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May 8, 2015

Ms. Mary Jo Kunkle
Michigan Public Service Commission
7109 W. Saginaw Highway
P.O. Box 30221
Lansing, Michigan 48909

Re: MPSC Case No. U-17688

Dear Ms. Kunkle:

Attached for paperless electronic filing, please find the **Exceptions of Energy Michigan, Inc.**, as well as **Proof of Service** in the above-referenced matter.

Thank you for your assistance in this matter.

Sincerely yours,

Timothy J. Lundgren

TJL/ba

c: ALJ
Parties

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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter, on the Commission's own motion)
to commence a proceeding to implement the)
provisions of Public Act 169 of 2014;)
MCL 460.11(3) *et seq.*, with regard to)
Consumers Energy Company.)
_____)

Case No. U-17688

EXCEPTIONS OF ENERGY MICHIGAN, INC.

Pursuant to Rule 435 of the Commission’s Rules of Practice and Procedure before the Commission, R 792.10435, and in accordance with the schedule set by the Administrative Law Judge (“ALJ”) in this proceeding, Energy Michigan, Inc. (“Energy Michigan”) submits these Exceptions to the Proposal for Decision (“PFD”) issued in this case on May 1, 2015.

In this case Energy Michigan proposed two changes in Consumers Energy Company’s (“Consumers”) cost of service. The first change was to allocate uncollectible accounts expenses (“UAEs”) – which are \$30.5 million – to rate classes based on total cost of service. Energy Michigan also proposed that the collection of the UAEs allocated to each rate class be separated into a distribution portion and a power supply portion in the rate design for the rate class.

The PFD agreed with Energy Michigan’s first proposal regarding allocation to rate classes:

While similarities among members of various classes may be useful for projecting patterns of energy usage and assigning associated costs, such similarities have little (if any) relevance when it comes to allocating UAEs. Not only do customers who pay their respective bills do nothing to contribute to the utility’s overall level of UAEs, but there is little (if anything) they can do to reduce the amount of UAEs experienced by the company. As such, the ALJ recommends that the Commission adopt Energy Michigan’s proposal to require Consumers to begin allocating its UAEs on a total company cost of service basis.

[PFD, page 107.]

However, the PFD rejected Energy Michigan's proposal to separate the UAEs into distribution and power supply:

The ALJ finds Consumers' arguments on this particular issue persuasive. As explained by Mr. Ross, logic does not support collecting UAEs separately for distribution and power supply expenses. Moreover, recovering them (like most other customer-related costs) through distribution charges is more in keeping with the treatment of such costs as recommended by the NARUC Manual. As a result, the ALJ recommends that the Commission reject Energy Michigan's second proposal, and instead authorize Consumers to continue including all of its UAEs in the distribution portion of its customers' monthly bills.

[PFD, pages 108-109.]

I. THE PFD ERRS WHEN IT CONCLUDES THAT LOGIC DOES NOT SUPPORT COLLECTING UAES SEPARATELY FOR DISTRIBUTION AND POWER SUPPLY EXPENSES AND RECOMMENDS THAT CONSUMERS BE AUTHORIZED TO .

Energy Michigan supports the ALJ's conclusion that Consumers should be required to allocate its UAEs on a total company cost of service basis. However, Energy Michigan disputes the ALJ's conclusion that a company-wide allocation of uncollectible expense should not be separated into distribution and power supply.

Although the PFD stated that the ALJ found Consumers Energy's arguments on this point "persuasive," a closer look at the company's arguments reveals that there are substantial gaps between the company's assertions (which are unsupported by evidence) and the conclusions. The PFD cites the company's assertion as follows: "[a]ccording to Consumers, there is no logical rationale for separating UAEs into distribution and power supply components." PFD, page 108. In order to make such an assertion, Consumers Energy must ignore the almost fifteen years of history since Electric Choice began in Michigan in 2001. During this period of time, distribution and power supply have been "unbundled" into separate services. These services are rendered

separately, charged separately, itemized on the bill separately, and revenues from these services are accounted for separately, so if a customer fails to pay a bill the company knows exactly how much has not been paid for each separate service. The logic Consumers professes to be unable to find is embedded in their cost structure, lies at the heart of their cost of service study, and has formed the basis for separating these services for nearly a decade and a half. Unfortunately, the PFD accepts Consumers' professed lack of understanding of why these services are separated. To profess that there is no logic to such a separation is clearly error.

