

1 However the BRIGHT LINE DISTINCTION between the facts of this case, and Case No. U-
2 16794, along with the other two referenced instances, is the undisputed admitted fact herein that
3 Consumers Energy Company (“Consumers Energy” or “CECo”) is seeking approval from the
4 Commission to allocate only \$234,000 of electric utility cost to the CEC Co Appliance Service
5 Plan program; this being according the sworn affidavit of Consumers Energy witness Andrew J.
6 Bordine (see page 2 of 5 of the Attachment C of Consumers Energy Objection to the Petition to
7 Intervene of Phil Forner located at: <http://efile.mpsc.state.mi.us/efile/docs/17990/0060.pdf>)
8 which states in part:

9 6. In this electric rate case, the Company allocated electric expenses
10 related to the ASP program in a manner consistent with the Code of
11 Conduct and the ASP program cost allocation methodology approved by
12 the Commission. The test year (which represents the 12 months ended
13 August 31, 2017) electric O&M amount projected in this electric rate case
14 filing has been reduced by \$234,000 to account for ASP program related
15 expenses. Additionally, the 2014 Consumers Energy electric utility O&M,
16 which was used to project test year O&M amounts, was reduced by
17 \$234,000 for expenses related to the ASP program. These reductions
18 ensure that the electric utility customers are not paying costs attributed to
19 the ASP program.

20 MCL 460.6a(1) requires in part that: “the commission shall require notice to be given to all
21 interested parties within the service area to be affected, and **all interested parties shall have a**
22 **reasonable opportunity for a full and complete hearing.**” (Emphasis added.) With MCL
23 460.6a(2)(a) going on to state that: ““Full and complete hearing” means a hearing that provides
24 interested parties a reasonable opportunity to present and cross-examine evidence and present
25 arguments relevant to the specific element or elements of the request that are the subject of the
hearing.” (Emphasis added.) Therefore given the fact that Consumers Energy has requested
approval of the allocation of electric utility expenses related to the ASP program makes denying
Forner the opportunity to participate herein a violation of law.

It should also be noted that given Consumer Energy’s admission that some of Consumer
Energy electric utility O&M expenses are related to the ASP further warrants Forner’s

1 intervention herein. MCL 460.6a(2)(b) requires that: "'General rate case" means a proceeding
2 initiated by a utility in an application filed with the commission that alleges a revenue deficiency
3 and requests an increase in the schedule of rates or charges **based on the utility's total cost of**
4 **providing service.**" (Emphasis added.) Any allocation of electric utility costs as statutorily
5 required by MCL 460.10a(7)-(8) does in fact reduce the electric utility's total cost of service
6 which thereby reduces the electric rates and should be part of every general rate case.

7 In addition to the Consumers Energy admission herein, Consumers Energy also
8 acknowledged the allocation of some Consumers Energy electric utility costs in a recent
9 Consumer Energy gas utility case, being MPSC Case No. U-17882. However according to the
10 attached April 18, 2016 FOIA Grant and Denial (page 10) there is no showing of how Consumer
11 Energy came up with \$234,000; which again warrants intervention by Forner.

12 Furthermore the attached April 18, 2016 response from the MPSC along with the Exhibit 1
13 attached to Forner's Petition to Intervene (located at: [http://efile.mpsc.state.mi.us/](http://efile.mpsc.state.mi.us/efile/docs/17990/0034.pdf)
14 [efile/docs/17990/0034.pdf](http://efile.mpsc.state.mi.us/efile/docs/17990/0034.pdf)) makes it clear that the Commission has yet to apply the provisions of
15 MCL 460.10a(7)-(8) in a Consumers Energy general rate case.

16 Finally if the Commission allows Michelle Rison to intervene in this general rate case (1 TR
17 41-62, located at: <http://efile.mpsc.state.mi.us/efile/docs/17990/0075.pdf>) then Forner adopts by
18 reference the same standing arguments made by Mr. Keskey and the rational used by the ALJ to
19 grant intervention to Ms. Rison. Mr. Forner is an electric utility customer of Consumers Energy
20 (p.5 Forner Petition to Intervene) and MPSC Staff "does not oppose intervention" (1 TR 15),
21 therefore Forner should be granted intervention at this time as was the other petitioners.

22 WHEREFORE, the Forner prays that this Commission immediately grant this application
23 and reviews the ALJ's denial of Forner's Petition to Intervene to find that a decision on the
24 ruling before the submission of the full case to the commission for final decision will prevent
25 substantial harm to the appellant and other Consumers Energy electric utility customers by

1 helping to ensure that the newly claimed allocation of electric utility costs to the ASP made by
2 Consumers Energy are appropriate and supported by facts as required by MCL 460.10a(7)-(8).

3
4 Dated: April 26, 2016

5 Phil Forner, in pro per
6 POB 296, Allendale, MI 49401
7 Email: aheat@altelco.net
8 Phone: (616) 299-0275
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**STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION**

In the matter of the application of)	
CONSUMERS ENERGY COMPANY)	Case No.: U-17790
for authority to increase its rates for the)	
generation and distribution of)	
electricity and for other relief.)	

