In the matter of the Commission’s own motion, to consider changes in the rates of all Michigan rate-regulated electric, steam and natural gas utilities to reflect the effects of the federal Tax Cuts and Jobs Act of 2017: Consumers Energy Company files an application for determination of Credit A as described in order U-18494. Case No. U-20103

QUALIFICATIONS AND DIRECT TESTIMONY OF DAVID W ISAKSON MICHIGAN PUBLIC SERVICE COMMISSION

May 9, 2018
Q. Please state your name, address, and current position.

A. My name is David W. Isakson. My business address is 7109 West Saginaw Hwy, Lansing, Michigan 48917. I am currently employed by the Michigan Public Service Commission (MPSC or Commission) in the Rates and Tariff Section of the Regulated Energy Division as a Departmental Analyst.

Q. Would you briefly describe your educational background?

A. I received a B.S. in economics from Central Michigan University in August 2008. In 2011, I completed an M.A. in economics at Central Michigan University.

Q. Have you attended any seminars or other training courses?

A. Yes. In August 2012, I completed the National Association of Regulatory Utility Commissioners (NARUC) Annual Regulatory Studies Program held at Michigan State University. In October 2012, I attended the Association of Edison Illuminating Companies Advanced Load Research Seminar in Columbus, Ohio.

Q. What are your responsibilities in your current position?

A. I participate in rate, Time Interest Earned Ratio (TIER), tariff amendment, and special contract cases under the supervision of the Rates and Tariff manager. My duties also involve performing research in special topics such as rate benchmarking, load research, demand response, and the economics of public utility regulation.

Q. Have you previously presented testimony or participated in utility cases before the MPSC?

A. Yes, I have participated in the following cases:
## QUALIFICATIONS OF DAVID W ISAKSON
### CASE NUMBER U-20103
#### PART I

<table>
<thead>
<tr>
<th>MPSC Case</th>
<th>Company</th>
<th>Description</th>
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<tbody>
<tr>
<td>U-16427-R</td>
<td>Ontonagon County REA</td>
<td>TIER Rate Design, Auditing</td>
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<td>U-16855</td>
<td>Consumers Energy Company</td>
<td>SI Rate Reconciliation</td>
</tr>
<tr>
<td>U-17163</td>
<td>Indiana Michigan Power Company</td>
<td>Tariff Review</td>
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<tr>
<td>U-17188</td>
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<td>DTE Electric Company</td>
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<td>U-17210</td>
<td>Consumers Energy Company</td>
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<td>U-17214</td>
<td>DTE Gas Company</td>
<td>UETM Reconciliation</td>
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<td>U-17440</td>
<td>Consumers Energy Company</td>
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<td>U-17437</td>
<td>DTE Electric Company</td>
<td>PLD Transition Plan</td>
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<td>U-17101-R</td>
<td>Thumb Electric Cooperative</td>
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<td>U-17643</td>
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<td>Gas Rate Design</td>
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<td>U-17767</td>
<td>DTE Electric Company</td>
<td>Electric Rate Design</td>
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<td>U-17761</td>
<td>DTE Electric Company</td>
<td>PLD Trans. Reconciliation</td>
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<td>U-17999</td>
<td>DTE Gas Company</td>
<td>Gas Cost of Service Study</td>
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<td>U-18005</td>
<td>DTE Electric Company</td>
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<td>U-18014</td>
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<td>Electric Rate Design, RDM</td>
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<td>U-18322</td>
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<td>Electric Rate Design</td>
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<td>U-18424</td>
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<tr>
<td>U-18999</td>
<td>DTE Gas Company</td>
<td>Gas Cost of Service Study</td>
</tr>
</tbody>
</table>
Q. What is the purpose of your testimony?
A. The purpose of my testimony is to present MPSC Staff’s (Staff) calculation of the Tax Cuts and Jobs Act (TCJA) Credit A.

Q. Are you sponsoring any exhibits?
A. Yes. I am sponsoring the following exhibits:

Staff Exhibit S-1, “Staff TCJA Credit A Calculation”

Q. How does the TCJA affect rates?
A. According to the Company’s application, the total amount customers’ rates should be lowered as a result of the TCJA is $47.5M. Customers rates are to be lowered through the mechanism called Credit A, as directed by the Commission in its February 22, 2018 order in Case U-18494.

Q. How does the Company propose to design Credit A?
A. The Company proposes to allocate the total credit amount to all customer classes based on each class’s contribution to proposed total revenue resulting from the final order in the Company’s previous rate case, MPSC Case No. U-18124.

