April 27, 2009

Ms. Mary Jo Kunkle
Michigan Public Service Commission
6545 Mercantile Way
P.O. Box 30221
Lansing, MI 48909

Re: Case No. U-15645

Dear Ms. Kunkle:

Attached for paperless electronic filing is the Testimony and Exhibits of Ronald T. Carrier on Behalf of Energy Michigan, Inc. Also attached is the original Proof of Service indicating service on counsel.

Thank you for your assistance in this matter.

Very truly yours,

VARNUM, RIDDERING, SCHMIDT & HOWLETT LLP

Eric J. Schneidewind

Digitally signed by Eric J. Schneidewind
DN: c=US, o=Varnum Riddering Schmidt Howlett, cn=Eric J. Schneidewind
Date: 2009.04.27 15:47:50 -04'00'

Eric J. Schneidewind

EJS/mrr

cc: ALJ
parties

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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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.	))))))	Case No. U-15645

TESTIMONY OF RONALD T. CARRIER
ON BEHALF OF ENERGY MICHIGAN, INC.

Q. Please state your name and a business address.

A. My name is Ronald T. Carrier. My business address is 2316 Anchor Court, Holt, Michigan 48842

Q. By whom are you employed and in what capacity?

A. I am employed by Direct Energy as its Director of Government and Regulatory Affairs.

Q. Please describe your educational background.

A. I have a Bachelors Degree in Mechanical Engineering from the University of Michigan and a Masters Degree in Business Administration from Central Michigan University.

Q. Please give a summary of your work experience.

A. I started my career at Consumers Power (now Consumers Energy) as an Associate Engineer at their Palisades Nuclear Plant. Over the next 20 years, I held a series of positions at Palisades, as well as in the Region Marketing and Sales Organization, moving to General Office Marketing and Rates. I also worked for a period of time at CMS Marketing Services and Trading before moving back to Consumers Energy. In my final years at Consumers Energy, I was responsible for the interface between Consumers and the AES community as well as the management of the Customer Choice program in general. Since October of 2003, I have been employed by Strategic Energy LLC, and Direct Energy managing their regulatory and legislative affairs in Michigan, Illinois as well as Ohio and Pennsylvania. I have recently added responsibilities that include managing the Company's FERC and ISO/RTO interests.

Q. Have you ever provided testimony before the Michigan Public Service Commission or any other state utility commission?

A. Yes. I have provided testimony on behalf of Consumers Energy in Case No.U-12488 as well as in Case No. U-13340. I have also provided testimony on behalf of Strategic Energy in Case No. U-14025 and Energy Michigan in Case U-15245. In addition to my testimony before the MPSC, I have also provided testimony before the Pennsylvania Public Utility Commission in Docket No. R-00061346.

Q. On whose behalf are you presenting this Testimony?

A. I am presenting this Testimony on behalf of Energy Michigan. Energy Michigan consists of electric customers, competitive electric suppliers, and developers of generation facilities who all support competitive electric markets.

Q. What is the purpose of your Testimony?

A. I will be presenting Testimony on behalf of Energy Michigan, which addresses Consumers Energy Company's ("Consumers") proposed rate design including Retail Open Access ("ROA") tariff design and other ROA tariff issues raised by Consumers' witnesses as follows:

- First, it is Energy Michigan's position that the Michigan Public Service Commission ("MPSC") should again reject the inclusion of Inter-Class Subsidies, also known as rate skewing, in the rates for Retail Open Access customers. The MPSC has rejected this proposal in Cases U-14347, U-14399, U-15245 and U-15244 and we urge the MPSC to continue its position on this issue.
- Second, I will oppose a change to the ROA tariff recommended by Consumers' Witness Hirsch which allows residential customers to cancel new Alternate Electric Supplier ("AES") contracts up to 30 days after execution.
- Third, I will recommend that Consumers re-file the tariffs in this case to comply with 2008 PA 286 so that Intervenors can determine the impact of those tariffs.

Q. Are you sponsoring any Exhibits in this Case?

A. Yes, I am sponsoring the following Exhibits:

Exhibit EM-1(RC-1)	Subsidy of Full Service Customers by Retail Open Access Customers.
Exhibit EM-2 (RC-2)	Consumers Responses to Discovery Questions 15645-MEC-CE-13, 1(e), 1(f) and 1(g).
Exhibit EM-3 (RC-3)	2007 and 2009 Cost of Service Comparison from Consumers Energy Motion Hearing Response No. 1.

Q. Was this exhibit prepared by you or under your direction?

A. Yes, it was.

Inter-class Rate Subsidy Contributions by Rate Schedule

Q. What is Energy Michigan's position on Consumers' proposal to collect distribution related Inter-Class Rate Subsidies from ROA customers?