PROOF OF SERVICE

On the April 5, 2016, an electronic copy of Petition to Intervene of Phil Forner and Request for Declaratory Ruling was served on the following:

Administrative Law Judge Dennis W. Mack	mackd2@michigan.gov
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H. Richard Chambers	rick.chambers@cmsenergy.com
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5 Counsel for Residential
6 Customer Group and Michelle Rison
7 Don L. Keskey

donkeskey@publiclawresourcecenter.com

8 The statement above is true to the best of my knowledge, information and belief.
9

10 Dated: April 5, 2016

Phil Forner
POB 296 - Allendale, MI 49401
Email: aheat@altelco.net
Phone: (616) 299-0275

Phil Forner

From: LARAFOIAInfo <LARAFOIAInfo@michigan.gov>
Sent: Wednesday, March 30, 2016 3:38 PM
To: aheat@altelco.net
Subject: FOIA Extension No.: 2016-00792 Forner

Importance: High

Dear Phil Forner:

REGARDING FOIA REQUEST: The last 3 requests made by MPSC to Cons En Co under MCL 460.10a(6)(b); where appliance service program were included; where all postage associated w/appliance service program on Cons En monthly electric bill was allocated.

The Michigan Department of Licensing and Regulatory Affairs (LARA) has received your request for public records under the provisions of the Michigan Freedom of Information Act (FOIA), 1976 PA 442, MCL 15.231 *et seq.*, on 3/25/16.

In order to determine the existence of any nonexempt records/information that might be responsive to your request we require additional time to search for and retrieve records; review and examine any found records to separate exempt from nonexempt material; and to determine any allowable processing costs. For these reasons, it is necessary to extend the time for response to 4/18/16.

If you have questions concerning this matter, please feel free to contact the LARA FOIA Office at (517) 335-3327 or email LARAFOIAInfo@michigan.gov. You may also write to us at the address listed below and enclose a copy of this letter.

To review a copy of the LARA's written public summary, procedures, and guidelines, go to www.michigan.gov/lara.

Thank you,

LARA FOIA Office
vm

LARA FOIA Office
Ottawa Building, 4th Floor
PO Box 30004, Lansing MI 48909
(517) 335-3327 – Phone
(517) 335-4037 - Fax



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
LANSING

SHELLY EDGERTON
DIRECTOR

April 18, 2016

Phil Forner
PO Box 296
Allendale, MI 48401

RE: FOIA Response No: 2016-008792

Dear Mr. Forner:

The Michigan Department of Licensing and Regulatory Affairs (LARA) has received your request for public records and has processed it under the provisions of the Michigan Freedom of Information Act (FOIA), 1976 PA 442, MCL 15.231 *et seq.* Because of the nature of your request it was sent to the Michigan Public Service Commission (MPSC) to search for any non-exempt records that may be responsive to your request.

Your request has been **granted in part and denied in part**. Portions of your request are exempt from disclosure based on provisions set forth in the Act. (See comments below.)

Comments:

Documents related to part 1 of your request are included. The MPSC does not have any documents related to portions 2 and 3 of your FOIA Request. To the best of the LARA's Michigan Public Service Commission (MPSC) knowledge, information, and belief, under the information provided by you or by any other description reasonably known to MPSC, the public records do not exist. (MCL 15.235(5)(b)).

If you have questions concerning this matter, please feel free to contact the LARA FOIA Office at LARAFOIAInfo@michigan.gov. To review a copy of LARA's written public summary, procedures, and guidelines, go to www.michigan.gov/lara.

Section 10 of the FOIA provides that if a public body denies any portion of your FOIA, or charges a fee that exceeds the amount permitted under its publicly available procedures and guidelines, you may submit a written appeal to Director, Department of Licensing and Regulatory Affairs, P.O. Box 30004, Lansing, MI 48909. Your FOIA appeal must specifically state the word "appeal" and identify the reason(s) the fee or disclosure denial(s) should be reversed. You may also seek judicial review in an appropriate Michigan court within 45 days after a fee charge, or within 180 days after a denial notice. If you prevail in a court action regarding a fee charged or a disclosure denial, the court may award you reasonable attorney fees and punitive damages.

Sincerely,

LARA FOIA Office
lj

MPSC AUDIT REQUEST

CASE NO: U-17882

DATE OF REQUEST: 08/26/15

NO. RFN-21

REQUESTED BY: Robert Nichols

DATE OF RESPONSE: 9/4/15

RESPONDENT: Holly Bowers

Question:

1. Regarding Revenue and Schedule C5, for Appliance Service Plan (ASP): Please provide 5 years actuals, 2010 through 2014, the 2015 estimate, and the amount included in the projected test year for:
 - a. ASP revenue.
 - b. ASP expense
 - c. Net ASP benefit to ratepayers (revenue less expense)

Answer:

1. Please see the attached spread sheet for the 2010 through 2014 actual and 2015 through 2016 rate case projections for ASP revenue, ASP expense and margin. Note that the expenses shown are the direct program expenses only and do not include expenses that are allocated to the ASP program such as call center, IT, billing, mailing and salaries when determining the overall margin level.

