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September 8, 2011

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

Re: Case No. U-16566

Dear Ms. Kunkle:

Attached for paperless electronic filing is Energy Michigan, Inc.'s Initial Brief Also attached is a Proof of Service indicating service on counsel.

Thank you for your assistance in this matter.

Very truly yours,

VARNUM, LLP

Eric J. Schneidewind

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Date: 2011.09.08 15:04:43 -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 reconcile electric revenue pursuant to Pilot Revenue Decoupling Mechanism and for other relief.	)))))))	Case No. U-16566

INITIAL BRIEF OF ENERGY MICHIGAN, INC.

September 8, 2011

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BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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INITIAL BRIEF OF ENERGY MICHIGAN, INC.

I. Introduction and Summary of Position

A. Introduction.

This Initial Brief is filed on behalf of Energy Michigan, Inc. ("Energy Michigan") by Varnum. Failure to address any issues or positions raised by other parties should not be taken as agreement with those issues or positions.

B. Summary of Position.

1. Three features that should be included in a PRDM.

There are three features that the Commission should include in a Pilot Revenue Decoupling Mechanism ("PRDM"):

a. Separate adjustments for <u>power supply</u> which are applicable <u>only to full service customers</u> and for <u>distribution service</u> which are applicable to <u>both bundled and ROA customers.</u>

b. The sales increases or decreases should be limited by the actual increase or decrease in sales that the utility has experienced.

c. The surcharge or credit adjustment should be applied on a total Company basis, not on a rate class basis.

2. The Consumers PRDM proposal should be rejected.

a. The Consumers PRDM is not cost based.

The Consumers Energy Company ("Consumers or Consumers Energy") PRDM proposal recovers production related costs from Retail Open Access ("ROA") customers despite the fact that there is no Cost of Service support showing that ROA customers use production facilities. 2008 PA 286 ("PA 286") requires that all electric rates be based on Cost of Service and contains no exceptions allowing customers to be assessed new stranded costs. Moreover, Commission precedent in Case U-13808-R has stated that utilities do not have new stranded costs which are not based on Cost of Service. For all these reasons, the Consumers proposal to collect production related costs from ROA customers should be rejected.

b. ROA migration has not been shown to produce net stranded costs.

Despite Consumers' assertions that ROA migration has caused stranded costs or extra costs for full service customers, the record contains Testimony proving that ROA migration causes little if any net unrecovered production costs. Energy Michigan Witness Alex Zakem filed a detailed study, using data from Consumers Energy, analyzing the impact of ROA migration and found that PSCR savings would virtually offset any loss of fixed cost revenue. CONSUMERS DID NOT SUBMIT REBUTTAL CHALLENGING MR. ZAKEM'S CONCLUSIONS.

For all these reasons the Consumers proposal to collect production costs from ROA customers through a PRDM is illegal, in violation of Commission precedent and not based on fact.

c. The Consumers PRDM produces unreasonable results.

Exhibits filed by Consumers demonstrate that actual distribution sales increased during the study period and sales of power decreased. Exhibit A-8, p. 5 of 5. However, the Consumers proposal to combine power supply and distribution service to calculate surcharges for ROA customers could result in surcharges to ROA customers at a time when their usage of the distribution system – and thus the delivery rate revenue received by Consumers -- increased, not decreased. This unreasonable outcome is the inevitable result of the Consumers PRDM methodology.

d. The Consumers PRDM is not limited by actual sale increases or decreases during the study.

The Consumers PRDM is not limited to recovery of fixed costs based on actual sales levels. Because of that fact, the result of the Consumers PRDM may be to collect fixed costs that would have occurred in the absence of an Energy Optimization program but not necessarily to recover authorized fixed costs.

For all of these reasons the Consumers Energy PRDM should be rejected.

3. The Staff PRDM should be adopted with one modification.

The Staff PRDM appropriately separates the power supply PRDM and the distribution supply PRDM. Power supply surcharges/credits are assessed only to full service customers and distribution PRDM surcharges/credits are assessed to ROA and bundled service customers.

