STATE OF MICHIGAN

UTILITY CONSUMER PARTICIPATION BOARD

- - -

MEETING OF WEDNESDAY, FEBRUARY 18, 2015

12:36 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
Susan Licata Haroutunian, Board Member
Michelle Wilsey, Board Assistant
Christopher Bzdok, Michigan Environmental Council (MEC)
James Clift, MEC
Douglas Jester, MEC and CARE
John Liskey, Citizens Against Rate Excess (CARE)
Don Keskey, Great Lakes Renewable Energy Association (GLREA)
Peter Manning, Assistant Attorney General
Michael Moody, Assistant Attorney General
Shawn Worden, LARA
Allan Pohl, LARA
Susan Weber, LARA
Jim Wilson, LARA
Ed Haroutunian, Member of the Public

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

Lansing, Michigan
Wednesday, February 18, 2015
At 12:36 p.m.

- - -

MR. MacINNES: O.K. We're little bit later than our normal start time, but time to get going here. We've got a lot of good, interesting business to take care of today. And I want to thank you all for braving the snow, it was quite an adventure for me. So we have a lot of things to take care of.

I'd like to start by maybe going around the room and having everyone introduce themselves and explaining which organization you are affiliated with, and then we'll go to the agenda here, starting with this gentleman on my right.

MR. ISELY: Paul Isely, member of the board.

MR. DINKGRAVE: Ryan Dinkgrave, member of the board.

MS. WILSEY: Michelle Wilsey, assistant to the board.

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

MR. JESTER: Douglas Jester, served as an expert for CARE and in the combined effort of CARE and

MEC on the cost of service cases.

MR. CLIFT: James Clift, policy director of Michigan Environmental Council.

MS. WORDEN: Shawn Worden with LARA.

MR POHL: Allan Pohl, LARA.

MS. WEBER: Sue Weber, LARA.

MR. MOODY: Michael Moody, Attorney General's office.

MR. MANNING: Hi. Peter Manning, Attorney General's office.

MR. LISKEY: John Liskey with CARE.

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

MR. WILSON: Jim Wilson with LARA.

MR. SMITH: I'm Conan Smith, on the board.

MR. MacINNES: And I'm Jim MacInnes, the chair, the board chair.

We have an agenda in front of us; I would like to propose that we, since we do have so much important material to cover, that we move the board education down below the, after the reports, but before the public comments, given all the other material. So do we need -- I need a motion to approve the agenda.

MR. SMITH: I'll move it as amended.

MR. MacINNES: Is there support?

MR. ISELY: Support.

MR. MacINNES: All those in favor, please signify by saying aye.

BOARD MEMBERS: Aye.

MR. MacINNES: Opposed, same sign.

O.K. So the first item of business here, since we're moving the board education down, is to talk about the UCPB fund rebalancing, and as you know, for the last two months we've had a lot of discussion on it, and I think that we're making a lot of progress in that area. And I wonder, Michelle and/or Allan, if maybe we could start with Allan. Should we start with Allan?

MS. WILSEY: Yeah. I can just give a quick synopsis. The issue, the fund rebalancing issue that we're calling came to the awareness of the board just late last year, well into the funding cycle, and after the 2015 grant announcement had gone out. In effect, it indicated that the reserve that the board was drawing from, or felt that it was drawing from, was not a reserve dedicated solely to the board, it was in fact understood to be distributed between the board and the Attorney General's office. When they reviewed the distribution, it appeared that the board had exceeded its use of the reserve funds, creating something roughly equivalent either to a dip into future spending or a deficit type of situation.

I'll let Allan elaborate on the numbers. But I think we've got it down to a simple story that currently we're -- we've utilized $221,825 over the board's share of the reserve. Now, there are factors that are going to amend that number, but with that, the board is going to look at the means by which it rebalances the fund so that the full reserve that the AG expects that it has available to them is replenished.

Allan, the numbers, please.

MR. POHL: That recaps our meeting we had a couple weeks ago. That 221,000 that is in question as a negative at the moment will be offset by a grant that was closed out from, a 2012 grant that was closed out of approximately 17,000, as well as -- what was the other piece -- a $25,000 contribution that came in just last week, so there's 42,000 that will reduce that -- that will reduce that 221 number from. So that's where you're at at the moment.

MR. MacINNES: O.K. Thank you.

Any questions of the board on that?

There's been a lot of discussion about this money and, you know, how much -- I mean I think everyone here knows we've gone through a lot of thinking and evaluation of what to do and how much to spend, and obviously we owe the AG's office 221,000 less this amount. We've been talking, several of us have been talking about, you know, whether to borrow, try to borrow some more money to help fund some of these grants, but yet at the same time balance that with not going overboard because we don't like debt, at least I don't like debt, and I don't think the board members want to see us get into too much debt with the AG's office. So we've had some discussions and been considering, you know, perhaps borrowing a little bit more, maybe up to the $300,000 mark, to help fund some of these other requests, recognizing this has, you know, been a very difficult year and we just kind of need to hit a middle ground. So that's at least what I've been thinking.

I've had some conversations with the AG's office here, and I invite you to comment on how you -- you know, it's your money, you're the bank, we want to -- we recognize we're going to need to pay you guys back sooner than later, we've been talking about a four-year period, but perhaps even sooner, depending upon future needs. So I guess I would ask you if you're comfortable with us looking at that -- I mean I think we need to put some number on it. I really don't want to just continue on and just borrow forever, it just doesn't make sense for you or for us. So I for one would like to see us, and obviously it's a board decision and we want to get the rest of the board to opine on this, but I'd like to see us put kind of a number out there for this year and this is it kind of thing. So I'm wondering, the number I'm thinking about is $300,000 with a four-year repayment schedule to you all, and I'd invite you to comment if you're comfortable with that and what you see.

MR. SMITH: Jim, are you talking total of 300 or 300 in addition?

MR. MacINNES: I'm talking a total of 300. So we're already 221 --

MR. SMITH: 221, so an additional 80.

MR. MacINNES: Yeah. And then, you know, we have some money to the good.

Susan, welcome.

MS. LICATA HAROUTUNIAN: Hi. Thank you.

MR. SMITH: Would you like to squeeze in over here?

MS. LICATA HAROUTUNIAN: That would be good. Thank you so much.

MR. MacINNES: So I'd just -- I guess I'd like to get some feedback from your office or the AG's office on how you feel about that. I know we've talked about it before and at previous meetings, and what's your feeling about that?

MR. MANNING: Thanks. That's part of the reason I wanted to come over. I think -- I mean given the fact that I think this issue sort of came to a head late in the game, as you mentioned, and you were already moving into the next cycle, and then I think we all recognize there are some big rate cases on the table right now that, you know, we -- again, our view is the statute provides that the money be allocated in a certain way; I think obviously there was some misunderstanding or dispute about that, and in order to try to transition from where we were to the place where the board starts paying us back, I think it's fair enough to say that there should be some additional funds based on expectations from the constituents and some of the ratepayer advocates. So yeah, given the situation, I think we're, we would be fine with that. Obviously if we can see an end in sight, that would be a good way to resolve this. But for this interim period, I think we could --

MR. MacINNES: Well, and I think if we could put a limit on it, that would help to see the end in sight.

MR. MANNING: Agreed.

MR. MacINNES: And a repayment time

period. Michael, I don't know if you have any additional comments.

MR. MOODY: No, not really. Peter's the boss.

MR. MANNING: Sort of.

MR. MacINNES: Well, you're important, too. And we're so glad to see the AG's office represented here, we really value your input and encourage you to attend all our meetings as much as possible.

MR. MANNING: I appreciate it.

MR. MacINNES: Help us help the board, you can help the board make good decisions with your, with what you're doing.

MR. MANNING: And Chair, if I could just, you know, part of the reason I also wanted to come, I mean, again, in light of the money issue coming, maybe this isn't the time to talk about it, but I did commit that we would try to participate more at the board meetings; also that we should talk to our fellow ratepayer advocates, try to coordinate a little bit better, because I think part of the thing, part of what you want to talk about today is trying to make sure that we're leveraging as much as we can out of what are, you know, a finite amount of funds at this point, and as our expenses increase, we're increasing -- you know, we're not going to have a reserve pretty soon, we are probably going to be spending all of the money that's allocated each year, and I think it behooves all of us to try to leverage the money, coordinate maybe better than we have in the past, and make sure we're not hitting redundant issues, covering all the important issues, but we're doing it as best that we can.

MR. MacINNES: Yeah, and I completely agree with that, and I've been in touch with the Governor's office and, you know, that's what they would like to see us do, too, and I mean it makes sense, it makes good business sense to -- you know, our funds are limited, I mean compared to what we had before, and we still want to do the best possible job we can to help the residential ratepayers, and to the extent that we can rely on the AG to maybe fund some of those core -- I mean you guys are going to be doing some of that stuff anyway, and we don't always cover the same issues, and we recognize that, so there will be some things that we'll want to fund maybe separate from what you're funding; but I think that the desire is to try to avoid having grantees use the same -- or have different experts on the same topic, I mean if they can kind of dovetail with your experts a little bit, coordinate with your experts so we don't have to fund necessarily two experts to make the same case. And then where we differ in interests, then we fund those, encourage that, encourage the grantees to fund the experts in that regard.

MR. DINKGRAVE: Jim, if I could just add, I'd like to say that I think -- I very much appreciate your attendance and everything you said. I think we've seen some great collaboration between our grantees on those very same points, and it only makes sense to extend that level of collaboration and coordination to the Attorney General's office, and there's a lot of potential, so thank you.

MR. MANNING: Thanks.

MR. MacINNES: So I'd like to hear from the, more from the board, if there are any other comments that other board members would like to make on this whole issue.

MR. ISELY: Well, I think the direction you're suggesting and the cap that you're suggesting really provides for a relatively sustainable next four years, and looking at what we've had to fund this year, it would cover the types of things that we have to fund without putting that too much at stake, so I like the direction that you're looking.

MR. MacINNES: Any other comments from

the board?

MS. LICATA HAROUTUNIAN: Not from me.

MR. MacINNES: So we're talking about $300,000, you know, really not going into the AG's office fund for -- the 300 would be the max is kind of what I'm looking at.

And yes, Michelle.