U-17882 MPSC Staff Audit Request #103

Consumers Energy Company

Summary of Actual & Projected Gas Operations ASP Expenses and Revenues
For the Years 2010 through 2016
(\$000)

Appliance Service Plan Program

Description	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Projected	2016 Projected
ASP Program Revenues	44,047	45,493	46,919	52,658	60,462	60,462	60,462
ASP Program Expenses	24,558	26,259	28,040	33,750	39,772	39,772	39,772
ASP Margin	19,489	19,234	18,879	18,908	20,691	20,691	20,691

MPSC AUDIT REQUEST

CASE NO: U-17882

DATE OF REQUEST: 09/8/15

NO. RFN-26

REQUESTED BY: Robert F. Nichols II

DATE OF RESPONSE: 9/18/15

RESPONDENT: Sarah H. Bowers

Question:

1. Regarding ASP and audit response #103: The response states "Please see the attached spread sheet for the 2010 through 2014 actual and 2015 through 2016 rate case projections for ASP revenue, ASP expense and margin. Note that the expenses shown are the direct program expenses only and do not include expenses that are allocated to the ASP program such as call center, IT, billing, mailing and salaries when determining the overall margin level."
 - a. For each year 2010 through 2016, please provide the indirect expense amounts and descriptions that are allocated to ASP and explain where they show up in the rate case.

Answer:

1.
 - a. Attached are the Appliance Service Plan (ASP) program actual "Pro-forma" pre-tax operating income analyses for 2010-2014. This analysis is done to gauge the overall profitability of the ASP program when taking into account direct program expenses (as shown in the response to MPSC Staff Audit #103 in this docket), revenue (as shown in Audit #103), the direct allocation of expenses and indirect allocation of expenses and other corporate costs. The items that were included in the attachment to Audit #103 are noted in the descriptions. Payroll taxes were not included in Audit #103. Included on the historical test year 2014 sheet are the witnesses whose rate case areas contain the expenses mentioned in the description. The 2015 and 2016 amounts were not projected in this format for purposes of this rate case but are projected to be the same as the 2014 historical test year.

APPLIANCE SERVICE PLAN PRO-FORMA

<u>Expense</u>	<u>2010 Actual</u>	<u>Description</u>
Gross Revenues	44,321,753	Gross Revenues from plans
Less Incentives	274,380	Customer incentive payments
Net Revenues (RDS)	44,047,373	Net Revenues from plans
Cost of Goods Sold	18,535,920	Parts, labor and expenses associated with preforming repairs on appliances plus payroll tax on labor
Gross Margin	25,511,453	
DIRECT EXPENSE:		
Operational:		
Schedule, Control & Dispatch	391,213	Dispatchers and their supervision to schedule and dispatch work out to field employees plus payroll tax on labor
Consumer Affairs - Complaints	20,721	The cost for Consumer Affairs to handle and log complaints related to ASP based upon number of complaints
Call Center - Service	795,931	The cost for the CE call center to take repair calls. Solution Center now takes calls Includes salaries and expenses of the direct field supervision and management of the operations. It also includes program amends which are given to customers when a mistake is made by the program plus payroll tax on labor
ASP Services Org & Office Admin	1,728,102	These are the costs associated with Upper Managment involvement in the overseeing of daily operations of the field portion of the program. Now included in ASP Services
Field Manager Org	219,996	Organization
ACAP Expense	701,384	Cost associated with cash allowances on Gold Plan customers when there appliance is not repairable.
Small Tools	20,400	The value of the purchase of small hand tools that are used predominantly for repair work on appliances.
Training Labor & Materials	458,193	Training for the ASP direct supervision staff and the operating employee (field workers) plus payroll tax on labor
Gas/Elec Adjustment	(502,842)	Allocation (credit) of ASP related allocations to Electric Operations. Accounts for expense items shared between gas and electric (ie. Consumer Affairs, call center etc.)
Total Operational Expense	3,833,096	
Marketing		
Promotional Program & Research	907,666	Expenses associated with acquiring ASP contracts and promoting the plan plus payroll tax on labor.
Marketing Supervision	346,691	The cost of labor associated with marketing the program and obtaining new customers plus payroll tax on labor.
Core Group	707,167	Cost of a select group of customer service representatives to handle customer inquires/issues associated with ASP. Now done in Solution Center
Bad Debt	846,716	Cost of uncollectables for customers who do not pay for the plan as they have been billed.
Point Plus	512,421	Incentives for the Consumers Energy Call Center reps for selling ASP plans.
Direct Mail	773,892	Costs associated with obtaining contracts from Direct Mail
Total Marketing	4,094,554	
Billing Allocation	201,000	Expense for the lines used on customer bills associated with ASP.
CMR Allocation	18,384	Costs associated with the processing of payments made by customers for their ASP plan.
Total Marketing Expense	4,313,938	
Infrastructure		
SAP	183,000	Cost associated for the ASP programs use of SAP system for plan data and repair work order history.
MDSI	166,000	Costs associated with use of the OMAR system for the ASP orders dispatched to techs
Level II Chargebacks - Radio & Tele	136,000	Costs associated with use of telephones and the 800 Mz system for dispatching ASP orders
Total Infrastructure Expense	484,999	
Total Direct Expense	8,632,034	
Program Margin	16,879,419	
Margin as % of Net Revenue	38.3%	
INDIRECT EXPENSE:		
Corporate Cost	10,411,420	Allocation of overhead costs to ASP for PTOI analysis. Includes Administrative and General Salaries, expenses and outside services; Property insurance; Injuries and damages; Pension & Benefits, Rents, Facilities and General office property taxes.
Total Indirect Expense	10,411,420	
PTOI	6,468,000	
PTOI as % of Net Revenue	14.7%	
Total Expense	37,579,373	

