

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of CONSUMERS)	
ENERGY COMPANY for authority to increase its)	
rates for the generation and distribution of)	Case No. U-17087
electricity and for other relief.)	
_____)	

At the June 28, 2013 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. John D. Quackenbush, Chairman
Hon. Orjiakor N. Isiogu, Commissioner
Hon. Greg R. White, Commissioner

ORDER

On September 19, 2012, Consumers Energy Company (Consumers) filed an application requesting a \$148.3 million rate increase and other relief. On January 4, 2013, Consumers filed supplemental testimony and exhibits seeking \$144.9 million in rate relief. The application relied on a January 1, 2013, through December 31, 2013, projected test year.

A prehearing conference was held before Administrative Law Judge Mark E. Cummins (ALJ) on October 19, 2012. At the prehearing conference, the ALJ granted a petition to intervene filed by (among many others) the Michigan Department of the Attorney General (Attorney General). The Commission Staff (Staff) also participated. Evidentiary hearings commenced on March 25, 2013, and continued through April 2, 2013. On May 7, 2013, the parties filed a settlement agreement resolving most of the issues in the case.

On May 15, 2013, the Commission issued an order approving the settlement agreement. According to the terms of the settlement agreement, the parties agreed that Consumers should be authorized to increase its retail electric rates so as to produce additional annual electric revenues of \$89 million above rates established by the June 7, 2012 order in Case No. U-16794. The settlement resolved all issues with the exception of certain issues raised by the Attorney General concerning Consumers' advanced metering infrastructure (AMI) program, including the amount of the fee associated with choosing to opt out of having a transmitting meter. *See*, Exhibit A to the May 15, 2013 order, paragraph 5. The parties requested that the Commission address these issues based upon the initial and reply briefs. The settlement agreement provides that the \$89 million annual revenue increase and the associated rates specified in the settlement agreement will not be affected by the Commission's rulings on any of the AMI issues. The settlement agreement further provides that, pending the issuance of a Commission order addressing the non-transmitting meter provision, the applicable fee and associated tariff provisions shall be as set forth on Sheet C-32.20 of Attachment 2 to Exhibit A, attached to the May 15, 2013 order.

On May 10 and 24, 2013, initial and reply briefs were filed, respectively, by Consumers, the Staff, and the Attorney General on the AMI issues.

Positions of the Parties

In his briefs, the Attorney General urges the Commission to suspend the AMI program, or, if the program is not suspended, to significantly reduce the opt-out fees proposed by the Staff and the utility. The Attorney General argues that the policy guidelines adopted by the Commission in the November 4, 2010 order in Case No. U-16191, p. 17, provide that there is no guaranteed cost recovery for AMI costs, that expenditures must be shown by the utility to be reasonable and prudent, that the project risk is borne by stockholders, and that ratepayers should obtain savings

that offset the cost. Further, the Attorney General notes, the Commission retains authority to review all projected AMI-related costs in each rate case where costs are presented for inclusion in rate base. June 7, 2012 order in Case No. U-16794, p. 31. Against this background, the Attorney General argues in favor of suspending the program based, in part, on his rejection of Consumers' calculation of the net present value (NPV) of the program. Consumers has calculated an NPV of \$42 million for the period of 2007 to 2032. The Attorney General's expert witness Sebastian Coppola, an independent business consultant, calculated a negative NPV of \$133.4 million.

Consumers provided testimony regarding several categories of cost savings expected to accrue from the AMI program. The Attorney General attacks three of these categories. First, with regard to uncollectibles expense, Consumers states that savings of \$1.6 million will be realized in 2013, and will escalate to over \$32 million annually by 2032. The Attorney General argues that the company gave no analysis or support for these figures, and that the company's estimated 30% reduction in uncollectibles is inflated. The Attorney General notes that, while the automatic shutoff feature of a smart meter will allow the disconnection of service for nonpayment to take place sooner than was previously possible, Consumers will still be required to provide adequate notice prior to shutoff and an opportunity to negotiate a payment plan, pursuant to the Commission's billing rules.

Second, Consumers estimates a savings of \$1.3 million in 2013, increasing to \$42 million annually by 2032, associated with the reduction of electricity theft, based on a 1% theft mitigation rate. The Attorney General argues that the 1% theft mitigation rate is unrealistic, and contends that Consumers did not cite to any study of its service territory to support the selection of the 1% mitigation rate.