A. Energy Michigan opposes Consumers' position on this issue as it has in previous Consumers Energy and Detroit Edison cases. Energy Michigan supports previous Commission decisions in Cases U-14347, U-14399, U-15244 and U-15245 which rejected proposals to collect interclass subsidies from ROA customers and based ROA distribution rates on cost of service while ruling that all inter-class rate subsidies should remain the responsibility of full service customers.

Q. By what mechanism does Consumers propose to collect the inter-class rate distribution subsidies in this case?

A. Consumers proposes to collect the inter-class distribution rate subsidies by adding fixed surcharges to the respective ROA delivery charges in each of the proposed rates per Exhibit A-69, p. 1 of 6:

1. Rate GS:
    a. $0.002608/kWh is added to the ROA Distribution Charge
2. Rate GSD:
    a. $0.000165/kWh is added to the ROA Distribution Charge
3. Rate GP:
    a. $0.003383/kWh is added to the ROA Distribution Charge
4. Rate GPD:
    a. $0.000270/kW is added to the ROA Distribution Charge

Q. What is Consumers justification for collecting the inter-class rate subsidies from all customers?

A. Consumers provides little more support for collecting the inter-class rate subsidies from all customers than the following brief statement at the bottom of page 17 of Mr. Stubleski's Testimony:

"Customers who select an alternate energy supplier are not required to pay the [residential] subsidy. This creates an artificial competitive advantage to Retail Electric Service providers by increasing rates for full service C&I customers."

Q. Is this argument any different then those provided by Consumers in previous rate cases for charging ROA customers for the interclass subsidies?

A. No. The arguments presented by Consumers in this case are identical to those presented by Consumers in Case U-14347. The MPSC rejected these arguments in its Order in that case stating:

"The Commission is persuaded that ROA customers should be brought to parity with full service customers by having their distribution rates based on cost of service. However, the Commission is not persuaded that the RAC, as proposed by Consumers, should be instituted at this time. The responsibility for the residential subsidy will remain with C&I full service customers;"[1]

These are the same arguments Detroit Edison presented in Case U-14399 and the Commission rejected, stating:

"*The Commission is persuaded that ROA customers should be brought to parity with full service customers by having their distribution rates based on cost of service. However, the Commission is not persuaded that the RAC, as proposed by Detroit Edison, should be instituted at this time. The responsibility for the residential subsidy will remain with C&I full service customers; however, the Commission finds that the subsidy should be reflected only in distribution rates for C&I full service customers and not in their generation rates.*"[2]

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[1] MPSC Final Order in Case U-14347, dated December 22, 2005, page 71.

[2] MPSC Final Order in Case U-14399, dated December 22, 2005, page 33.

Q. Did the Commission issue other Orders rejecting the proposal that ROA customers pay for interclass subsidies?

A. Yes. See also Commission Orders U-15244 issued December 23, 2008 at p. 83-84 and U-15245 issued June 10, 2008 at p. 72.

Q. Should ROA Customers be required to pay for inter-class rate subsidies?

A. No. ROA Customers are already subsidizing Full Service Customers through the Stranded Costs Recovery Surcharge and the Securitization Bond and Securitization Tax Surcharge. Exhibit EM-1 (RC-1) shows that the subsidy of full service by ROA customers is almost $4.6 million annually.

Q. What changes in Consumers' proposed rates are being recommended by Energy Michigan to eliminate the inter-class rate subsidy for ROA customers?

A. The inter-class rate subsidy surcharges should be re-calculated based on only full-service customers being responsible for the surcharges to support residential subsidies. Each of the rates with inter-class rate subsidy surcharges should have separate System Access and Distribution Charges for ROA customers which remove such residential subsidies. The ROA distribution charges could be calculated by removing the interclass subsidy contribution related to residential customers proposed by Consumers in Exhibit A-69 ROA customers receiving service under Rates GS, GSD, GP and GPD.

ROA Tariff Changes

Q. Do you agree with all of Consumers Energy witness Hirsch's recommended changes to the existing ROA tariffs?

A. No, I don't.

Q. Can you elaborate on your opposition to his recommended changes?

A. The change I would like to challenge is Mr. Hirsch's recommendation that residential ROA customers be allowed to cancel their AES contract within 30 calendar days.

Q. What is your concern with Mr. Hirsch's first recommendation, changing the cancellation period for residential customers from 3 days to 30 days?

A. We understand the need for customer protection, especially in the residential market. There are three considerations that need to be included in the discussion of the appropriate time in which customers should be given the right to cancel a contract. The first is giving the customer an unrestrained right to shop the contract within a 30 day period. Consumers' proposal gives the customer a chance to lock in a price with one supplier and then to shop that price around to other suppliers to see if they can get a better deal. Consumers' proposal also gives the utility a chance to offer a better option in the 30 day cancellation period. If the customer gets a better deal, they simply cancel the original contract and move on. Customers already have the opportunity to seek out the best deal in that they may ask for price quotes from multiple suppliers before entering into a contract to begin with. Extending the time to 30 days in which customers can shop after a contract has been entered into is therefore both unnecessary and inappropriate.