APPLIANCE SERVICE PLAN PRO-FORMA

<u>Expense</u>	<u>2011 Actual</u>	<u>Description</u>
Gross Revenues	45,846,142	Gross Revenues from plans
Less Incentives	353,445	Customer incentive payments
Net Revenues (RDS)	45,492,697	Net Revenues from plans
Cost of Goods Sold	19,251,820	Parts, labor and expenses associated with performing repairs on appliances plus payroll tax on labor
Gross Margin	26,240,877	
DIRECT EXPENSE:		
Operational:		
Schedule, Control & Dispatch	458,957	Dispatchers and their supervision to schedule and dispatch work out to field employees plus payroll tax on labor
Consumer Affairs - Complaints	16,743	The cost for Consumer Affairs to handle and log complaints related to ASP based upon number of complaints
Call Center - Service	846,410	The cost for the CE call center to take repair calls. Solution Center now takes calls
ASP Services Org & Office Admin	1,783,422	Includes salaries and expenses of the direct field supervision and management of the operations. It also includes program amends which are given to customers when a mistake is made by the program plus payroll tax on labor
Field Manager Org	581,656	These are the costs associated with Upper Managements involvement in the overseeing of daily operations of the field portion of the program. Now included in ASP Services Organization
ACAP Expense	878,200	Cost associated with cash allowances on Gold Plan customers when there appliance is not repairable.
Small Tools	20,400	The value of the purchase of small hand tools that are used predominantly for repair work on appliances.
Training Labor & Materials	1,117,906	Training for the ASP direct supervision staff and the operating employee (field workers) plus payroll tax on labor
Gas/Elec Adjustment	(527,380)	Allocation (credit) of ASP related allocations to Electric Operations. Accounts for expense items shared between gas and electric (ie. Consumer Affairs, call center etc.)
Total Operational Expense	5,176,314	
Marketing		
Promotional Program & Research	1,027,154	Expenses associated with acquiring ASP contracts and promoting the plan plus payroll tax on labor.
Marketing Supervision	316,684	The cost of labor associated with marketing the program and obtaining new customers plus payroll tax on labor.
Core Group	662,173	Cost of a select group of customer service representatives to handle customer inquiries/issues associated with ASP. Now done in Solution Center
Bad Debt	1,112,945	Cost of uncollectables for customers who do not pay for the plan as they have been billed.
Point Plus	612,559	Incentives for the Consumers Energy Call Center reps for selling ASP plans.
Direct Mail	961,841	Costs associated with obtaining contracts from Direct Mail
Total Marketing	4,693,355	
Billing Allocation	204,997	Expense for the lines used on customer bills associated with ASP.
CMR Allocation	18,376	Costs associated with the processing of payments made by customers for their ASP plan.
Total Marketing Expense	4,916,728	
Infrastructure		
SAP	188,000	Cost associated for the ASP programs use of SAP system for plan data and repair work order history.
MDSI	169,000	Costs associated with use of the OMAR system for the ASP orders dispatched to techs
Level II Chargebacks - Radio & Tele	139,000	Costs associated with use of telephones and the 800 Mz system for dispatching ASP orders
Total Infrastructure Expense	496,000	
Total Direct Expense	10,589,042	
Program Margin	15,651,835	
Margin as % of Net Revenue	34.4%	
INDIRECT EXPENSE:		
Corporate Cost	8,995,479	Allocation of overhead costs to ASP for PTOI analysis. Includes Administrative and General Salaries, expenses and outside services; Property insurance; Injuries and damages; Pension & Benefits, Rents, Facilities and General office property taxes.
Total Indirect Expense	8,995,479	
PTOI	6,656,356	
PTOI as % of Net Revenue	14.6%	
Total Expense	38,836,341	

