STATE OF MICHIGAN

UTILITY CONSUMER PARTICIPATION BOARD

- - -

MEETING OF FRIDAY, APRIL 17, 2015

12:42 P.M.

611 West Ottawa, 4th Floor
Lansing, Michigan

- - -

PRESENT: James MacInnes, Chairperson
Paul Isely, Board Member
Conan Smith, Board Member
Ryan Dinkgrave, Board Member (via telephone)
Susan Licata Haroutunian, Board Member
Michelle Wilsey, Board Assistant
Christopher Bzdok, Michigan Environmental Council (MEC)
Douglas Jester, MEC and CARE
David Shaltz, Residential Ratepayer Consortium (RRC)
Don Keskey, Great Lakes Renewable Energy Association (GLREA)
Michael Moody, Assistant Attorney General
Shawn Worden, LARA
Jim Wilson, LARA
Allan Pohl, LARA
Ed Haroutunian, Member of the Public
Jim Ault, Michigan Electric & Gas Association

- - -

REPORTED BY: Lori Anne Penn, CSR-1315
33231 Grand River Avenue
Farmington, Michigan 48336

Lansing, Michigan
Friday, April 17, 2015
At 12:42 p.m.

\- - -

MR. MacINNES: Well, we have all the board members here, so maybe we should get started. Okay. Welcome, everyone, on this sunny day, and we have Ryan here on the telephone. So why don't we go ahead and call the meeting to order and take a roll call of the members and who all is here, and maybe we'll start and go this way this time.

MR. ISELY: Paul Isely from Grand Rapids.

MR. MacINNES: Board member.

MR. ISELY: Board member.

MS. HAROUTUNIAN: Susan Haroutunian from Detroit, board member.

MS. WILSEY: Michelle Wilsey, board assistant, Lansing.

MR. BZDOK: Chris Bzdok, counsel for the Michigan Environmental Council.

MS. WORDEN: Shawn Worden representing LARA.

MR. WILSON: Jim Wilson, LARA.

MR. SHALTZ: David Shaltz, counsel for the Residential Ratepayer Consortium.

MR. MOODY: Michael Moody from the Attorney General's office.

MR. KESKEY: Don Keskey representing the Great Lakes Renewable Energy Association.

MR. HAROUTUNIAN: Ed Haroutunian, member of the public.

MR. SMITH: Conan Smith, Washtenaw County, and a board member.

MR. MacINNES: And Jim MacInnes, the board chair.

Okay. We have an agenda here, a consent agenda, which I hope everyone's had a chance to review. And we need -- well, let's see, we don't have the minutes, but I think we're going to get those at the next meeting.

MS. WILSEY: I'll work with Susan, she's, yeah, in a little bit of a quandary about how to do them.

MR. MacINNES: Yeah, and it's okay. I mean it's not a crisis, but we would like to get them. So we can't approve the minutes.

But otherwise, do I have a motion to approve the consent agenda?

MR. SMITH: So moved.

MR. ISELY: Support.

MR. MacINNES: Is there any discussion?

All those in favor, please say aye.

BOARD MEMBERS: Aye.

MR. MacINNES: Opposed, same sign.

Okay. So now we can go to the business items, and maybe we'll start with Michigan Environmental Council, approval of an expert.

MR. BZDOK: Thank you, Mr. Chair, members of the board. Chris Bzdok for MEC. This is a request for approval by the board of an expert, or really a group of experts, which is the team from LaCapra Associates. As I had mentioned in my materials, this has been an authorized expert by the board in the past, I mentioned a couple of cases where they have worked for us in the past, and we are proposing them again to be working for us on the Consumers Energy general rate case. They actually are working on that case now using other funds that have been raised for that case, so non-UCPB funds; but, you know, given the timing, no board-approved funds have been disbursed to them or authorized for work that they've done yet. But we are kind of up to our hips in that case now and so would like to get them approved. The resumes are attached. It's a diverse group of people because we've identified both coal-related and gas-related issues in that case, in our prior memo on that case, and so we're just seeking your authorization of

LaCapra to work using board funds in that case.

MR. MacINNES: Okay. Is there any -- are there any questions for Chris? Do we have a motion to approve the expert?

MR. ISELY: I'll move that we approve the experts.

MS. HAROUTUNIAN: Second.

MR. MacINNES: Is there any discussion? All those in favor, please say aye.

BOARD MEMBERS: Aye.

MR. MacINNES: Opposed, same sign.

Okay. Thank.

MR. BZDOK: Thank you.

MR. MacINNES: Next item is the transfer of funds.

MR. BZDOK: Ryan, could you hear me at that level of volume?

MR. DINKGRAVE: I could. Thank you.

MR. BZDOK: Okay. I'm always happy to talk louder.

The transfer of funds that we are requesting is because we were able to get the PROMOD license fees in the PSCR plan cases funded by an outside source, and so we have needs for those funds in the rate cases, which we had indicated, you know, to you that the request for the rate cases was not what was necessary but what we felt, you know, could be reasonably asked by us in this financial picture, but because the license fees have now been taken care of, they are unneeded in the PSCR plan cases, and we're seeking to move them to fund in the rate cases.

The PROMOD license fee from the DTE PSCR plan case, we are seeking to move to complete George Evans's budget in the DTE rate case, so he is the modeler in both cases, this will go towards his work budget in the DTE rate case. So DTE to DTE for modeling work. He's doing both PROMOD modeling and Strategist modeling. PROMOD is the, more of the short-term operational; Strategist is the long-term, you know, what's the like cycle cost, what's the comparative cost of various long-term strategies and things like that, which use all similar inputs, you know, about what do the emissions adders cost, what are the market prices going to be, how much of the unit's going to dispatch, how much are they going to operate, it's all these same things. We are finding already that different assumptions about those parameters are being used in different cases.

MR. MacINNES: Different assumptions for the same parameters?

MR. BZDOK: Yes.

MR. MacINNES: So like for the same plant, they might assume different costs of fuel or --

MR. BZDOK: I've seen one graph that shows that there's a much rosier prediction for one of those parameters in the rate case.

MR. MacINNES: For the same period of time?

MR. BZDOK: Yes. And the rate case you'll recall is the case where the justification of life extension and plan of operation for some of these units is at stake. So that's that transfer request.

The transfer in our request for the Consumers PSCR plan PROMOD fee is to the Consumers rate case, it's about a 60/40 breakdown. A portion of that is to fund Douglas Jester's expert testimony concerning PSCR charges and the structure, the seasonal structure of PSCR charges. You'll recall we had suggestions relative to the cost of service case where the utilities have been arguing that residential customers should bear a higher cost allocation because of their contribution to summer demand and peak demand which is driving the utilities to incur capacity and related, and fixed related costs because of this usage pattern, yet at the same time in the rate case certain rate structures relative to PSCR charges that are -- that help to mitigate that phenomenon are being walked back partially. So in other words, summer customers pay a certain amount for energy up to 600 kilowatt hours a month, and then they pay a higher charge, PSCR charge for energy over that. The difference between the two, Consumers is proposing to shrink in their PSCR charges, differences between winter and summer charges are also proposed to get smaller. So these are unhelpful changes relative to these demand and load curves that are driving cost increases. And so Douglas is working on that.

He's also working on line losses. Consumers has proposed a new line loss study which has a higher, a higher loss factor that's approved in the rate case and then that is sort of formulaically applied to the total system costs in generating a PSCR factor. So it's done in the rate case. Anyway, Douglas is working on those things, and so there's a request to transfer.

MR. MacINNES: So that's not funded by us, that line loss calculation, or is it?

MR. BZDOK: We are requesting this budget for Douglas to work on both of those issues. The reason the line loss issue is an Act 304 issue is because the line loss factor is set in the rate case, but applied in the PSCR cases. So it's a direct multiplier to PSCR costs.

MR. MacINNES: Okay. Great. Thank you.

MR. BZDOK: And so there's a request for $5,500 to be transferred for that, and then 4,500 to be transferred to legal.

MR. MacINNES: Okay. Any other questions for Chris of these transfers?

Do we have a motion to approve the transfers?

MS. HAROUTUNIAN: So moved.

MR. MacINNES: Is there support?

MR. SMITH: Support.

MR. MacINNES: It's been moved and supported. Is there any discussion? All those in favor, please say aye.

BOARD MEMBERS: Aye.

MR. MacINNES: Opposed, same sign.

MR. BZDOK: Thank you very much.

MR. MacINNES: Okay. Moving on to Item (c), RRC transfer of funds.

MR. SHALTZ: Thank you, Mr. Chair, members of the board. I had sent out a one-page sheet summarizing our request for transfer of funds. This does not represent an increase in any -- in our overall budget. There's really two sets of transfers going on. One is for the 2013-14 GCR reconciliation cases. Those are shown above the line on the one sheet that we provided you, and that basically is just to reflect what's happened in those cases in terms of some cases going to settlement, some cases being litigated more than we thought they would be. The cases below the line are the GCR plan cases for 2015-2016, and basically that's an adjustment to reflect the funding available for those cases.