The Staff PRDM is based on the actual gains or shortfalls in revenue experienced by Consumers during the study period. The Staff also uses the lower final rates in Case U-16191 to determine loss of fixed cost revenue rather than the higher interim rates used by Consumers.

The Staff PRDM does not assess surcharges/credits on a total Company basis and should be modified to incorporate this feature. As described in IV. below, a revenue surplus or shortfall can be more accurately collected if one uniform distribution charge for all customer classes and rates and one uniform power charge for all full service classes and rates is utilized. Attempting to assess the PRDM charge through separate surcharges/credits for each rate or class produces inaccurate results at a time when the allocation of costs to these rates or classes may change substantially.

On balance, however, the Staff PRDM is greatly preferable to the Consumers Energy PRDM.

Detailed Discussion

II. Three Features Should Be Included in Any Pilot Revenue Decoupling Mechanism adopted by the Michigan Public Service Commission

A. Scope of this Proceeding.

While the Michigan Public Service Commission ("Commission") indicated some general terms of the PRDM in Case U-15645, latitude was given for parties in future cases to fully develop the specific provisions of the PRDM. Two quotes from the U-16545 Order illustrate this point:

> The application of the [PRDM] mechanism upon specific customers groups, customer classes, or a combination thereof, will be determined in the reconciliation proceeding. U-15645, Order, November 2, 2009, p. 53.

Also,

> In future proceedings the Commission encourages parties to file comments or proposals to address the regulatory lag involved in annual reconciliations, exclusion of revenues (sales) attributable to severe outages or other similar circumstances, risk assessment for both utility and customers, and recommendations for adjustment and evaluation of the Pilot. Id, p. 54.

It is the position of Energy Michigan that the primary scope and focus of this proceeding as regards modifications or additions to the PRDM <u>should be to ensure that Consumers Energy</u> collects no more or less revenue than the amount necessary to cover its fixed costs in the amount authorized by the Commission. Zakem, 2 Tr 108.

B. Three Features That Should Be Included in a PRDM.

Energy Michigan Witness Alex Zakem testified that there are three features which the Commission should include in the PRDM:

i. Separate PRDM adjustments: one for power supply applicable only to full service customers and one for distribution applicable to both bundled and ROA customers.

ii. PRDM Surcharge or credit adjustments should be applied on a total company basis, not on a rate class basis; and

iii. The sales increase or decrease should be limited by the actual increase or decrease in sales that the utility has experienced. Zakem, 2 Tr 110-11.

These desirable features are described in more detail below.

1. Separate adjustments for revenue recovery for power supply and distribution.

First, The need for separate power and distribution PRDM charges/credits is justified by the fact that the 10% of Consumers Energy customers served under ROA only purchase distribution services. ROA customers should not and, under PA 286 § 11(1), cannot be charged for costs related to production facilities which they do not utilize. Zakem, Id.

Second, when sales decrease PSCR expenses also decrease and full service customers receive credits for such production related savings via the PSCR process. <u>ROA customers are not subject to the PSCR and do not receive the benefit of PSCR savings.</u> Id., Therefore any PRDM reconciliation for distribution service should be limited to distribution fixed costs.

Third, the sales level for full service differs from the sales of distribution services. No accurate reconciliation could use the same sales figures for both ROA and full service as regards power supply costs. Id.

Finally, in Case U-15645, rebuttal from Consumers Energy showed that the Company was well aware of the need to calculate separate surcharges for distribution and power supply PRDM loss margin <u>and stated that it intended to implement the principle that ROA customers will only be impacted by changes in distribution revenue.</u> Stephen Stubleski Rebuttal, U-15645, 7 Tr 733; Zakem , 2 Tr 117. The U-15645 Testimony should be taken as agreement by Consumers Energy that separation of distribution recovery from power supply recovery should be incorporated in the final PRDM and that ROA customers should only be subject to distribution related charges/credits. Zakem, Id.