APPLIANCE SERVICE PLAN PRO-FORMA

<u>Expense</u>	<u>2012 Actual</u>	<u>Description</u>
Gross Revenues	47,351,636	Gross Revenues from plans
Less Incentives	432,588	Customer incentive payments
Net Revenues (RDS)	46,919,048	Net Revenues from plans
Cost of Goods Sold	19,368,212	Parts, labor and expenses associated with performing repairs on appliances plus payroll tax on labor
Gross Margin	27,550,836	
DIRECT EXPENSE:		
Operational:		
Schedule, Control & Dispatch	482,939	Dispatchers and their supervision to schedule and dispatch work out to field employees plus payroll tax on labor
Consumer Affairs - Complaints	32,051	The cost for Consumer Affairs to handle and log complaints related to ASP based upon number of complaints
Call Center - Service	826,639	The cost for the CE call center to take repair calls. Solution Center now takes calls
ASP Services Org & Office Admin	1,807,790	Includes salaries and expenses of the direct field supervision and management of the operations. It also includes program amends which are given to customers when a mistake is made by the program plus payroll tax on labor
Field Manager Org	591,146	These are the costs associated with Upper Managments involvement in the overseeing of daily operations of the field portion of the program. Now included in ASP Services Organization
ACAP Expense	1,349,575	Cost associated with cash allowances on Gold Plan customers when there appliance is not repairable.
Small Tools	9,252	The value of the purchase of small hand tools that are used predominantly for repair work on appliances.
Training Labor & Materials	785,926	Training for the ASP direct supervision staff and the operating employee (field workers) plus payroll tax on labor
Gas/Elec Adjustment	(528,260)	Allocation (credit) of ASP related allocations to Electric Operations. Accounts for expense items shared between gas and electric (ie. Consumer Affairs, call center etc.)
Total Operational Expense	5,357,058	
Marketing		
Promotional Program & Research	1,522,067	Expenses associated with acquiring ASP contracts and promoting the plan plus payroll tax on labor.
Marketing Supervision	303,911	The cost of labor associated with marketing the program and obtaining new customers plus payroll tax on labor.
Core Group	928,069	Cost of a select group of customer service representatives to handle customer inquires/issues associated with ASP. Now done in Solution Center
Bad Debt	1,250,513	Cost of uncollectables for customers who do not pay for the plan as they have been billed.
Collection Agency Fees	2,680	Cost associated with receiving services from Collection Agencies.
Point Plus	785,338	Incentives for the Consumers Energy Call Center reps for selling ASP plans.
Direct Mail	983,814	Costs associated with obtaining contracts from Direct Mail
Total Marketing	5,776,392	
CE&O Additional Salary Allocations	11,489	Allocation from Customer Experience and Quality (formerly Customer Experience & Operations) employees assisting on thought/ideas/research to help grow and expand the program plus payroll tax on labor.
Billing Allocation	209,000	Expense for the lines used on customer bills associated with ASP.
CMR Allocation	18,952	Costs associated with the processing of payments made by customers for their ASP plan.
Total Marketing Expense	6,015,833	
Infrastructure		
SAP	191,000	Cost associated for the ASP programs use of SAP system for plan data and repair work order history.
MDSI	172,000	Costs associated with use of the OMAR system for the ASP orders dispatched to techs
Level II Chargebacks - Radio & Tele	141,000	Costs associated with use of telephones and the 800 Mz system for dispatching ASP orders
Capital Expenditures	100,000	Cost of building the ASP room
Total Infrastructure Expense	604,000	
Total Direct Expense	11,976,891	
Program Margin	15,573,945	
Margin as % of Net Revenue	33.2%	
INDIRECT EXPENSE:		
Corporate Cost	9,033,469	Allocation of overhead costs to ASP for PTOI analysis. Includes Administrative and General Salaries, expenses and outside services; Property insurance; Injuries and damages; Pension & Benefits, Rents, Facilities and General office property taxes.
Corporate Cost & CE&O labor allocations	19,206	Allocation from Customer Experience and Quality (formerly Customer Experience & Operations) employees assisting on thought/ideas/research to help grow and expand the program plus payroll tax on labor.
Total Indirect Expense	9,052,675	
PTOI	6,521,270	
PTOI as % of Net Revenue	13.9%	
Total Expense	40,397,778	