Third, Consumers estimates savings of \$3.2 million beginning in 2015, growing to \$39 million annually by 2032, associated with energy conservation arising from the use of AMI. The Attorney General argues that these figures are based on a model that assumes inflated participation and conservation rates that are unlikely to ever be achieved. Finally, the Attorney General contends that, with all three cost savings categories, the company's discovery responses were inadequate with regard to the years 2013 and 2014.

The Attorney General also attacks the method used by Consumers to calculate the NPV of the AMI program, which he criticizes as a "regulatory" approach. Mr. Coppola testified that he took what he views as a more traditional approach to the calculation, by using actual cash flows and reducing the assumed savings by 30-50%. Mr. Coppola explains that the difference in the two methods of calculation arises from the fact that he takes "into consideration the upfront investment in equipment, the tax impact of the upfront investment and the annual cost savings after tax, while the Company stretches the capital investment over the depreciable life of the equipment." 7 Tr 1503. The Attorney General notes that there may be unquantified costs (as well as benefits) such as increased internet security costs.

The Attorney General also objects to the opt-out fees proposed by Consumers. For customers wishing to retain a non-transmitting meter (and whose meter has not yet been changed), Consumers proposed an up-front fee of \$69.39, and a monthly fee of \$11.12. The Attorney General proposes an up-front fee of \$12, and a monthly fee of \$7.75. In particular, the Attorney General maintains that there is no need for the proposed \$39.52 that Consumers has included as the cost per customer to restore the premises to a standard (transmitting) meter. The Attorney General contends that the original meter is in place and does not need to be replaced or modified, thus there is no need to apply any charge. The Attorney General also adjusts the proposed \$15

cost to cancel the meter order to \$5, since this process should only take a few minutes, and eliminates a \$4.07 incremental cost per meter, because the appropriate systems and processes for dealing with standard meters are already in place.

With regard to customers who wish to have the non-transmitting meter re-installed (because their meter has already been changed), Consumers proposed an up-front fee of \$123.91 and a monthly fee of \$11.12. The Attorney General proposes an up-front fee of \$65 and a monthly fee of \$7.75. The Attorney General again reduces the work order element to \$5 and eliminates the incremental cost of \$4.07, and argues that the remainder of the charge assumes an overhead for each labor dollar of 178% for safety, training, travel time, and supervision, and 51% loading for equipment costs. Mr. Coppola testified that he eliminated most of the labor loadings and overhead. With regard to the monthly fee, he reduced labor loadings and what he felt were inflated incremental costs. 7 Tr 1506-1509.

In its briefs, Consumers notes that the results of Phase 1 of the AMI project were presented to the Commission in Case No. U-16794, and that in the June 7, 2012 order in that matter the Commission authorized the company to begin Phase 2, which includes system-wide smart meter installations. Consumers states that approximately 1.8 million electric smart meters will be installed during 2012-2019, enabling the modernization of Michigan's electric grid. Consumers provided testimony regarding the many benefits from AMI, which include reduced meter reading, improved bill accuracy and fewer estimated reads, reduced energy theft, reduced uncollectibles, property tax savings, increased conservation, reduction in the number of employee field trips, increased customer access to detailed energy usage information through the web portal, and improved customer service with respect to billing due dates and enrollment in the e-billing program. 4 Tr 535-546. Consumers indicates that its business case analysis was updated in

March 2012, and shows a 2-year positive NPV of \$42 million for the overall program. 4 Tr 543-545; Exhibit A-71. Consumers notes that there are approximately 36 million smart meters installed in the U.S., with an annual growth rate of 30%, and, by 2015, there are expected to be 65 million smart meters. 4 Tr 562.

Consumers points out that the Attorney General advocated suspension of the AMI program in Case Nos. U-16191 and U-16794, arguing in both cases that the cost/benefit analysis was flawed, and his position was rejected by the Commission in both cases. Consumers notes that its business case has now been reviewed in several cases, and the Attorney General has added nothing new. Consumers notes that the Staff has previously found the NPV of the project to be about \$34.5 million. Consumers contends that the Attorney General simply relies upon opinion, and ignores the data presented by the utility on its pilot program in Case No. U-16794.