Essentially in the MGU and SEMCO cases, we'll not be participating in those cases this year. For the Consumers Energy case, we've identified a discrete issue that we think we can have an impact on by doing discovery and good cross-examination and briefing. And we're going to focus our efforts this year in the DTE Gas Company case because we found a couple large issues there that we think we can have an impact on. So the below the line portion of the transfer request reflects our assessment of where we think the resources need to be in those cases.

MR. MacINNES: Okay. Does anyone have any questions for David?

MR. SMITH: I don't think so.

MR. MacINNES: Do we have a motion to approve this request?

MR. SMITH: So moved.

MR. ISELY: Support.

MR. MacINNES: Is there any discussion? All in favor, please say aye.

BOARD MEMBERS: Aye.

MR. MacINNES: Opposed, same sign. Okay.

MR. SHALTZ: Thank you.

MR. MacINNES: Okay. There you go. Allan is going to be in at 1:30, and we talked before the meeting, so we'll maybe defer the funding update, and I know you have some input on it --

MS. WILSEY: Sure.

MR. MacINNES: -- and we want Allan to --

MS. WILSEY: Let's do the reports first.

MR. MacINNES: -- comment so that when he is here. So we have some time since we had a short agenda to move into grantee reports and have some good discussion on that. So I'm going to start with Don on this.

MR. KESKEY: That's a switch.

We are in four cases on behalf of Great Lakes Renewable Energy Association, and one of them is U-17319, it's a DTE PSCR case from last year's grant. The PFD was issued in February, February 27, 2015. The PFD in short did not take any action on our recommendation that the Company more completely analyze the growing opportunities for solar energy generation. We filed exceptions on March 25, 2015, which actually gave us the opportunity to also discuss the Governor's new energy policy which was issued about March 12 where he wants the State to move toward a 30- to 40-percent renewable energy resources, which is a dramatic upgrade from where we're at; and presuming that the Commission and the rest of State government should get in line with the administration on that policy, along with the utilities, we think it's even more urgent and appropriate for the Commission to encourage solar energy as a resource.

MR. MacINNES: I might point out, I was at the presentation with the Governor, and that 30- to 40-percent is renewable energy and reducing energy waste, so it's kind of a combination of two things, so it's not necessarily all renewable energy. He's very big on reducing waste, which is a great thing, in my opinion.

MR. KESKEY: Well, that's a good point. One of the things about solar energy is, again, it is a decentralized way to empower customers to take action to contribute to energy generation, and in a way that's environmentally completely neutral. And other states have shown the opportunities, how solar can be an important source.

MR. MacINNES: It can also reduce I^2R losses in the transmission system, so reduce waste, transmission line waste, too, right?

MR. KESKEY: That's right. In fact, Indiana Michigan Power has pointed that one, that among several factors in advantages of solar energy on their system that they are proposing to install at certain juncture points that will help particularly in that area.

In the other case, U-17317, from last year's grant, the hearings have been held, the briefs have been filed, we are still waiting for the PFD. I would presume that it would be coming out shortly.

In the new cases, 17678, which is Consumers Energy PSCR, we filed our testimony and exhibits on April 13, 2015, the hearings are scheduled for May 18, 19 and 28.

In U-17680, we filed testimony in that case, which is the DTE case, testimony and exhibits were filed on March 19, 2015, and the hearings will be May 4, 5 and 6.

And that's just pretty much where it's at now, there's a lot of the cases are still in progress.

MR. MacINNES: Are there any questions for Don?

MR. SMITH: Could you jump back to -- I

was unfamiliar with the I2R.

MR. MacINNES: That's power losses due to the resistance of the wires, and that would be -- they're called I2R losses, and they would -- so it's a function that the power loss is a function of the square of the current, and if you reduce the current flow because you're generating locally, you don't need to bring that power in from somewhere else, so you open up capacity in both the transmission and distribution lines.

MR. SMITH: Okay. And is that -- are those losses significant in the grid?

MR. MacINNES: They're about -- well, the number that we've seen from DTE and Consumers is about 7.9 percent.

MR. SMITH: Oh, wow.

MR. BZDOK: Eight, nine, seven.

MR. MacINNES: Now, the industry data that I've seen shows the average -- or the total between transmission and distribution losses at about, I think it's about 6 1/2 percent, so those numbers that we're seeing are kind of high.

MR. BZDOK: Yes, we believe they're high.

MR. MacINNES: So six or seven percent, depending -- you know, it's, obviously it's locational.

MR. SMITH: Sure.

MR. MacINNES: It depends on the wire size, it depends on the loads, it depends on the loca -- on a lot of things, but --

MR. SMITH: And so distributed generation would reduce those --

MR. MacINNES: To the extent that you have a generator, a distributed, they call a DER, distributed energy resource, and that could be a gasoline generator, too, or a solar PVA or whatever, to the extent it's closer to the load, then you don't need to bring in power over the transmission line and over the distribution line to serve that load, to bring in as much. So that's an opportunity that the distribution and transmission people have to reduce losses, to reduce energy waste.

MR. SMITH: Seems like there should be, then, some algorithm that optimizes the locational efficiency of generation based on --

MR. MacINNES: Yes. And that's -- PROMOD does some of that, that's what MISO does, they do operations research, which is an optimization, very complex optimization program for the whole grid --

MR. SMITH: Okay.

MR. MacINNES: -- 15-state grid, and where they -- they look for the low-cost energy solution, you know, if you've got a curve like -- if you've got more generation, more transmission, there's an optimum energy solution under -- they do modeling and they do scenario, Monte Carlo simulations, they do thousands of simulations and come up with a low-cost solution. And the thing that a lot of people don't think about, it's not a statewide solution, it's more of a regional solution. It's more efficient to look at it on a regional basis as opposed to just looking at it from a statewide basis.

MR. SMITH: Thank you.

MR. MacINNES: I was going to ask, Don, I know we've had some discussion in the past, and maybe you can refresh us, update us on -- it's always important that whatever we do is in compliance with Act 304, and maybe you could kind of talk a little bit about how your work in this area is, fits in with that within the Act.

MR. KESKEY: Well, the Act 304 was passed to require plans and then followup reconciliations to determine the energy cost, generation, fuel, purchased power, of the utility, which used to vary, always varies, and to replace the automatic fuel adjustment clauses, which really didn't have any scrutiny, and so Act 304 really looks at all existing sources of energy; that could be any kind of a turbine, it could be coal, it could be gas, it could be nuclear, it can be purchased power, it can be wind power, it can be solar, these are existing technologies, these are existing sources of energy. And solar energy in particular, the more that was self-generated by customers or at localities, the less that has to be generated by the utility or the grid in fuel costs, purchased power, any number of other costs that they are now charging, transmission costs, congestion charges, any of the some 58 different tariffs that MISO has; so solar can offset or self-generate as a resource a number of these kind of costs.

MR. MacINNES: So maybe if I could comment on that. So there's a J curve, right, for the cheap -- the cheap power plants are put on first, and then the more expensive ones, depending upon the load, and the faster -- this is a supply curve and there's a demand curve, and the faster you can move the demand curve down the J, that means you get lower costs, you don't have to buy as much expensive fuel, run gas turbines that are expensive to run, simple cycle gas turbines, so by putting on DERs, it allows you to move down this cost curve.

MR. KESKEY: And that's a very good point, because one of the emphasis we've put into our testimony and in exhibits is demonstrating that solar in particular in Michigan can offset peak costs, peak load costs in the summertime, which is normally the -- both utilities are summer peaking.

MR. MacINNES: That would be up here on the J curve, Don.

MR. KESKEY: Yes. And any second or minute in time on a peak day, let's say, August 8 or something, momentarily at least, the peak costs can be extremely high. Well, a large portion of the residential load in the summertime is air conditioning, and one of the beauties of solar is while it contributes to energy production and capacity on all months of the year, it is extremely reliable and effective in Michigan in four or five months of the year, particularly it aligns with or matches the peak, the peaks of these utilities. And so, hypothetically, a customer could, whether it be a residential or any other customer, if they had efficient solar on their -- in their residence, on their residence, they could really generate a lot of electricty on their own and thereby perhaps even run their air conditioning by themselves.

I would note there was an article in the Lansing Journal about the Commission itself looking into a solar facility at the new Commission offices, which I think is still going forward, that they are going to actually generate solar energy at the Commission building. Board of Water & Light is really going into solar substantially. I think Cherryland up north, or one of the utilities up north, co-ops, has got a community type solar tariff and program. So the more that you can generate in Michigan on a decentralized contributing basis, you're going to directly save money on those peak load costs.

And there are some customers who are interested in installing solar at their own expense, in other words, the utilities don't have to necessarily invest in the solar plant. So if a customer is doing his own solar program at his own expense to offset his own energy cost, it really is not high cost for the utility. And the cost of solar facilities have gone down about 50 percent in the last five years, so that the cost of installing solar is steadily declining, and yet the value of the energy that is produced is pretty high at times, and probably is escalating.