MS. WILSEY: I was just going to suggest, do you want to formalize it in a motion that the board consider grants up to, but not exceeding, $300,000, and that there will be a repayment plan of four years or something to that effect, to maybe memorialize it, Peter, Michael, would that be helpful to your office to have something --

MR. MANNING: Sure, I think it would.

MS. WILSEY: -- in a formal motion that would -- you know, maybe not quite a memo or a contract yet, but something that specifies the intent?

MR. MANNING: No, I think that would be helpful. Again, because I think we talked about it preliminarily and then we never sort of came to an agreement about what was the actual. You know, at some point we probably need to get to make sure we have the number exactly right and then determine how much we're going to -- how long we're going to take to pay it back.

MS. WILSEY: Right.

MR. MacINNES: So to me, if we were to -- and I think that's a good idea. I would say something along the lines of that the grant funding would not require us to borrow any more than, or up to $300,000 from the AG's fund this year, and that we would plan to pay it back over the next four years. Something specific, but yet giving us a little wiggle room. We may want to try to even pay it back faster, which I'm, you know, debt is okay, but less debt is better, and something along that line, something kind of simple, but yet it's like we don't really want to go into the bank any more than 300,000 is kind of what -- and then if we have other monies, okay, as long as we don't go into the AG's fund by more than 300,000 this year, and actually plan on ramping down from that and paying with a repayment schedule over the next four years.

MS. WILSEY: Okay. Well, if that is discussion, what we can do is after we review all the business items, when we create the motions, we'll get language put together to that effect.

MR. MacINNES: Okay.

MS. WILSEY: Would that be fine, rather than trying to --

MR. MacINNES: Sound good. Okay. Any

other board comments or thoughts on that? Any comments from you guys?

MR. MOODY: No, I was just talking to Allan a little bit, making sure I understood all the numbers.

MR. MacINNES: Okay. Well, I think that's a, you know, it's really just trying to strike a balance here, and we'd like to do more, and we know there's more that can be done, but we have to live within our means, too.

With that --

MS. WILSEY: Can I just interject, then. So that we are on the same page, in general we're looking at the 221,596, less 25, less 17, so approximately 179?

MR. MacINNES: Yeah, we're sitting at about -- we'd be sitting at about 179.

MS. WILSEY: At this point. So the board may consider grants of approximately $120,000-ish.

MR. MacINNES: Right.

MR. ISELY: Is that right?

MR. MacINNES: Yeah. Well, and then there's an extra $10,000 in there --

MS. WILSEY: Right.

MR. MacINNES: -- which I would like to just leave for now until, you know, we figure out what, how the numbers all fall out. So it's 221 less 42.

MR. ISELY: 120, so that's the difference.

MS. WILSEY: Okay. That's the 10, we're kind of ignoring that now as sort of a rounding error in case we -- we'll let them figure it out.

MR. MacINNES: Yeah. It's always good to have a little spare, just because things happen that you never plan on I've noticed.

Okay. So let's go into -- is there anything else, does anybody else have any other comments, anybody, on Item (a), the UCPB Fund Rebalancing that we've just discussed? Okay. Hearing no more comments.

Let's move to the MEC grant request on the Consumers Energy and DTE Energy rate cases.

Thank you, Allan.

Chris.

MR. BZDOK: Thank you, Mr. Chairman, members of the board. Chris Bzdok on behalf of the Michigan Environmental Council, James Clift of MEC, the policy director of MEC is with me here today as well.

We have before you -- am I doing both requests at the same time, or do you want me to do these one at a time?

MS. WILSEY: Separate.

MR. MacINNES: However Michelle recommends.

MR. BZDOK: Okay. So the request, our first request before you is a request for additional funds, for funds for the pending Consumers Energy and DTE Electric Company general rate cases, and specifically to pursue PSCR-related issues in those cases. And we've provided you with a fairly detailed memo on both cases, but I'm just going to hit the highlights.

These are very large rate increase requests, they're the largest requested increases from each utility in quite some time. Consumers is going for an additional $163 million per year, DTE is asking for an additional $370 million per year. The increases to residential customers are out of proportion to the general increases, so not only do we have big increases, but because both utilities are proposing these rate increases with the cost of service proposals that they have in the pending cost of service cases, the increases to residential customers are a very high proportion: DTE, 321 million of the 370 million are proposed to be collected from residential customers; in Consumers, 202 million of the 163 million is proposed to come from residential customers, again, because of the impact of the cost of service cases. The industrial customer rates will go down and the residential rates as proposed will increase by more than the total annual increase. So a lot of money that we're talking about.

We have presented certain issues that we think are going to be key in this. We've had a meeting with the Attorney General, with Mr. Moody, Mr. Janiszewski, and with one of their experts, Mr. McGarry, and we've gone over our issues and we are in a dialogue with them about their issues as well.

Primary ones on Consumers, they're proposing to buy a gas plant, it's a combined-cycle gas plant, it's supposed to be picking up some base load generation in the form of the seven classic coal plants that are retiring, a portion of that generation. We have had numerous cases, and the board has supported numerous efforts related to Consumers' other combined-cycle plant, the Zeeland plant, and some of that has to do with how that plant is generally treated for PSCR purposes like a peaker. It's dispatched like a peaker, gas is procured for it on the daily spot markets from a management agent like a peaker, et cetera. So if we're buying another yet combined-cycle gas plant and it's supposed to be replacing some of the seven classic generation, are we going to be treating this like a peaker as well; how are we going to be acquiring gas for it; how are we going to be dispatching it? There's also a potential affiliate transaction in terms of how gas will be delivered to the plant because one portion of that line is a Consumers Energy pipeline. So that's a PSCR issue as well.

Expenses for the deferred Thetford plant is an issue that we're going to push back on. And investment recovery mechanism, which is essentially a tracker for capital expenditures, is an issue that we're interested in. Coal plant capital investments on Consumers, I've covered a little bit with you before, but we're interested in some specific issues relative to that. Some of the Clean Air Act expenditures, and specifically the plan for some of these units to use activated carbon injection and dry sorbent injection and how that requires the burning of hundred-percent western coal, meanwhile in the PSCR plan case, they're having all sorts of difficulties with getting some of their western coal due to difficulties with the western rail lines, so figuring out how that's all going to come forth is going to be another PSCR issue. We've got some cap ex relative to Clean Water Act issues that's relatively speculative.

We've got a revenue adjustment mechanism, which is essentially a decoupling mechanism, which is something that we're interested in to the extent that -- so what Consumers has said here is that they are interested in adopting decoupling if legislation occurs during the pendency of this great rate case that would allow it. So over here we've got potential for energy legislation percolating. Decoupling is something that we do support. Decoupling basically says we're going to set a revenue requirement for the utility based on an assumed amount of sales for the year; and then traditionally in ratemaking, if the utility sells more than what they projected, they generate profits on the additional, and if they sell less than what they projected, then they take a loss on the reduction in sales based on -- until their next rate case when they can basically figure all of this out again.

What decoupling does is it says the utility is basically made whole or the customer is made whole on that revenue requirement if they sell more or less. So if they sell more, the customers get a refund; if they sell less, the utility gets some additional money back in terms of a surcharge in the following year. What that does is it breaks the incentive for the utility to sell as much energy as possible, which is good, for among other things, energy efficiency programming, it's also good for some of this peak demand stuff that's driving the cost of service cases. If what's driving capacity investments is the need to sell a ton of energy in the summer to residential customers to blast their air conditioning, then providing for other types of rate designs, things we'll be talking about with Douglas when we get to cost of service, decoupling helps incentivize and remove the disincentive to not try to maximize the sales of energy.

There are also some rate design issues that are tied up with the PSCR that we are interested in. So you can -- can you see that, is that focused for your eyes? It's a little blurry to my eyes, and I'm not --

MR. ISELY: It's a little blurry, but it's good.

MR. BZDOK: Is that better or worse? That's better, right?

MR. ISELY: Yeah.

MR. BZDOK: So these are energy charges, okay. And so what Consumers -- the red is what Consumers has on the books now, and the blue is what they're proposing. So there's two things that go on here: In the summertime, Consumers has what they call an inverted block rate, okay. And what an inverted block rate means is that there is one price for the first 600 kilowatt hours of energy for a residential customer during the month, and then when you go above 600, there's a higher price, and so that's encouraging people to try to conserve if possible, or it's at least giving them a little bit of a disincentive to use more than 600 kilowatt hours. Consumers is still going to have an inverted block rate, but they're bringing it closer than it was. Right. So the first 600 kilowatt hours, the price for that is going up; the amount after 600 kilowatt hours, the price for that is going down. So they're going to bring them closer together, which lessens that disincentive to use a lot of energy in the summer.

Meanwhile, in the cost of service cases, you know, the line is residential demand in the summer is what's driving all the capacity costs and it's terrible for the system and, you know, it's causing everybody's bills to go up and expenses to go up, but with the other hand, we are going to lessen the discouragement to residential customers to use more energy and to buy more energy per month in the summer. So that's a bad thing. And then we are also going to increase the charges for the off-peak months, October to May. So we're increasing at the -- sorry. We are decreasing the charge at the time when -- that drives overall system costs and drives the need to buy new capacity, and we are decreasing -- and we are increasing charges at the other times. So we're going in the wrong direction if we're looking at some type of a rate design that's going to encourage, from a PSCR perspective -- or discourage buying, you know, as much energy as possible during the months when it's driving system costs. So that's another -- that's another issue that we're interested in.

Line losses, there's a new line loss study; we have requested that in discovery. Line losses continue to go up even though we spend money on the distribution system in each one of these rate cases.

DTE -- any questions on Consumers before I move to DTE? Yeah.

MR. MacINNES: Does anybody else have any questions on the Consumers? Any other board questions?

MR. ISELY: The change in the rates that you're pointing out, I understand the incentive side; what's the cost-side argument that's going on here? Because normally when you have a two-tier pricing structure like that, you're going to be arguing that your front-end cost, your fixed costs' area has increased in cost, that your base cost has gone up?

MR. BZDOK: The utility's arguing that it's base cost has gone up?

MR. ISELY: Right.

MR. BZDOK: And yes, they are going to argue that their base cost has gone up.

MR. ISELY: And then the other side would be that they're arguing that their peaking cost has gone down?

