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

Dear Mr. Collins:

**Re: Attorney General's Response to Comments from the parties to the
COS Collaborative**

The Attorney General thanks all of the active participants in the collaborative for their inputs at the conceptual, operational (model) and procedural levels. In our initial comments we suggested that overall goals should be set for the collaborative. Clear successes have occurred in defining a common COSS model for the major electric utilities. We believe the questions raised by the Attorney General, Staff, and ABATE/BAI frame a next round of model changes, and the support of Detroit Edison and Consumers in model development and commitment has been invaluable and very positive.

At this point the collaborative should begin to explore the needs of participants for a minimum level of information to be provided by the utility along with and/or embedded within the model. A common COSS model without relevant supporting data is only one of the necessary steps. As noted on page 1 of Staff's Statement of Work for the Collaborative, specifying the minimum level of information available within the model will, "make comparative studies more feasible and provide the Commission with better record evidence upon which to base its final decisions."

Additionally, with the use of a common COSS model and without a clear method of identifying each party's work the potential for misunderstanding and miscommunication increases. As BAI suggested, "The models should have the ability to change the title of the case study, and the title should appear on all of the pages" [BAI comments by James T. Selecky, May 16, 2006, page 1]. The Attorney General has proposed a centralized scenario support or at least a standardized convention for naming allocators and other information. If the collaborative does not also develop proposals in this area, we risk constructing a Tower of Babel.

At present, no other party has raised the need for a revenue allocation function within the COSS. This incremental function can be easily added within a COSS revenue module and would allow any party to test its own proposed interclass revenue allocation and provide a consistent means of presenting its impact to the Commission.

The Attorney General again calls upon the collaborative to discuss whether rate design capabilities should be an output of the COSS model. All of the elements for this capability are already in the model either as allocators or cost inputs. Only appropriate output reports need to be generated.

Our concerns for consistency and centralized support are rooted in the knowledge that the rate case process will become more efficient if concerns such as source data and calculation accuracy are removed by a measure of centralized support or at least scenario management. The Attorney General's specific responses to each party that has sent comments follow.

Attorney General's Response to Staff's Comments on the Draft COSS Models

The Attorney General has reviewed Staff's comments and suggestions and supports the Staff's recommended modifications. The Staff suggested nine changes (plus subparagraphs) to the "Input1" spreadsheet. In addition to the Attorney General's concurrence, the Attorney General responds to some of the questions raised by Staff as follows:

5. Would it also be helpful to add yet another column to the Input1 tab, showing the formulas for calculating all of the subtotals alongside the numerical data, as illustrated by the example in line 293 on the Accompanying Model? This information is useful mostly for a printed report of the input data, as someone working on the live spreadsheet can see the formulas in each cell. (If these formulas are added for printed reports, then it would also be desirable to have an initial column showing the row index for each line; that is provided in the Accompanying Model as column U on the Input1 tab.)

The Attorney General supports this recommendation as long as it can be easily suppressed if not needed.

6. It appears that all of the class allocations in the BAI model are performed on the Prod and Dist tabs, and that the Total tab is just a cell-by-cell sum of the Prod and Dist tabs. In the Consumers and Edison models, the allocation process appears to occur also on the Total tab. Which approach is preferable?

- a. Conceptually, the BAI approach is more flexible, because it allows independent choices for the allocation methods on the Prod and Dist tabs. If costs are allocated on the Total tab too, then there must be a specific arithmetic relationship among the three allocation factors (Total, Prod, and Dist) and the functionalization percentages for each line item, in order to make the allocation on the Total tab match the sum of the allocated amounts on the Prod and Dist tabs. This relationship is ordinarily achieved for most line items with typical allocation choices, but not always. It is not achieved for revenues, and the Consumers model gets around this problem by using special instructions for the revenue lines (290, 291, and 296).

The Attorney General supports the BAI approach as preferable because it provides both flexibility (independent allocation) and reduces the chances for errors. The model should not calculate any value twice (on different sheets or locations) because this provides a high potential for errors. Thus the Total tab should be just that a total(ing) tab.