APPLIANCE SERVICE PLAN PRO-FORMA

<u>Expense</u>	<u>2013 Actual</u>	<u>Description</u>
Plan Gross Revenues	53,008,436	Gross Revenues from plans
SC Revenue	0	
Less Incentives	350,165	Customer incentive payments
Net Revenues (RDS)	52,658,271	Net Revenues from plans
		Parts, labor and expenses associated with preforming repairs on appliances plus payroll tax on labor
Cost of Goods Sold	21,129,772	
Gross Margin	31,528,499	
DIRECT EXPENSE:		
Operational:		
Schedule, Control & Dispatch	399,830	Dispatchers and their supervision to schedule and dispatch work out to field employees plus payroll tax on labor
Consumer Affairs - Complaints	11,772	The cost for Consumer Affairs to handle and log complaints related to ASP based upon number of complaints
Call Center - Service	113,638	The cost for the CE call center to take repair calls. Solution Center now takes calls
Solution Center Costs	2,670,406	ASP Solution Center (call center) taking repair calls
		Includes salaries and expenses of the direct field supervision and management of the operations. It also includes program amends which are given to customers when a mistake is made by the program plus payroll tax on labor
ASP Services Org & Office Admin	1,590,899	Cost associated with cash allowances on Gold Plan customers when there appliance is not repairable.
ACAP Expense	2,093,326	The value of the purchase of small hand tools that are used predominantly for repair work on appliances.
Small Tools	15,320	Training for the ASP direct supervision staff and the operating employee (field workers) plus payroll tax on labor
Training Labor & Materials	350,075	
		Allocation (credit) of ASP related allocations to Electric Operations. Accounts for expense items shared between gas and electric (ie. Consumer Affairs, call center etc.)
Gas/Elec Adjustment	(179,234)	
Total Operational Expense	7,066,032	
Marketing		
Promotional Program & Research	1,691,308	Expenses associated with acquiring ASP contracts and promoting the plan plus payroll tax on labor.
Marketing Supervision	951,219	The cost of labor associated with marketing the program and obtaining new customers plus payroll tax on labor.
Core Group	9,941	Cost of a select group of customer service representatives to handle customer inquiries/issues associated with ASP. Now done in Solution Center
Bad Debt	2,609,521	Cost of uncollectables for customers who do not pay for the plan as they have been billed.
Collection Agency Fees	0	Cost associated with receiving services from Collection Agencies.
Point Plus	555,635	Incentives for the Consumers Energy Call Center reps for selling ASP plans.
Direct Mail	842,739	Costs associated with obtaining contracts from Direct Mail
Total Marketing	6,660,365	
		Allocation from Customer Experience and Quality employees assisting on thought/ideas/research to help grow and expand the program plus payroll tax on labor.
Customer Insites Allocation	79,654	
Billing Allocation	214,981	Expense for the lines used on customer bills associated with ASP.
CMR Allocation	19,500	Costs associated with the processing of payments made by customers for their ASP plan.
Total Marketing Expense	6,974,500	
Infrastructure		
SAP	195,000	Cost associated for the ASP programs use of SAP system for plan data and repair work order history.
MDSI	175,500	Costs associated with use of the OMAR system for the ASP orders dispatched to techs
Level II Chargebacks - Radio & Tele	144,000	Costs associated with use of telephones and the 800 Mz system for dispatching ASP orders
Capital Expenditures	(20,000)	Cost of building the ASP room
Total Infrastructure Expense	494,500	
Total Direct Expense	14,535,032	
Program Margin	16,993,467	
Margin as % of Net Revenue	32.3%	
INDIRECT EXPENSE:		
		Allocation of overhead costs to ASP for PTOI analysis. Includes Administrative and General Salaries, expenses and outside services; Property insurance; Injuries and damages; Pension & Benefits, Rents, Facilities and General office property taxes.
Corporate Cost	7,989,444	
Total Indirect Expense	7,989,444	
PTOI	9,004,023	
PTOI as % of Net Revenue	17.1%	
Total Expense	43,654,248	