MR. MacINNES: Now, when you began to intervene in these cases, was there some discussion about not allowing you to intervene?

MR. KESKEY: There was vigorous objections by the utilities to our intervention in both the U-17319 and U-17317, the last one being the Consumers case from last year, and that ended up with appeals by the utility to the Commission, and the Commission issued its order on March 6, 2014, ruling that GLREA had a right to intervene by statute, by right; it wasn't permissive, which is another way you can intervene, by right. So the Commission precedent is clear. So with the latest cases, U-17678 and U-17680, neither utility objected to the intervention of the GLREA.

MR. MacINNES: Okay. Any other questions for Don?

Okay. Chris, do you have a -- I see Douglas -- is Douglas coming or --

MS. WILSEY: He was going to be late.

MR. BZDOK: He was going to be late. So as to -- yeah, he thought around 2:00. As to MEC, I can give you an update as to MEC and CARE, I can give you an update about cost of service.

MR. MacINNES: That would be great.

MR. BZDOK: Okay. Ryan, can you hear me?

MR. DINKGRAVE: Yes, I can. Thank you.

MR. BZDOK: Awesome. You're not going to be able to see my handout, though, so I didn't think that through.

So first we've tried to improve the readability of our reporting, so let us know if you have feedback on that.

A couple updates on a couple of things. Well, I want to spend most of my time on cost of service, so I'm just going to touch on -- you know, we've given you a detailed report, I'm going to touch on renewable for just a second because I think that's a live issue right now.

In the last renewable reconciliation case, this has been a long discussion we've had about various pieces of the cost of the renewable surcharges and the reasons that those needed to come down and some favorable decisions that we've gotten in the areas of depreciation, transfer prices, we got a favorable recommendation in the 2012 DTE renewable energy reconciliation case, 17322. The administrative law judge said, recommended that the Commission lower the surcharges either in that case or in the next pending reconciliation case, the 2013, which was 17632, and that was based on about $30 million of over-collection that was anticipated from the time of that 2012 reconciliation until the next plan case, which will be filed this summer, would be filed and decided. And so the Commission had more or less said, yeah, we think this ought to be handled in the 2013 reconciliation; the ALJ was saying, really, you could handle it right now or in the 2013 reconciliation.

The Commission in its final order adopted exceptions by DTE and the Staff and said, we've changed our mind essentially, we don't think we should be adjusting the surcharges in the reconciliation cases, but instead we should wait for the plan case. There was a pretty vigorous dissent by Commissioner White to that, who said -- well, we gave you what his dissent said, so I won't characterize it. But he agreed strongly with us that no, this needed to be dealt with in the reconciliation.

We have appealed, not using board funds, but we have appealed that reconciliation decision to the Michigan Court of Appeals; partly about the money and partly about a concern that when we have a statutory mandate and we get guidance from the Commission and then we put together evidence that seems to, we believe, to carry the day, and the Commission more or less changes its mind about how the statute is going to be interpreted and the guidance that he gave before, we feel that needs to be pursued to a higher level just as a matter of authority and as a matter of, you know, if you're going to set ground rules and we follow your ground rules, don't change the ground rules, because that's -- there's citizen funding, then, that's been put into that, there's just a lot of different reasons. I know the AG has, you know, taken up appeals in other matters, but on similar, similar ideas, that there needs to be -- you know, when the statute gives some pretty clear direction or instruction, that needs to be followed and not deviated from for a policy reasons. So we have appealed that.

In the meantime, we've allowed about $8,000 to expire, which we'll return to the fund from 17632, the 2013 reconciliation. So that's coming back because we're -- we're still briefing that case, but we didn't -- we basically pulled back from pursuing it on an evidentiary or trial matter. So that's what's going on there. So we'll keep you posted.

We're going to try to find money to work on the plan case because that's where they've thrown it to, but that's a meeting or two down the road where I would have an update for you on that.

Any questions on that or on anything else that we've reported on on behalf of MEC?

I do want to talk in a little bit of detail about the cost of service, the DTE cost of service, which is 17689, because we did get a PFD in that case, and the PFD was very, very favorable. I have handouts, if I could start down this way. I have ten of each -- well, I have one, so I have nine of each. If I can circulate those. Sorry, Ryan, I'll try to describe what it is that we're looking at, and I'm happy to e-mail something to Michelle for you later.

MR. DINKGRAVE: Sounds good. Cool.

MR. BZDOK: I didn't think about somebody being on the phone. So anyone who wants a handout is welcome to it.

MR. SMITH: We need one more down here.

MS. WILSEY: Okay. Go ahead, the board's ready.

MR. BZDOK: So we received a proposal for decision on Monday in the DTE cost of service case, it's -- I'm happy to send it to you. It's pretty extensive, it's very well done, in my opinion.

MR. MacINNES: I would like to get a copy of that.

MR. BZDOK: I will do that. So this is a report on behalf of MEC and CARE, who are joint grantees to the board in the cost of service cases. We gave you sort of a detailed presentation about what those cases were about at your last meeting, your most recent meeting, and we sort of explained some of the detailed issues that were at stake in those cases, and we used DTE as our primary vehicle because it was more developed at that time. We explained that there were proposals to do changes in cost allocation of various components of the utilities' fixed costs that were going to have the effect of shifting costs from, primarily from industrial customers and on to residential customers, and we explained some of the rationale that the utilities were using for that, and that a lot of that rationale had to do with, as Don Keskey was saying, with the impact of summer demand, primarily for air conditioning, but not exclusively for air conditioning, and the utilities argue that that -- and the industrials argue that that not only increases variable costs, because you're running a lot of, you know, gas combustion turbines that are, you know, you're just pouring gas into these things, you have a high fuel cost, but you also have high fixed costs because the utilities' transmission and generation capacity is sized to meet their peak demand. And so it's -- the argument they're making is, well, this is sized to meet our peak demand, but, you know, then we're recovering that cost because it's a -- because we're -- it's a summer peak and it's relatively short duration, we have to recover that cost over not as much units of energy sold compared with if we were in Mississippi or Louisiana, you know, and it's just hot all the time and they're running the AC all the time, we still have a high demand, but we're spreading it over more units sold. So that's the argument that's been made, and that argument was to support these shifts in cost allocation.

And so the two-prong strategy that we've proposed to the board when the joint request for funding came in was, first of all, defend against those cost allocation changes that can be rebutted and defended against, and B, propose some rate design changes that would actually get at some of this, the root causes of this issue, and specifically propose rate design changes that were going to primarily price that energy during that high peak in a way that is A, more expensive, and B, that expense can be communicated to customers in a way that they can deal with it and mitigate it and respond to it. And I use the analogy of, you know, cell phone roaming charges from 10 or 12 years ago where, you know, you're in a roaming area, you say, you know what, I'm going to wait and not answer and I'll call this person back in an hour when I have good service. I mean people, if they have a clear communication and something that they understand, will make accommodations to save money, and if they do that, you're lowering that peak demand and the idea being then you're mitigating this upward rise in costs for everybody.

And so we did both of those things, we defended the cost shifts, and we proposed what Douglas

Jester called dynamic peak pricing and time of use pricing. And the peak pricing is the roaming charges, that's that absolute critical, you know, 18 or 30 or 40 hours a year where you've really got the spike; and then time of use, looking at some more seasonality, should energy be more expensive in the summer, less expensive in the winter, more expensive in the afternoon, less expensive in the off hours; encourage people, you know what, run the dryer tonight, again, assuming with Smart Meters and with thermostats and with, you know, even phone apps, where communicating with people about these things in a simple and understandable way, people will make these type of decisions. We lower the peaks, if we lower the peaks, we're not only saving on variable costs, but we're also mitigating this need to go out and acquire additional capacity for generation and build additional capacity for generation, which is a pass-through cost that the utilities pass through, and to just mitigate, and then some -- and mitigate some of the high capital intensive costs of upgrading and retrofitting existing capacity.

MR. MacINNES: Consumers Energy already has some of those rates available, I have that on my house, where, for example, I pay in the summer between noon and 6:00 22 cents a kilowatt hour, where in the morning, it's less, it's 15, and at night it's 13. In the winter, I pay 9 cents a kilowatt hour at night until 7:00, and then it's 13 cents during the day in the winter. So they're already -- that is already available, at least to some customers.

MR. BZDOK: Yes. Consumers has in place now time of use rates which have some seasonal variability. Neither utility currently offers dynamic peak pricing. They've both run pilots on that, and the results of the pilots were that people who were provided with some kind of communication, tomorrow afternoon is going to be really expensive and an easily programmable thermostat, especially people on central air, they set the AC to 75 tomorrow instead of 68, and there were substantial reductions in the demand peaks on the critical days; and DTE was at over 40 percent for the pilot study group, in Consumers it was more like 15 percent, 20 percent, something like that. I don't have all the numbers.

So we were both defending the cost allocations, we were much, in many ways much aligned with the Attorney General on that, we were -- as the parties who were most vigorously defending or were encouraging the greatest amount of denial of the cost shifts and then we were advancing the dynamic pricing.