2. PRDM surcharges should be calculated on a total Company basis not a rate class basis.

The total PRDM amount to be recovered should be calculated by rate class as proposed by Consumers and Commission Staff. However, the total calculated

PRDM should be *collected* by an equal distribution credit/surcharge to all customers and an equal production credit/surcharge that is applied to all bundled service rate classes. This is because the fixed costs that a PRDM is intended to recover are not fixed for individual rate classes. Rather, such costs are fixed for the Company in total and then are allocated in each rate case to rate classes relative to the proportion of energy use of each class. Zakem Direct, 2 Tr 113-14. Consequently, if energy use characteristics of each class change, then the amount of costs allocated to each rate class changes, and consequently the proportion of total costs for which the rate class will be deemed responsible will also change. Id.

Mr. Zakem testified that his review and modeling of the rate class method and total sales method indicated that charging an equal surcharge to all rate classes would produce more accurate recovery of PRDM costs according to rate class responsibility than calculating separate PRDM distribution charges for each rate class. Id, Tr 115.

3. The sales increases or decreases used for a PRDM adjustment should be limited by the actual increase or decrease in sales the utility experiences.

A PRDM is supposed to recover the fixed costs of a utility independent of the level of actual sales. Zakem Direct, 2 Tr 108. However, since the PRDM proposed by Consumers is not limited to that purpose, the result of the Consumers PRDM proposal may be to collect fixed costs that would have occurred in the absence of an Energy Optimization program but not necessarily to recover authorized fixed costs. Energy Michigan acknowledges that Energy Optimization estimates do not appear to be used in this case. Zakem Direct, 2 Tr 116. Nonetheless, the PRDM adjustment should not exceed the difference between projected and actual sales levels. Id., Tr 114.

III. The Consumers Proposal to Recover Production Costs From ROA Customers Should Be Rejected

A. Background.

The PRDM method sponsored by Consumers Energy combines the decoupled revenue for secondary full service and secondary ROA customers and combines the decoupled revenue for primary full service and primary ROA customers together for purposes of determining the amount of refund or collection required from those respective groups. Clifford, 2 Tr 166.

A comparison of the combined data between the base period and the reconciliation period results in assigning a surcharge or credit to ROA customers which covers power supply costs – <u>a service not used by ROA customers</u>. In fact, this practice is inconsistent with the explicitly stated intention of Consumers Energy in Case U-15645 where Consumers stated it would have separate surcharges for ROA classes which reflected only delivery charges:

> Q. If the Commission ordered the implementation of the RDM, would it apply to ROA sales?
>
> A. Yes, the [P]RDM would apply to ROA sales as these customers are included in the Company's Energy Optimization programs. ROA sales would be included in their respective rate class but would have a <u>separate charge that reflected only their delivery charges</u>. U-15645, Rebuttal Testimony of Stephen Stubleski, 7 Tr 733, lines 12-16. (Emphasis added).

In this case, Consumers justified charging ROA customers for power supply costs using the following arguments:

1. Full service customers pay for stranded costs pursuant to Case U-15744 so Choice customers should also pay full service power costs.

2. Full service customers pay all of the residential "subsidy".

3. ROA customers who migrate escape power supply costs allocated to them when they were full service customers.

4. Consumers is a backup or POLR supplier to Choice customers.

5. Finally, that any PSCR savings due to ROA may not offset lost revenues. Clifford Rebuttal, 2 Tr 193-95.

HOWEVER NEITHER MR. CLIFFORD NOR ANY CONSUMERS ENERGY WITNESS ATTEMPTED TO REBUT THE CONCLUSION OF ALEX ZAKEM THAT WHEN THE ALLEGED DECREASE IN POWER SUPPLY REVENUES DUE TO ROA MIGRATION IS COMPARED WITH THE INCREASED PSCR SAVINGS PRODUCED BY ROA THE NET EFFECT IS VERY SMALL, CLOSE TO ZERO. Zakem, 2 Tr 119.

B. There is No Factual Support For Consumers' Allegations That ROA Service Should Pay Production Costs Because Full Service Customers Pay Stranded Costs.