The second aspect is the cost of giving the customer a 30 day cancellation period. Typically, contemporaneously with the acquisition of new load, the supplier hedges or “locks down” the cost of supply to the new customer by purchasing power in the marketplace. Providing customers a 30 day cancellation period will require a supplier to include a risk premium in their price to cover potential losses in the event the customer cancels the contract after the supplier has purchased the power. If a customer is given 30 days to decide whether or not to cancel a contract, then the supplier will be guessing the actual future amount of load it needs to purchase within the next 30 days. In effect, the supplier has an open position for 30 days, which creates greater risk particularly given the volatility in electric prices. Including a 30-day risk coverage in the estimated cost of electric supply therefore will result in higher prices to the residential customer. The higher price that a competitive supplier will need to charge will automatically give Consumers a competitive advantage, stifling residential competition.

Further, the revised reliability requirements in the Midwest ISO tariff, to be effective June 1, 2009, will require each supplier to provide a forecast of its load and demonstrate that they have purchased capacity to cover its load plus reserves by the first day of the month prior to the month of the forecast – for example, the forecast for September load and the capacity purchased to meet the load plus reserves must be in place no later than August 1. If a customer is given 30 days to decide whether or not to cancel, then any contracts signed after June will not be final until August – in effect, if a customer wants service to begin in September, the customer must sign in June, so that the supplier will have an accurate assessment of its September load and the capacity resources to meet the resulting Midwest ISO reliability requirements by August 1. Consequently, the proposed 30-day cancellation period will create excessive lead times for servicing customers.

The third aspect that needs to be considered in establishing the cancellation period is the total time between contract execution and customer notification of switching. In reality, the cancellation period in the current rules includes the time for the supplier to notify the utility and the utility to notify the customer. This process actually gives the customer more time for cancellation of the contract than the specified cancellation period.

Q. Should the cancellation period in the Electric Choice Program be the same as in the Gas Choice Program?

A. In my opinion, there are good reasons why the Electric Choice Program should be different. Specifically, the more volatile prices in the electric industry create risk that would result in increase prices for customers and less flexible offerings from suppliers, and the capacity requirements of the Midwest ISO tariff amplify the lead times for serving customers.

Q. What is your recommendation regarding the cancellation period in the Electric Choice Program?

A. Three days to cancel may not be enough; however, 30 days for local mail notice far exceeds the time required for a utility to compile the notice, the U.S. Postal Service to delivery locally, and the customer to receive the information. I believe that a cancellation period of five business days would provide more than adequate time for utilities to notify customers by mail and would be workable as well for suppliers to manage risk and to meet the reliability obligations of the Midwest ISO while at the same time providing residential customers with adequate protection.

Cost of Service Issues

Q. Did the Consumers Energy Rate Filing in U-15645 comply with the requirements of 2008 PA 286 regarding implementation of cost of service rates?

A. Consumers did not provide information which would allow Intervenors to make that determination. Under PA 286 cost of service rates must be phased in by the Commission over a period of five years from the effective date of PA 286 (see Section 11(1)) and the cost of service referenced in Section 11(1) must use the 50-25-25 method of cost allocation. Also see Section 11(1). Finally, the Commission must ensure that the impact on residential and industrial metal melting rates due to the cost of service requirement stated in Section 11(1) is not more than 2.5% per year. See PA 286 Section 11(2). In response to the attached MEC/PIRGIM Request 15645-MEC-CE-13, Question 1(e), Consumers has stated that the 50-25-25 method of allocation was implemented completely in this case and not over a period of five years. Exhibit EM-2 (RC-2). Also, Consumers said that in order to determine if a 2.5% limit on rate increases has been violated, a separate cost of service study would have had to be performed using the previously selected 25-50-25 method of allocation. See Consumers Discovery Response 15645-MEC-CE-13, Question 1(g). Exhibit EM-2 (RC-2). Finally, Consumers said that such a study has not been prepared and that the Company has not designed rates based upon that previously effective 25-50-25 cost allocation method which would be necessary to compare with the rates proposed in this case which were based on the 50-25-25 method. See Consumers Discovery Response 15645-MEC-CE-13, Question 1(f). Exhibit EM-2 (RC-2).

Q. Have you reviewed the 2007 and 2009 test year Cost of Service Study summaries provided by Consumers Energy in their Motion Hearing Response No. 1 dated April 14, 2009?

A. Yes.

Q. Did Consumers Energy provide the tariffs, specific customer rates and rate class revenues which would have resulted from use of the Consumers Energy test year as filed but using previously mandated methods of cost allocation, e.g. the 25-50-25 method?