- b. Allocation directly on the Total tab has the advantage of enabling one to look only at the Total tab to understand the allocation of total costs. But with a large Choice program, that advantage may not be worth much.

The Attorney General suggests that this alternative offers little advantage and increases the potential for error.

- c. As noted above, a few lines had to be added to the Input2 tab to complete the functionalization of revenues there. In the Consumers implementation, that functionalization is accomplished by an interaction of the revenue lines on the Total, Prod, and Dist tabs. The additional lines on Input2 would make it possible to develop the revenue amounts on the Prod and Dist tabs without first calculating revenues on the Total tab.

The Attorney General supports this approach because the development of revenues on the Prod and Dist tabs allows more flexibility.

7. Would it be desirable show absolute numbers, not percentages, as the input for each allocation factor, and then show the percentages calculated on a second line? This question applies specifically to the number of customers and to the class demand and energy allocation factors. It appears that there are no source notes for these allocation factors, and the absolute quantities would be easier for a user to relate to other data in a rate case. The BAI model provides the absolute quantities in the Input Allocation Schedules on the DistFactorCalc and ProdFactorCalc tabs.

The Attorney General supports the recommendation to first provide the absolute values and then calculate the percentages. All input variables should be provided in their original value with appropriate units (financial or engineering). Parameters such as customer counts, demand in kilowatts, energy in kilowatt-hours and costs in dollars are then easily confirmed from source data. Absolute and order-of-magnitude errors then are more easily detected. Combined with Consumers' position of filing all workpapers then the development of new allocation factors from the absolute values (in correct units) would be easier for all parties.

8. There is a similar question about the presentation of internally calculated allocation factors, based upon subtotals of previously calculated lines in the COSS. The BAI model includes a line showing the calculated subtotal, then a second line for the allocation factor. (See the Calculated Allocation Schedules on the DistFactorCalc and ProdFactorCalc tabs.) It may be safer and easier to set up the model this way, especially if the subtotal is not displayed as a line in the COSS, as with BAI factor 600, O&M expense excluding fuel and purchased power. There is less need for an added line when the calculated allocation factor is based on an already calculated subtotal, such as BAI factor 500, PIS.

The Attorney General recommends the BAI alternative (showing the calculated subtotal) because it provides clarity and reduces the potential for error. A reference to the row in the model, which produced the subtotal, should be readily apparent.

9. Some allocation factors are obtained by recognizing only some, but not all, of the customer classes. Examples are the various subgroups of customers, and class loads at secondary voltage. Would it be appropriate to standardize the method for calculating these allocation factors?
 - a. One possibility is to use a mask (a row of zeros and ones, indicating which classes are included in the allocation factor, and which are not). The formula would then be a standard multiplication of the unmasked factor (or unmasked absolute input quantities such as number of customers) times the mask on a column-by-column basis, divided by the sum of the products across all rows. A possible advantage is that the formula would be the same for all masked factors; only the row number of the unmasked factor and the row number of the mask would change.

The Attorney General has previously suggested that zero allocators be available. The use of a properly developed mask would be an advantage.

- b. Masks also work nicely for weighted customers, with class weights instead of ones for the included classes.

The Attorney General supports this concept if supported by properly documented workpapers from the Company. Without the base information from the utility this concept has limited value.

- c. An alternative would be to add a row for the absolute quantities used for each factor after masking (*e.g.*, showing the loads at secondary voltage, with zero for classes served at higher voltage).

The Attorney General believes that this can be a workable alternative. As previously stated by the Attorney General, the most recent system loss study for energy and demand should be part of the COSS filing requirements to form a basis for further changes by any party.

Attorney General's Response to Brubaker & Associates, Inc. (May 16, 2006)

The Attorney General has reviewed BAI's comments and suggestions and supports all of BAI's recommendations:

1. Any links to any other spreadsheet should be eliminated or provided with the model. The provided copy of the model includes a link to another spreadsheet that was not provided.
2. The models should have the ability to change the title of the case study, and the title should appear on all of the pages. There does not appear to be an easy way to change the description of the allocation method that is utilized in the cost of service study for production and/or distribution plant.
3. The model has a switch to utilize either a 4 CP allocation or a Staff method allocation for purposes of allocating production plant. The allocation method that is utilized to allocate production plant should be an input on one of the two input spreadsheets that are provided in the cost of service model.