Under Case U-15744, ROA customers are charged 2.1 mills/kWh through 2013 for stranded costs found by the Commission <u>prior to the passage of PA 286 in October 2008</u>. Full service customers pay only .9 mills/kWh. So ROA customers pay a 1.2 mills/kWh <u>higher</u> burden for past stranded costs than full service customers. Consumers Tariff Sheet D-3.00. Further, as will be more fully explained below, PA 286 § 10a (16) only authorizes imposition of stranded costs found by the Commission <u>before passage of PA 286</u>. <u>New</u> (post-October 2008) stranded costs are <u>not</u> authorized by PA 286 § 10a(16 and are prohibited by PA 286 § 11(1) as will be more fully described below.

C. The Impact of ROA Migration on Full Service Customers Due To Alleged Unrecovered Production Costs Is, If Anything, Very Small.

Energy Michigan Witness Alex Zakem presented Testimony which directly refutes the contention of Consumers Witness Clifford that net stranded costs are produced by ROA migration or that PSCR savings due to ROA service may not offset lost production fixed costs revenues. Mr. Zakem structured his Testimony to describe the two impacts that are created by Choice migration.

Choice Migration Produces Both Lost Revenue And Increased PSCR Savings

It is true that Consumers Energy revenue decreases due to reduced full service sales caused by migration of full service customers to ROA service.

However, it is equally true that Consumers and/or its full service customers experience PSCR savings due to reduced purchases of expensive sources of power, reduced use of fuel and reduced purchases of renewable resources that are required to comprise 10% of all sales. Savings due to avoided line losses and transmission costs are also available. In the alternative, Consumers can choose to continue generating at existing levels and produce offsetting revenue by selling excess power into wholesale markets. Zakem Direct, 2 Tr 119-20.

These savings or additional revenues are calculated in the PSCR process and are used to reduce PSCR costs to only full service customers not for Choice customers. Therefore the adverse impacts of a loss of revenue due to ROA migration occur in the PRDM process and offsetting savings to customers occur in the separate PSCR process. But the net effect on the full service customer is what counts and Mr. Zakem has proven – using Consumers' own PSCR numbers -- that that effect is, if anything, very small. Id. See attached Exhibits EM-2 and EM-3.

Mr. Zakem also demonstrated how these savings occur. Mr. Zakem showed that in the case of Consumers Energy, savings are achieved by the sale of excess power supply into the market accompanied by savings on transmission expense, line losses, etc. Id.

Impact of Savings

Mr. Zakem's Exhibit EM-2 summarizes these results in a scenario applicable to Consumers Energy where excess power supply is sold into the wholesale market at prices projected by

Consumers Energy in its 2011 PSCR plan U-16432. These wholesale revenues plus transmission and line loss savings produce PSCR revenue or savings which exceed the loss of the fixed cost revenues associated with migrating ROA service load. Exhibit EM-2.

Thus, using data supplied by Consumers Energy Mr. Zakem demonstrated that the impact of ROA migration when the loss of fixed cost revenues are netted against PSCR savings is very small, if anything. Indeed in the example produced by Mr. Zakem there was a very small net advantage to Consumers and its customers.

D. The Consumers Proposal to Assess Power Supply Charges to ROA Service Is Unsupported By Cost of Service Principles and Therefore Is Illegal

1. Consumers has not demonstrated that production facilities are withheld from service to serve ROA customers.

ROA customers are not allocated any power supply costs because their use characteristics of power supply service are zero. There is no allocation of POLR service cost to such customers because in fact Consumers has not demonstrated that such a cost of service exists. Zakem, 2 Tr 118-19. Absent an allocation of cost or legal support for their contentions in the form of law or Commission Order, Consumers' assertions that ROA customers must pay for Provider Of Last Resort service are unsupported and thus must be rejected.

2. Consumers proposed ROA PRDM surcharge violates PA 286.

a. The Consumers PRDM surcharges to ROA customers are not supported by cost of service principles and therefore are illegal.

Consumers Energy production facilities do not serve ROA customers. Therefore the Michigan Public Service Commission ("Commission) cost allocation process does not allocate production costs to ROA service and customers. Zakem, Id.