The PFD cites Consumers Energy's assertion that UAEs are the "recognition that an asset on the Company's books is no longer valid." PFD, page 108. How an "asset on the Company's books" can be "no longer valid" is a mystery to Energy Michigan and is unexplained in the PFD. This characterization is inconsistent with the fact that UAEs are part of revenues to be collected in the rates. It arises out of Consumers Energy's attempt to claim that the unpaid amounts due for power supply and distribution services are merely "tied to asset balance sheet values and not income statement revenues." PFD, page 108. Energy Michigan observes that there has been an apparent mistake in the company's characterization of UAEs as a "balance sheet value." UAEs are plainly in the cost of service and are included in the annual revenues that the company proposes to collect to cover its expenses.

Furthermore, Energy Michigan views the separation of uncollectible expenses into their constituent power supply and distribution portions as a rate design issue, not an allocation issue. When this same issue arose in the DTE companion case to this one, U-17689, the ALJ in her PFD appeared to agree with Energy Michigan, stating, ". . . Mr. Zakem's proposal could be considered rate design, rather than cost allocation or functionalization." PFD in Case No. U-17689, page 119. The Commission should require both utilities to treat these revenues in a

similar manner. The separation of UAEs in the rate design within a rate class does not affect the allocation of UAE dollars to the rate class or the total revenues that Consumers Energy proposes to collect from all rate classes in this proceeding.

Finally, the PFD cites Consumers Energy's note that "the NARUC Manual specifically indicates that customer-related costs, like UAEs, are typically assigned solely to the distribution function." PFD, page 108. Energy Michigan sees an important distinction between costs arising from the *billing* of uncollectible expense – such as perhaps mail notices, postage, phone calls, etc. – and the *amount of the charges not paid* for distribution and power supply services rendered. Given that Consumers Energy is including \$30.5 million annually in its revenue, the rate design for collection of uncollectible expense within rate classes should be governed by the principle of compensation for specific services rendered but not paid, not by a principle of compensation for contacting customers who have not paid their bills. In other words, the size of these uncollected revenues is clearly driven by services received and not paid for, not by costs arising from customer service-related expenses.

In short, Energy Michigan suggests that it is time to refine the way uncollectible expense is recovered within rate design. The recovery of revenue representing non-payment of billing for two specific services, distribution and power supply, is a cost of service issue requiring a fair separation of recovery of revenue to fit the costs of the separate services being provided. It is not an allocation issue or a balance sheet versus expense issue, or an issue of how postage should be collected, or an issue with "no logical rationale." Consistent with the principle animating the inquiry in this docket – namely, an attempt to better align the costs of providing services with the charges for those services, breaking UAEs down into their constituent power supply and distribution costs and assigning those costs on that basis is entirely logically consistent. The

recovery of costs should be within the separate rate components that exist for each service. That is exactly the reason that the billing for distribution and power supply services was “unbundled” in the first place.

II. CONCLUSIONS

For these reasons, Energy Michigan recommends that the recovery of uncollectible expense be separated into distribution and power supply within each rate class.

WHEREFORE, for the reasons set forth above, as well as in the Testimony and Exhibits filed by Energy Michigan, and in its Initial and Reply Briefs, Energy Michigan respectfully requests that the Commission issue its final order in this case and:

- A. Require Consumers to change its present method of allocating uncollectibles and adopt the total cost-of-service method; and
- B. Require Consumers to separate the allocation of uncollectibles into a distribution and power supply portion.

Respectfully submitted,

Varnum LLP
Attorneys for Energy Michigan, Inc.

May 8, 2015

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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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Case No. U-17688

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss.
COUNTY OF KENT)

Barbara Allen, 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 May, 2015, she served an electronic copy of the **Exceptions of Energy Michigan, Inc.**, upon those individuals listed on the attached Service List via email at their last known addresses.

Barbara Allen

SERVICE LIST
MPSC CASE NO. U-17688

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