Q. Does the Company’s proposed credit design rely on the cost of service study (COSS) approved by the Commission in the previous case?
A. Only indirectly. As Company witness Emily Hickey points out, “The COSS provides guidance; however, the apportionment of the revenue requirement used to design rates can vary from the COSS results.” (Hickey direct testimony, p 4). While the Company is correct that the COSS only informs rate design, there is a better method of incorporating that fact than the one the Company proposes. Because the Company’s Commission-approved COSS (with and without the
impact of the TCJA) are available in the instant case, it is possible to deduce how
the COSS provides guidance in the instant case, rather than relying on how the
COSS in U-18124 guided rate design in U-18124.

Q. Were rates designed in the Company’s previous rate case to collect each customer
class’s cost to serve?

A. No. The Commission-approved COSS identified significant deviation between
present rates (at the time of the case) and the cost to serve customers on certain
rate schedules. For example, according to the approved COSS the revenue
requirement for rate Extremely Large Transportation (XLT) was over 60% higher
than present rates in MPSC Case No. U-18124. (Company Exhibit A-1, p 1.) In
other words, the XLT rate was due an extremely large rate increase. However, a
guiding principal of rate design, as described by Staff witness Nicholas Revere in
that case, is gradualism to avoid rate shock. (MPSC Case No. U-18124, Staff
initial brief, pp 111-112.) A 60% increase in rates for customers could result in a
dire burden for any customer. To mitigate this rate shock, the Commission
approved a rate design that limited the rate increase to customers to 25%. (MPSC
Case No. U-18124, 7/31/17 Order, p 117.) Through subsequent adjustment to
rates in future general rate cases, customers whose rates deviate from their actual
cost to serve will gradually return to paying appropriate prices. This gradual shift
toward COSS-based rates, however, necessitates some discussion on the
appropriate process for calculating the Credit A portion of the Commission’s
direction to pass along the benefits of the TCJA to customers.
Q. Is it appropriate to design Credit A by allocating the total credit amount on proposed rate design revenue as approved by the Commission in the Company’s previous rate case?

A. No. Relying on the Commission-approved COSS only as it relates to the final proposed revenue amounts ignores the direct connection between the COSS and rate design. If the effects of the TCJA were known at the time of deliberation of case U-18124, then, in Staff’s opinion, the treatment of those effects would have been much different than the Company’s proposal in the instant case. The TCJA should be considered in both the COSS and the rate design it informs. The Company filed two versions of the approved COSS: with the pre-TCJA tax rate of 35% and with the post-TCJA tax rate of 21%. Rather than calculate the total TCJA impact and then allocate it based on proposed revenue, the appropriate course of action is to first determine the difference in proposed revenue requirement by class between the two COSSs, then examine the effects of the approved rate design on those revenue requirements. Details on this calculation are discussed later in my testimony.

Q. Did the Commission give direction on the purpose of Credit A?

A. Yes. In its February 22, 2018 order in Case U-18494, at page 10, the Commission adopted Staff’s 3-step proposal for returning the tax benefits associated with the TCJA to customers. Staff’s proposal was guided by the following three principals:

(1) allowing sufficient time for the utilities to calculate customer impacts accurately, (2) ensuring that the benefits inure to ratepayers as quickly as is practicable, and (3) measuring the tax changes to avoid accounting pitfalls, such as unnecessary complexity, large annual rate fluctuations for
ratepayers, penalty interest, and cash flow volatility for investors. [MPSC Case U-18494, 2/22/18 Order, p 8.]

Q. How do these guiding principles affect Staff’s credit design proposal in the instant case?

A. Staff proposes to design Credit A with a tradeoff between avoiding “large annual rate fluctuations for rate payers” and added complexity, while reflecting the reasoning behind the previous rate case’s rate design as much as possible.

Q. Does this balancing result in any major differences from the Company’s proposed credit design?

A. Yes. The Company proposes allocating a portion of the Credit A benefit to every rate class. But allocating any portion of the Credit A benefit to customer classes who are still paying rates substantially below their cost of service would only result in an increased subsidy from other classes. Using the Company’s proposal, if in future rate case orders the Commission continues to approve rate increases for classes priced below their cost to serve, then the time it takes to fully realign rates will likely be extended. By allocating the benefit of reduced tax expense to only those customers paying at or above their class cost of service, as approved by the Commission in the Company’s previous rate case, the effect would be to hasten the elimination of class cross-subsidy. Rates for customers still paying below their class cost of service would not change at all under Staff’s credit design proposal. In the alternative, if the Commission approved a credit design that assigned a bill credit to those subsidized customers, as the Company
Q. What tradeoff is made to avoid large rate fluctuations under Staff’s proposed credit design?

A. Staff’s credit design trades a slight amount of ratemaking complexity in favor of less volatile rates that are closer to the cost of service for those rates.