The Attorney General suggests that recommendations #2 and #3 are best accomplished with some form of scenario management system as detailed in the Attorney General's comments dated May 18, 2006 (page 3).

Attorney General's Responses to Comments of Consumers Energy

The Attorney General appreciates Consumers Energy's commitment to the goals of the collaborative and "the Company's intent to file this Excel workbook and all workpapers that support the Company's position in any future electric rate cases."

As the Commission said in its order in Case U-14347 (Consumers Energy):

The Staff requests that the Commission open a collaborative for the purposes of modernizing the rate case process for major electric utilities by developing a standardized COSS model that will not be proprietary, and will take advantage of the electronic data processing capabilities of all parties, in order to allow COSS data to be submitted and analyzed on a desktop personal computer. The Commission is persuaded that it has become vital for the parties to major rate cases to be able to exchange information electronically. The Staff is directed to work with Detroit Edison, Consumers, and other interested parties to develop a standardized COSS model that can be exchanged electronically and that provides sufficient flexibility to allow all parties to understand the bases for the data underlying the COSS." (Page 76)

Also, as the Commission said in its order in Case U-14399 (Detroit Edison)

"The Staff advocates an electronic format that would allow parties to readily verify complex calculations and exchange information more easily." (Page 14)

"The Commission finds that while the standard filing requirements have worked well in the past, that does not preclude the possibility of improvement. Based upon the evidence and analysis presented by the Staff, the Commission finds that it is appropriate to initiate this change." (Page 36)

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From the above Commission statements, the Commission refers not just to individual utility positions, but also to positions of the various parties, including the Staff. Those parties are to be able to:

- exchange information electronically
- provide sufficient flexibility
- allow COSS data to be submitted by all parties

In the Staff's Statement of Work for the Collaborative it stated:

The purpose of the collaborative is to develop a standardized cost of service study model using an Excel-based program that will allow any party to a rate case to modify the input and allocation factors of the model while insuring that the underlying data is consistent with the utility's model. This model will allow all participants in future Consumers and Edison rate cases to view the utility's critical cost of service information and underlying allocation formulas in their original electronic format, thereby making the cost allocation process more transparent. This will make comparative studies more feasible and provide the Commission with better record evidence upon which to base its final decisions. The collaborative will have the cost of service study programming experts from Consumers and Edison work in concert with each other, the Staff, and the other parties to develop cost of service study models for each utility. (Page 1)

The Staff's Statement of Work seems to contemplate the following goals:

- allow any party to a rate case to modify the input and allocation factors of the model,
- insure that the underlying data is consistent with the utility's model,
- make comparative studies more feasible, and
- provide better record evidence upon which to base the final decisions.

From the above references it appears that Consumers' objections that the collaborative has a limited scope is due to a viewpoint that "the collaborative does not include rate case filing requirements, rate design, and centralized support provided by the Company." [Consumers e-mail August 29, 2006] But the Commission has clearly stated, "The Commission finds that while the standard filing requirements have worked well in the past, that does not preclude the possibility of improvement."

Beside the advantages highlighted by the Commission within its orders, Consumers comments overlook one important advantage. A well developed COSS model and strong efficient support will reduce the time for parties to develop, explain and defend their positions on cost of service and rate design. This time reduction could lead to earlier rate relief for the utility, which would be a substantial benefit.

A secondary advantage to the utility, which could be obtained by virtue of providing centralized support is that the utility will be able to see, and thus prepare to rebut (if it desires), each party's potential cost of service and rate design position. While some parties might wish to shield their strategies, such an exchange should be cost effective for each party's constituency.

The Attorney General is surprised that Consumers has taken such a narrow view of the collaborative when economic benefits of the collaborative would also accrue to utilities.

Attorney General's Response to Comments of Detroit Edison

The Attorney General appreciates Detroit Edison's recent comments [Martin Heiser, September 1, 2006] specifically its willingness to provide the COSS in Excel.