APPLIANCE SERVICE PLAN PRO-FORMA

<u>Expense</u>	<u>2014 Actual</u>	<u>Description</u>	<u>Rate Case Witness</u>
Plan Gross Revenues	60,839,041	Gross Revenues from plans	Witness J. Fraga, Misc Revenues (was included in revenue shown on Audit #103)
SC Revenue	39	Revenues from additional items sold by the ASP Solutions Center i.e Furnance Filters	Witness J. Fraga, Misc Revenues (was included in revenue shown on Audit #103)
Less Incentives	<u>376,765</u>	Customer Incentive payments	Witness J. Fraga, Misc Revenues (was included in revenue shown on Audit #103)
Net Revenues (RDS)	60,462,314	Net Revenues from plans	Witness J. Fraga, Misc Revenues (was included in revenue shown on Audit #103)
Cost of Goods Sold	<u>22,431,084</u>	Parts, labor and expenses associated with preforming repairs on appliances plus payroll tax on labor	Witness S. Bowers - Parts, labor, expenses (was included in expenses shown on Audit #103). Witness J. Fraga - Payroll tax
Gross Margin	<u>38,031,230</u>		
DIRECT EXPENSE:			
Operational:			
Schedule, Control & Dispatch	411,792	Dispatchers and their supervision to schedule and dispatch work out to field employees plus payroll tax on labor	Witness S. Bowers - Dispatch and Supervision (was included in expenses shown on Audit #103). Witness J. Fraga - Payroll tax
Consumer Affairs - Complaints	14,474	The cost for Consumer Affairs to handle and log complaints related to ASP based upon number of complaints	Witness S. Bowers
Solution Center Costs	2,370,644	ASP Solution Center (call center) taking repair calls	Witness S. Bowers (was included in expenses shown on Audit #103)
ASP Services Org & Office Admin	1,719,871	Includes salaries and expenses of the direct field supervision and management of the operations. It also includes program amends which are given to customers when a mistake is made by the program plus payroll tax on labor	Witness S. Bowers - Salaries and expenses (was included in expenses shown on Audit #103). Witness J. Fraga - Payroll tax
ACAP Expense	2,862,432	Cost associated with cash allowances on Gold Plan customers when there appliance is not repairable.	Witness S. Bowers (was included in expenses shown on Audit #103)
Small Tools	12,649	The value of the purchase of small hand tools that are used predominantly for repair work on appliances.	Witness S. Bowers
Training Labor & Materials	335,468	Training for the ASP direct supervision staff and the operating employee (field workers) plus payroll tax on labor	Witness S. Bowers - Labor and expense. Witness J. Fraga - Payroll tax
Gas/Electric Adjustment	<u>(233,739)</u>	Allocation (credit) of ASP related allocations to Electric Operations. Accounts for expense items shared between gas and electric (ie. Consumer Affairs, call center etc.)	Witness S. Bowers
Total Operational Expense	<u>7,493,591</u>		
Marketing			
Promotional Program & Research	3,764,499	Expenses associated with acquiring ASP contracts and promoting the plan plus payroll tax on labor.	Witness S. Bowers - Labor and expense (was included in expenses shown on Audit #103). Witness J. Fraga - Payroll tax
Marketing Supervision	1,167,032	The cost of labor associated with marketing the program and obtaining new customers plus payroll tax on labor.	Witness S. Bowers - Labor and expense (was included in expenses shown on Audit #103). Witness J. Fraga - Payroll tax
Bad Debt	3,506,881	Cost of uncollectables for customers who do not pay for the plan as they have been billed.	Witness S. Bowers (was included in expenses shown on Audit #103)
Collection Agency Fees	0	Cost associated with receiving services from Collection Agencies.	Witness S. Bowers
Point Plus	1,137,241	Incentives for the Consumers Energy Call Center reps for selling ASP plans.	Witness S. Bowers (was included in expenses shown on Audit #103)
Direct Mail	<u>1,015,186</u>	Costs associated with obtaining contracts from Direct Mail	Witness S. Bowers (was included in expenses shown on Audit #103)
Total Marketing	10,590,838		
Customer Insights Allocation	43,364	Allocation from Customer Experience and Quality employees assisting on thought/ideas/research to help grow and expand the program plus payroll tax on labor.	Witness S. Bowers - Labor and expense. Witness J. Fraga - Payroll tax
Billing Allocation	226,944	Expense for the lines used on customer bills associated with ASP.	Witness S. Bowers
CMR Allocation	<u>217,398</u>	Costs associated with the processing of payments made by customers for their ASP plan.	Witness D.Harry
Total Marketing Expense	<u>11,078,544</u>		
Infrastructure			
SAP	198,900	Cost associated for the ASP programs use of SAP system for plan data and repair work order history.	Witness C. Varvatos
MDSI	179,000	Costs associated with use of the OMAR system for the ASP orders dispatched to techs	Witness C. Varvatos
Level II Chargebacks - Radio & Tele	<u>146,900</u>	Costs associated with use of telephones and the 800 Mz system for dispatching ASP orders	Witness C. Varvatos
Total Infrastructure Expense	<u>524,800</u>		
Total Direct Expense	19,096,935		
Program Margin	<u>18,934,295</u>		
Margin as % of Net Revenue	31.3%		
INDIRECT EXPENSE:			
Corporate Cost	<u>4,624,928</u>	Allocation of overhead costs to ASP for PTOI analysis. Includes Administrative and General Salaries, expenses and outside services; Property insurance; Injuries and damages; Pension & Benefits, Rents, Facilities and General office property taxes.	Witnesses D. Harry,H. Kops, A. Conrad, S. Bowers, J. Fraga
Total Indirect Expense	<u>4,624,928</u>		
PTOI	<u>14,309,366</u>		
PTOI as % of Net Revenue	23.7%		
Total Expense	46,152,948		

MPSC AUDIT REQUEST

CASE NO: U-17882

DATE OF REQUEST: 09/23/15

NO. RFN-30

REQUESTED BY: Robert F. Nichols II

DATE OF RESPONSE: 9/29/15

RESPONDENT: Sarah H. Bowers

Question:

1. Regarding ASP, audit response #159:

- a. To clarify my understanding, is it true that there is a \$14.3 million revenue requirement benefit to ratepayers by including ASP revenues and expenses in rates for the projected test year based on carrying forward 2014 actuals?
- b. Is there any driver that would cause ASP revenues and expenses to stop increasing and flatten out at 2014 levels for the foreseeable future including the test year?
- c. What is the most up to date 2015 projected ASP PTOI based on actuals through the most recent month with projections for the rest of the year?

Answer:

1.

- a. No. The \$20.7 million of gross margin as shown for 2014 in the attachment to the response to Audit #103 (and shown below) is the direct benefit that ratepayers would see for the inclusion of the ASP program in rates. The \$14.3 million PTOI would include expenses that would be included within other areas of the Company's overall gas utility operations if the ASP program did not exist. The PTOI analysis is meant to approximate the program margin if ASP was a stand-alone entity and is for internal management purposes.

An additional benefit of the ASP program is the availability of additional Company employees to respond to gas leak calls and other emergencies. Having additional resources is a key driver in the Company meeting its goal of an under 30 minute average response time on gas leak calls which is a huge benefit to public safety.