MR. BZDOK: But they're not arguing that, they're arguing that their overall system costs continue to go up and that what's driving them to go up are the need to meet those peak demands in the summer. That's everything that's going on these in these cost of service cases: The residential customers are the bad guys, the residential customers are using too much energy in the summer, that's forcing all the other customer classes to incur extra costs, that's why we need to shift all these costs to residential customers; but in the meantime, we're going in the opposite direction in terms of our PSCR charges.

DTE.

MR. MacINNES: Before we get there.

MR. BZDOK: Sorry.

MR. MacINNES: Are there any other questions on Consumers? I have a couple that I'd like to ask.

I've asked the AG's office in the whole spirit of this trying to not duplicate things to provide some, oh, issues that they're going to be working on so that if they're working on it, maybe you don't have to work on it in some cases, you know, because we know they do different issues, too. But so in the spirit of that, they have come back with some really good detailed -- and actually I'd like to share this with all the grantees, because for years now we have been asking grantees to give us, you know, really a lot of detail on what you want to argue and why, because we want to use the money wisely, we don't want to, oh, I just want to intervene because it's a nice day; it's like here's what we want to do and here's why. And so I think these -- and I've asked the AG's office for those comments, too, and I think the comments they have on these cases and on some gas cases are a good model on the type of thing that I'd like to see us get from grantees. Now, I know that your hands are tied to a degree because a lot of times you don't have the information in front of you, so I understand that, and I guess I would just ask, to the extent possible, that you try to be more detailed in why you want to -- in which areas you want to intervene in and why and how that fits in. And I would like to give these to you when we're done as examples of some of that from the AG's office.

In looking at their comments, there were several here, and maybe Michael would be willing to, you know, just start a little dialogue here, but a couple of comments on the CECo cases on, for example, whether or not the investment recovery mechanism would fit under Act 304. I mean a lot of these are Act 304 questions. The revenue adjustment mechanism, is that, you know, Item 5, line losses and, you know, personally I think the line losses are too high basically what I know about power systems; but is that an Act 304 case? Fermi 3 licensing expenditures; is that an Act 304 case? Rate design issues, employee incentive compensation. I don't know.

Michael, do you want to comment on some of this, some of the things you're already going to be working on?

MR. MOODY: Yeah. And I'll just put it in context. We had received an e-mail, I think Michelle sent, these are the areas that MEC is looking into, what are you looking into, and then also is this something that you think is an Act 304. And, of course, our first answer is, well, you know, everything is case by case and more information is always better. I said, you know, obviously ask the intervenor to provide more information as to why they think it falls in there, but my initial thought when I looked at it are some of the ones I provided.

So what we did on Consumers Energy case, we went through and, you know, addressed whether we were looking at the same thing. And like for CECo, the

Jackson plant purchase, we just said, yeah, we are analyzing that, some of the issues related to fuel supply for the plant, and we thought that fit under Act 304. And I didn't provide I guess a lot of detail actually in the CECo and DECo ones as much as I did in those GCR ones, which I could provide more next time.

MR. MacINNES: I think this is a great start.

MR. MOODY: Okay. And so what we did is I said, yeah, we are looking at that one. And I didn't, like I said, explain a lot of how we're looking at it, but and I said that was Act 304.

And then like the second issue was expenses for the deferred Thetford plant, I said that's not really on our list per se that we're going to examine, but we obviously would look into it, do some discovery on it, and we weren't sure how that fit under Act 304.

For investment recovery mechanism, actually both mechanisms, you know, obviously the Attorney General has taken a position that mechanisms, we believe that they're unlawful under the statute, our theory being that the Commission is a body of limited powers and there already are mechanisms in the statute, different recovery mechanisms, one of which obviously is the GCR and the PSCR, those are recovery mechanisms where they forecast an amount and then at the end reconcile that amount. That's what these kind of mechanisms do in a way, they allow the Company to, like uncollectibles, you know, it would be a mechanism that they currently have, which we have argued is unlawful. The Court of Appeals hasn't agreed with us on that, but. So the investment recovery mechanism and revenue adjustment mechanisms are two more that the AG's office would argue are unlawful, that you would have to get legislation to allow this to occur, they can't just grant mechanisms because rate designs are such that the Company, you know, either forecasts an amount and they get rates based on those amounts, test years and so forth, and then as the years go on, if they don't make those amounts, there's a winners and losers, and that's how rate cases work, you don't get to just recover all your costs. You know, there's some expenses you don't make, some expenses are more than you thought, and that kind of washes out in a rate case. These mechanisms allow less risk to the company because they're for sure to get a certain amount of money recovered. So policy-wise, we don't like them because it goes to the risk that the Company is incurring, and if you don't also take that risk into account in your return on equity, which they don't, then the Company's getting a deal on these. But okay, that's a policy question.

MR. MacINNES: So your point is that that -- you're not sure how that fits in under Act 304?

MR. MOODY: Yeah, under Act 304. I was giving my bigger picture of that, but yeah, so the mechanisms, the Attorney General has always argued that they're unlawful. We don't think they really fall under Act 304 funding because it's more of a ratemaking issue, so it seems to be something more of a rate case that you're arguing these types of thing and not an Act 304 question that would be funded through Act 304 funding.

The coal plant capital investments, we thought that was an Act 304, you know, possible issue. We are going to look at that ourselves.

Rate design issues, which I guess follows along with what I just talked about, you know, we are going to look at rate design issues. If it's not the Act 169 stuff, then we thought, well, you know, rate design, generally that's not Act 304, that's in a general rate case.

Cost allocation, you know, 169, that's clearly Act 304, it's put in the statute.

Line losses, another one under the CECo case, we probably won't look at that issue, at least closely, because we allow the Staff and other people to examine that more. It's one of our things that we do internally, too, which I'm sure other people do, we know traditionally what strengths the Staff are, strengths of some of the other parties, we take that into account when we decide what issues we're going to go into. So if we think the Staff's strong on an issue, why spend our --

MR. MacINNES: Well, and that may be an area where grantees can supplement --

MR. MOODY: That's right.

MR. MacINNES: -- provided it fits under. But you say you don't see how that fits under Act 304?

MR. MOODY: Yeah, we weren't sure how that fit under Act 304 funding. It doesn't mean that you can't get an explanation from your grantee on that.

Employee incentive program, again, that's something that we will examine, we've examined almost in every rate case, but again, we don't see that as being an Act 304 funding question, but that could be discussed here, and certainly we'd listen to it, and I'm sure you guys will listen to it.

On the DTE Electric rate case, the Renaissance plant purchase, we're going to look at that. We thought that it, you know, there probably would be some Act 304 issues in there.

The purchase of the 300 megawatt combustion turbine, we'll be looking at that in that rate case, but we thought, again, that could be funded through Act 304, parts of it.

Coal plant capital expenditures, we're going to be looking at that question, too. We thought, again, that possibly could fall under some funding for 304.

The Fermi 3 licensing expenditure, we'll look at that. We didn't see that as an Act 304 issue completely, but that doesn't mean we wouldn't listen to arguments on it.

Rate design issues, again, we didn't think that was Act 304, but we will be looking at that.

Employee incentives, similar to in CECo, we'll be looking at that. We didn't see it as 304.

And that doesn't -- our discussion doesn't mean that any intervenors don't provide excellent work for you guys, because I know I've seen CARE and MEC and, you know, the other guys here do some great work just recently in the Act 169 case. But just as to what we're looking at and your determination as to whether it's duplicative or not or whether we can work together, that's what we're providing this information to you guys for, and then take into account as to whether you want to fund another person to help us on that issue, great, or if you think the AG should go that one alone, that's fine.

MR. MacINNES: Well, it's getting pretty detailed, but -- and I wish we had a broader scope for our work, and I know there's been some discussion about changing that, but today, it's not the way, that's not the case.

So Chris, I don't know if you have any response to that.

MR. BZDOK: Sure. Sure. So the page 1 of the memo under the table says the method -- what I'm doing here is I'm summarizing the two filings and I'm highlighting both PSCR-related issues and other issues of ratepayer interest. So the purpose of the memo was intended to be comprehensive, it was not to ask you to fund non-PSCR issues. In the grant request under No. 1 under the brief summary, we indicate that we're asking for 20,000 legal, 20,000 expert in each case, that we would ask for three times those amounts if the fund was not under its current financial stress, but we're committed to raising the remaining funds needed from other sources if the board is able to fund one-third of the cost. So the intent is not to ask you, and we are not asking you, to fund the non-PSCR issues. My mentor, Peter Manning, always says, --

MR. MANNING: Don't blame me.

MR. BZDOK: -- well, I have to work that day anyway. So I mean if we're going to be at the hearing and we're raising money from other sources as well, we want to let you know all of what we see as the primary ratepayer issues that are on the table, and we do intend to work on those as well, but we're going to be very specific, and we have been very specific in the memo about what the Act 304 implications are of the items that we do feel are PSCR issues, and we're mentioning the non-PSCR issues as well.

MR. MacINNES: So you're trying to give us a broader view of the issues that just we should be aware of --

MR. BZDOK: Correct.

MR. MacINNES: -- with the idea that you're assuring us that the money that we're going to be funding, if we fund your intervention, will all qualify under Act 304?

MR. BZDOK: Correct. We've laid out in each of the issues that's a PSCR issue what the PSCR aspects are, and that's what we're asking the board for. We're not going to handle half a billion dollars of rate cases with the money that we're asking you for.

MR. MacINNES: Why not?

MR. BZDOK: So I mean, but it's just to give you, you know, the full scope and extent.

MR. MacINNES: Okay.

MR. BZDOK: So that's my response to that.

MR. MacINNES: Okay.

MR. BZDOK: And we've met with Mr. Moody and Mr. Janiszewski and one of their experts, we've gone over some of this stuff, and we'll continue to work, you know, elbow to elbow with them on some of these things. We had a good experience in the last cost of service case doing that, and complementing each other, and that would be the intention again here.

MR. MacINNES: Okay. Does the board have any other comment or question on that? Okay. Do you want to --

MR. SMITH: Jim, maybe I could build off of something you were saying.

MR. MacINNES: Yes.