We got a PFD, it's only a recommendation, it's going to have to be defended at the Commission, there may be further legislative developments. So this is basically just, you know, this is preliminary, but it's very detailed, it's very extensive, it's very well put together, it's very smart in its discussion of evidence and also in its discussion of prior Commission case law.

The first handout that I gave you, the one that had, that's landscape format -- and Ryan, I'll try to describe -- what I'm showing here is an exhibit from the cost of service, the DTE cost of service case that shows the incremental impacts of the proposals that were being made by DTE, the industrial customers, and the MEDC workgroup, and the important lines to look at are really line 1, the residential, because that's who we're there defending. The first -- so what you've got is you've got a column (A), 16472 Ordered, that's basically the existing condition, and then you've got differences. Trans 12 CP 100-0-0 difference, $11.6 million. That's the proposal to shift how transmission costs are allocated from 50-percent demand during 12, basically the 12 monthly peaks, each class's contribution to demand, 25-percent on-peak energy use by each class and 25-percent total energy use for each class to 100-percent demand averaged over the 12 months. That's an $11.6 million addition to residential costs. Nobody really argued with that. And we told you when we made our presentation we didn't have a very good argument against that because that's how the transmission providers bill for it under the FERC tariff, based wholly on demand. So would we like to see it stay the way it was; yes. Do we have great evidence? You know, so basically we did not contest that, more or less, and the Staff didn't either. I don't remember if the AG did or not.

MR. MOODY: I don't think we did either on the transmission.

MR. BZDOK: And so that -- and what all these numbers are leading to is a bottom line, which is column (K) for residential customers, which was an increased $90 million proposed and a decrease for industrials of $85 million proposed. So that 11.6 of the 90 we basically didn't defend, and that went through the PFD recommends that it be adopted.

Production 4 CP 100-0-0 difference, column (C), says 53.9, that was the biggest fish, and we told you that when we presented this. $54 million of increase to residential customers based on the idea that we're going to go from allocating the cost of generation from 50-percent demand, 25-percent on-peak energy, 25-percent total energy to 100-percent demand, pure contribution to demand during those 4 monthly peaks, and also changing it from using 12 monthly peaks average to just the 4 summer peaks. Okay. And so what we had indicated to you was that we were going to primarily defend against the shift to 100-percent demand.

The way the parties' positions went on that was DTE and the industrials said 4 CP 100, $54 million. The Attorney General said, deny it all. We said -- we more or less didn't take a position on the 12 CP to 4 CP, but we said absolutely deny the 100-percent demand. Staff was amenable to the 4 CP and proposed 75/0/25. So they proposed 75-percent demand, zero-percent on-peak energy, 25-percent total energy, so it was a middle ground type of a proposal. In our testimony, we contested Staff's position, and we also cross-examined them on their position, and more or less on cross-exam Staff said, Staff's witness on this said that, you know, while their testimony said 70/0/25 [sic], he really indicated that they were probably most comfortable with 50/25/25, which was I think a crucial moment in the hearing because we were concerned that this was all going to sort of coalesce around where Staff was, that we wanted to take a stronger position there.

The PFD on this recommends basically

leaving it alone, so that's a $54 million -- it's not a savings, it's a --

MS. WILSEY: Avoided.

MR. BZDOK: -- it's an avoided increase, but it's very strong on that, and it largely relied on that type of evidence that we talked about in the presentation about how, yes, demand -- capacity is sized to meet summer demand, but capacity is not all built to meet summer demand, and because you've got, in DTE's case, you've got a nuclear plant, right, and that's the first one to come online and that makes energy 24/7/365, you don't ramp up Fermi to meet air conditioning load in July, you run it all the time because you have a high fixed cost, but a low variable cost, right, so that's producing a lot of energy at a lower -- at a high fixed cost, but a lower cost; and then you've got the Monroe coal plant really high fixed costs, relatively lower variable costs; and then you've got some of the older coal plants, you've got a continuum; and then you're buying a gas plant, right, a big Renaissance gas plant, low fixed cost, high variable cost, you're buying that to meet these peaks. So it is fair to look to load on to residential customers a larger share of the cost of those peakers because they're driving the need for those peakers, but the idea that they ought to be paying for a share of Fermi 2 that's based on their contribution to the summer peak is ridiculous. And the PFD adopts that evidence where it makes those findings, makes those recommendations, and concurred with that in total. So that's a $54 million total avoided swing.

On the other handout that I gave you, this is the more finely dissected version of this, this was a discovery response. Looking at residential under the major rate classes, you've got the transmission difference, and then you've got 4 CP 50/25/25 difference, that's the difference from changing from 12 months to 4 months, which was $19 1/2 million, and then you've got production 4 CP 100-0-0, that's the other 36.7 million. So those two added together are that total of around 54 million, this is just how they, how they break out, more or less. Okay. And so what I'm saying there is, in terms of what the -- what we contested most vigorously and what we said was most strongly on the table was that $36.7 million, and that's what we take the most credit for.

And the Staff, you'll recall, was 75/25, so but for intervenor involvement one might say, well, maybe that's where it would have landed, we don't know exactly what that would have been, but I say it's probably about half of that, right, just saying 75/25 and

50/25/25 are, you know, it's about half.

So I think intervenor funding clearly was worth $18 1/2 million in this recommendation, again, knowing it's only a recommendation; but for intervenor involvement, there's an $18 1/2 million swing there, more or less. Okay. The adopted position of the intervenors was worth 54 million, but Staff also played a very positive role in that overall piece of it, and when I say intervenors, I'm also including the Attorney General.

Our plant-specific evidence was more specific, and we take credit on that side; the Attorney General was strong on the 12- to 4-month side, and so they get more credit there.

MR. MacINNES: And so the funding on this was what, was it $100,000?

MR. BZDOK: Yes.

MR. MacINNES: So what we're seeing is $100,000 worth of UCPB funding represented a real -- well, assuming that it turns out the way, this way -- an $18 million swing in the, in what would be an additional cost to residential ratepayers; is that right?

MR. BZDOK: Being conservative, yes. Being conservative and looking at a but for type of analysis, I feel very solid that that's a, but for that participation, there's an 18 1/2 million --

MR. MacINNES: That's a pretty high rate of return if we can pull that off.

MR. BZDOK: And I mean it goes to all these issues now being discussed, you know, legislatively about what's the value of their -- you know, what's nice and clear about this is that it's, we're taking money from, you know, you and giving it to you, or, you know, in the form of savings, and so there's a nice concrete, you know, nature to that.

Additionally, so let's walk back to the first --

MR. MacINNES: And just a clarification. Michael, you were nodding your head in agreement with all of that.

MR. MOODY: That's correct. Yeah, we probably spent 40, 50, 60, I can't remember, on our expert, you know, so similarly --

MR. MacINNES: So between the two, --

MR. MOODY: -- to --

MR. MacINNES: -- it was 160,000 --

MR. MOODY: Yeah, probably.

MR. MacINNES: -- spent?

MR. MOODY: I think was it 100,000 just from the board? So okay, yep. So I'd say combined, around there, 160 probably. It's a pretty good return.

MR. MacINNES: I would say so.

MR. KESKEY: Actually, it's a return that is, if it's adopted, probably is permanent, so it's about 18 million every year.

MR. MOODY: Yeah, every year, yeah.

MR. BZDOK: Per year.

MR. KESKEY: So if it becomes really the fixed formula and goes on for 10 or 20 years --

MR. MacINNES: So take the present value of $18 million over 20 years discounted at 4 percent or 5 percent, that's real money.

MR. MOODY: Yeah.

MR. BZDOK: We can -- we can talk about a lot of ways that that is amplified, both in terms of future years and even more so in the pending rate case, because again, the proposed cost allocations are poured into the proposed rate increase, which is how you get a $370 million rate request, 321 million of which are borne by residential customers, and that's what this was really about, I believe, right, is setting up large rate cases by both utilities that would largely hold the industrial customer groups harmless. That's just my own, you know, that's my own view, and speaking only for myself in that.

So I mean we can look at that, too, and that's going to be interesting to see, again, how all this plays out and what happens in the rate case, et cetera, et cetera. But if these recommendations are adopted, there are savings, larger savings realized in the rate case, even if every dollar they're requesting is granted, there's larger savings for residential customers realized over there. Again, not savings, but avoided increases.

Moving down the landscape chart, under Distribution, (F) Voltage Split Differences, we more or less didn't contest this, and I wanted -- and I want to -- well, let me handle that right here now. So more or less this is saying that distribution fixed-cost allocation ought to be based on, be tied to voltage levels, because basically the higher the voltage, your voltage is, the cheaper you are to serve in terms of fixed costs on the distribution system. And I see some maybe not total agreement with me, and I'm sort of -- I'm reaching out to the very edge of my knowledge and understanding here when I make that statement, but more or less that's, you know -- so we didn't contest those changes, they also were not worth a lot of money.