With regard to the fees associated with the non-transmitting meter provision, Consumers contends that its proposed fees constitute a “tariff-based maintenance charge to cover the cost of maintaining and testing the existing equipment and obtaining monthly meter readings.” Consumers’ initial brief, p. 9; 4 Tr 548-549. In order to allow customers to retain their existing electro-mechanical meters, the company must maintain meter inventories, distinct testing processes, and billing platforms for actual monthly meter reads, and the associated costs include both up-front and ongoing costs. Consumers asserts that the fees are based on cost-of-service principles. Exhibit A-72; 4 Tr 549-550. Consumers notes that the Staff determined that the company’s proposal is consistent with the Commission mandate to create a non-transmitting meter provision based on cost-of-service principles in the September 11, 2012 order in Case No. U-17000. The Staff recommended that the proposed monthly fee be reduced to \$9.72, to reflect

the removal of costs associated with meter reading, AMI capital investment, and expenses that are already included in rates, and Consumers agreed to these changes. 7 Tr 1933-1934; 4 Tr 559.

Consumers points out that the Attorney General does not contend that customers who opt out do not create additional costs, but rather contends that those customers should not bear the fully loaded costs incurred as a result of opting out. However, Consumers argues, the increased administrative costs are a direct result of the decision to opt out, and the September 11 order required that cost-based principles be applied to the cost allocation of the opt-out option. Consumers states that the up-front installation charge of \$39.52 for the smart meter that will eventually replace the existing meter is a reasonable charge, in light of the fact that there will inevitably be a field visit made for that installation that is solely the result of the opt-out decision. Consumers maintains that it would not be fair to place this charge on the next customer at that location, who was not responsible for the decision to reject the initial smart meter installation. Consumers argues that the Attorney General's proposed up-front and monthly fees place part of the costs resulting from opting out onto other customers.

In its briefs, the Staff supports the AMI program, noting that the billing and use programs that Consumers will offer to customers will help customers to reduce peak consumption and overall electricity usage. The Staff notes that the web portal should be available sometime this year, and that the company is making a conscientious effort to educate customers about the benefits of the AMI program, which should result in strong enrollment in the customer programs. Further, Consumers accepted the Staff's recommendation that a technical conference with the Staff take place every two months. 7 Tr 1925; 4 Tr 558.

The Staff argues that Mr. Coppola's analysis should be given no weight. The Staff maintains that the company's NPV analysis shows a benefit over the life of the program from the customer's

perspective, which, the Staff argues, is the best measure because it shows the impact on ratepayers. The Staff further argues that the Attorney General does not explain why he chose to reduce assumed savings by 30-50%; thus, the reduction appears to be arbitrary and reflects a draconian view of the risks associated with the AMI program. The Staff avers that the Attorney General provides no empirical evidence such as case studies to support his assertion that the cost savings are inflated, whereas Consumers provides evidence to show that it has been very conservative in estimating the level of theft reduction to be 1%, rather than the 3% that could have been supported by the data.

While acknowledging that there is no absolute certainty regarding the amount of benefit the project will eventually produce for ratepayers, the Staff contends that both the quantified and non-quantified benefits (such as faster outage detection and increased bill accuracy) of the project make it worthwhile for ratepayers. Finally, the Staff notes that the Commission has approved the project twice, and has indicated that it will not re-evaluate the decision to go forward with system-wide deployment.

The Staff supports the proposed non-transmitting meter provision fees, with the Staff-recommended changes. The Staff found the proposed tariffs to be consistent with the September 11 order, and notes that these costs will continue to be reviewed in rate cases.

Discussion

The Commission finds that the record evidence in this case is more than sufficient to justify continued funding of the AMI program as described in Consumers' application. The Attorney General's proposed reduction to the forecasted benefits is arbitrary and unsupported. The Commission is not persuaded that the uncollectibles savings are overstated simply because the utility will continue to be required to give notice, nor that the theft reduction is overstated based on

the data produced by the utility. As indicated in the two most recent contested rate case orders, the Commission approves continued full deployment of AMI, and will continue to review costs associated with the program for reasonableness and prudence in each and every future rate case. June 7, 2012 order in Case No. U-16794, p. 31; and November 4, 2010 order in Case No. U-16191, pp. 17-19.

The Commission adopts the tariff-based fees proposed by Consumers with the modifications proposed by the Staff and accepted by the company, attached as Exhibit A. The Attorney General's approach to the up-front and monthly fees appears to ignore the full actual cost to Consumers of continuing to maintain outdated equipment and systems for a few customers. The Attorney General fails to explain who (if not the requesting customer) is to pay for the full administrative costs associated with the non-transmitting meter provision, or the cost of eventually installing the new standard meter, where installation must necessarily take place outside of the confines of the roll-out of all the meters. The Commission finds that the proposed fees, as modified by the Staff, are reasonable.