Q. How does Staff’s proposal determine which classes receive Credit A?

A. Staff’s method, as shown on Exhibit S-1, involves allocating the credit amount to customer classes where the rate stability adjustment (line 4) is less than the difference between the COSS with pre-TCJA tax rate and the COSS with the post-TCJA tax rate (line 3). The rate stability adjustment is the mechanism by which the rate increase by class was limited to 25% in the Company’s previous rate case. The remaining revenue requirement above a 25% rate increase for each class was reallocated to other classes through the rate stability adjustment.

For the class to receive Credit A, the magnitude of the class’s rate stability adjustment must be lower than the effect of the TCJA on the class. This method essentially compares two adjustments, one to limit the impact of the rate increase from the previous rate case, and one to pass along benefits from the TCJA.

Q. How does Staff propose to design Credit A?

Staff proposes to calculate Credit A based on the proportion of the difference between the pre- and post-TCJA COSSs to the total difference of those classes receiving Credit A. (Staff Exhibit S-1, line 9.) To make such an allocation first
Staff determines which classes should receive Credit A, as previously discussed.

Next, the adjustments resulting from the TCJA for each class receiving Credit A are summed. (Staff Exhibit S-1, line 5, column a.) An allocator is created by dividing each class’s TCJA adjustment by the total for those classes receiving Credit A. The allocation for classes not receiving Credit A is zero percent. (Staff Exhibit S-1, line 6.) The total TJCA adjustment identified by Company witness Heidi Myers is multiplied by the Credit A allocator to arrive at the rate reduction per class receiving Credit A. That rate reduction is divided by sales to arrive at the per Mcf credit per class.

Q. Has the Commission previously approved a credit allocation like the one Staff proposes?

A. Yes. This method of credit allocation is commonly used in cases where reconciliations, such as for self-implementation, would result in both positive and negative credits for various customer classes, but only the net amount is returned. (See e.g., MPCS Case Nos. U-18381, U-18136, U-18040.) Staff’s proposed credit design is only as complex as the previously approved COSS and rate design.

Q. What are the results of Staff’s proposed Credit A design?

A. Exhibit S-1 show that sales Rates RS (residential), GS-1, GS-2, and transportation Rate ST will receive Credit A to adjust their rates to reflect the TCJA. Rates GS-3, LT, and XLT will continue to pay the subsidized rates established in previous rate case, and not receive Credit A. Those rate classes not receiving Credit A will continue to pay rates that are lower than their cost to serve including the effects of the TCJA. Commercial lighting Rate GL will not receive Credit A, because if
calculated based on the proportion of revenue the rate contributes to class GS-1
the resulting credit is negligible. The TCJA’s impact will be more significant for
Rate GL in calculating Credit B, which examines a longer time period. Credit A
will only be in effect beginning with the final order in the instant case and
terminating with the final order in the Company’s on-going rate case, expected at
the end of August. In practice, this means that the credit will only be applied to
customers’ summer bills, when natural gas usage is typically at its lowest, so
actual credit payments will be fairly limited. Credit B, as also described by the
Commission in its order in Case U-18494, will account for the historic differences
resulting from the TCJA.

Q. Why are breakeven points important when conducting gas rate design.

A. In general rate cases, transportation rates and general service rates are designed to
maintain Commission-approved breakeven points. A breakeven point represents a
customer’s annual usage at which they would be better off on the next higher or
lower rate. For example, a customer using less than 1,001 Mcf per year is better
off on Rate GS-1 than Rate GS-2, but if a customer uses 1,001 or more per year
then Rate GS-2 is more economical. Breakeven points are maintained between
rate cases to prevent customers from changing rates every time they are adjusted
in general rate cases. If customers rapidly moved between rates the COSS would
vary wildly case-to-case, and thus create a moving target for customers to flow en
masse among the Company’s various rate offerings. Those breakeven points are
listed in the Company’s tariffs for transportation and general service rates.
Q. How will Credit A affect breakeven points for transportation and general service customers?

A. Because the Credit A calculations proposed by both Staff and the Company involve issuance of a credit per rate schedule, rather than a complete redesign of rates, breakeven points will not match those in the Company’s tariffs. A complete redesign of rates would involve designing rates so that those breakeven points are maintained. However, while the breakeven points will shift as a result of either Staff or the Company’s Credit A design, those designs do not violate the intended purpose of breakeven points. As discussed earlier, breakeven points are meant to prevent customers from moving between rates in large volumes.

If the Commission were to approve either Staff or the Company’s Credit A design, then those credits would only be in effect for 4 months at most and 2 months at least. Breakeven points will be incongruous with those used for rate design in the previous rate case for a limited time, and that limited time occurs during the typically low-usage summer season for customers. Also, according to provision C4.2, “Choice of Rates,” of the Company’s tariffs:

In some cases the customer is eligible to take service under a choice of rates. Upon request, the Company shall advise the customer in the selection of the rate which will give the customer the lowest cost of service, based on the information available, but the responsibility for the selection of the rate lies with the customer.