A. No.

Q. What are your conclusions from the review of the 2007 and 2009 Cost of Service summaries?

A. The change from the 25-50-25 allocation method to the 50-25-25 method is not phased in over five years. Please see attached Exhibits EM-3 (RC-3) COSS comparisons from Consumers Motion Hearing Response No. 1.

Q. Without specific rates, tariffs and rate class revenues that would apply if the 25-50-25 method were used with the proposed Consumers test year, can you determine the impact on each customer rate of the Consumers decision to not phase in the new cost allocation method?

A. No.

Q. What is your recommendation?

A. I recommend that Consumers Energy file tariffs and rate class revenues that would result from a lawful implementation of PA 286 § 11(1) and 11(2).

Q. Does this conclude your Testimony?

A. Yes.

CONSUMERS ENERGY GENERAL RATE CASE
ENERGY MICHIGAN EXHIBIT

Subsidy of Full Service Customers by Retail Open Access Customers

Line RATE	ROA SALES*	Securitization Bond and Securitization Tax	TOTAL SUBSIDY
1 ROA-R	0	0.001804	$0
2 ROA-S	615,840	0.001804	$1,110,975
3 ROA-P	914,640	0.001804	$1,650,011
4 Stranded Cost Recovery Charge	1,530,480	Stranded Cost	$1,836,576
		0.0012	
5 TOTAL	1,530,480	0.00304	$4,597,562

* December 07-November 08 per 2008 Status of Electric Competition in Michigan, Appendix 1, Chart 4.

DISCOVERY RESPONSE: U-15645

15645-MEC-CE-13

Question:

1. 2008 PA 286 § 11(1) requires that costs of service rates be phased in over a period of five years and that the cost of service methodology to be used for allocating production related and transmission costs be the 50-25-25 method of cost allocation. Section 11(2) specifies that the phase in of cost of service rates as provided in (1) not impact residential and metal melting rates due to the cost of service requirement in subsection (1) at more than 2.5% per year.

a. Please admit that the first year of the five year phase in of cost based rates of $15 million described by Mr. Stubleski at page 9 of his Direct Testimony does not address costs associated with implementing the 50-25-25 cost allocation methodology from the 25-50-25 method.

b. Please admit that Consumers proposes to phase in the impact of a change to cost of service rates other than implementation of the 50-25-25 method over a period of five years as proposed in the Testimony of Mr. Stubleski at pages 9-10 of his Direct Testimony.

c. Please admit that the impact of this phase in will be approximately 1.4% per year per Mr. Stubleski at page 10.

d. Please admit that Exhibit A-19 describes the 2009 test year cost of service study based on the 50-25-25 cost allocation method. Please admit that the cost of service study presented in Exhibit A-19 is the basis for the tariff rates proposed by Consumers Energy in this case. Please admit that that study incorporates the phase in of cost of service rates at the rate of $15 million per year proposed by Mr. Stubleski.

e. Please admit that Consumers Energy proposed to implement 100% of the change to the 50-25-25 method of cost allocation as presented by Mr. Keaton without phase in over a period of five years.

f. Please provide the rate increase to residential customers in dollars and percent associated with the implementation of the 50-25-25 method of cost allocation as compared to the 25-50-25 cost allocation method presented by Witness Keaton in Exhibit A-19.

g. Exhibit A-72 of the Company's filing shows that the required average rate increase on all customers without cost of service adjustments is approximately 8.5%. Do the proposed rates in Exhibit A-72 incorporate the five year phase in presented by Mr. Stubleski at pages 9-10 equaling $15 million per year?

h. Exhibit A-27 shows that the total rate increase proposed by Consumers for the residential customer class is 16.4%. Is the rate increase to residential customers caused by implementation of the 50-25-25 method calculated by subtracting 8.5% from 16.4% or approximately 7.9%? If this calculation is not correct, how is the increase to residential customers caused by implementation of the 50-25-25 cost allocation method calculated? What is the resulting percent increase to residential customers due to implementation of the 50-25-25 cost allocation method?

i. Please admit that Exhibit A-19 and the cost of service study presented is the basis used by Consumers to calculate the tariffs and rates presented in Exhibit A-74.

j. Please admit that the tariffs and rates represented in Exhibit A-74 are not based upon a five year phase in of the impact of the 50-25-25 cost allocation method. Please admit that the rates contained in Exhibit A-74 are not based upon limiting the impact on residential customers from implementing cost of service changes mandated in Section 11 of PA 286 to 2.5% per year.

