

STATE OF MICHIGAN
DEPARTMENT OF ATTORNEY GENERAL



MIKE COX
ATTORNEY GENERAL

P.O. Box 30212
LANSING, MICHIGAN 48909

May 18, 2006

Michael Collins, Manager
Rates & Tariff Section
Regulated Energy Division
Michigan Public Service Commission
6545 Mercantile Way
Lansing, MI 48911

Dear Mr. Collins:

Re: Attorney General's Initial Comments for the COS Collaborative

The Attorney General appreciates the opportunity to participate in the Cost of Service Model Collaborative ordered by the Public Service Commission. This endeavor should pay dividends to the customers of the participating utilities and lead to better proposals by all parties in future rate cases. Your April 20 letter requested interested parties to submit initial comments after reviewing the models provided by Detroit Edison and Consumers Energy. The Attorney General offers the following initial comments.

Goals

As the collaborative begins, we expect that each party will suggest goals for the collaborative process as a guide to the end result. Our suggested goals for the collaborative include:

- The end result of the collaborative should build confidence in the Cost of Service model chosen as the standard for Michigan electric utilities.
- The process used during the collaborative should build relationships among the parties that will facilitate future rate cases.
- The “approved” Cost of Service model should move the cost of service debate from arithmetic to cost of service inputs and allocation methodologies.
- To facilitate rate cases, the collaborative should develop a process that results in an easily developed Cost of Service model scenario that accurately (and repeatedly) represents a proposed position.
- A successful collaborative will result in the reduction in the overall cost of the cost of service portion of the rate case.

Process Issues

As suggested by most parties in the previous cases, the Cost of Service model should be compatible with Excel although it should not require the latest version to be run on a party's computer. The collaborative should define an update/release process for rate cases to ensure that all parties will be working with a common starting point. A predefined scenario naming convention for each party should be developed to allow all parties to develop their position(s) and then submit them as exhibits with their testimony. For clarity each allocator (including functionalization) used should have a unique number, and the collaborative should develop a predefined allocator numbering convention and designate a custodian of the process.

Rate Case Filing Requirements Defined

- The Cost of Service Model should be provided simultaneously with a utility's general rate case filing.
- The model should contain the utility's Cost of Service proposal(s).
- The initial Cost of Service Model filing should include an extended allocator (including functionalization) package, which would preload within the model all reasonably expected allocators whether needed for the utility's position or not.
- At a minimum, most if not all, of the allocation methodologies described in the NARUC Electric Utility Cost Allocation Manual should be developed by the utility from its records in manner that is consistent with its filing.
- Parties should have the ability to request the development and inclusion of new allocators, which should be included if requested within a time period defined by this collaborative.
- The utility's response to an allocator development request should be completed within a time limit that has been determined by this collaborative.
- The initial Cost of Service Model filing should include supporting documentation for all model inputs.
- The calculation of each allocator should be clearly documented back to the source data.
- All information should be based upon relevant units (\$, kW, kWh, customers, etc.) and each line with the Cost of Service model should be clearly defined as to units.
- The initial filing of the Cost of Service model should include the most recent system loss study for energy and demand, which should be based upon recent customer load research.
- Supporting documentation should be provided.

Model Capabilities

The Cost of Service Model should include the ability to create scenarios consisting of multiple (major and significant) allocators and other items. This scenario capability (similar to the proposed model's present capability to switch between the utility's and Staff's power supply allocator) would allow all parties to circulate their cost of service results supporting their position. The Cost of Service model should print important information on each page of the printout including the scenario name, party sponsoring the scenario, date and time produced. This simple information will help all parties to stay "on the same page" during a rate case.

The Cost of Service model should allow for a change in any allocator for any cost item from one location within the model. At present it appears that the allocator selection is not linked across worksheets and this could be a cause of unintentional errors by any party.

The Cost of Service model should include space for all K/M adjustments to be included and clearly identified. In the same spirit, the Cost of Service model should include available additional cost input lines properly "summed" into the ratemaking formula (must accommodate a negative value). By including the additional lines at this point potential programming errors can be eliminated.