One recommendation that Douglas Jester made was that, yeah, not only should distribution costs be based more on voltage, but for that same reason, you should eliminate the distinction between secondary business customers, so business customers served on the distribution system, and residential customers served on the distribution system as opposed to primary customers served right off the transmission, and it all ought to be voltage based. And what that would do is that would end up, if that was adopted, that would shift costs from secondary business -- that would shift costs from residential customers to secondary business customers. And his argument was more or less, you know, look, it's all about the voltage, not about whether, you know, this condo in a building is being used for an office or being used for a residential, it's the voltage by which it's being served. And there's obviously a lot more to it than that.

The PFD recommends that that be, that that approach be adopted over time, not yet, because it would have a big impact to secondary business customers, but says that for distribution purposes, the distinction between residential and secondary business customers ought to be phased out over time. Staff had a concern about doing it all at once. So that has the potential, if it's adopted for actual, not only limiting the damage to residential customers, but actually making them better off vis a vis secondary business customers over time if it's adopted and phased in over some period of time.

MR. MacINNES: I'll give you a good example of that with, you know, the business customers and residentials. We buy power, we're a large power user, we own our own 12,000-volt power distribution system throughout our 1,500-acre property, and we buy power from Cherryland at 12,000 plus volts, and we own all the transformers, so we have to buy all the transformers. So if we're going to put in a building, we have to buy a 750 kVA transformer, we own it, we take the losses, the transmission -- or the transformer losses for that, not the utility, and we have transformers all over the property that we buy and own and maintain and take the losses on. So those losses we have to internalize in our business versus losses that utilities would take if they, if they delivered 480 volts to us at all these locations. So there's -- so businesses, you know, I mean to the extent that you -- I mean, there are more costs for business if you, if you supply them at a higher voltage level, but the business has to take care of that, not the utility I guess is my point.

MR. BZDOK: Uh-huh. Uh-huh. Time will tell what becomes of that. But it was -- it has the potential to realize savings for residential customers relative to secondary business customers.

The last item on this chart that I want

to direct your attention to is column (G) under Distribution which says Uncollect Difference, and that's $22.8 million, and we did mention this in the presentation on these cases, that is a difference that is a change that would result from allocating uncollectible expense basically in proportion to how it has occurred by class as opposed to as more or less a tax on all users, not attacks like, a tax on all users, and that was a proposal by the utility supported by the industrials, opposed by Staff, the Attorney General and us, so we all stood together on that, and the PFD recommends that that proposal be denied as well.

So again, it's hard to figure out, well, to what extent did the intervenor play a role versus, the intervenors and the AG versus the Staff; we all stood together on that, we all said this is a cost, a societal cost in essence. We also said if are you going to try to attribute it more based on causation, then there are things you could do with people on auto pay maybe ought to pay less of that, you know, late fees maybe ought to be higher, you know, there were some other things you could do, but fundamentally you just, you should deny this because if Michelle pays her bill and I don't, Michelle didn't cause me to become uncollectible, and you'll never -- if I'm uncollectible, you're not going to recover the cost from me, you know. If anything, if I'm in a big primary business and I lay a bunch of people off, I probably am causing residential uncollectibles, but that's -- you know, the point is this is a cost of doing business, it's spread to all the users, and that's the recommendation in the PFD. So again, the intervenors can't take sole credit for that, but that is another $23 million of avoided increases to residentials recommended.

The grand total is, out of $90.2 million difference that was proposed, 13 1/2 million at this time is recommended. That's the broad brush of the recommendation. What happens at the Commission level; I don't know. What happens in the legislature; I don't know. But for now, you know, this is more or less a pretty sig, you know -- I guess it's hockey playoff season, so I would call this a pretty significant one-goal lead that's been taken on behalf of the residential customers.

MR. MacINNES: Very good. When will we know when it's final?

MR. BZDOK: Commission order is due by June, so we're going to be seeing exceptions beginning of May and filing replies to those exceptions, and I think Commission order is late June, early July. And then the Consumers case is, you know, sort of happening maybe three weeks, three, four weeks behind that schedule as well.

MR. MacINNES: Are we talking similar numbers for Consumers?

MR. BZDOK: Similar numbers for Consumers. The specific numbers for Consumers are in our uptake to the board. It's a smaller amount total. Production is 46 million to residentials in Consumers, there is no uncollectible expense proposal in Consumers, so, you know, it's a lower total amount in Consumers, and we'll see what happens. The evidence is different in that case.

Oh, the last thing, though, that I mentioned was that the PFD also does recommend that the Commission basically direct the implementation of some kind of time of use and dynamic rates. Douglas's proposal is that at some point those be -- at the time that Smart Meters are fully rolled out, that that be adopted for all customers -- all residential customers, all secondary customers on an opt-out basis. What she's recommended is, well, we at least need to get started, and so those with Smart Meters, there's two million customers with Smart Meters in DTE territory, Staff said wait on this, wait on this for some future case; we argued -- we again tested that pretty vigorously with

Staff, the PFD agrees with us and says there's too many customers, there's too much cost, there's too much going on, this is -- everybody agrees this is a solution to the problem, we need to start something now; so the recommendation is to offer that type of pricing to customers with Smart Meters on an opt-in basis once they've had a Smart Meter for a year. So we feel that's a pretty significant foot in the door as well on the, that prong of the approach.

MR. MacINNES: Yes.

MR. MOODY: I was just going to add to Chris's point that the DTE cases will be -- if the PFD is adopted, everything at the Commission, it's pretty significant because once you get one case done, it's going to be in effect on all the rest. In fact, we've settled, the AG has, in a couple cases up in the U.P. where some of it is whatever happens in the bigger cases will happen here, so it's got a huge effect across the state. So if you're successful, you know, if we're successful in the DTE case, it's even a greater success for residential customers because it's going to roll across the state. All future rate cases then will then not be as heavy of an impact on residentials based on this better cost allocation. So just to add, it's better, looks better and better if it gets approved.

MR. BZDOK: I would agree with what Mike is saying. We're so much better off having a favorable recommendation in the first one than trying to play catch up later.

MR. MacINNES: Okay. Very good. Any questions from the board members?

MR. SMITH: Congrats.

MR. MacINNES: Maybe we could, if it would be okay, Allan is here, we could maybe jump back to the funding since that's so important, how much money we have going forward. And since we have Michael here from the AG's office, I want him to be hearing all this and participating in all this funding discussion.

Allan, maybe you could update us on your perception of where we're at, and I know Michelle has done some work and we can have her update us as well. We'll start with you.

MR. POHL: Okay. For fiscal year '16, the Governor recommended, and I don't believe we've got any difference between the House or the Senate, of spending authority of 750,000 for next year on LARA's books; I'm not sure what's on the AG's books or will be. As far as revenues, we -- Shawn calculated the assessment based on the Detroit CPI in February. It's the first year I can remember that the CPI actually went down from the year before, which resulted in less revenue than what we collected last year.

I tried to doublecheck my numbers before I came down here, but available for both the board and for the Attorney General, if we collect all of the revenue that's been -- all of the assessment, because most of it won't come in until, the bulk of it won't come in until September, each of you have 557,579, so that's where we're at. I do want to go back, Michelle, and look at this document one more time because I don't see -- I put back 17,000 of unspent admin funds from last year back into that balance at some point, I just want to make sure that the numbers that we talked about the day before yesterday are right.

MS. WILSEY: Okay.

MR. POHL: So that's what I can say at the moment. The House, full House approps has not taken up our budget for next year yet, they're scheduled to do that and the Senate is scheduled to do that next week. I think I've explained before, in the budget process, once that step is completed, there's a revenue estimating conference in I think first, second week in May, and that's when the Governor and the leaders of the House and Senate will get together and determine how much GF is there for target-setting purposes, and then they'll finalize the budgets. But that won't affect your budget at all because these are state restricted funds. So that's where we're at.

MR. MacINNES: Michelle, how does that square with your analysis?

MS. WILSEY: Fine. What -- there's sort of a two-prong rationale for this discussion: The first is to make sure that we, the board, which has expressed, you know, concern over the rebalancing and commitment to repay or rebalance that within a four-year period, we want to know what the numbers are in order to act on that. And also, I'm waiting to submit the application for next year with a number that the board is comfortable inserting into that application to post for fiscal '16 grants.

So working from, Allan and I have exchanged numbers over the last two months, and we keep doing that, we will, because things can change, but from our understanding at the last meeting as of 1/28, the board's rebalancing amount back to the AG was the 221,825. And Allan, I think you're talking about that maybe does it include the 17 you're talking about or not?

MR. POHL: Right.

MS. WILSEY: But that's a conservative number, then, right?

MR. POHL: Yeah.

MS. WILSEY: Okay. So that's good. So the 221,825 is where we left it at the last meeting. The board made some grants at the last meeting, and the total of those grants, the 122 8 with what was still remaining out of the current revenues resulted in a use in addition to the rebalancing of $111,844, which brought us to the 333,669 number. We did have also at that meeting, however, a reversion credit from CARE on some grants that they weren't -- funds they were not utilizing of $17,060.60, and we also had the UPPCo settlement payment credit to the UCRF fund that had arrived and been booked of 25,000.