MR. SMITH: I apologize, I missed that note yesterday, so I'm not as up to speed on the dialogue between your two organizations. But Jim, you had pointed out it would be helpful for us to understand the issues that each our grantees and the AG's office are engaging in on a case-by-case basis, and I can see us working with you guys to develop something before we're making grants where we can see is the -- like here's the general rate case for, you know, Consumers. Issue 1: Is the AG involved in Issue 1; yes or no? Is the grantee proposing involvement in Issue 1; yes or no? Are they on the same page, or are they working on substantively the same or different issues? That would be I think really helpful for us to break it out that way in terms of managing a, what is going to be a shrinking budget in future years and making sure our dollars are going to the right places. I don't know how complex it would be to figure that out, but I think it would be a useful tool for the board.

MR. MacINNES: Well, I look at it if we can also have a little bit of dialogue between the grantees and the AG's office to help, you know, back and forth a little bit here, as we've done with our board education, we've brought in a variety of experts who come from maybe a little bit different perspectives to help us be better informed about issues and make a better decision, so I see that as a positive thing. And but I also recognize that grantees don't always have the -- you know, they haven't -- I mean we're sitting here trying award a grant in time, and they don't have all the information, too, so that's -- the way the system is set up makes it challenging. But I think as you outlined, it is I think a great concept; to the extent we could do that, it would be very helpful.

Any other board comments?

Okay. Shall we continue with the DTE, do you have anything on it?

MR. BZDOK: Certainly. And let me say this on that comment. So we get the filing, we go through the filing, we've given you a fairly detailed sort of workup of what we see as primary issues. I met with these guys, I went over our issues with these guys. In the cost of service case, well, really both cases, where Mr. McGarry was in town, I also had the opportunity, Douglas and I did, to meet with Mr. Janiszewski, their colleague, and then also Mr. McGarry at the Cracker Barrel and go over at a point in time -- so when they say, well, we're looking at that issue, and we say, well, we're looking at that issue, and then you do discovery and then you start to sort of, you know, bandy about some drafts of some testimony and you reach a time where we know, we're able to sort of have, to the extent work product can be, you know, disclosed informally, have a more detailed discussion of where are you going, what are you going to emphasize, and we were able to say, okay, at that point, on the --

So one example, in the DTE cost of service, there's a proposed reallocation of uncollectible expense, basically bill payments that just get written off, and those are distributed across customer classes, and DTE is proposing to distribute those in proportion to where they occur, so residential customers will basically be paying a lot more for uncollectibles and industrial customers will be paying a lot less, and we were able to discuss ahead of time why we both think that's wrong. Mr. McGarry put in evidence that that's -- that should simply be denied because it's sort of a societal cost, it's a cost of doing business, not a cost that's attributed to one customer.

Douglas in his testimony was able to say, well, if you are going to look the cost causation on uncollectible expense, we know that certain types of customer, certain types of bill payment schedules, certain types of late payment situations are what are increasing the risks of uncollectible expense, and so if you are going to try to do something more cost-causation based, there are other refined ways you could do it. So we're both saying no, and we're offering some complementary, yet different, alternatives.

So it would be -- that's the type of sort of honing in or refining that we were able to do sort of within the week about filing testimony. It made us say, okay, well, they've got this end of it covered, we don't need to cover that, and we can hit harder over here.

Now we're writing briefs and we're fully supporting, I mean we're going to be fully supporting their proposal and our proposal, so I mean there's a certain evolutionary sense that requires additional meeting. We can always give you a first cut early on --

MR. MacINNES: So it's not so simple as, oh, you're looking at it and they're looking at it and, oh, well, there's a duplication, that's not -- doesn't make sense? So there's a -- you guys are both looking at it and there's a process where you're both getting into it, and as you, as it ripens, you may end up going a little different direction, and so it may take a little while to figure that out. Is that kind of a little bit of a summary of it?

MR. BZDOK: Yes. Inherent in the process of looking into something is getting answers you don't have right now, and figuring out, you know, what you think is going to have traction. So I guess what I can say is we can continue to check in with you as the level of detail refines. We don't necessarily know that -- I mean this is a fairly detailed roadmap, but we don't necessarily know all of the ins and outs and all of the ways in which we're going to be either complementary or different entirely right at the outset, and neither do they, I think. So I mean that's just, for whatever that's worth --

MR. MacINNES: No, that's an important point.

MR. SMITH: I appreciate that, but I want to push back a little bit on it and suggest that, with limited dollars, that there has to be a process of prioritization where you say it's good enough that the AG's office is involved in this issue and we're just going to drop it, and if not you guys making that decision, I think we have to make that decision, especially in light of declining resources to allocate to a wide array of cases.

MR. BZDOK: Sure.

MR. MacINNES: Well, I think to the extent we have that information and you can help us with that, then fine.

MR. SMITH: Right.

MR. MacINNES: But it's not simple. But I think there's more that we can do working together now, because before we weren't really working together as much, you know, and I think that's the point, it's recognizing the challenges, but let's try to work together more and try to fix, sort those things out and so you all know -- I mean we're trying to be fair to all the grantees, okay. We want to make sure everybody gets a reasonable share based on, you know, a good argument, and we've got a lot of things to balance here, and the more we can lop off those things that you guys can identify as an overlap early on, the more money we'll have to fund those other things where you can really add value. So I guess that's kind of what I'm thinking.

Any other board comments? Good, those are good comments, Conan. Thank you.

Okay. Oh, Douglas.

MR. JESTER: I want to make one short comment from experience of working as an expert on one of these cases. In the cost of service cases, we initially identified certain issues that were very apparent. Fully three-quarters of the way through my work on those cases, I finally figured out that the allocation of distribution system costs that's between secondary businesses and residential customers was problematic, and this is actually residue from previous cases. In terms of dollars from residential customers, that's bigger than all of the other issues combined, but it take -- I mean it's a very serious --

MR. MacINNES: It's a process.

MR. JESTER: -- effort to work through all of the information and arrive at that understanding. So absolutely makes sense to identify issues to coordinate a --

(Multiple speakers.)

MR. MacINNES: And that's what you're being funded for, to go through that process.

MR. JESTER: But just recognize that some of it is an emergent discovery as you go through.

MR. MacINNES: Okay. Good discussion.

Anything else, Chris, on your grant request?

MR. BZDOK: No, I think that's most of it. No, I think that's most of it, unless you have questions on the remainder of the memo.

MR. MacINNES: So you're requesting 40,000 for each?

MR. BZDOK: Yes, 20 and 20.

MS. WILSEY: Wait.

MR. BZDOK: 20 and 20 in each, 20 legal, 20 expert in each.

MS. WILSEY: Oh.

MR. MacINNES: Oh, okay.

Let's go to the next item, MEC grant

request, transfer of funds, cost of services cases.

MR. BZDOK: We were able to pick up a small amount of outside money to help support Douglas's efforts, and so we're seeking to transfer 5,000 of his budget in each case to legal.

MR. MacINNES: Okay. Any questions on that from the board?

Okay. Let's go to Item (d) then, CARE grant request, 2014 PSCR reconciliation cases for Alpena, I&M, NSP, UP Power, Wisconsin Electric, and Wisconsin PSC. What's PSC?

MR. LISKEY: Public Service Corporation.

MR. MacINNES: Okay.

MR. LISKEY: All right. We're revising our request to focus on two cases that are, in my opinion, very important to the Upper Peninsula at this specific time. About a year ago an investment group out of London, England, sought to purchase UPPCo, and UPPCo has about 50,000 customers in the Upper Peninsula, and there was a case, a proceeding to get the Commission to approve Integrys Energy, which is a sister of WPS, an affiliate, it's the parent of WPS, as well as at that time the parent of UPPCo. UPPCo has some of the highest rates in the country, they're way up there, over 23 cents a kilowatt hour, something like that. And I intervened, CARE intervened in that merger case on a pro bono basis because I was interested in where they were going to get their power from, because once you break them away from Integrys, they've only got about four hydro plants and an oil plant. And it's like, okay, what's the plan; are you going to be buying from the market, and at even higher prices? When I attempted to raise that issue in the case, I got a lot of push back, and from not only the counsel, but the ALJ as well. So we came to an agreement that we wouldn't pursue it here, but if they would make a $25,000 contribution to this board, I would raise the issue at the next reconciliation case, which is the one that we're applying for at this point in time. So that's the handout I just gave you confirms that they did pay the board here $25,000, Allan Pohl's confirmed it and reported to you earlier. So that's the UPPCo case, we're asking for $25,000. And any questions on that?

The other case that we -- go ahead?

MR. MacINNES: Are there any questions on that case from the board?

MS. WILSEY: So just a clarification. $25,000 specifically for UPPCo?

MR. LISKEY: Correct.

MS. WILSEY: So the Alpena, I&M Power, NSP, that's --

MR. LISKEY: We're only going to do two cases.

MS. WILSEY: -- off the table. Okay.

MR. LISKEY: We're only proposing to do two cases.

MS. WILSEY: Okay. Got it.

MR. MOODY: And to give the AG, you know, since I didn't do a list on his, we're not in that case, so you wouldn't have an issue of duplication. We're not in the UPPCo, actually we're not in any of those cases that CARE presented, but I think there's only two of them now there, but I can tell you right now, we're not in Alpena, I&M, NSP, UP Power, WI Electric or WI PSC, so you don't have any concern of duplication.

MR. MacINNES: Very good. see, that's exactly the type of thing we want to know.

MR. SMITH: John, could you ask for 300,000 next time so we could wash out our debt?

MR. LISKEY: I've thought about it, and there is a merger case going on right now, but --

MR. MacINNES: Good job, though. Are there any other questions about this case?

I have a couple questions. The Governor's office is working on this; is that right?

MR. LISKEY: Not to my knowledge.

MR. MacINNES: No. This -- I mean doesn't this have to do with the merger?

MR. LISKEY: The Wisconsin Electric merger?

MR. MOODY: That's a little different. UPPCo's involved in that case, but not -- this is an UPPCo PSCR reconciliation. It's a little different, but same companies.

MR. MacINNES: Okay. Okay.

MR. LISKEY: This is the -- the time period that we're looking at is the calendar year 2014.

MR. MacINNES: Okay. So this is really about UPPCo and PSCR. Okay.

MR. LISKEY: The next issue, or the next case, should I go on?

MR. MacINNES: Sure, please.

MR. LISKEY: All right. So the next case that we're asking for funding for is the WEPCo 2014 reconciliation case, and we're asking for $17,000 for that. I came up with the number because it tied in with the closing of one of our grants that put $17,000 back in the kitty, so I just thought that made sense.