- b. As demonstrated on the response to MPSC Staff Audit #103 in this docket and as shown in part (c) below, the direct program revenue and expenses have increased over time, however, the direct program margin has remained relatively stable in the \$19 million to \$20 million range over the last five years which is why utilization of the 2014 margin for the test year is a reasonable forward looking expectation. There are many drivers that could cause ASP revenues and/or expenses to stop increasing in the foreseeable future. These include:
 - In 2015 the Company amortized marketing expenses which provides a \$3 million benefit to program margin this year but will decline to a \$0 benefit over the next two years.

- The introduction of outbound and direct sales to increase participation in premium plans in 2014 has resulted in margin growth in 2015 that is not expected to be repeated in 2016.
- Revenue has increased as customers move to premium plans (mentioned above) but this will likely cause increases in repair expenses over time as more appliances are now being covered.
- Market acquisition costs are expected to continue to rise as we near market saturation with the current program offerings. The Company had 199,431 contracts at year end 2014 and currently has 196,937 contracts.
- Mild winters and cool summers or harsh winters and warm summers can result in fewer or more repair costs due to weather effects on frequency of heating and air-conditioner appliance failures. In 2015, the Company has experienced a cool summer which has resulted in fewer air conditioning repairs.
- Company labor, Contractor expenses, parts, fleet and other costs typically increase due to inflationary pressures. But the Company has to keep price increases in check as they result in contract (customer) erosion.

For these reasons and as demonstrated in the attachment to MPSC Audit request #103 and as shown below, the program margin projected by the Company in the test year is a reasonable expectation of program performance and ratepayer benefit.

- c. See the attachment for the most current year end 2015 ASP Pro-forma forecast. (Please note that the beginning in 2015 the format has changed from the historical format so that the direct margin amount is shown.) As explained above in part (b) there can be variability in revenue and expenses over time. In 2015 the program has seen an increase in margin due to the amortization of marketing costs, decreased air conditioning repairs as a result of cool summer weather and a decrease in bad debt as the Company disqualified a number of customers from the program for not keeping up with payments. As mentioned in part (b) there are many factors effecting both revenue and expense levels. Given the historical expenses and revenues shown below, the 2016 amounts projected in this filing are reasonable.

(\$000)

Appliance Service Plan Program

Description	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Projected	2016 Projected
ASP Program Revenues	44,047	45,493	46,919	52,658	60,462	60,462	60,462
ASP Program Expenses	24,558	26,259	28,040	33,750	39,772	39,772	39,772
ASP Margin	19,489	19,234	18,879	18,908	20,691	20,691	20,691

APPLIANCE SERVICE PLAN
8+4
2015

17882 MPSC Staff
Audit #184
Attachment

2015 Forecasted Proforma	
	<u>Forecast</u>
Revenue	
Plan Gross Revenues	\$ 68,349,219
ASP Plan Revenues	\$ 67,639,176
SC Revenue	\$ 13
Incentive Revenue	\$ 703,077
Less: Incentives	\$ 39,355
Net Revenues (RDS)	\$ 68,309,863
Direct Expenses:	
Direct Cost of Goods Sold	
CE Expense	\$ 10,435,143
Contractor Expense	\$ 13,851,007
ACAP Expense	\$ 3,217,133
Field Expense (Payout)	\$ 12,627
Total Direct Cost of Goods Sold	\$ 27,515,910
Direct Operational Expense	
Schedule, Control & Dispatch	\$ 366,781
Solution Center Costs	\$ 2,534,169
ASP Services Org & Office Admin	\$ 1,446,646
Program Amends	\$ 56,390
Total Direct Operational Expense	\$ 4,403,986
Direct Marketing Expense	
Promotional Program & Research	\$ 1,802,010
Marketing Supervision	\$ 1,066,858
Point Plus	\$ 118,467
Direct Mail	\$ 59,134
Total Direct Marketing Expense	\$ 3,046,469
Total Direct Expenses	\$ 34,966,366
Bad Debt - Uncollectibles	\$ 1,476,787
Total Direct Expenses including UA's	\$ 36,443,153
ASP Direct Margin (DCO)	\$ 31,866,710
Direct Margin as % of Net Revenue	47%
Indirect Expenses:	
Indirect Operational Expense	
Small Tools	\$ 2,000
Training Labor & Materials	\$ 207,542
Consumer Affairs - Complaints	\$ 26,536
Total Indirect Operational Expense	\$ 236,078
Indirect Marketing Expense	
Customer Insights Allocation	\$ -
Billing Allocation	\$ 233,752
CMR Allocation	\$ 210,445
Total Indirect Marketing Expense	\$ 444,197
Infrastructure - Indirect Expense	
SAP	\$ 203,873
MDSI	\$ 183,485
Level II Chargebacks - Radio & Tele	\$ 150,552
Total Infrastructure Indirect Expense	\$ 537,910
Corporate Expense	
Labor Related Loadings	\$ 2,953,569
Other Corporate Loadings	\$ 2,992,090
Total Corporate Expense	\$ 5,945,659
Total Indirect Expenses	\$ 7,163,843
ASP Indirect Margin (PTOI)	\$ 24,702,867
PTOI as % of Net Revenue	
Indirect Margin as % of Net Revenue	36%
Total Direct and Indirect Expense	\$ 43,606,996