Consumers has not even attempted to assign production costs to ROA customers through the Cost of Service ("COS") process. Indeed, Mr. Zakem conclusively demonstrates that under COS procedures, there are no production facilities that can be assigned to ROA under the mandatory 50-25-25 statutory formula. Zakem, Id, Tr 121. Therefore there are no costs associated with Consumers generation that can be allocated to serve ROA customers. Zakem, Id, Tr 121.

Since PA 286 requires that Consumers rates be based on Cost of Service, assessing production costs to ROA customers is prohibited.

Section 11(1) of PA 286 provides that "…the Commission shall phase in electric rates equal to the cost of providing service to each customer class over a period of five years from the effective date of the amendatory act that added this section." Therefore, by October 6, 2013 all rates must equal the cost of providing service. Since Consumers Energy has provided no cost of service study support for assessment of production related cost to ROA customers, any recovery of production related charges from ROA customers violates PA 286.

b. New Stranded Costs Are Excluded Under PA 286.

Consumers' attempt to charge ROA customers for production related costs through the PRDM is, in effect, an attempt to assess a new form of stranded cost on ROA customers. However, new stranded costs are prohibited by both PA 286 and MPSC precedent.

Existing forms of stranded costs assessed to ROA and full service customers include securitization charges and stranded costs authorized under authority of PA 286 § 10a(16) in Case U-15744. These stranded costs were specifically authorized by statute: 2000 PA 141 § 10d in the case of securitization charges and 2008 PA 286 § 10a(16) <u>in the case of stranded costs approved by the</u>

Commission prior to enactment of PA 286. However, PA 286 does not authorize the Commission to assess or collect stranded costs after the October 2008 enactment of PA 286. Moreover, an existing Commission Decision regarding Detroit Edison specifically determined and confirmed that, "the stranded costs process has now run its course" and will no longer be utilized. U-13808-R, September 26, 2006, p. 21.

Therefore, there is no statutory authority for Consumers Energy to collect and assess new stranded costs in the form of PRDM charges to ROA customers for production costs related to facilities which these ROA customers do not use. And, as stated above, PA 286 § 11(1) prohibits any new non-cost based charges.

c. Court of Appeals precedent prohibits new stranded cost charges.

In a recent Michigan Court of Appeals Decision regarding the authority of the Commission to implement surcharges to fund Low Income Energy Efficiency Programs, the Court considered facts which are applicable to this case. In Opinion 298830 issued July 21, 2011 the Court found that the Commission had no authority to fund a Low Income Energy Assistance Program which had been initially authorized by statute but where the statutory authority was subsequently withdrawn. In re Michigan Consolidated Gas Company, Mich App ____, July 21, 2011.

In the case of stranded cost recovery, the Commission was initially given authority to award stranded costs to utilities under various provisions of 2000 PA 141 including, among other section 10a(9) and (10). However, 2008 PA 286 amended these provisions, effectively substituting Section 10a(16) which, as described above, specifically permits collection of stranded costs authorized for recovery by the Commission in Orders issued prior to the effective date of 2008 PA 286.

> Thus, the Legislature withdrew authority for a generalized collection of stranded costs which had already been prohibited by the Commission in Case U-13808-R among others. Where authority to collect new stranded costs was removed, the Commission cannot, at the behest of Consumers Energy, implement new stranded costs to cover a form of competition specifically authorized and limited by the Legislature. In summary, neither Consumers Energy nor the Commission can invent and recover new stranded costs where the Legislature has limited the authority of the Commission to collect only those stranded costs determined in an Order of the Commission prior to enactment of 2008 PA 286. PA 286 § 10a(16).