The issue is, and we've gone over this before, but I tried to put together a chart here that shows you the importance of these SSR payments, and in the proportion that has been bandied about that would be paid by Upper Peninsula ratepayers, originally it was going to be a $48 million charge to be distributed, or paid by all Upper Peninsula ratepayers, and under the old formula, Michigan's Upper Peninsula ratepayers would only pay 8 percent, or about $4 million. And then through the next proceeding was when -- and I think I reported on this -- the Public Service Commission of Wisconsin filed a complaint at FERC to reallocate that, pushing at that time Michigan's proportion from 4 percent to 58 percent, which increased the dollar amount by Upper Peninsula ratepayers to 30 million a year. And CARE, we, because of your funding over years past, we have been watching the MISO and FERC activities, and we -- and in this case, and it's so typical at FERC, a complaint or something will be filed and parties have 30 days to respond, and we got notice of that, we worked a, you know, nonstop over several, couple weekends, and got our comments in on time, and at that time, I called everybody I could call, the Governor's office, I called, you know, Municipal Power Association, told everyone get into this case. Well, this case is blown up into, you know, the most major case I think we've seen in years.

During that period of time, WEPCo did another filing with NERC to actually lower or reduce the footprint of their load balancing authority. What this did, the result --

MR. MacINNES: Excuse me. What's NERC?

MR. LISKEY: The National Electric Reliability Council.

MR. MacINNES: Oh, NERC, okay.

MR. LISKEY: NERC. They have the jurisdiction over this aspect of it. And nobody knew about this, and it was a done deal, and the result of it was now the Upper Peninsula ratepayers were going to pay 99 percent of these SSR charges, totaling $96 million a year. So it went from bad to worse. Now, the Governor and the Attorney General have done an incredible job trying to unwind this for the future and come up with a very good long-term solution where these SSR payments, it was just announced yesterday, I should add, --

MR. MOODY: This morning.

MR. LISKEY: -- that a lot of this was precipitated by the Mines moving their load from WEPCo to actually Integrys, which is ironic, but as part of the agreements that the Attorney General and Michael and Peter have been I'm sure working on this, and the Governor's office, those SSR payments are going -- the Mines are back with WEPCo as of February 1, there's been an agreement that those SSR payments will stop February

1. That's great for going forward.

In our 2014 reconciliation case, which is what we're applying for, the issue is we believe, and as does the Governor's office -- one of the articles I handed out to you titled Midwest Energy News --

MR. MacINNES: By the way, I would comment on it, this Midwest Energy News is a great publication. If you don't get it, board members, you can sign up for it, it comes across daily, and there's tremendous information about what's going on in the midwest, so it's an excellent thing to keep up with.

MR. LISKEY: So there's still -- the exact amount is probably, is absolutely in dispute of how much SSR payments should be in 2014, but let's say it's between $50 and $90 million that WEPCo has received. We believe that those payments, a significant portion of those payments, to the tune of about $17 million, include capital costs, depreciation, things like that, that are already in their base rates, and so that we believe they're double dipping. And the SSR pavements are classified as PSCR costs. So that's the issue that we want to go at, and it's --

MR. MacINNES: What's the size of the possible recovery?

MR. LISKEY: I believe 17 million.

MR. MOODY: Which is huge for that area with a small population.

MR. MacINNES: Yeah, it is.

MR. MOODY: It's a population of thousands versus millions.

MR. MacINNES: Right.

MR. LISKEY: So and that, of all the issues that the Governor and Attorney General have been able to resolve, which is incredible, that's the one issue, the one big money item that remains, and so I'm requesting $17,000 to go after that.

MR. MacINNES: And what about these others?

MR. LISKEY: No, I'm not, I can't.

MR. MacINNES: It would just be that case?

MR. LISKEY: Those two cases, WEPCo and UPPCo.

MR. MacINNES: Those two cases.

MR. LISKEY: I've tried in the past to take $25,000 and do six cases, and I -- sorry.

MR. MacINNES: We could use more money, there's no question about it.

MR. MOODY: And if I could, I was going to point out this was a good benefit. Your funding of

CARE in this situation and prior cases, we were a beneficiary of, the AG's office, because some of your experts that you fund through CARE, I think it's Ken Rose, Bob Burns, and Connie Groh, were key experts that we had picked up because I think you didn't fund CARE. I think --

MR. LISKEY: Right, the MISO.

MR. MOODY: CARE was going to get into a case, they didn't get the funding they needed, we wanted to get into the merger case, but we needed experts that had knowledge of that area. They were acquiring knowledge of that area because they worked on prior cases I think that you had funded, so that worked out great that we were a beneficiary of some of the funding that you had done to CARE because their experts then had knowledge of the area already, then we picked them up in the merger case, they had already had a bunch of knowledge built up that we could quickly use, because those cases go really fast. So but just another situation where kind of worked in our benefit, some of your funding.

MR. MacINNES: Well, we'd love to continue to fund some of the MISO activity, but we have to -- there's only so many dollars.

MR. MOODY: No, it makes sense. I was

just telling you some of your prior stuff did help us, and sometimes it helps the other way.

MR. MacINNES: That's good. Okay. That's great. Great stuff. Thank you.

MR. LISKEY: Thank you.

MR. MacINNES: Okay. We have RRC grant amendment request, which I think the board members have received; is that right? Would you want to summarize that?

MS. WILSEY: Yeah. Unfortunately David could not be here for the rescheduled date, so he did send a supplemental memo. The request was for the 2015-16 GCR plan cases. He initially had proposed a total budget of $109,080 for the cases. When the board reviewed those initially, they granted $20,000 to enable RRC to investigate the filings and to perhaps hone in on or identify more specific issues that may require attention and advocacy. They did do that, David was going to present that to the board. Given his conflict, he provided a memo summarizing their proposed interventions and specific issues of concern in each of those cases. I've distributed that to you. I'm not an expert on this issues, I won't present their issues, but hopefully you've read those. And they have requested $40,000 in addition to the 20 already granted to fund their advocacy in those four GCR plan cases.

MR. MacINNES: Does the AG's office have any comments on these cases?

MR. MOODY: We are in all those cases. Now, traditionally we've been with RRC in all those cases for years. So it's nothing new that hasn't always been, it's pretty much the four main GCR cases are the MichCon, DTE Gas, the Consumers Gas, Michigan Gas Utilities Corporation, and the SEMCO Gas is probably the ones that RRC's talking about, and yet we're in the same cases. Sometimes we hit the same issues, but again, it just, like other cases, like the Act 169 cases or stuff, they do take a different angle. I think last year in the DTE Gas case, our expert, Ralph Miller, we decided, because we knew RRC was going to hit an issue, we wouldn't spend our money that way, we would go another way. So we do take into account what you funded and what we believe your expert will do -- or your grantee.

Again, I mean I know that means that there's two of us in the case, so budgetary considerations, obviously up to you how you want to do that. We appreciate sometimes the extra assistance in these cases, but we can understand that you can't always fund double participation. But again, RRC does a great job, just as MEC and CARE, you know, we don't want to downgrade the work they're doing. But they -- we are in similar cases, actually the same cases.

MR. MacINNES: Okay. And in the cases that, John, in the cases that you just presented, the AG is not, AG's office is not involved in either of those?

MR. LISKEY: Correct.

MR. MOODY: And I guess I'd point out, I guess I didn't -- I don't have RRC's proposal in front of me, so I don't know the exact issues that Dave is proposing, so I can't say.

MR. MacINNES: Right. But you would be in all the --

MR. MOODY: In those cases. But most likely would take different tacks.

MR. MacINNES: Yes, I understand.

MR. MOODY: So I can't guarantee that the issues that he's presented to you are ones that we'll be litigating.

MR. MacINNES: Right. Okay.

MS. WILSEY: Has there ever -- I'm sorry. May I?

MR. MacINNES: Uh-huh.

MS. WILSEY: Have you ever worked with RRC, using their experts or anything like that?

MR. MOODY: We haven't used -- Dave's

used Frank Hollewa, who is a great expert. In fact, the last time I talked to Dave, he said, you know, if you're losing Ralph, you need somebody, you know, feel free to use Frank if you need for something, so we have considered using Frank, but since we're in the same cases, we know Frank will be in those cases under RRC. We haven't done a situation where we funded one expert and we've done briefs. But we have done that in the past in rate cases not involving 304 where we've worked with ABATE, which is an industrial group, and have paid for, or split the cost of one expert and did separate briefs for cost of -- no, not cost of service -- ROE issues, return on equity, where we have an accountant kind of examine --

MR. MacINNES: Have you done that with MEC?

MR. MOODY: No, we haven't done that either, we haven't funded one expert that we both --

MR. MacINNES: Is that something that should be considered, I wonder?

MR. MOODY: I think what Peter was suggesting is that we could fund -- what we would offer at some point, too, that might have been an option, too, but they could use our expert potentially, like we would fund one completely and then maybe offer --

MR. MacINNES: Right.

MR. MANNING: It might be possible, and Chris would probably affirm that you do run into some difficulty. Let's say you have one guy and all of a sudden you're off on slightly different tacks, and one attorney is -- or two attorneys are trying to direct one expert. I mean I think if you know you're on exactly the same, you know, path, that probably doesn't present a problem, but I think if there's some potential that you might want to move a different direction, it's problematic.

MR. MacINNES: It sounds like more Cracker Barrel meetings may be in order.

MR. BZDOK: No, those are self-funded, those breakfasts.

MR. JESTER: That's why it's Cracker Barrel.

MR. MacINNES: Wherever you guys want to meet would be fine with me.

MR. BZDOK: There's a little old lady who throws these big logs on the fire, she just hoists them, boom. It's entertaining, you could sit there all morning.

Our intent on these rate cases, because there's so many issues, and because there's so many different experts, is that we would not propose to try to direct their witnesses; but the one of their witnesses that we've had detailed discussions about the rate case on is somebody I'm very comfortable with, and so our intent is that we will let him handle certain issues, and we will use that as a jumping-off point for briefing and cross-exams, et cetera; so, and it's for the reasons that Peter says, we're not going to get involved in a, you know, what -- their witness trying to serve more than one master type of a situation. But, you know, these proposals are with an eye towards that. There's going to be -- you know, our involvement is going to involve some modeling, which they're not going to get involved in; our involvement is going to involve, you know, Dr. Ron Sahu on some of the technical aspects of the sorbents, which they're not going to get involved in. On the other hand, I know their guy is going to, you know, work on some of these other issues and we're going to be able to ride along there.