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DISCOVERY RESPONSE: U-15645

15645-MEC-CE-13

Response:

1.a. No. This request for admission fails to recognize that a two step approach is used when designing rates. The first step sets rates that recover the revenue requirement by customer class based upon the test-year embedded cost-of-service study ("cost study"). This step reflects the rate design principles of revenue recovery and cost-causation. The cost study is a gauge used to determine the amount of separate and joint costs each class should pay as discussed by Consumers Energy witness Eric Keaton. As such, the cost study does not determine the amount of subsidies.

The second step nets the cost based distribution charges for each rate schedule against a regulatory adjustment charge in order to transfer cost responsibility from one customer class to another. The amount attributed to the regulatory adjustment charge has historically been determined by the MPSC. In Case No. U-14347 business customers were required to subsidize the residential class by approximately $90 million due to the equal percent increase ordered by the MPSC. In addition, the MPSC ordered that the regulatory adjustment factor used to transfer this subsidy between classes be netted with the electric distribution charges instead of being shown separately (MPSC Order December 22, 2005, p.79). In the subsequent electric case the MPSC reduced the residential subsidy by approximately $20 million. *See*, Case No. U-15245, MPSC Order June 10, 2008, p.72. This reduction of the residential subsidy to $70 million was addressed separately from the change in the cost allocation method (75/25 to 25/50/25) because the cost study is independent of the amount of subsidies. In this case the residential subsidy is proposed to be further reduced by $15 million to $58 million and addressed separately from the cost allocation method change, required under Section 11(1) of PA 286, for the same reason.

1.b. Yes. The Company proposes to phase in cost-of-service rates by continuing the phasing out of the residential subsidy established in Case No. U-15245.

1.c. Yes for the first year. The phase out of the residential subsidy will increase the average residential base rate by about 1.4 percent in the first year and slightly less than 1.4% in the four subsequent years as the residential subsidy is reduced over time.

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DISCOVERY RESPONSE: U-15645

1.d. Yes, Exhibit A-19 describes the 2009 test year cost of service study based on the 50/25/25 cost allocation method. As discussed in the response in 1.a of 15645-MEC-CE-13, the cost study is determined separately from the amount of subsidies.

1.e. Yes. Please refer to the response to 1.a of 15645-MEC-CE-13.

1.f. The Company has not designed rates based on a test year cost-of-service study employing the previous cost allocation method of 25/50/25.

1.g. No. The interrogatory is based on a fallacious interpretation of Exhibit A-72, which shows the surcharges that could be charged if the full $215 million revenue requirement was self implemented as equal percent increase. To determine the impact from the cost allocation method change a separate study using the previous 25/50/25 method would have to be prepared and contrasted against the filed test-year cost study. The Company has not prepared a separate study using the 25/50/25 method contrasted against the filed test-year cost study.

1.h. Please refer to the response to 1.g of 15645-MEC-CE-13,

1.i. Please refer to the response to 1.a of 15645-MEC-CE-13.

1.j. Please refer to the response to 1.a of 15645-MEC-CE-13.

Stephen Stubleski
January 5, 2009

Rates and Regulation Department

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2007 Historic Cost of Service Study Summary

		Total Electric	Total Jurisdictional Electric	Total Residential	Total Secondary	Total Primary	Total Municipal	Total Non Jurisdictional
	CECO Historic COSS as filed							
2007 25-50-25	Total Rate Base	5,804,853	5,766,111	2,727,047	1,439,611	1,471,490	127,962	38,742
	Total Expenses	3,052,822	3,025,827	1,232,162	714,245	1,013,689	65,730	26,995
	Adjusted Net Operating Income	374,278	378,058	149,998	146,706	75,243	6,112	(3,781)
	Rate of Return on Rate Base	6.45%	6.56%	5.50%	10.19%	5.11%	4.78%	-9.76%
	Index of Return (Jurisdictional)	-	100	84	155	78	73	(149)
	CECO Historic COSS using 2008 PA 286 allocation							
2007 50-25-25	Total Rate Base	5,804,853	5,766,111	2,799,500	1,417,987	1,423,434	125,190	38,742
	Total Expenses	3,052,822	3,025,829	1,249,268	709,140	1,002,345	65,076	26,994
	Adjusted Net Operating Income	374,278	378,061	135,628	150,995	84,776	6,662	(3,784)
	Rate of Return on Rate Base	6.45%	6.56%	4.84%	10.65%	5.96%	5.32%	-9.77%
	Index of Return (Jurisdictional)	-	100	74	162	91	81	(149)
	Difference							
	Total Rate Base	-	-	72,453	(21,624)	(48,056)	(2,772)	(0)
	Total Expenses	-	1	17,106	(5,105)	(11,345)	(654)	(1)
	Adjusted Net Operating Income	-	3	(14,370)	4,290	9,533	550	(3)