E. The Consumers PRDM Produces Unreasonable Results.

Energy Michigan Witness Zakem also found that the Consumers Energy proposal to use the same surcharge/credit for both full service and ROA customers is unreasonable. His review of Consumers Energy Exhibit A-8, page 5 of 5 showed "actual" (study period) total Consumers Energy deliveries are greater than "baseline" deliveries. The sum of all baseline deliveries is 34,924,798 Mwh and the sum of all "actual" deliveries is 35,355,736 Mwh (adding lines 1, 4, 7, 10 and 13 of columns (a) and(b) respectively). Total usage, for bundled and ROA combined, represents delivery service. Yet Exhibit A-8, page 5 of 5 also shows that actual power usage for "bundled" classes is less than baseline – the sum of all baseline usage is 33,211,301 Mwh, the sum of all actual usage of 31,413,686 Mwh (adding lines 1, 4, and 10 of columns (a) and (b) respectively). Bundled usage represents power supply service. Zakem, 2 Tr 124.

The data cited above demonstrate that during the "actual" study period, the amount of distribution use on the Consumers system by both bundled and ROA customers actually increased and the total power supply service actually decreased. Yet Consumers Energy proposes to combine both power supply and distribution service to surcharge ROA customers whose use of the system actually increased. This outcome is clearly unreasonable and is the inevitable result of the Consumers PRDM methodology which does not utilize separate charges for POWER SUPPLY and DELIVERY.

F. Conclusion.

The Consumers PRDM should be rejected because:

1. It effectively creates and assesses a new stranded cost charge to ROA customers which is unsupported by numerical analysis, and is assessed in the face of an unrebutted analysis by Mr. Zakem that net stranded costs do not exist.

2. There is no Cost of Service support for the Consumers contention that ROA customers receive any form of power supply service from Consumers therefore the charge is prohibited by PA 286 § 11(1).

3. Assessment of power supply cost to ROA customers through the PRDM violates a commitment made by Consumers' own witness in Case U-15645.

4. PA 286 § 10a(16) and Commission precedent have held that new stranded costs may not be assessed to ROA customers. U-13808-R, September 25, 2006, p. 21.

5. The outcome of surcharges/credits applied to rate classes is unreasonable.

IV. Energy Michigan Supports the Staff PRDM Proposal with One Revision

Energy Michigan Witness Alex Zakem presented three factors that the Commission should consider for inclusion in a PRDM. These factors are listed in II. above but, briefly, may be summarized as:

1) There should be separate PRDM adjustments for recovery of revenue related to power supply which apply only to full service customers and for distribution which apply to both bundled and ROA customers.

2) The PRDM surcharge/credit adjustment should be applied on a total Company basis, not on a rate class basis.

3) The sales increase or decrease upon which the PRDM rate adjustment is based should be limited by the actual increase or decrease in sales that the utility has experienced. Zakem Direct, 2 Tr 110-11.

A. The Staff Method For Determination and Recovery Of PRDM Surcharges Or Credits Appropriately Separates Power Supply and Distribution.

The Staff PRDM contains separate adjustments for both power supply costs and distribution costs. Nicholas Revere Direct, 2 Tr 231-32. While these costs are recovered on a rate class basis rather than a total Company basis, the methodology of calculation and recovery does result in ROA customers paying only distribution related PRDM surcharges/credits and full service customers paying both power supply cost and distribution cost surcharges/credits.

B. The Staff PRDM Is Based On The Sales Increases Or Decreases Limited By The Actual Increase Or Decrease In Sales That The Utility Has Experienced.

The Staff PRDM is based on the actual gains or shortfalls in revenue experienced by Consumers (Revere, 2 Tr 229-30) Staff testified that, "Staff's non-fuel rate calculations are based on the amount of revenue rates were actually designed to collect pursuant to the Commission's Order in the appropriate case (U-15645 or U-16191) whereas the Company's are based on the target revenue amounts. It is the Staff's position that the use of the revenue amounts the rates were actually designed to produce is more appropriate than the Company's method…". Revere, 2 Tr 229. Also, Midkiff-Powell, 2 Tr 277.

The Staff also properly insists on using the final rates approved by the Commission in Case U-16191 to calculate the surcharges/credits rather than the (higher) self-implemented rates used by Consumers Energy. Revere, Id, Tr 230. Use of the final U-16191 rate Order with its lower rates than the self-implemented U-16191 rates naturally reduces the amount of non-fuel revenue to be collected. Energy Michigan supports this position.