MR. MacINNES: Great. That's what we're looking for.

MS. WILSEY: Quick question, if I may, one last one. So as of this point, you haven't had a sitdown at all with David to review these cases?

MR. MOODY: No, I haven't --

MS. WILSEY: But they've been filed, right?

MR. MOODY: Yeah, that's correct. We're at the early stages on the GCRs, the prehearing just occurred in the last couple weeks, so we're at the early stages. I provided that one e-mail I think that gives where we're heading or what we see to be issues in I think three of the four, I might not have given you one on Consumers Energy. I haven't seen Dave's proposal. But it's true that because of so many years we worked together that we to tend to take different tacks, so, and based on where we know Dave will probably go, we go elsewhere. But that doesn't mean -- you know, I can understand you will be funding someone in the same case we're in, but that's not unheard of, and we do it in the Act 169.

MS. LICATA HAROUTUNIAN: Do you find it helpful to have more than one person dealing with the same case, or could you do it just as well all by yourself?

MR. MOODY: It can be helpful, you know, actually. And it depends. You know, if they take a different, a contrary position to us, then we find that, you know, obviously not helpful, but that normally doesn't happen. It's helpful sometimes to have two separate parties come in and it's just kind of like a game of numbers, or like --

MR. MANNING: Right. But again, I think it's a cost benefit analysis about, you know, how much value do you get from having duplicative testimony from the, even if it's, you know -- yes, having two different people say the same thing can be helpful but, you know, is it worth the additional money.

MS. LICATA HAROUTUNIAN: But is that what it comes down to --

MR. MANNING: Not always.

MS. LICATA HAROUTUNIAN: -- or are you going in the same case but different directions so it's add on instead of duplicative?

MR. MANNING: Well, I think in this case we want to make clear we don't know. We haven't looked at what he's proposing and what we're doing, and so I don't think we want to say it's duplicative or it's not duplicative or it's helpful at this point. There can be, again, not to make it more complicated, but, you know, there can be situations where having two witnesses, expert witnesses on something because they're complementary, they're heading in the same direction, but it can be very powerful. There can also be situations where you just have two experts saying basically the same thing.

And so, you know, you guys have a hard job, but I think part of what we're committing to do, to try to do with your applicants is to, as much as we can up front, try to talk over what are we addressing and then, you know, do we think that these are the same issues, maybe the applicant doesn't, but to try to give you more information than we have in the past, because I think that has been a problem, and that is partially a failure on our part.

MS. LICATA HAROUTUNIAN: And that's great. We appreciate it.

MR. MANNING: Yep.

MR. MacINNES: Any other questions from the board?

Okay. Thank you. Yeah, that's great stuff, I'm loving what I'm hearing here.

GLREA grant amendment request. Don.

MR. KESKEY: Thank you, Mr. Chairman. We had sent out a request on February 1, and we supplemented it last night with an updated request to transfer, rebalance some funds between the legal budget and the expert budget in the two PSCR cases in which we were approved. We're not asking for any more money or changing the overall amount of the budget, but as the review and discovery process and the preparation of testimony has gone on, we see that our original figures were not realistic, and so we're just simply asking for that modest change based on updated information.

MS. WILSEY: And Don, what was that number again?

MR. KESKEY: At my memo yesterday?

MS. WILSEY: Yeah.

MR. MacINNES: That some of us received around 11:00 o'clock last night I think.

MS. WILSEY: It was less than the original. The original was 2,600, and I think it's 19?

MR. KESKEY: Yeah, the original amount was 2,600 shifting from legal into expert, and now for each case it's 4,550 coming out of legal into expert. In other words, it's 20 hours plus 15 hours, so it's 35 more hours of expert time in each case.

MR. MacINNES: Any questions or comments about that? Other than I would reiterate, please try to get that information to us earlier.

MS. WILSEY: Oh, okay. So the additional amount, it's additional 1,950?

MR. KESKEY: Yes.

MS. WILSEY: I'm sorry, I read that as instead. Okay. And you verified that the funds are available in the grant to do that?

MR. KESKEY: Well, this is the approved grant, it's not asking for anything additional.

MS. WILSEY: Right. Okay.

MR. MacINNES: Okay. Maybe we should go ahead and take a break and talk about these, and then we can go on to the schedule change and all that.

MR. SMITH: Jim, if I may, before we go, I wanted to alert the board members to a relationship that an organization I have that's developing with John Liskey's group as well. I'm the board treasurer for the Southeast Michigan Regional Energy Office, and that organization is supporting an intervention in the general rate case for DTE around municipal streetlighting. I raised this with Jim and Michelle, concern that there might be a conflict of interest there; and I think, we don't know yet, but we think we're going to hire John to do that work. They didn't feel there was a direct conflict of interest, it's municipal, not residential, it's not a case that UCPB is funding John to be involved in, although we are in involved in other ways through that. So I don't think there's a conflict of interest, but I wanted everyone around the table to be aware that there is that relationship.

MR. MacINNES: Thank you.

MR. SMITH: Thanks.

MR. MacINNES: Does the board have any questions about that disclosure? And, you know, I think that's -- I appreciate your disclosing that, and I don't see a problem, but I don't know if any of the other board members do. Does the AG's office see a problem with that?

MR. MOODY: I don't see any, other than maybe when you come down to voting, you know, you might recuse yourself or something like that. I'd have to look into the situation, but, you know, if you were funding it, that might be a situation.

MR. MANNING: It's not being funded by them.

MR. MOODY: Oh, it's not being funded. All right. Then no, okay, I don't see anything.

MS. WILSEY: No, no.

MR. MacINNES: Okay. Great.

MR. SMITH: Thank you, you guys.

MR. MacINNES: Okay. Shall we go ahead and take a break here?

MS. WILSEY: Yeah, take a 15-minute break and reconvene.

(At 1:59 p.m., there was a 20-minute recess.)

- - -

MR. MacINNES: Okay. We'd like to go ahead and reconvene our meeting here and do our grant awards. So do we have -- let me see, how many have we got here? We've got --

MS. WILSEY: Starting with Business Item, the rebalancing.

MR. MacINNES: Oh, yes. Business Item (a) Rebalancing. Do we have a motion -- this is not a grant, but kind of a --

MS. WILSEY: Just a motion.

MR. MacINNES: -- establishing what we're going to do going forward here.

MR. DINKGRAVE: Yes. I move to cap or limit the UCPB grant approvals for new FY 2015 funds to a level that will not increase the UCRF unreserved fund balance designated to the Attorney General by more than $300,000, and to rebalance the unreserved fund balance in a period of not more than four years, beginning with the fiscal year 2016 grant cycle.

MR. MacINNES: Okay. We have motion. Do we have support?

MS. LICATA HAROUTUNIAN: Support.

MR. MacINNES: Is there any discussion?

MR. SMITH: Ryan, you didn't say increase it by 300, did you?

MR. DINKGRAVE: No. By -- will not increase the use of UCRF unreserved fund balance designated to the Attorney General by more than $300,000. Do we need to reword that?

MR. MacINNES: Maybe it should read to more than $300,000.

MR. SMITH: Yeah. Thanks.

MR. DINKGRAVE: To more than 300.

MR. MacINNES: Good catch.

MR. DINKGRAVE: Can we make that correction, or do you want me to read the whole motion?

MR. MacINNES: Okay. You've revised the motion?

MS. WILSEY: Uh-huh.

MR. MacINNES: And so the idea is no more than $300,000, and then we start paying it back next year over a four-year period, that's the plan. Okay. Was there support on that?

MS. LICATA HAROUTUNIAN: Me.

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

BOARD MEMBERS: Aye.

MR. MacINNES: Opposed, same sign. Okay. Next.

MR. DINKGRAVE: I'd move to approve the

MEC grant request for intervention in the Consumers Energy and DTE general rate cases on Act 304 compliant issues in the total amount of $80,800, funds to be allocated between the approved cases by the grantee.

MR. MacINNES: Okay. We have a motion. Is there support?

MR. ISELY: Support.

MR. MacINNES: Any discussion? All those in favor, please say aye.

BOARD MEMBERS: Aye.

mr.mac: Opposed, same sign. Okay.

MR. DINKGRAVE: I move to approve the MEC grant request transfer of funds cost of service cases as presented.

MR. MacINNES: Is there support?

MR. ISELY: Support.

MR. MacINNES: Any discussion? All those in favor, please say aye.

BOARD MEMBERS: Aye.

MR. MacINNES: Opposed, same sign.

MR. DINKGRAVE: I move to approve the CARE grant request for intervention in the 2014 PSCR reconciliation cases for UP Power and Wisconsin Electric in the total amount of $42,000, funds to be allocated among the approved cases by the grantee.

MR. MacINNES: Is there support?

MS. LICATA HAROUTUNIAN: Support.

MR. MacINNES: Any discussion? All in favor, please say aye.

BOARD MEMBERS: Aye.

MR. MacINNES: Opposed, same sign.

MR. DINKGRAVE: I move to approve the RRC grant amendment request for intervention in the 2015-16 GCR plan cases in the total amount of zero dollars, funding to the allocated among the approved cases by grantee.

MS. WILSEY: We can strike that, I guess.

MR. MacINNES: Is there a support, motion of support?

MS. LICATA HAROUTUNIAN: Support.

MR. MacINNES: Is there any discussion?

I think here the, one of the important factors was the AG's office is already going to be involved in these cases. We don't know if, to the extent RRC would have been involved on a different level or different items. And we would encourage that there be more communication between, or as much communication as possible between RRC and the AG's office to reduce the amount of overlap between these cases.

Any other discussion? All those in

favor, please say aye.

BOARD MEMBERS: Aye.

MR. MacINNES: Opposed, same sign.

MR. DINKGRAVE: I move to approve the GLREA grant amendment request, transfer of funds, as presented.

MR. MacINNES: Is there support?

MR. ISELY: Support.

MS. LICATA HAROUTUNIAN: Support.

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

BOARD MEMBERS: Aye.