So at the end of last meeting activities, there was the UCR fund rebalancing amount of $291,608-ish, we have the proposed reversion credit from MEC that Chris just mentioned of the $7,990 amount, which, assuming that that reverts, leaves us at the 283,618 number. If we take that in just equal installments over four-year payback, that's a $70,905 per year, or roughly $71,000 number. If we take Allan's and Shawn's number that is available for grants and we reduce it by the corresponding equal installment payment, if you will, we use that as an assumption, we arrive at $486,674 that would be available for grants, using those assumptions and numbers.

So my question to the board, then, there's a $750,000 appropriation, which, you know, could be put in a grant application, but probably wouldn't be based on everything the board has indicated up to this point, and I think would misrepresent to the broader community the board's intentions, so what number do -- should be placed in that application and announcement of grants for '16? One proposed number, and I think we have some comfort that the 486,674 is a reasonable number, or round it up to 500,000, I don't care, but I just want some feedback from the board, some confirmation that that's a reasonable number, which I think we've received, and then some feedback from the board, what number should be placed in the fiscal '16 grant announcement and application to grantees --

MR. MacINNES: Very good.

MS. WILSEY: -- or prospective grantees.

MR. MacINNES: So I'd like to get your thoughts on it, Michael, if all that makes sense to you, and from the AG's office perspective and how --

MR. MOODY: Yeah. I think that conforms with what we talked last meeting, and I, from talking with Peter and internally, we are in agreement that that structure payback, whatever you want to call it, works fine, and that leaves you with funding, you know, so you don't try to do it all at one time and not be able to participate, so that makes more sense I think over the time period.

MR. MacINNES: Right. How do -- I'd like to hear from the grantees on how -- thank you, Allan. I think we're all set.

MR. POHL: I've got to run.

MR. MacINNES: Thank you for your input --

MR. POHL: Let me know. Thanks. I've got to go, I have a conference call.

MR. MacINNES: How that -- your reaction to that as grantees.

MR. SMITH: I think you were going to cry.

MR. SHALTZ: The numbers are the numbers. That's all.

MR. MacINNES: Now, we've had some discussion about we had to do some things, go into debt with our banker here, the AG, but maybe we wouldn't have as much activity in the next couple of years, as much need to go as high as we have.

MR. MOODY: You probably won't have another Act 169 case hopefully.

MR. MacINNES: Right. Who knows what the future is going to bring.

MR. MOODY: You never know, yeah, right.

MR. MacINNES: But, Chris, do you have any thoughts on that, feedback on that?

MR. BZDOK: On level of activity?

MR. MacINNES: Yeah. In other words, you know, we've gone out of our way to fund cases and gone into debt, which we don't like to do, but it was important because we had several large cases that we had -- that were -- that we had to do at once, and we really couldn't spread it out, we didn't really have much choice if we wanted to play a meaningful in role in some very important decisions. So now that's taken place. So what do you all see going forward? And I'd like to hear your thoughts on that, Chris.

MR. BZDOK: With the qualifier that my answer is based on existing law, --

MR. MacINNES: Right.

MR. BZDOK: -- and there is legislation --

MR. MacINNES: Changing.

MR. BZDOK: -- pending, and I have no idea, you know, I'm -- any time anyone asks me, I say I just work here, you know, I don't -- that's not my --

MR. MacINNES: But based on if things continue as they have.

MR. BZDOK: If things continue as they have, we are on, on the stuff that we are working on, this is the all-time peak right now, and our requests to the board and the board's assistance to us is at an all-time peak right now, and I have no anticipation of, you know, anything like this. There will be no more Act 169 cases because these are the cases. These rate cases are of a magnitude that, you know, is quite extraordinary in the fact that they're basically happening in parallel is extraordinary. The last DTE rate case was 2011, not that, you now, they would wait that long again, and the last Consumers rate case was 2013, not that they would wait that long again; but, you know, those cases are funded, they're going to run through December, you know. So we have no -- you know, there are other things that are not being dealt with, right. I mean there are no intervenors in electric PSCR reconciliations right now, you know, there are no -- plan case for DTE case is coming up, I don't know -- we're not going to be coming back to the board for new money for that because there isn't any. So there are other things, there are gas cases that intervenors are not as represented, you know, not as funded on as they should be, so I mean there's things that are being unattended or unfunded as well that could -- but these things are not of the magnitude of funding demand that some of these other things have been. So I would anticipate, in the absence of legislative change that creates new cases and hopefully funding eligibility for new cases, you know, I don't anticipate something like that, but I have no crystal ball either.

MR. MacINNES: Right. Don, what is your take on it?

MR. KESKEY: I think there's been a lot of activity going on right now that's happened before, and I think one trend that you're going to probably see is that when the impact of all these rate increases keep hitting the residential customers with the giant shift of money away from commercial -- or rather industrial to the residential class, that the public may wake up about the cost of their electric bills. And every time you try to predict that, well, it's going to be a routine year next year, another surprise happens, proposal by a utility or something else, legislation or unanticipated rate cases.

So it would seem that, yes, there's a lot going on right now, but it's very hard to predict what could happen next year. There might be very important issues arising in these PSCR cases that you're not really seeing yet, and maybe increasing public concern about the cost of energy, cost of electricty.

So I think it's been good that you've funded what you have and been able to at least provide some input and resistance to proposals by the utilities, but -- and it would seem that maybe this has been sort of a peak activity, but we should caution that it may turn out that the next year or two may be more active than you think.

MR. MacINNES: Especially with the legislation, potential legislative changes.

Michael, what do you think?

MR. MOODY: Yeah, you've got some benefit, I guess what is it, 12 months after Edison comes in for their, when they get the rate relief, I think the statute is you have to wait 12 months, right, for the next -- I think by statute you have to wait 12 months for another rate increase, so you got a little bit of breathing, I think that's how it works. Same with Consumers Energy, so you've got a little bit there. You won't see the Act 169, but you don't know what, you know, what's in all the bills that could potentially come through.

We are in the PSCR and GCR, just so you know that they're not completely unattended, but yeah, they're not attended by -- I mean I know Chris was talking board wise, you guys aren't in a lot of those because of the lack of funding and rebalancing and refocus, which makes sense, you know, you got to -- I think it's wise to look at what are, what's your biggest bang for the buck, you should always be doing that. And sometimes -- you know what I mean, not always wise, but I mean sometimes there's some things you're missing, but, you know, it's wise to think of it at least. But we are in those GCR and PSCR cases.

We do appreciate -- Dave's in a lot of these with us usually, and I know it's been a reduced amount on his part. And he's been doing a great job on that MichCon case, they got a PFD just, I don't know, day -- that's right, you're coming up.

MR. MacINNES: He's coming up.

MR. MOODY: You're going talk about it.

MR. MacINNES: We're going to do his --

MR. MOODY: But he got a really good, it's worth some big money. GCR cases, three out of the four gas companies have been kind of following along with what we've been telling them to do, one's been kind of oppos -- what do you call it. And Dave's been pounding on them and got a good PFD proposal, you know, recommendation type thing, so that will be helpful.

But no, this is probably your peak, but

that could be famous last words, you know.

MR. MacINNES: So is the AG's office planning on getting more deeply involved in these cases and various cases going forward and, you know, being more actively using your -- the funds that have been allocated to you, and do you have any I mean like special plans and that that --

MR. MOODY: Yeah. What we do is we do the same kind of thing, we look at the cases and we adjust with our general fund, we can fill in the gaps because we have additional funding which you guys don't have access to, obviously, because we have the Act 304 money and then we use our general funds to fill in where we need, where we see the need come. So like in the rate cases, if there's, DTE case, you know, there probably are some Act 304 issues obviously that, you know, we're in, but it's a huge case, so we fill in with our general fund money to make sure we're hitting all the issues, because there's big money in that, well, $370 million, so that's what we do. So on all that, we make it a habit of getting into every GCR case, the top four, which would be SEMCO, MGUC, Consumers Energy, Detroit Edison; and we do the two big PSCR cases, which is Consumers Energy and DTE.

And then we haven't -- we don't touch

upon I think what MEC maybe does more of is renewables. We did those early on, we gave those up early on because we had made some arguments that the 90-day timeframes and stuff are undoable or unreasonable, and no one listened to us, so we figured that wasn't -- it wasn't our -- we didn't think we could spend our money and time there, so -- and you guys have taken up the slack there, so it's been working out I think in that range.

But we do the same thing you do, when something comes down big, then we have to re-adjust, but luckily we have the general fund money to balance us out.

MR. MacINNES: Now, historically you haven't drawn on the Act 304 funds anywhere near to the extent we have?

MR. MOODY: That's right. We only did it, you know, sparingly, like we did 100,000 here, 50 there.

MR. MacINNES: Right, right. So now are you going to be more, utilize those funds more robustly going forward, do you think?