C. The Staff PRDM Should Be Revised to Apply Surcharges Or Credits On A Total Company Basis.

The Staff PRDM calculates and collects surcharges or credits by rate class. Revere, 2 Tr 229. Also see Exhibit S-5.

The problem with collecting or refunding PRDM surcharges/credits by rate class instead of a total Company basis is that the fixed costs that an RDM is intended to recover (or refund) are not in fact "fixed" for individual rate classes. Rather, such costs are fixed for the Company in total and then are allocated to rate classes by the relative proportional energy use characteristics of each class, such as proportion of total sales or proportion of total peak demand. The great majority of the fixed cost represent facilities such as generation plants and distribution lines and equipment that are used jointly by all power supply or all distribution rate classes at different times and so are joint economic costs that must be allocated by some reasonable but not unique method.

When energy use characteristics of a rate class change, then the proportion of total costs for which the rate class will be deemed responsible also changes. Collection by rate class can also be inaccurate because the proportion of total costs for which the rate class is deemed responsible changes from rate case to rate case. These changes without alternation in the charges or surcharges can result in inaccurate collection or refund of costs. Zakem, 2 Tr 113-14.

After modeling examples of the rate class method and the total sales method and typical rate increases Mr. Zakem concluded that applying surcharges via the rate class method for a PRDM does not reasonably reflect the rate class changes that would occur in a rate case. He also concluded that applying surcharges via the total sales method results in an effect on class rates that is much closer to if not exactly the same as what would occur in a rate case. Zakem, Id, 114.

Based upon these findings, Energy Michigan recommends that the Staff PRDM methodology be revised to collect/refund power charges on a total Company basis for bundled customers and to collect/refund distribution charges on a total Company basis for all bundled and ROA customers, not on a rate class basis.

V. Conclusion

WHEREFORE, Energy Michigan respectfully requests that the Commission:

A. Reject the proposal of Consumers Energy for the calculation and collection and/or refund of PRDM costs including specifically the proposal to collect or refund power supply costs from ROA customers; and

B. Adopt the Staff PRDM proposal subject to revision of that proposal to collect/refund PRDM costs on a total Company basis rather than on a rate class basis.

Respectfully submitted,

Varnum, LLP
Attorneys for Energy Michigan, Inc.

Eric J. Schneidewind

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September 8, 2011 By: ______________________

Eric J. Schneidewind (P20037)
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Estimated Net Change in Revenue: Revenue Reduction vs. Savings Due To Electric Choice

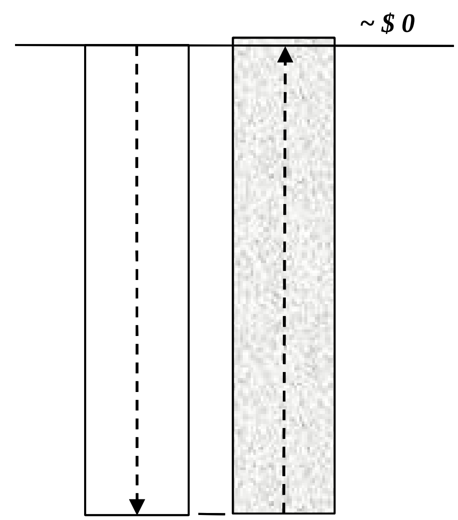
A. Calculation of Net Change

I. Decrease in Power Supply Revenues [1]		
a. Decrease at Average Consumers Energy Rate Design Power Supply Revenues: Secondary + Primary – E-1:		
Design revenues	$1,488,945,000	
Design sales (MWh)	20,313,935	
Average reduction ($/MWh)		***- $ 73.30***
		=====
II. PSCR Savings [2]		
a. Increase in Wholesale Sales at Average Sale Price:		
Total revenues	$39,140,000	
Total sales (MWh)	642,414	
Average increase ($/MWh)		*$60.93*
b. Transmission Savings:		
Net transmission expense	$242,920,285	
System requirements (MWh)	36,573,385	
Average savings ($/MWh)		*$6.64*
c. Total Average Savings = a + b		*$67.57*
d. x Line Loss Savings		x 1.086
e. ***Total PSCR Average Savings ($/MWh)***		***+ $ 73.38***
		=====
III. Net Change in Revenue		***~ $ 0***