In response to Detroit Edison's comment, "Detroit Edison views the Attorney General's attempt to redefine filing requirements beyond incorporating the standardized COSS model into the filing requirements as being outside the scope of this collaborative." The Attorney General believes the Commission has not limited the collaborative to a narrow task of solely incorporating a standardized COSS in the filing requirements.

The Commission has clearly stated, "The Commission finds that while the standard filing requirements have worked well in the past, that does not preclude the possibility of improvement." [Case U-14399 (Detroit Edison), page 36]

The Attorney General's comments are suggestions that improve the overall cost of service process within a rate case and are not limited to very useful conversion of proprietary models into a common Michigan COSS.

In response to Detroit Edison's comment, "Given the fact that the base COSS model is an Excel worksheet, Detroit Edison believes that each party's ability to create scenarios will be limited only by their proficiency in using Excel and/or the limitations of the Excel software itself," the Attorney General responds that the use of a common Excel based COSS will allow any party to develop scenarios to meet its needs.

However, the Commission faces a choice because the utility is the source of relevant data. The Commission can only order the use of a common COSS or it can decide that the common COSS can include information that active parties will request during the discovery process. Thus the common COSS can be one method for the Commission to reduce costs and expedite the rate process for all participants including the utility.

Detroit Edison's comments state, "Detroit Edison believes that rate design is outside the scope of this collaborative. Rate design takes place "downstream" of the COSS. The COSS serves as only one of many considerations taken into account in the rate design. Rate design is performed at a greater level of detail than is required for the COSS. For example, the COSS consolidates rate classes, whereas rate design addresses each tariff."

The Commission said in its order:

"The Staff advocates an electronic format that would allow parties to readily verify complex calculations and exchange information more easily." [Case U-14399 (Detroit Edison), page 14]

"The Commission finds that while the standard filing requirements have worked well in the past, that does not preclude the possibility of improvement. Based upon the evidence and analysis presented by the Staff, the Commission finds that it is appropriate to initiate this change." [Case U-14399 (Detroit Edison), page 36]

"The Commission is persuaded that it has become vital for the parties to major rate cases to be able to exchange information electronically. The Staff is directed to work with Detroit Edison, Consumers, and other interested parties to develop a standardized COSS model that can be exchanged electronically and that provides sufficient flexibility to allow all parties to understand the bases for the data underlying the COSS." [Case U-14399 (Detroit Edison), page 37]

Therefore, the Attorney General believes the Commission's order in the Detroit Edison case does not limit the collaborative but is open and receptive to improvements. Rate design is the next step after cost of service and requires complex calculations and large volumes of data. The Attorney General requests the parties to the collaborative to respond with substantive reasons, if any, why his suggestion that a reasonable level of rate design information should not be included within the COSS model.

Detroit Edison's comments state, "Detroit Edison sees no need to depart from current rate case practice. Namely, the utility is responsible for filing its own position and other parties are responsible for creating and distributing their position(s)." The Attorney General's reply is similar to his response to Consumers Energy on a similar position.

The Commission has clearly stated, "The Commission finds that while the standard filing requirements have worked well in the past, that does not preclude the possibility of improvement." [Case U-14399 (Detroit Edison), page 36]

Beside the advantages highlighted by the Commission within its orders, Detroit Edison's comments overlook one important advantage. A well developed COSS model and strong efficient support will reduce the time for parties to develop, explain and defend their positions on cost of service and rate design. This time reduction could lead to earlier rate relief for the utility, a substantial benefit.

A secondary advantage to utilities, which is obtained by virtue of providing centralized support is that a utility will be able to see, and thus prepare to rebut (if it desires), each party's potential cost of service and rate design position. While some parties may wish to shield their strategies others may see the exchange as cost effective for their constituency.

The Attorney General is surprised that Detroit Edison has taken such a narrow view of the collaborative when economic benefits from the collaborative will also accrue to the utility.

In conclusion, the Attorney General appreciates the efforts of all parties as we all continue to work within the collaborative process to develop a cost of service process to be followed in rate cases to make them more productive and useful to each utility, to customers, to the Staff, and ultimately to the Commission.

Yours truly,

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c Mark Pung-Collaborative Coordinator
COS Collaborative Participants