Both zero allocators and combined allocators should be available within the model. These capabilities will allow a party to develop special scenarios easily. It appears that the proposed model does have these capabilities.

The present capabilities of jurisdictional allocation and columns for all rate classes and subclasses should continue to be supported.

Error checking such as allocator summation (percentages and base inputs) and cost item checking should be implemented so that the casual observer can rapidly confirm that new allocators (including functionalization) and inputs have been calculated accurately.

Model Input Capabilities

To insure accuracy, inputs should be restricted to highlighted (unprotected) cells on a limited number of sheets although a party could make further changes by "unprotecting" portions of the Cost of Service model.

A party's scenario should be defined and documented on one worksheet. Ideally this "scenario definition" worksheet sheet would also contain the scenario selection capability. By centralizing changes into one worksheet (or at least detailing them on one worksheet) changes from the Company's base case should be apparent to all parties and any other observer.

The Cost of Service model should allow for increasing or reducing any cost item (including K/M changes) by a fixed percentage (including zero). This capability can be added within the proposed model. The proposed model already has lines reserved for normalization issues.

Revenue change capabilities should be integrated into Cost of Service model. These revenue change methodologies should include equal % change, % of Company's revenue request and direct assignment of revenue by class or subclass. These capabilities will allow the parties to investigate all potential rate change concepts. The tax implications of a pure incremental/decremental revenue change should be programmed into the Cost of Service model.

Output Requirements

At a minimum, the Cost of Service model should calculate class and subclass rate of return before the requested increase and at the utility's requested increase. The Cost of Service model should also calculate the MPSC Jurisdictional Index of Earnings and the revenue increase (and %) to provide an equal rate of return for all classes at a specified (input) return on equity.

A party using the Cost of Service model should have the ability to create scenarios covering a % of Company's requested increase (or decrease), an equal % increase for each class and subclass, and a total increase spread as across each class and subclass.

The Cost of Service model should have printing formatted for 8 ½ by 11 paper and include on each page date and time tracking, party name, scenario tracking and exhibit tracking.

Rate Design

As the utility and other parties propose to use rate schedules to send information to customers about the cost of their usage, rate design capabilities are important. As acknowledged within the proposed Cost of Service model, unit costs (demand, energy, customer) for class, subclass and voltage levels have not yet been implemented and they should be. Additionally, revenue proofs based upon actual (and normalized) billing determinants by blocks should be provided early in the process. The collaborative process should remain open until these capabilities are added.

Centralized Support

The collaborative should define a minimum level of support to be provided by the utility for the Cost of Service model. Within a defined period after the filing, a technical conference covering the Cost of Service model and its data inputs should occur. In a timely fashion, upon the reasonable request of any party, the utility should be responsible for developing additional allocators and additional cost information consistent with the filed model. Additionally, the utility should provide a data repository for scenarios submitted to it and release and distribute new scenarios, allocators and additional cost information on a weekly basis to all parties of record.

While these incremental duties will have a modest impact on the utility they will facilitate the "arithmetic" process and reduce litigation time. In most cases the adept utility will have already run (before filing) cases that are likely to represent a party's position and the incremental burden on the utility would be negligible.

In conclusion, the Attorney General appreciates the initial efforts of Detroit Edison and Consumers Energy in providing a common proposed Cost of Service model with significant capabilities. With this positive attitude within the collaborative the resolution of outstanding issues can be rapidly resolved and changes and enhancements made to the model that will serve all parties to the rate case process.

Please add to your participant list for the collaborative, the Attorney General's consultant: Mr. Howard Solganick, 810 Persimmon Lane, Langhorne, PA 19047, email howard@energytactics.com , and telephone (215) 378-2280.

Yours truly,

Donald E. Erickson
Assistant Attorney General

c Mark Pung-Collaborative Coordinator
COS Collaborative Participants