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April 1, 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 Reply 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

REPLY BRIEF OF ENERGY MICHIGAN, INC.

I. Introduction

This Reply Brief is filed on behalf of Energy Michigan, Inc. ("Energy Michigan") by its attorneys, Varnum, LLC. 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. Consumers Fails to Provide Meaningful Support for its Objections to Testimony That Consumers' Allocation of Uncollectibles is Inequitable.

In its Initial Brief, Consumers Energy Company ("Consumers") objects to the testimony of Energy Michigan's expert witness, Mr. Alexander J. Zakem, regarding how Consumers allocates its uncollectible expenses. Consumers Initial Brief, p. 26. Unfortunately, Consumers fails to explain the basis for its objections, other than to assert broadly that "there is simply no substance or support for the conclusion that the Company's UAEs are not equitably allocated." *Id.* This assertion is simply untrue. Mr. Zakem clearly testified why, in his expert opinion, Consumers' method of allocating uncollectible is inequitable:

The outcome does not appear equitable. For example, on Exhibit EM-2 (AJZ-2), the excerpt from CE's workpapers, line 5 column (e) shows that the entire

Primary class receives an allocation of only \$65,000 out of \$30,505,000 total uncollectibles. Yet CE's proposed total revenue for the Primary class is over \$1 billion. [Exhibit A-3 (LMC-3), page 1 of 3, line 18, column c.]

Customer bills may vary widely, from a small house to a large hospital. A residential customer is no more responsible for – or the “cause” of – a residential customer down the block who did not pay the Consumers Energy bill than is the grocery store on the corner or the hospital a mile away. And vice versa.

3 Tr 624. So as Mr. Zakem demonstrated in his testimony, Consumers' method of allocating uncollectibles leads to the inequitable result that the entire Primary class is allocated only about two-tenths of one percent (0.2%) of the uncollectibles expense on the system. Mr. Zakem then makes the following commonsense point about the unreasonableness of allocating uncollectibles by class:

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 same group as the particular customer.

Id. Consumers' only response to this, is to assert that “as all customers are not responsible for the Company incurring UAEs, shifting the recovery of these costs to all customers would violate principles of cost-based rates.” Consumers Initial Brief, p. 26. But, of course, it is the paying customers who will have to pay for those who do not or cannot pay, and as Mr. Zakem noted, “Uncollectibles are a company-wide overhead, independent of the electric use of rate classes.” 3 Tr 625.

Thus, contrary to the views expressed in Consumers' Initial Brief, Energy Michigan, through the testimony of Mr. Zakem, provides a cogent critique of Consumers' current and proposed practices for allocating uncollectible costs, and proposes a more equitable alternative.

B. Consumers Fails to Address the Logic of Separating Uncollectibles Into Distribution and Power Supply.

Consumers flatly asserts that there is “no logical rationale for separating UAEs by distribution and power supply.” Consumers Initial Brief, p. 26. In fact, Mr. Zakem provides approximately six pages of expert testimony and an Exhibit (EM-3) that sets forth the logic for separating the uncollectibles in just this way. 3 Tr 626-631 and Exhibit EM-3. As Mr. Zakem notes, failing to separate uncollectibles into these charges is unfair to all of Consumers’ customers: “It means that bundled customers are not being charged fairly for the separate distribution and power supply services; and it means that customers of other power suppliers – Alternate Electric Suppliers – who take only distribution service from CE are compensating CE for CE’s power supply customers who do not pay their power supply charges.” 3 Tr 627.

In fact, the situation is the reverse of how Consumers characterizes it. While Consumers tries to make it seem as if doing the cost separation that Mr. Zakem suggests would “violate cost causation principles,” in point of fact, it is the failure to do so in the context of a cost-of-service study that violates those principles:

Distribution and power supply are separate services with separate costs and separate charges, and the components of those charges should not be mixed. In fact, proper separation of distribution and power supply costs is one of the reasons for doing a careful cost of service study.

3 Tr 627-628 (emphasis added). Thus, while Consumers tries to characterize Mr. Zakem’s proposals as lacking in support or violating cost-of-service principles, it can do so only by ignoring the actual testimony and exhibits submitted by Mr. Zakem, which address those very issues.

III. Conclusion and Prayer for Relief

WHEREFORE, for the reasons set forth above, as well as in the Testimony and Exhibits filed by Energy Michigan, and in its Initial Brief, 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.

April 1, 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 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 1st day of April, 2015, she served a copy of Energy Michigan Inc.'s Reply Brief upon those individuals listed on the attached Service List via email at their last known addresses.

Kimberly Champagne

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