THEREFORE, IT IS ORDERED that:

A. Consumers Energy Company's application for authority to continue the advanced metering infrastructure program and implement a non-transmitting meter provision is approved.

B. Within 30 days of the date of this order, Consumers Energy Company shall file with the Commission tariff sheets in conformity with Exhibit A attached to this order.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, under MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

John D. Quackenbush, Chairman

Orjiakor N. Isiogu, Commissioner

Greg R. White, Commissioner

By its action of June 28, 2013.

Mary Jo Kunkle, Executive Secretary

Exhibit A

(Continued From Sheet No. C-32.10)

C5. CUSTOMER RESPONSIBILITIES (Contd)

C5.4 Shutoff Protection Plan for Residential Customers (Contd)

- D. Default
Should a SPP Customer fail to make payment by the due date, a shutoff notice specific to this SPP shall be issued but shall comply with the requirements of Part 8 of Rule B2., Consumer Standards and Billing Practices for Electric and Gas Residential Service. If the SPP Customer makes payment before the date provided for shutoff of service, the customer shall not be considered to be in default but shall remain in the SPP. If the SPP Customer makes payment after this date, the SPP Customer shall be in default and shall be removed from the SPP. The customer shall be subject to shutoff, provided the 24-hour notice was made by the Company.
- E. Participation in Other Shutoff Protection Plans
Customers eligible to participate under the Winter Protection Plan, Rules R 460.148 and R 460.149, will be required to waive their rights to participate under the Winter Protection Plan in order to participate in the Plan. Upon enrollment, the Company shall send written confirmation of the enrollment terms and include notice of this provision.

C5.5 Non-transmitting Meter Provision

Customers served on Residential Service Secondary Rate RS and General Service Secondary Rate GS, have the option to choose a non-transmitting meter.

In order for a customer to be eligible to participate in this provision, the customer must have a meter that is accessible to Company employees and the customer shall have zero instances of unauthorized use, theft, fraud and/or threats of violence toward Company employees.

Apartment complexes and other dwellings with meter banks serving multiple customers are excluded from participation in the Non-transmitting Meter Provision.

Customers electing a non-transmitting meter will pay the following charges per premises:

Up Front Charge: \$ 69.39 a one-time charge per premise per request if the notice is given before the transmitting meter is installed

OR

\$123.91 a one-time charge per premise per request if the notice is given after the transmitting meter is installed

Monthly Charge: \$ 9.72 per month at each premise

All standard charges and provisions of the customer's applicable tariff shall apply.

C6. DISTRIBUTION SYSTEMS, LINE EXTENSIONS AND SERVICE CONNECTIONS

C6.1 Overhead Extension Policy

Applications for electric service which require the construction of an overhead distribution system shall be granted under the following conditions:

A. Residential Customers

The Company shall construct single-phase distribution line extensions at its own cost a distance of 600 feet, for each residential dwelling.

The length of the distribution line extension shall be measured from the nearest point of connection to the Company's facilities from which the extension can be made to the point from which the service line to the customer shall be run.

Distribution line extensions in excess of the above free allowances shall require a deposit for the estimated cost of such excess footage. The required deposit for such excess footage shall be \$3.50 per lineal foot less 25%.

The Company shall make a one-time refund, five years from the completion date of the extension or upon completion of the customer's construction, whichever the customer chooses, of \$500 for each additional residential customer and/or the first year's estimated revenue for each additional General Service customer who connects directly to the line for which a deposit was required. Refund allowances shall first be credited against the 25% reduction before a refund is made to the customer based on the customer's cash deposit. Directly connected customers are those who do not require the construction of more than 300 feet of Primary and/or Secondary distribution line. Refunds shall not include any amount of contribution in aid of construction for underground service made under the provisions of Rule C6.2, Underground Policy.

(Continued on Sheet No. C-33.00)

P R O O F O F S E R V I C E

STATE OF MICHIGAN)

Case No. U-17087

County of Ingham)

Sharron A. Allen being duly sworn, deposes and says that on June 28, 2013 A.D. she served a copy of the attached Commission order by first class mail, postage prepaid, or by inter-departmental mail, to the persons as shown on the attached service list.



Sharron A. Allen

Subscribed and sworn to before me
this 28th day of June 2013

Gloria Pearl Jones
Notary Public, Ingham County, MI
My Commission Expires June 5, 2016
Acting in Eaton County

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