After the customer has selected the rate under which the customer elects to take service, the customer shall not be permitted to change from that rate to another rate until at least 12 months have elapsed. The customer shall not be permitted to evade this rule by temporarily terminating service. However, the Company may, at its option, waive the provisions of this paragraph where it appears that an earlier change is requested for permanent rather than for temporary or seasonal advantage.
The effective date of a rate change under this rule shall be the beginning read date of the next bill issued, providing the Company was notified 30 days prior to the effective date. The intent of this rule is to prohibit frequent shifts from rate to rate.

No refund shall be made of the difference in charges under different rates applicable to the same class of service. [Company Tariff Fourth Revised Sheet C-19.00, section C4.2 (emphasis added).]

The Company’s tariff provisions limit the benefit a customer may have to change rates in response to the impact of Credit A. If a customer chose to change rates to take advantage of Credit A, then that customer would have to continue to remain on that rate beyond the effectiveness of Credit A. On the whole, that customer would be worse off changing rates. Also, the Company must inform the customer that they would be worse off changing rates, according to the same provision C4.2. While Staff and the Company’s Credit A proposals will alter breakeven points, sufficient safeguards exist to prevent customers from changing rates. Staff recommends that a credit rather than a full rate re-design be employed to adjust rates to incorporate changes resulting from the TCJA.

Q. What does Staff recommend?
A. Staff recommends that the Commission approve of Staff’s Credit A design, which is derived first from differences in the Commission-approved COSS and then reallocated based on the Commission-approved rate design.

Q. Does this complete your direct testimony?
A. Yes, it does.
In the matter of the Commission’s own motion, to consider changes in the rates of all Michigan rate-regulated electric, steam and natural gas utilities to reflect the effects of the federal Tax Cuts and Jobs Act of 2017: Consumers Energy Company files an application for determination of Credit A as described in order U-18494.

Case No. U-20103

EXHIBITS OF

DAVID W ISAKSON

MICHIGAN PUBLIC SERVICE COMMISSION
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<tr>
<th>Line No.</th>
<th>Description</th>
<th>Source</th>
<th>Total</th>
<th>Residential</th>
<th>GS-1 (1)</th>
<th>GS-2</th>
<th>GS-3</th>
<th>ST</th>
<th>LT</th>
<th>XLT</th>
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(1) Includes Lighting Rate GL
STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter on the Commission’s own motion, to consider changes in the rates of all of the Michigan rate-regulated electric, steam, and natural gas utilities to reflect the effects of the federal Tax Cuts and Jobs Act of 2017: CONSUMERS ENERGY COMPANY files an application for determination of Credit A as described in order U-18494.

__________________________________________

PROOF OF SERVICE

STATE OF MICHIGAN  )
COUNTY OF EATON  ) ss

Jennifer Brooks, being first duly sworn, deposes and says that on May 9, 2018, she served a true copy of the MPSC Staff Testimony and Exhibits upon the following parties via e-mail only:

Consumers Energy Company
Bret A. Totoraitis
Theresa A.G. Staley
Consumers Energy Company
One Energy Plaza
Jackson, MI 49201
bret.totoraitis@cmsenergy.com
theresa.staley@cmsenergy.com
mpsc.filings@cmsenergy.com

Attorney General
Celeste R. Gill
Assistant Attorney General
Dept. of Attorney General
Special Litigation Unit
G. Mennen Williams Bldg., 6th Floor
525 W. Ottawa St.; P.O. Box 30755
Lansing, MI 48909
gillc1@michigan.gov
ag-enra-spec-lit@michigan.gov

Association of Businesses Advocating Tariff Equity
Bryan A. Brandenburg
Michael J. Pattwell
Clark Hill
212 E. Grand River Ave.
Lansing, MI 48906
bbrandenburg@clarkhill.com
mpattwell@clarkhill.com

Residential Customer Group
Don L. Keskey
Brian W. Coyer
Public Law Resource Center PLLC
University Office Place
333 Albert Ave., Ste. 425
East Lansing, MI 48823
donkeskey@publiclawresourcecenter.com
bwcoyer@publiclawresourcecenter.com
Administrative Law Judge
Hon. Sharon L. Feldman
Administrative Law Judge
Michigan Public Service Comm.
7109 W. Saginaw Hwy., 3rd Floor
Lansing, MI 48917
feldmans@michigan.gov

Subscribed and sworn to before me this 9th day of May, 2018.

Corinna C. Swafford, Notary Public
State of Michigan, County of Ionia
Acting in the County of Eaton
My Commission Expires: 12-13-2019