MR. MacINNES: Opposed, same sign.

Okay. Is that it?

MR. DINKGRAVE: Well, we need to look at the April date would be next.

MS. WILSEY: Reschedule.

MR. MacINNES: Okay. The next item of business, now that we're finished with the grants, is the April meeting, rescheduling that. And --

MS. WILSEY: Susan has been able to check on availability of this room for the 15th, 16th or 17th dates, and those are all currently available.

MR. DINKGRAVE: You mean the 18th --

MS. WILSEY: Oh, I'm sorry, 15, 16, 17.

MS. WEBER: Yeah, 15, 16, 17.

MS. WILSEY: 18th is probably available, too.

MR. DINKGRAVE: I'm busy.

MS. WILSEY: Or the following week.

MR. MacINNES: So does anyone have any -- I'm open on all of those days. I don't know if anyone has any constraints on those dates or wants to pick a date.

MR. SMITH: I can not do the 16th.

MR. DINKGRAVE: The 15th or 17th are better on my end.

MR. MacINNES: 17th, 16th and 17th?

MR. DINKGRAVE: 15th and 17th.

MR. MacINNES: 15th and 17th. Okay. Any other? Do grantees have any, does AG's office have any thoughts or any recommendations?

THE REPORTER: I'm out the 16th.

MR. SMITH: She's out the 16th.

MR. MacINNES: So what would we like to do, the 15th or the 17th?

MS. WILSEY: Taxes are due on the 15th, just in case anyone is finishing up, just letting you know.

MR. MacINNES: So maybe the 17th.

MS. WILSEY: No, I'm just kidding.

MR. MacINNES: No, it's true. A lot of people have a lot of work to do before the 15th.

MS. WILSEY: So the 17th?

MR. MacINNES: Shall we try the 17th?

MS. LICATA HAROUTUNIAN: It's good with me.

MR. MacINNES: We don't need a motion for that, do we?

MS. WILSEY: Yeah, you do need a motion.

MR. MacINNES: Okay. Do we have a motion?

MR. DINKGRAVE: Yep. I move to approve the rescheduling of the UCPB regular meeting from April 13 to April 17, 2015.

MR. MacINNES: Do we have support?

MS. LICATA HAROUTUNIAN: Support.

MR. MacINNES: Is there any further discussion?

MR. SMITH: Is that at 12:30 again?

MS. LICATA HAROUTUNIAN: Uh-huh.

MR. MacINNES: 12:30. All those in favor, please say aye.

BOARD MEMBERS: Aye.

MR. MacINNES: Opposed, same sign.

Okay. Next we'll go to Item No. IV, reports. AG's office, Michael.

MR. MOODY: I guess more or less open to questions. I know it probably is confusing, I mean I know we've done this a million times, talked about what we're in what we're not. But if you ever have any questions more detailed as to, you know, how our office operates, I can answer those. Otherwise, you know, I'm trying to think of anything I can report to you guys that would helpful. But if you had a question about a particular case, what we're doing; if it's one that I'm doing, I could probably tell you more about it. We do have another attorney, John Janiszewski, who's not with me who's handling an another bunch of cases.

MR. MacINNES: How about this WE Energy's deal that the Governor's office is working on.

MR. MOODY: Now, is that the merger case, right?

MR. MacINNES: The one where the Company, Valerie Brader believes that the Company may be triple dipping.

MR. MOODY: Now, I think that's the one that CARE is looking at, the WE Electric.

MR. MacINNES: Oh, that's right. Okay. You're not on that.

MR. MOODY: Yep. You know, we're not in that case, but some of those issues bleed into the merger case.

MR. MacINNES: What -- do you have any comments on the merger case?

MR. MOODY: I mean, it's a huge case, it was really fairly interesting, and still going on obviously. We're in the midst of a contested case settlement, which is kind of one of my first. We've always gotten to the point of sometimes trying to get people together, we think we might have a contested case settlement, and that's a situation where we have multiple parties but you can't get everyone to sign on, and so the Commission does have a procedure for a contested case settlement, which it's almost like doing the case again, but a very limited version now because we've all signed on to what we think the case should be or a settlement.

In this case, we have Wisconsin and Integrys, the Joint Applicants, the AG, the Staff, Fibrek, CARE, pretty much everyone that's in the service territory of those areas all signed on to settlement; but Cloverland, who is an intervenor but is not being served in that area won't sign on and they've argued they want some things, they've argued that there's some breach of contract issues they have, some wholesale questions, wholesale contract issue that they want to try to get some benefit on. It's been a big battle. In fact, we're actually going Friday to try to kick them out of the case, which is kind of unheard of, but we've actually filed, the AG has filed a motion.

MR. MacINNES: Where are they located?

MR. MOODY: They're up in the U.P., eastern portion of the Upper Peninsula.

MR. MacINNES: Eastern portion.

MR. MOODY: They're a municipal co-op. Co-op, yeah.

MR. MacINNES: What are some of the issues they're raising?

MR. MOODY: So they're focused on, you know, issues that affect just them, it would make sense, it's Cloverland, but they have issues that we feel that are outside the merger case; one of which is a breach of contract claim. They believe that the sale of the lines to UPPCo, which is part of what the current agreement entails, breaches some deal they thought they had or believed they have with Wisconsin that ended in end of 2014. So they believe the settlement might breach that agreement, which we've argued, hey, take that to court, it's not part of the merger case in front of the Commission. And then they have a wholesale agreement with Wisconsin that they'd like to get a better deal on I think is their angle, which of course we argued, not part of the merger, at least we don't think it's relevant to the merger issue that's before the Commission. They do argue they think there's a broader concern about reliability of service, though they haven't really detailed what that is, but they've made that argument in their objection to the settlement.

Our argument is we think the settlement as put forth to the Commission right now is the sale of the Wisconsin lines to UPPCo, the termination of the SSR payments, which are, you know, millions of dollars, I think that's the main thing, and we think that will eliminate some of our concerns with the merger, because originally we argued that -- the merger was going to be Wisconsin with Integrys, we felt that affected Michigan in a way that might put some market power concerns, that they would own, you know, a lot of the distribution and generation, as well as the transmission, ATC, and we felt there could being some concerns with someone that controls that much power in the area.

So then we fought in the FERC case, which all the way up until about a couple weeks ago we filed a letter saying we don't have an objection, assuming the settlement goes through. What that means is that they'll be out of Michigan, so we have told FERC that as long as they're out of Michigan, that it's Wisconsin, Minnesota, Illinois concerns, because they got five states they got to go through to get the merger done with. So we don't think that's going to be a problem in Michigan if we get this merger deal done.

MR. MacINNES: There's been some discussion lately about expanding the UCPB to be involved in broader cases and perhaps trying to find some more money to fund intervention on behalf of residential ratepayers, or even perhaps eliminating the UCPB and having another board that would do that and perhaps other things. Do you have any information on that that could be helpful to us that you can share?

MR. MOODY: I don't. Our legislative director, Ellen Cropson [ph], would probably be the person that would have the best knowledge since she's the one that works with the legislature on that. I haven't heard of it, I know when we had talked prior that you mentioned you had heard about that. All I know is I think I talked to John and there was something in the house --

MR. LISKEY: House republican action plan.

MR. MOODY: Oh, action plan, okay. That

they were looking at this issue. I've received some calls from people asking, you know, who's a consumer advocate, and I have explained how advocacy works in the State, you know, we have the Attorney General's office and the board and how the funding works. And that I explained other states do it differently, I think it works here in Michigan, but some states, I'd say about maybe half, I don't know the exact number, but do it through their AG's office, some do consumer councils, some do it a separate consumer council, some do it through their commission itself.

I think going through the AG's office has been good, and working with the board, and you get the added benefit I think, if the consumer advocacy is with the AG -- this is my view -- that you get the added benefit of having the AG on it, which, you know, compared to -- when I go to these National Association of Regulatory Utility Consumer Advocates, I think that's the name, it's a long title, there's some consumer council groups there that are pretty active and good and do a good job, but I don't know, maybe it's my personal view because I work at the AG's office, but I think it's better to have the attorney general's office there on the people side, I think we have a bigger name maybe and, you know, it lends some added support to the consumer advocacy. That's a personal view, so. Obviously, I don't know how other people view that.

MR. MacINNES: Okay. It was just something I had heard about and --

MR. MOODY: So I don't know. It would be nice to have more money, you know, obviously, always, but that's -- and then, you know, expanding the scope, it's always been an issue that I noticed the board has made in a multiple grant, or the filings you make at the legislature saying expanding the scope would be helpful. I think it's a ditto from the AG's office. It does make it more difficult to, you know, have to parse out, okay, I can fund --

MR. MacINNES: We do spend a lot of time on that, and that's what the law requires, that's what we do; but there are a lot of issues that could be addressed if there was more, you know, broader scope. But I guess we'll leave that up to the powers that be here.

MR. MOODY: Yeah. We appreciate the work that we've had with you guys over the years, so it's been helpful, like I said, that --

MR. MacINNES: Well, I think, you know, having the AG's office and then having our group, you know, we're -- I think having those two working together is a pretty powerful force.

MR. MOODY: Yeah. It's been helpful I think over the years and saves a lot of money I think you can tell from the reports that have been filed with the legislature, it's been millions, hundreds of millions.

MR. MacINNES: Right. Are there any other questions for our representative here, Michael, from the AG's office?

MR. SMITH: Thanks for being here, it's great.

MR. MacINNES: Okay. Thank you.

And then from the grantees. Maybe this time we'll start with Don.

MR. KESKEY: Okay. We have been funded for four cases, the 2014 PSCR plan and forecast cases for Detroit Edison and Consumers Energy, and then in this grant cycle for 2015, the two PSCR cases for Consumers Energy and Detroit Edison for the year 2015 and the five-year forecast. And our focus has been a unique issue, one that would examine their plan and their forecast to determine whether they're adequate and complete in terms of planning or encouraging the use of solar energy to mitigate costs, to mitigate peak costs, to add capacity during the, particularly during the high peak months when solar aligns very well with air conditioning loads, which is a main driver for residential costs, and in fact, utility costs. And the utilities in their plan cases have presented very scant information, and also have projected either flat or even declining uses of solar, even though there are programs that are encouraging solar, the public's interested in solar, there's community solar, there's utility-owned solar, there's customer-owned solar where customers can be empowered to do something about the escalating costs of electricty on the residential class. And so that's our, that's our framework.