1. *Source: CE U-16191 Order, 4Nov2010: Attachment A, Schedule F-2.*
2. *Source: CE U-16432 PSCR Plan for 2011: Exhibit A-1; Exhibit A-14, pages 2 & 3.*

B. Illustration of Net Change

Net Change in Revenue
@ CE Design Rates U-16191
& PSCR Plan U-16432
Net ~ $ 0



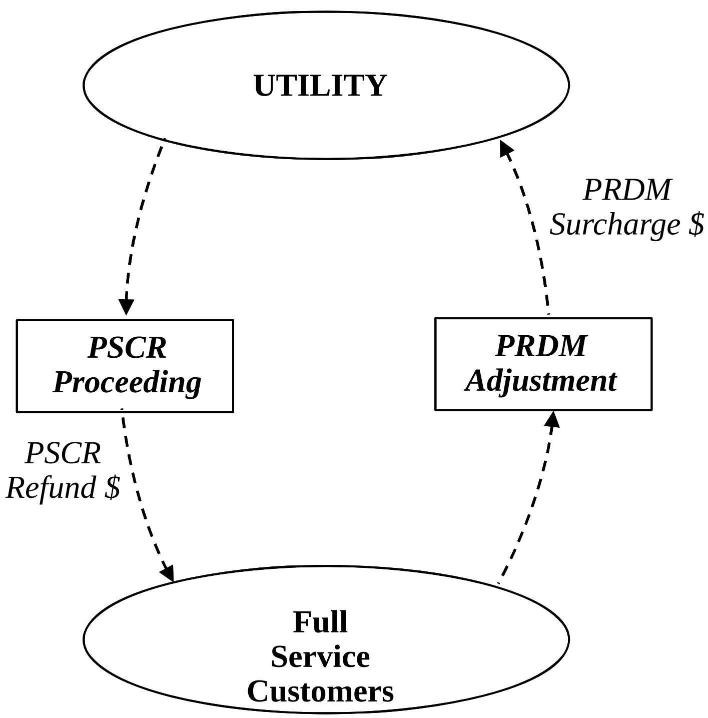
Power Supply Revenue Decrease Per MWh - $ 73.30
=====

PSCR Savings Increase Per MWh + $ 73.38
=====

Netting Method:
Power Supply Cost Recovery
and Pilot Revenue Decoupling Mechanism

Case No: U-16566
Exhibit: EM-3 (AJZ-3)
Page: 1 of 1

I. PSCR Savings & PRDM Surcharge <u>Are Netted Via Two Proceedings</u>



Customers *receive*: PSCR Refund $
Customers *pay*: PRDM Surcharge $

II. PSCR Base is the Intermediate Benchmark <u>for Adjustments in the Two Proceedings</u>

A. PSCR Refund = Incremental Savings - PSCR Base $

B. PRDM Surcharge = Power Supply Tariff Revenues - PSCR Base $

C. Net paid by Full Service Customers = B – A

= Tariff Rev - PSCR Base - (Incremental Savings - PSCR Base)
= Tariff Rev - PSCR Base - Incremental Savings + PSCR Base
= Tariff Rev - Incremental Savings

~ 0 ~ very small for year 2011

<u>Conclusion:</u>
- The effect on remaining full service customers of migration to Electric Choice depends on the *difference between Power Supply tariff revenues and incremental PSCR savings*.

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 reconcile electric revenue pursuant to Pilot Revenue Decoupling Mechanism and for other relief.	)	Case No. U-16566

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss.
COUNTY OF INGHAM)

Monica Robinson, the undersigned, being first duly sworn, deposes and says that she is a Legal Secretary at Varnum LLP and that on the 8th day of September, 2011, she served a copy of Energy Michigan, Inc.'s Initial Brief upon those individuals listed on the attached Service List by email at their last known addresses.

Monica Robinson

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