MR. MOODY: We've been maxed out. We've been overspending, kind of like you guys similarly have done, in the last, last few years, because expert witness costs have exceeded what, you know, they have in the past, and I know the fund does take the CPI index and it goes up, but, you know, cost of experts have well outstripped those, you know, numbers they put into the statute, so and, you know, attorneys' and everything else costs have probably have exceeded that, too. So I think we'll be dipping, I think we're about, I don't know, I have to look back at our number, but 50, 60 I think we did this last year, I think we're projecting 100,000 over, so I think we'll be slowly chewing away at our balance by a hundred grand a year or more, and that's just basics.

MR. MacINNES: So not only will you be using the annual monies, but you'll be chewing away on you balance of the fund?

MR. MOODY: That's right.

MR. MacINNES: Okay.

MR. MOODY: And then based on just, you know, funding our core stuff, and that doesn't take into account something bigger, you know, that comes down that we have to then dip down and look for supplemental, you know.

MR. MacINNES: Right.

MS. WILSEY: So this year, the 557,000 and change would for you probably be more of a $650,000 budget?

MR. MOODY: I think so, yeah. I can -- I

don't know if I brought it, I might have. I think I may have brought --

MS. WORDEN: They've fully transferred your whole authorization, 767,000.

MR. MOODY: Yeah. So that's good that we won't have to actually -- there's supplemental, we just -- I don't know, I'm not too good at the financials, but you're right, like if you spend within the appropriated amount, then you probably are right, although you still have to have the money there, which is always -- you know, which is always a game; you have the appropriated seven, but you don't have seven, then you can't spend it.

But I had brought -- maybe I didn't. I had run down, I did the past 10 years for our office, you know, about our level of spending, and I think we're probably 100 grand over. I didn't bring it actually. I thought maybe I would have put it in my packet.

MR. MacINNES: So you'll continue to work with us and actually, as we talked earlier with you and Peter, as you and I have talked, we'll try to divvy up the work so that we don't overlap, and you'll work with our grantees and our grantees will work with you and communicate and -- does that, everybody agree on that?

MR. MOODY: I think that makes sense.

It's been working pretty good. Like I said, we -- I know we do -- we do some together, but, you know, we take different tacks, and I know Dave and I, we've, you know, purposely said, well, Dave does a good job on that part, so we'll do something else. You know what I mean, it's worked out, you know what I mean, to allow us to go elsewhere. Same with Chris.

MR. MacINNES: Because we don't want to fund, you know, too many experts on one thing and just, so it minimizes the overlap and spend.

MR. MOODY: Yeah. No, I think that's best use of the money. I think we've tried to do that over the years still, but I mean we have to do it more because that money's --

MR. MacINNES: Well, and it's great that you're here because we can talk with you, when you come, we appreciate having the AG's office and you here to update us and hear what some of the other grantees have to say, and it just -- in order for us to work together, there's got to be a lot of communication.

MR. MOODY: Yeah. And then we don't have to worry if there's some, if you think you can't fund something, you can ask us, are you going to be in it, then I can, you know, make a difference as to that's a priority or not, you know.

MR. MacINNES: And having you here, you know, you may talk with some of the grantees, but it's good for the board to see you here, to see the AG's office here, to hear your comments, to hear any back and forth. You know, there might be a case where a grantee says we're going to do this and you would say, well, you know, we're doing that, too, maybe you don't need to do that. So we would invite you, if you see overlap, nobody's going to be offended if you speak up and, you know --

MR. MOODY: Right. No, I appreciate it.

MR. MacINNES: -- point it out and we can have a little discussion for the benefit of the board.

MR. MOODY: Okay.

MR. MacINNES: I think that would be healthy.

MR. MOODY: That's smart, I think.

MR. MacINNES: I mean we've got good people here.

David, do you have any comments on what, you know, the crystal ball of cases?

MR. SHALTZ: Well, I think the board's made a wise decision to pick a four-year amortization period for paying it back, and the rest is basically the hand that you're dealt. You've got a certain number of numbers that you've got to work with, and I think deciding to pay it back over four years is the right move, and then just wait and see what happens. It's the best you can do.

MR. MacINNES: Okay. Well, in my mind, this is one reporter opinion here, one reporter opining, to me that's -- we would want to -- that would be the minimum that we would do, the four-year; and we've had some discussions amongst the board, couple of the board members, about speeding that refund up if we can. Now, we also don't want to shoot ourselves in the foot and not be able to fund cases. So I'd be interested in hearing what the board members think about this four-year schedule, the idea of perhaps accelerating it. First -- I mean I'd love, personally for me I would love to give you $100,000 down payment this coming year and just say we're going to do a third of it, pay you back, because I don't like debt. So but that's just my thinking, but I also don't want to be short-sighted. So I'd be interested in what the other board members think about all of that.

MR. DINKGRAVE: Yeah. This is Ryan. I think if we can responsibly do something like you said, make a down payment or shorten the payback term, you know, like I said, responsibly so that we're still able to respond to needs that may arise over this time from our grantees, I'd be in favor of that, I'm with you, I'd prefer not to be in debt any longer than we have to and to be operating at our most efficient. So yeah, I would be supportive of looking into that further.

MR. MacINNES: Are there any other board member comments on that? Thoughts? Just I mean we don't have to decide it this second, but just thoughts, input on it?

MR. SMITH: For me it is I mean still complicated by the basis for the payback. I never really agreed that we owed you guys money. You know, I think the money sat there for 12 months, it goes back to the fund to be used for grants, which is what we did. So I mean if the will of the board says we feel indebted to the AG, so be it. I don't. So I struggle with that. Because I also think there are a number of places where, because we have not had sufficient funding, we haven't been engaged to the degree that I think we could --

MR. MacINNES: That's true.

MR. SMITH: -- and should be. So the four-year payback is a comfortable figure for me, knowing that we did have sort of this crush of rate cases and, you know, new opportunities that will trickle off in all likelihood, so I think over the next four years, the really critical things where we're going to see those big bang for the buck opportunities, that's going to slow down, so the next several years is optimal. So I'm comfortable with where we're at right now. I think if we look critically at the opportunities next year and find that we don't need to fund to the full 480 and there's excess available, yeah, pay back, you know, run down the debt as fast as we can so that we're prepared for the next round of really interesting things that might emerge.

And sort of the last area for me is I feel like as board members we could be taking the opportunity to talk with the legislature a little bit about the funding formula itself. It was -- it was intended to cap at the CPI, but it hasn't kept up with the CPI, you know, over the last 30 years or so. So we're, you know -- we're fitting with the statute, but if we were to go to the maximum available, we'd have a few hundred thousand dollars a year more just based on the CPI, not based on the complexity of the formula. So compare 1982, you know, on an inflationary basis to today, we'd have 300 grand, plus or minus, more than we do, which would be fantastic, right. Like it would afford us, both the AG's office and us, opportunity to be involved in a few other places.

I think the statutory formula hasn't really kept pace with the times. You know, like we've seen -- like the CPI is this generic measure of cost increase, but we know that in the legal profession, those costs are going up faster, we know the technical nature of this work means that the expensive analysis is going to be higher. So the effectiveness of our dollars decreases over time. So I -- but that's a legislative decision, right, it's not something that we can deal with here, except to note it to the powers that be, especially since they are considering the statutes that our empowerment comes from, and say, hey, maybe you want to think about handling this funding differently, especially in light of the -- you know, this is an extraordinary success, right, 18 million for 100 grand, but in fact our track record is a 60 to 1, you know, so we're -- we really return on that investment very well for the residents of the state, and hopefully the legislature could see their way to affording us the ability to be involved where we need to be.

MR. MacINNES: Very good. I'm going to try to reach out and talk to some of the key people. And, you know, I think if we, you know, if we did have some more funding, we had a broader scope, we could I think do more good work, so.

Does anybody else have any comments on that payback analysis?

MR. ISELY: I've been very comfortable with that basic number which is basically the number we've been talking about for months now, because it basically leaves in tact our ability to do the major cases that we have to deal with, but it really strips us of the ability to take something unique that might come into place. So within those constraints, I don't see -- you know, it at least leaves in tact our basic premise, so I'm comfortable with that.

MR. MacINNES: So the 70,000 a year roughly makes sense to you?

MR. ISELY: Yeah, it makes sense to me. And again, if the opportunity arises so we can pay back faster, I'm all for it.

MR. MacINNES: And that we would do, we would, in your mind, evaluate kind of as we look at what comes down the pike or --

MR. ISELY: I mean we -- we've gotten pretty good over the years now of starting to understand what's available and what's not, and so we have to look at the cost benefit of what's there. I'm an economist, of course I'm going to look at the cost benefit, and is it worth the time, the energy, and the dollar to get there. And so I think within that constraint, yes, I think that we should target, and if we get lucky, and we might be able to do better.

MR. MacINNES: Okay. Susan.