2007 Historic Cost of Service Study Residential

	Rate A1	Rate A3	Rate A4 Alternate	Rate A5	Total Residential
CECO Historic COSS as filed					
Total Rate Base	2,588,238	7,469	83,307	48,033	2,727,047
Total Expenses	1,167,795	3,589	36,235	24,544	1,232,162
Adjusted Net Operating Income	136,248	480	8,549	4,721	149,998
Rate of Return on Rate Base	5.26%	6.42%	10.26%	9.83%	5.50%
Index of Return (Jurisdictional)	80	98	157	150	84
CECO Historic COSS using 2008 PA 286 allocation					
Total Rate Base	2,661,333	7,263	83,528	47,377	2,799,500
Total Expenses	1,185,052	3,540	36,287	24,389	1,249,268
Adjusted Net Operating Income	121,750	521	8,506	4,851	135,628
Rate of Return on Rate Base	4.57%	7.17%	10.18%	10.24%	4.84%
Index of Return (Jurisdictional)	70	109	155	156	74
Difference					
Total Rate Base	73,095	(206)	221	(656)	72,453
Total Expenses	17,257	(49)	52	(155)	17,106
Adjusted Net Operating Income	(14,498)	41	(44)	130	(14,370)

2007 25-50-25

2007 50-25-25

2007 Historic Cost of Service Study Secondary

	Rate B General Service	Rate C	GH Space Heating	H Water Heating	L-4 Luminaire	R-1 Resale	R-2 Resale	Total Secondary
CECO Historic COSS as filed (2007 25-50-25)								
Total Rate Base	634,844	786,925	7,663	1,184	7,089	310	1,595	1,439,611
Total Expenses	294,253	412,290	3,709	491	2,645	77	780	714,245
Adjusted Net Operating Income	72,214	73,300	859	37	182	(0)	114	146,706
Rate of Return on Rate Base	11.38%	9.31%	11.21%	3.09%	2.57%	-0.11%	7.16%	10.19%
Index of Return (Jurisdictional)	173	142	171	47	39	(2)	109	155
CECO Historic COSS using 2008 PA 286 allocation (2007 50-25-25)								
Total Rate Base	631,406	768,858	7,640	1,171	6,963	334	1,615	1,417,987
Total Expenses	293,442	408,025	3,704	488	2,616	82	785	709,140
Adjusted Net Operating Income	72,896	76,884	863	39	207	(5)	110	150,995
Rate of Return on Rate Base	11.55%	10.00%	11.30%	3.35%	2.97%	-1.52%	6.82%	10.65%
Index of Return (Jurisdictional)	176	153	172	51	45	(23)	104	162
Difference								
Total Rate Base	(3,439)	(18,067)	(24)	(13)	(126)	24	20	(21,624)
Total Expenses	(812)	(4,265)	(6)	(3)	(30)	6	5	(5,105)
Adjusted Net Operating Income	682	3,584	5	3	25	(5)	(4)	4,290

2007 Historic Cost of Service Study Primary

		Rate B-1 General Service	CG Trans	CG Subtrans	Rate D All Levels	R-3 Resale	Rate F All Levels	Rate I All Levels	Rate J Subtrans	Rate J Primary	Rate J-1 Trans	Rate J-1 Subtrans	E-1 Economic Dev	Total Primary
	CECO Historic COSS as filed													
2007 25-50-25	Total Rate Base	62,642	752	3,132	955,116	51,138	258,208	85,654	2,870	1,301	22,460	7,060	21,158	1,471,490
	Total Expenses	37,657	580	2,483	642,617	31,341	196,069	62,988	1,812	798	16,902	4,850	15,593	1,013,689
	Adjusted Net Operating Income	7,631	101	227	58,916	1,502	8,541	2,780	(13)	149	(715)	293	(4,168)	75,243
	Rate of Return on Rate Base	12.18%	13.38%	7.25%	6.17%	2.94%	3.31%	3.25%	-0.45%	11.43%	-3.18%	4.14%	-19.70%	5.11%
	Index of Return (Jurisdictional)	186	204	111	94	45	50	50	(7)	174	(49)	63	(300)	78
	CECO Historic COSS using 2008 PA 286 allocation													
2007 50-25-25	Total Rate Base	60,802	838	2,635	928,076	51,183	247,291	81,915	2,685	1,166	20,197	6,696	19,949	1,423,434
	Total Expenses	37,222	600	2,366	636,234	31,352	193,491	62,105	1,768	767	16,367	4,764	15,307	1,002,345
	Adjusted Net Operating Income	7,995	83	326	64,280	1,493	10,707	3,521	24	175	(266)	365	(3,928)	84,776
	Rate of Return on Rate Base	13.15%	9.95%	12.35%	6.93%	2.92%	4.33%	4.30%	0.89%	15.05%	-1.32%	5.45%	-19.69%	5.96%
	Index of Return (Jurisdictional)	201	152	188	106	44	66	66	14	230	(20)	83	(300)	91
	Difference													
	Total Rate Base	(1,840)	86	(496)	(27,039)	44	(10,917)	(3,738)	(185)	(135)	(2,263)	(364)	(1,210)	(48,056)
	Total Expenses	(434)	20	(117)	(6,383)	10	(2,577)	(883)	(44)	(32)	(534)	(86)	(286)	(11,345)
	Adjusted Net Operating Income	365	(17)	98	5,364	(9)	2,166	742	37	27	449	72	240	9,533

