

A CMS Energy Company

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Ms. Dorothy Wideman
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
P.O. Box 30221
Lansing, MI 48909

Re: Case No. U-12702

Dear Ms. Wideman:

Enclosed for filing in the above-referenced case are an original and 15 copies of Consumers Energy Company's "Electric Capacity Plan Update". I have also enclosed a Proof of Service.

Sincerely,



Jon R. Robinson

CC: Parties per Attachment 1
to Proof of Service

Consumers Energy Company

Electric Capacity Plan Update

Over the past several months the State of California has been undergoing significant hardships, from rotating blackouts to the threat of bankruptcy of the two largest utilities, as a result of electric restructuring in that state. On January 23, 2001, the Michigan Public Service Commission, in its order in Case U-12702 ordered Consumers Energy ("Consumers") to file with the Commission an update to its electric capacity plan to reflect changes resulting from the events occurring in California. This update is divided into four sections addressing the issues raised in the January 23 order:

- ◆ Comparison of California and Michigan
- ◆ Maintenance Schedules
- ◆ Interconnection Access
- ◆ Capacity Plan Update

Comparison of California and Michigan

Consumers does not believe that the California situation requires any significant changes to the plan that Consumers submitted to the Commission in December. While the events in California have certainly focused much attention around the country on the subjects of utility restructuring and power supply reliability, the situation in California is much different from that in Michigan. Consumers believes that the California experience will not be duplicated in Michigan.

There are important differences between the "restructuring" of the electric power industry in California and the restructuring taking place in Michigan. California opened its market to all customers without allowing for a transition period. In contrast, the Michigan legislation adopts a two year phase-in. This phase-in allows utilities, customers, electric suppliers and retailers to take the necessary preparatory steps in an orderly manner, while allowing time to make adjustments in pursuit of the goal of increased competition in a newly restructured market.

A principal force driving the difficulties in California is supply and demand. Demand is growing at nearly three times the national rate of two to three percent per year, while supply has not grown in over a decade. Some of the reasons for the lack of new generation include strict environmental regulations, difficult plant siting and permitting procedures, and public opposition.

In Michigan, demand has been growing at a less dramatic annual rate of approximately two percent. In addition, Michigan's restructuring law has helped clarify the market structure in the state which will be faced by prospective generation developers, thereby eliminating much of the uncertainty which had slowed development. Consumers has rebuilt and restarted three generating units, and CMS Energy has also added units that

can generate power during times of peak demand. In addition, there have been many announcements of new generating capacity to be built in Michigan. If all of this additional capacity is actually built, there may be sufficient electricity to exceed customer demand by 40 percent or more on peak usage days. It is possible, however, that local opposition or other circumstances may result in not all of the announced capacity actually being built.

Due to concerns of market power, California utilities were encouraged to sell most of their fossil generation. At the same time, they were effectively barred from relying upon long-term price-stabilizing contracts to satisfy their fixed price obligation to serve existing customers. This forced the utilities to buy power on the volatile, short-term market on a day-to-day basis, thereby exposing the utilities to a vicious price squeeze.

In contrast, Michigan utilities have been allowed to retain ownership of their generation plants in addition to using long-term firm contracts and other tools to serve their full service customers. The utilities' ability to retain plant ownership allows customers to choose alternate suppliers while protecting those customers who choose to remain with the utility. Reliance on owned generating plants and firm contracts to buy power elsewhere minimizes (but does not totally eliminate) exposure to the type of market price explosion that occurred in California.

In addition to discouraging new generation, California's strict environmental rules have resulted in heavy reliance on natural gas for generation. Over the past several months, natural gas prices have increased substantially, causing energy prices to soar, particularly in California. In addition, strict pollution control standards in California forced some plants into outages in December 2000, due to these plants reaching emissions allowance limits for the year. This put further upward pressure on prices.

California is also heavily dependent on hydroelectric generation. However, a drought in the Northwest has led to decreased generating capacity from plants that supply energy to California. Although this is not a direct result of deregulation, it has compounded the problem.