MS. HAROUTUNIAN: I think it's pretty much all been said. But I think that we have to do a constant balancing between the payback and the funding what needs to be funded. And I think that everybody understands here that the board is not throwing money in the air and throwing it away at people, and that's important. That raises trust all the way around. And I would like to not have to pay it back, too, but we do, we do. And I just want to make sure that we balance the funding with the payback and not short the funding for the payback. That would be --

MR. MacINNES: Well, and an interesting financial way to look at that is our cost of capital is zero, and if we can get -- you know, the way you create value and wealth is the difference between the return on capital and the cost of capital. If our cost of capital is zero and we can get a nice return by funding a project, that will create more value for the ratepayers, so.

MS. HAROUTUNIAN: Yes.

MR. MacINNES: But that said, and I can

make a good argument for that, I think also the way you obtain trust is you do what you say you're going to do, and if you can, do better. So, you know, we might be able to generate a little more trust with the AG's office if we were to, you know, do a little better, so I guess the balance there.

But it sound like we ought to just set as our minimum the 70,000, as we discussed before, to honor our original agreement, and then see what happens over the coming months.

MS. HAROUTUNIAN: Yep.

MR. MacINNES: Is that a consensus of the --

MS. HAROUTUNIAN: Yes.

MR. ISELY: Yes.

MS. WILSEY: So as a point of clarification, in the grant announcement application, we will represent the appropriation, however, that it is the intent of the board not to exceed 486,000 in grants?

MR. MacINNES: Right. Maybe a way to say it is up to.

MS. WILSEY: Up to. Okay.

MR. MacINNES: So we're not committed to put out all that money, but if it makes sense.

MS. WILSEY: But not to exceed or up to.

MS. HAROUTUNIAN: Yeah, maximum flexibility.

MS. WILSEY: Yeah. Because the current language is approximately X dollars would be available for grants, so I think we'll modify that language --

MR. MacINNES: Yes. Up to X dollars. Up to the number you said. I wonder, do we need a motion for that?

MS. WILSEY: You know, I would be comfortable with one. So just that fiscal year -- I'm sorry -- the 2016 grant application will include an amount of -- did someone have it in front of them -- 486 thousand --

MR. SMITH: 486,674.

MS. WILSEY: -- available up to 486,000 available for grants.

MS. HAROUTUNIAN: I thought I did.

MR. MacINNES: So do we have a motion?

MS. HAROUTUNIAN: So moved.

MR. SMITH: Support.

MR. MacINNES: Is there any further discussion? All in favor, please say aye.

BOARD MEMBERS: Aye.

MR. MacINNES: Opposed? Okay. Very good.

Now let's go to -- I know Douglas is here, and we want to hear from him, but I think David's got some big news we'd love to hear.

MR. SHALTZ: Well, not really big news.

MR. MacINNES: It's pretty big.

MR. SHALTZ: About two and a half weeks ago we got a PFD in a MichCon case, or DTE Gas Company now. We've been over time looking at how they've operated their Gas Customer Choice program. What happened historically is when Michigan decided to offer Retail Choice to customers is that they created tariffs sort of in a vacuum. They set the terms and conditions of these tariffs, but it really wasn't in the context of a proceeding where the operation of the tariffs was looked at in terms of how it was going to affect the other customers on the system. So what we've been doing in the GCR plan cases is presenting evidence to the Commission showing that if you're going to have a Gas Customer Choice program, it shouldn't operate in a way that the gas companies are having to make purchasing and supply decisions that have the effect of driving up the cost on the other customers; and the utilities have consistently pushed back on this saying that's outside the scope of a GCR plan case.

We just got a decision from the ALJ in

the 2012-2013 reconciliation where he basically entirely bought all our testimony on this issue and recommended a little more than a $4 million disallowance. So this is an example where in 2012 in the winter we had a warmer than normal winter, and on the regular customer side, the Company reduced its purchases to reflect that, but with the Gas Customer Choice people, because of the operation of the tariff, they kept buying higher levels, which means that when the year ends, if you've got more of the customers' gas than they needed to use, you have to buy it back from them at a particular price. Well, it just so happened in this time period the difference was about $4.00 per unit versus what you could get it on the market. So basically what the ALJ is saying, it was imprudent for them to continue buying that excess gas from the GCC suppliers.

So we're hoping the Commission will pay attention to this, you know. Of course MichCon's filed exceptions saying this is all wrong, and we'll file replies, and we should know in about two months maybe whether the Commission is willing to go. In the meantime, this same issue is emerging on the Consumers Energy side, and to a smaller degree in the smaller gas companies.

So as Mike and Chris said, if we can get a nice decision here that sort of sets the template for how this issue will be dealt with, it could have an overflow effect on the other cases. So it's a nice result.

Also, the ALJ commented on DTE's continued use of this screwy fixed-price purchase program where they buy 75 percent of their supply under fixed prices, and the result is the customers end up paying way more than they need to for gas in Michigan. So he recommended that that stop. Whether the Commission pays attention to that, I don't know.

MR. MOODY: I think hundreds of millions, right?

MR. SHALTZ: Yeah. That's big, big money. So we'll see how it comes out.

The other cases we're involved with, the 2013-14 GCR reconciliations and the one GCR plan case we're in right now are being litigated right now, they're either preparing for hearing or we're briefing them right now. As soon as we get results on those, we'll report those to you. That's it.

MR. MacINNES: Very good. Does anybody have any questions of David? Okay.

I don't -- we've heard from MEC, but, Douglas, I don't know if there's anything you want to --

you weren't here for the original rundown, but --

MR. JESTER: I mostly want to be here to answer any questions related to that.

I should mention that CARE, who I also do some work for, working through the WEPCo plan case now, mostly kind of getting at the issues he related to SSR payments and how that relates to their PSCR, those kinds of things, but no results or anything, it's just in the process.

MR. MacINNES: I think Chris did a pretty good job of explaining the, what's going on with the, with those other cases and shifting the cost to the ratepayers. So I don't know, I mean I feel comfortable, I think I have a basic understanding of that. I don't know how the rest of the board feels about that.

So is there any public comment, moving on to finishing this up? Yes.

MR. HAROUTUNIAN: As a member of the public, I want to indicate that the comments that I've heard today I thought were really very good. Substantively, I don't profess to understand that completely, however, from the point of view of an attempt being made to explain it in words that are understandable, I thank you all very much.

MR. MacINNES: Okay. It is complicated,

there's no doubt about that.

The next meeting is June 1 at 12:30.

Are there any final comments from the board members that they would like to make?

MR. SMITH: I just -- I do want to acknowledge that we heard lots and lots of good news from everybody, and I'm excited to see the final decisions come through for each of these things, and congratulations to all of you on the hard work. You make us look really good. This annual report this year is going to be great.

MS. WILSEY: Well, let me inject a note of caution. It would not be the first time the Commission has reversed a very well thought out, very detailed, very substantially beneficial PFD. So it may be premature, but good work regardless of the outcome.

MR. MacINNES: Let the record show --

MS. WILSEY: Let the record show.

MR. MacINNES: -- a lot of heads nodding yes in agreement with that comment.

Susan.

MS. HAROUTUNIAN: I'd just like to say I really appreciate everybody's attempting to work with our financial problems, and the fact that they came up and then everybody pulled together to deal, that's really good. So thank you, all.

MR. MacINNES: A lot of positive things.

MS. WILSEY: I just want to inject one more comment on that. Just, again, for the record, even though the term was used gently, financial problems, that the financial situation the board is in is of no lack of fiduciary responsibility on the part of the board. So again, as we continue to communicate with the legislature and with the public, the board acted in good faith in a fiduciarily responsible fashion in each and every year, and it was only through a misunderstanding or misinterpretation that we come to find, or the board comes to find itself in this position, and is making immediate and good-faith efforts to reconcile it. So that being said, the board has, you know, been a strong fiduciary body all this time and is taking extraordinary steps to do so, notwithstanding even some of the board not agreeing that this is the situation. So I just wanted to make that sure on the record as well.

MR. SMITH: I was the only board member who was around to get us into the situation, so it's a little self defense.

MS. HAROUTUNIAN: And I second what Michelle says.

MR. MacINNES: No, I completely agree

with that. Okay. Do we have a motion to adjourn?

MS. HAROUTUNIAN: So moved.

MR. SMITH: Support.

MR. MacINNES: Okay. We're adjourned. Thank you all very much. Good meeting.

(At 2:30 p.m., the meeting concluded.)

\- - -

STATE OF MICHIGAN)
)
COUNTY OF MACOMB)

I, Lori Anne Penn, certify that this transcript consisting of 76 pages is a complete, true, and correct record of the proceedings held on Friday, April 17, 2015.

I further certify that I am not responsible for any copies of this transcript not made under my direction or control and bearing my original signature.

I also certify that I am not a relative or employee of or an attorney for a party; or a relative or employee of an attorney for a party; or financially interested in the action.

Lori Anne Penn

April 30, 2015
Date

Lori Anne Penn, CSR-1315
Notary Public, Macomb County, Michigan
My Commission Expires June 15, 2019