2007 Historic Cost of Service Study Municipal

	Rate L-1	L-2 Luminaire	L-3 Luminaire	PS-1 Secondary	PS-2 Primary	PS-3 Trans	PS-3 Subtrans	PS-3 Primary	UR Unmetered	Total Municipal
CECO Historic COSS as filed (2007 25-50-25)										
Total Rate Base	3,394	187	52,439	12,069	10,658	1,878	21,726	13,390	12,221	127,962
Total Expenses	1,946	76	20,916	5,675	5,133	1,297	14,696	8,845	7,146	65,730
Adjusted Net Operating Income	806	3	2,763	888	357	1	236	358	701	6,112
Rate of Return on Rate Base	23.74%	1.58%	5.27%	7.36%	3.35%	0.07%	1.09%	2.67%	5.73%	4.78%
Index of Return (Jurisdictional)	362	24	80	112	51	1	17	41	87	73
CECO Historic COSS using 2008 PA 286 allocation (2007 50-25-25)										
Total Rate Base	3,217	180	51,329	11,769	10,699	1,930	21,304	12,992	11,770	125,190
Total Expenses	1,905	74	20,654	5,604	5,143	1,310	14,596	8,751	7,040	65,076
Adjusted Net Operating Income	841	4	2,983	948	349	(9)	320	437	790	6,662
Rate of Return on Rate Base	26.14%	2.37%	5.81%	8.05%	3.26%	-0.47%	1.50%	3.36%	6.71%	5.32%
Index of Return (Jurisdictional)	399	36	89	123	50	(7)	23	51	102	81
Difference										
Total Rate Base	(177)	(7)	(1,110)	(301)	41	52	(422)	(398)	(451)	(2,772)
Total Expenses	(42)	(2)	(262)	(71)	10	12	(100)	(94)	(106)	(654)
Adjusted Net Operating Income	35	1	220	60	(8)	(10)	84	79	89	550

2009 Test Year Cost of Service Study Summary

	Total Electric	Total Jurisdictional Electric	Total Residential	Total Secondary	Total Primary	Total Lighting	Rate GSG	Total Non Jurisdictional
CECO Test Year using previously mandated method								
Proposed Rate Design Revenue	2,755,124	2,738,181	1,272,561	663,550	762,352	37,916	1,802	16,943
Production: Capacity Related Cost	1,397,105	1,387,056	554,846	332,696	490,441	8,057	1,016	10,049
Production: Energy Related Cost	379,777	374,276	135,190	92,291	143,642	2,832	322	5,501
Distribution Related Cost	781,303	780,309	454,850	202,079	104,879	18,112	389	995
Customer Related Cost	196,938	196,540	127,677	36,484	23,389	8,916	75	398
KWh Sales	36,543,427	36,203,494	12,897,366	7,914,992	15,055,363	278,144	57,629	339,933
Customers	1,792,143	1,792,141	1,568,503	211,819	3,956	7,850	13	2
CECO Test Year as filed using 2008 PA 286 allocation								
Proposed Rate Design Revenue	2,755,124	2,738,177	1,309,468	649,575	740,504	36,961	1,669	16,947
Production: Capacity Related Cost	1,397,105	1,387,055	592,974	318,283	467,854	7,071	874	10,049
Production: Energy Related Cost	379,777	374,273	131,993	93,467	145,559	2,913	341	5,505
Distribution Related Cost	781,303	780,309	456,825	201,341	103,702	18,061	379	995
Customer Related Cost	196,938	196,540	127,677	36,484	23,389	8,916	75	398
KWh Sales	36,543,427	36,203,494	12,897,366	7,914,992	15,055,363	278,144	57,629	339,933
Customers	1,792,143	1,792,141	1,568,503	211,819	3,956	7,850	13	2

