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March 25, 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 in the above referenced case, please find the Initial Brief, as well as Proof of Service on behalf of Energy Michigan, Inc.

Thank you for your assistance in this matter.

Sincerely yours,

Timothy J. Lundgren

TJL/kjc

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

INITIAL BRIEF OF ENERGY MICHIGAN, INC.

I. INTRODUCTION

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

II. ARGUMENT

A. The Company's current allocation of uncollectibles is unreasonable and should be changed.

Consumers Energy Company ("Consumers" or "Company") allocates total uncollectibles to various rate classes by the number of customers in each rate class. Uncollectibles are included in Consumers' distribution expenses, shown in work papers as part of "Customer Accounts Expense." In this proceeding, Consumers has not proposed any change to the total amount of uncollectibles included in rates. However, Consumers' current method of allocating uncollectibles by the number of customers in each rate class is not equitable and should be changed.

1. The Commission should require Consumers to adopt the total cost-of-service method for the allocation of uncollectibles.

Energy Michigan proposes that uncollectibles should be allocated in a general and equitable way to all rate classes to be paid by all customers. This can be accomplished by allocating uncollectibles based on the "total cost-of-service method," the same method that is used to allocate the discounts for the Large Economic Development Rate, Senior Citizens, and Income Assistance, and the same method that DTE Electric Company currently uses to allocate uncollectibles.

As Energy Michigan's expert witness, Alexander J. Zakem, has explained, Consumers is confusing an overhead cost with cost causation. As Mr. Zakem stated,

"The utility must recover uncollectible expenses. Uncollectibles are a company-wide overhead, independent of the electric use of rate classes. Compensation for uncollectibles that is shifted to the customers who pay their bills should be independent of the electric use of the rate classes and independent of the number of customers in rate classes. Thus the uncollectibles should be allocated in a general and equitable way to all rate classes to be paid by all customers." 7 Tr. 1-6.

"Customers cause uncollectibles, not customer classes – that is, the amount of uncollectibles of a class is not determined by the electric use characteristics of the class. At the same time, the other customers in a rate class who pay their bills do not cause uncollectibles. Consequently it is illogical to allocate uncollectibles –and charge a particular customer – based simply on how many other customers are in the same group as the particular customer." 6 Tr. 3-8.

Energy Michigan recommends that Consumers adopt the total cost-of-service method that DTE Electric Company ("DTE") currently uses to allocate uncollectibles.

2. In order to account for a fair allocation of costs, uncollectibles should be separated into a distribution portion and a power supply portion within the class to which they are allocated.

Consumers currently includes all uncollectibles in the distribution portion of its rates. Uncollectibles are included in Consumers' distribution expenses, shown in work papers as part of "Customer Accounts Expense." However, uncollectibles include both distribution and power

supply costs. Because uncollectibles include both distribution and power supply charges, uncollectibles should be separated into a distribution portion and a power supply portion, instead of being included entirely in the distribution portion of rates.

As Mr. Zakem has stated, "if a customer does not pay a bill, that bill includes *both* distribution *and* power supply charges. As a result, total uncollectibles include compensation to the utility for both distribution and power supply costs." 8 Tr. 19-21. "Because uncollectibles include both distribution and power supply charges, uncollectibles should be separated in a reasonable way into a distribution portion and a power supply portion. The distribution portion should be included in distribution rates, and the power supply portion should be included in power supply rates. Distribution customer should pay a fair share of uncollectibles in their distribution rates, and power supply customers should pay a fair share of uncollectibles in their power supply rates." 9 Tr. 9-11.

Including all uncollectibles only in distribution rates is an incorrect and unfair allocation of costs to customers. Consumers offers two separate types of services – distribution service and power supply service. The costs for these services should be kept separate. If a customer does not pay the distribution component of a bill, then the utility is short of compensation for its distribution service, and therefore the "uncollectible" portion of the distribution component is a distribution expense. The same reasoning applies for power supply service. If a customer does not pay the power supply component of a bill, then the utility is short of compensation for its power supply service, and therefore the "uncollectible" portion of the power supply component is a power supply expense. Power supply expenses should not be collected by distribution charges. However, Consumers' current rate design unreasonably includes these uncollectible power supply expenses in the distribution charges.

In particular, customers on electric choice who only take distribution service from Consumers are unfairly compensating Consumers for the power supply customers who do not pay their power supply charges. Electric choice customers who only take distribution service from Consumers should only have to pay for the uncollectible expense properly attributed to the distribution service. Electric choice customers should not have to pay the uncollectible expense attributed to the power supply service. Furthermore, as Mr. Zakem explained, proper separation of distribution and power supply costs is one of the main reasons for doing a careful cost of service study. 10 Tr. 1-2. Energy Michigan's proposal that Consumers should separate uncollectible expenses into distribution and power supply – and charge for each in its respective rate components – provides a simple remedy for Consumers' deficient cost of service methodology and rate design.

The Commission approved a fair allocation of uncollectible costs between distribution and power supply services in Consumers' last general rate case (U-17087), when it approved the allocation for the E-1 rate to various rate classes, and then separated within each rate class a distribution portion and a power supply portion. Energy Michigan proposes a similar method for the uncollectibles at issue in this case, as shown in Exhibit EM-3 (AJZ-3).

III. CONCLUSION

WHEREFORE, Energy Michigan respectfully requests that the Commission:

- 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.

March 25, 2015

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STATE OF MICHIGAN

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Case No. U-17688

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss.
COUNTY OF INGHAM)

Kimberly Champagne, the undersigned, being first duly sworn, deposes and says that she is a Legal Secretary at Varnum LLP and that on the 25th day of March, 2015, she served a copy of Energy Michigan Inc.'s Initial Brief upon those individuals listed on the attached Service List via email at their last known addresses.

Kimberly Champagne

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MPSC CASE NO. U-17688

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