Michigan's primary fuel source is coal, which is readily available and affordable. Steps taken by Consumers and other utilities to limit emissions and increase efficiency make it an increasingly clean fuel to burn, as well. Consumers relies on coal-fired and nuclear powered plants for over half of its electricity at prices that are lower and historically more stable than natural gas. Michigan should continue to strive to maintain a balanced fuel portfolio.

Another difficulty in California is the lack of sufficient transmission capacity to import energy from neighboring states and to transmit energy within California. Michigan utilities are not as reliant upon imports as is California, and the transmission system within Michigan is adequate. In addition, Michigan's restructuring law requires the expansion of transmission facilities by 2,000 MW by June 2002. Consumers projects that by June 2001, approximately half of the identified projects will be completed.

Maintenance Schedules

Consumers does not schedule plant maintenance for the summer months. Along with many other utilities, we have a number of plants that have and will undergo planned outages for the installation of air quality control equipment. However, these outages are scheduled in the non-summer months when demand is lower and our remaining capacity is adequate. We expect these plants to be available to serve customer demands during the peak summer periods.

Interconnection Access

New generating plant connections and existing generating plant electrical output increases are studied and authorized using the process identified in Consumers' Open Access Transmission Tariff ("OATT") Attachment J. All new generation projects (new plants or upgrades to existing plants) must follow this FERC approved procedure. In general, the interconnection study process can take up to 210 days if both the Generator and Consumers utilize the full allotment of time to complete various aspects of the interconnection study such as providing data, authorizing System Impact and Facility Studies as well as performing System Impact and Facility Studies. If generator developers change their plant design (different megawatt output, different generation and transformation equipment, etc) while studies are in progress or after studies are completed, some or all of the analysis may need to be repeated, taking additional time. New generation interconnections may also require review by neighboring transmission providers, particularly if the size of the generating plant is several hundred megawatts and is connected at transmission voltages above 100 kV.

Presently, several thousand megawatts of independent generation are at various stages of the interconnection process within the Consumers service territory. Some projects, like Southern Energy's located in Zeeland, Michigan, anticipates commercial operation during the second quarter of 2001. KM Power's project, located in Jackson, Michigan, anticipates commercial operation in 2002. These plants will be connected at 345 kV and 138 kV, respectively. Several other large and small generation projects in Consumers' service territory may be commercial in 2001, 2002 and 2003. Consumers has implemented expedited engineering, design and construction activities to provide interconnection service by the requested dates of these generation developers.

Consumers does anticipate being able to meet generator developer commercial operation dates as long as the generator developer's timeframe for the project is reasonable, the generator developers provide required information to Consumers in a timely manner, and right-of-way acquisition for new transmission lines and substations is obtainable and occurs within reasonable timeframes.

Capacity Plan Update

Regarding plans to meet summer demand, Consumers has obtained rights to utilize an additional 150 MW of firm import transmission capacity for July and August 2001 on the Northern Indiana Public Service Co. system (from ComEd to MECS). This is in addition to the 600 MW reported in our December 15, 2000 submittal (see Question 2). This provides an alternative path to the 100 MW monthly reservation that Consumers is concerned will be displaced in addition to minimal contingency for the assumed level of retail open access load to be served by others.

Consumers continues to believe it will be adequately prepared for the 2001 summer's anticipated electric demand, and the projections, estimates and planning assumptions provided in the December 15, 2000 filing continue to be appropriate. Consumers' plan to meet anticipated peak demand will be accomplished by a combination of resources, which result in a predicted reserve margin of approximately 15%. This planning estimate continues to be subject to the uncertainties described in the December report, including the total amount of retail open access load that will be served by others.

The situation in California has attracted everyone's attention. Consumers believes that the Michigan approach effectively addresses the complexities of electric restructuring. Continuing to implement customer choice and the continued support of the development of new generating capacity and transmission facilities is key to this process. We will continue to monitor the events in California and other states so that we may plan accordingly.