2009 25-50-25

2009 50-25-25

2009 Test Year Cost of Service Study Residential & Secondary

	Rate RS	Rate RT	NOT USED	Total Residential	Rate GS	Rate GSD	NOT USED	Rate GS GEI	Rate GSD GEI	Total Secondary
CECO Test Year using previously mandated method										
Proposed Rate Design Revenue	1,269,055	3,506	-	1,272,561	289,732	352,604	-	5,511	15,703	663,550
Production: Capacity Related Cost	553,233	1,612	-	554,846	131,786	189,834	-	2,914	8,163	332,696
Production: Energy Related Cost	134,725	464	-	135,190	34,769	57,042	-	(413)	893	92,291
Distribution Related Cost	453,637	1,213	-	454,850	97,675	95,615	-	2,683	6,107	202,079
Customer Related Cost	127,460	217	-	127,677	25,502	10,113	-	327	541	36,484
KWh Sales	12,852,269	45,098	-	12,897,366	2,878,016	4,602,113	-	127,724	307,138	7,914,992
Customers	1,566,920	1,583	-	1,568,503	183,838	25,797	-	1,333	851	211,819
CECO Test Year as filed using 2008 PA 286 allocation										
Proposed Rate Design Revenue	1,306,073	3,396	-	1,309,468	287,155	342,647	-	5,251	14,522	649,575
Production: Capacity Related Cost	591,476	1,498	-	592,974	129,131	179,562	-	2,645	6,944	318,283
Production: Energy Related Cost	131,519	474	-	131,993	34,982	57,883	-	(391)	993	93,467
Distribution Related Cost	455,618	1,207	-	456,825	97,540	95,088	-	2,669	6,044	201,341
Customer Related Cost	127,460	217	-	127,677	25,502	10,113	-	327	541	36,484
KWh Sales	12,852,269	45,098	-	12,897,366	2,878,016	4,602,113	-	127,724	307,138	7,914,992
Customers	1,566,920	1,583	-	1,568,503	183,838	25,797	-	1,333	851	211,819

2009 25-50-25

2009 50-25-25

2009 Test Year Cost of Service Study Primary & Lighting

	Rate GP	Rate GPD	Rate GP GEI	Rate GPD GEI	Rate GFM	Rate E-1	Total Primary	Rate GML	Rate GUL	Rate GU	Total Lighting
CECO Test Year using previously mandated method											
Proposed Rate Design Revenue	77,901	581,734	1,439	34,621	18,631	48,026	762,352	508	30,080	7,328	37,916
2009 25-50-25											
Production: Capacity Related Cost	47,690	386,959	869	21,817	13,655	19,452	490,441	152	3,766	4,138	8,057
Production: Energy Related Cost	11,144	101,388	89	2,551	3,304	25,166	143,642	72	1,510	1,249	2,832
Distribution Related Cost	16,297	75,948	412	8,763	1,147	2,313	104,879	236	16,105	1,770	18,112
Customer Related Cost	2,770	17,438	69	1,491	525	1,095	23,389	47	8,699	170	8,916
KWh Sales	1,201,010	11,569,358	29,466	920,532	392,072	942,926	15,055,363	7,276	152,169	118,699	278,144
Customers	1,619	1,934	51	332	19	1	3,956	261	7,088	501	7,850
CECO Test Year as filed using 2008 PA 286 allocation											
Proposed Rate Design Revenue	75,424	565,610	1,360	33,862	17,170	47,077	740,504	477	29,431	7,054	36,961
2009 50-25-25											
Production: Capacity Related Cost	45,135	370,332	787	21,035	12,148	18,417	467,854	120	3,095	3,855	7,071
Production: Energy Related Cost	11,353	102,741	96	2,614	3,428	25,327	145,559	75	1,566	1,272	2,913
Distribution Related Cost	16,166	75,098	408	8,723	1,069	2,238	103,702	234	16,071	1,756	18,061
Customer Related Cost	2,770	17,438	69	1,491	525	1,095	23,389	47	8,699	170	8,916
KWh Sales	1,201,010	11,569,358	29,466	920,532	392,072	942,926	15,055,363	7,276	152,169	118,699	278,144
Customers	1,619	1,934	51	332	19	1	3,956	261	7,088	501	7,850

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	)	Case No. U-15645
the generation and distribution of	)	
electricity and for other relief.	)	
______________________________	)	

PROOF OF SERVICE

Monica Robinson, duly sworn, deposes and says that on this 27th day of April, 2009 she served a copy of the Testimony of Ronald T. Carrier on Behalf of Energy Michigan, Inc. upon the individuals listed on the attached service list by e-mail and regular mail at their last known addresses.

Monica Robinson

Digitally signed by Monica Robinson
DN: c=US, o=Varnum Riddering Schmidt Howlett, cn=Monica Robinson
Date: 2009.04.27 15:48:18 -04'00'

Monica Robinson

Subscribed and sworn to before me
this 27th day of April, 2009.

Eric J. Schneidewind

Digitally signed by Eric J. Schneidewind
DN: c=US, o=Varnum Riddering Schmidt Howlett, cn=Eric J. Schneidewind
Date: 2009.04.27 15:48:31 -04'00'

Eric J. Schneidewind, Notary Public
Eaton County, Michigan
Acting in Ingham County, Michigan
My Commission Expires: April 24, 2012.

CASE NO. U-15645 SERVICE LIST

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