And, of course, I don't have to go into all the advantages of solar; there's not only a cost mitigation aspect and empowerment, giving the customer some independence or some options, but there's a host of environmental and even system benefits, whether it be reducing congestion or line losses or any number of other things that with more encouragement could be part of the portfolio of energy capacity resource in the State as it is happening in some other states.

But anyway, the two cases, the intervention of the Great Lakes Renewable Energy Association has been granted in both Edison and Consumers. The testimony is to be filed in Edison on March 12 and in Consumers Energy on April 1, and then thereafter the hearings will go on generally in the period of May to June, and the briefing will follow.

We do not yet have results from last year's cases. The briefs have been filed in both cases, the process is under way, but no results to report. And that's it.

MR. MacINNES: Okay. Any questions for Don? Okay. Thank you.

John, would you want to --

MR. LISKEY: I don't really have much of a report. We're still in the middle of these couple of the plan cases, primarily the WEPCo 2015 plan case is going, undergoing radical changes as the SSR payments are being -- you know, the announcement this morning is huge, that the Company's agreed to stop the payments effective February 1, and so that's probably going to cause the 2015 plan case of WEPCo to restart, like, okay, throw that away, let's start over. I mean that would be what we're advocating. And that's where we're putting all of our effort.

Just as background, CARE on its own on a pro bono basis did intervene in the merger case, the WEPCo merger case, and we did that primarily because if you really want to know what's going on, you need to be in the cases, some of these case that are not Act 304 cases, and so even though it results in many hours --

MR. MacINNES: So that's a very interesting point. If you -- say that again.

MR. LISKEY: If you really want to know what's going on, you need to be in some of these other cases, and that applies in my WEPCo situation, Wisconsin Electric, and so for that reason, we intervened in the merger case, and I stopped counting pro bono hours at 200.

MR. MacINNES: But that helped you in the Act 304 cases?

MR. LISKEY: Oh, absolutely. It's all about the SSR, and --

MR. MacINNES: So that's an example, if there was an increased scope for your intervention, that could -- those could be synergistic?

MR. LISKEY: Well, and I think they were, because, as Michael mentioned, they hired the experts that we would have had in that case, so that it worked out really -- I don't think it could have worked out better.

MR. MacINNES: There you go.

MR. MOODY: Yeah, it did work well.

MR. MacINNES: So anything else on the MISO, on MISO Transmission Expansion Plans, Northern Area Study, any of those kinds of things that --

MR. LISKEY: No. The only thing we're looking at right now, and I'll kick it to Douglas, would be -- I don't know if you want to mention the meeting in Carmel.

MR. JESTER: Sure. So, you know, MISO's got a lot going on, as you know from the board education last time. But with the very limited effort that we're putting in, I have been tracking and participating to a degree in the demand response working group. Nothing particular to report at this time. A reminder at last time I had presented on that to the MISO planning advisory committee.

Currently they're preparing -- or in the early part of the process, they're doing what they call the MTEP 16, so it's the transmission planning study that will be completed in 2016 and that looks forward to roughly 2030 as the time horizon. And as a part of that, they construct several different scenarios of what the world might be like, and then evaluate each transportation -- or excuse me -- transmission option in the context of each of those scenarios, the idea being to, not to optimize for one possible future, but to optimize considering the range of possibilities. So most of my activity the last couple months has really been around influencing those scenarios to take proper account of the expected Clean Power Plan rule. They're still trying to do scenarios out to 2030 where, you know, sort of all but one assume there's no limitation on carbon emissions by EPA, and I don't -- and then they assign probabilities to these where just automatically they give a ten-percent probability into each of five scenarios and then have a voting process on the other, which tends to be dominated by motivated reasoning of what you want the world to be like as opposed to what the odds are. So we're sitting here with a draft rule, an expectation of a final rule in the summer.

The history of EPA rules is that they get court cases and they get delayed, but eventually they go into place, and yet the initial proposal from MISO Staff was to have four scenarios without the Clean Power Plan and one with. We are now at three with the Clean Power Plan and two without, so making a bit of progress towards being more realistic. And an important part of that is, you know, at least one of them is beginning to recognize that a lot of this might be done with efficiency rather than producing and transmitting more power. And then the transmission alternatives are needing to start looking at significantly more renewals and that sort of thing. So that's kind of been the principal activity, and it will all come to a head at the planning advisory committee meeting two weeks from now.

The other issue that I think John was referring to is they have a hot topic at each one of these, and the hot topic this time really is around the capacity planning resource adequacy issue that we're certainly hearing a lot about here. So --

MR. MacINNES: That's the three-gigawatt shortfall everyone's talking about?

MR. JESTER: Yes. And as they told you, most of that shortfall is in Michigan. So while it's being talked about in the abstract at MISO, really for most parts of MISO, they're roughly in balance, Michigan is, you know, the center of the issue. So it's important that we say our piece on that.

MR. MacINNES: So when you talk about efficiency, is it correct to assume that also includes demand response?

MR. JESTER: Yes, it is. We're still sort of negotiating over what the details of each of these scenarios will be and how much demand response there will be. Currently MISO's demand response program is open only to large single consumers of power, so the principal participants are a couple of smelters, but if you want to look at doing a lot more of it, you've got to aggregate small, and that's -- whether the scenario includes that is kind of the question at this point.

MR. MacINNES: So are you seeing the utilities here in Michigan when they're doing their planning and you're watching all this, are they considering demand response as a resource?

MR. JESTER: DTE has -- well, both of them have long had industrial interruptibility, which is not quite the same thing. DTE has long had an air conditioner cycling program, and they seem to be pushing that up a little bit, but they're really not either modernizing it technologically or adding other energy, electricity consumers other than air conditioners.

In the general rate case that Consumers has filed, they are saying that they're going to do some demand response programs, though we're still lacking any deal of detail in that.

MR. MacINNES: So we do demand response in my business, Crystal Mountain, and we've been doing it for at least 10 years, and we cut out about 3.3 megawatts of demand and save about, when we do that, we save somewhere between, you know, $35,000 to $40,000 for that period. It's very complicated, time consuming, because we have to shut down all our pumps for snow making. We have 140 snow guns that we have to go and shut off, send crews throughout the hill to shut off all the snow guns, and we have lights. Now, this is a lot -- a lot of this is done in November when we're maybe not skiing. We have motors in our waste water treatment plant, we shut those down. It's very complicated and time consuming, but our people have learned how to do it, and I would think that if we could do it, that other small businesses could do it.

MR. JESTER: Yeah, I believe that's true. In parts of the country where they have aggregated programs, they're substantial.

MR. MacINNES: Okay. Anything else from your side, John?

MR. LISKEY: I just wanted to mention that Douglas is so highly thought of by all the other consumer advocates throughout MISO that they invited him to speak to these subjects on a panel at a MISO meeting in Carmel in December, I guess, and they paid the travel.

MR. MacINNES: Great. Good deal. Congratulations.

Okay. Michigan Environmental Council.

MR. BZDOK: I would propose, if it was okay with the board, that we would go right to the board education and talk about the cost of service cases. We have other things we can talk about, we can talk about those in April as well. So if that's all right, I'd rather devote whatever time you give me to cost of service.

MR. MacINNES: How does the board feel about that?

MS. LICATA HAROUTUNIAN: Fine.

MR. MacINNES: Okay.

MR. BZDOK: So as you will recall, these cases are a --

MR. ISELY: I apologize, but since I'm going to have to leave in the middle of your talk, I'm going to leave now.

MR. BZDOK: I'll get over it eventually.

MS. WORDEN: You'll have a Cracker Barrel meeting.

MR. ISELY: I'll read it.

MR. MacINNES: There you go.

MR. BZDOK: Safe travels.

MR. MacINNES: Yeah, safe travels.

MR. BZDOK: These are a joint effort of CARE and of MEC; it was John Liskey's idea at the origin to do these in collaboration. And so we are in, collectively in the Consumers Energy, the DTE, and the Indiana Michigan Power cases, and he's doing more in Indiana Michigan and I'm doing more in Consumers, and Douglas is a primary expert witness in all three of those cases, and we have one other witness in at least two of them.

The statute -- so I want to talk to you a little bit about how this kind of all got set up and what the dollars are at stake and how some of that breaks down. Douglas also is going to provide you with some thoughts about some solutions.

So this is the statute that was enacted in June. The first language that I've highlighted here is partly holdover language from Public Act 286 of 2008 and partly amended language for the cost of service cases, and it just says: The cost of providing service to each customer class shall be based on the allocation of production-related and transmission costs based on using the 50/25/25 method of cost allegation. And then it says: The Commission may modify this method to better ensure the rates are equal to the cost of service. So clear as day, right.

What are we talking about here? So production-related costs and transmission costs are what they say. Production-related means anything having to do with generation, and transmission is anything having to do with transmission, and these are fixed costs, so they're not the variable costs that are largely dealt with in the PSCR, but these are the fixed costs that the utility has to own and manage and that customers have to pay a return on and the utility has to pay taxes on, fixed costs for production and transmission. And the situation now is those are allocated under a method called 50/25/25, and what 50/25/25 is is it's a way of divvying up the pie, so to speak. And the 50 in 50/25/25 is the, each customer class's contribution to peak demand, an average of peak demand over some number of months, and it's different for DTE and Consumers. So each customer class has a certain amount of demand on the peak days of each month, and that is one of the -- their share of the demand becomes a portion of their share of the cost. Fifty percent of these fixed costs are allocated based on their share of peak demand; 25 percent based on their use of on-peak energy, so energy during on-peak hours; and 25 percent based on total energy. And so that's sort of a balanced method that says some fixed costs are due to the fact that there's a share of demand on the system, and that's what -- the utilities have to build transmission to carry peak. The amount of transmission needed is to carry the peak, the amount of production that they need to have in service is to handle the peak, and some of it also has to do with the amounts of energy that are used.

Then it says: The Commission can modify

this method to better ensure rates are equal to the cost of service.

The new statute then also says that the Commission has to start these cases, and the utilities have to file within 60 days a proposal to modify those existing cost allocation methods. And the proposal must meet two conditions: One is that has to be consistent with that earlier subsection which allows you to modify 50/25/25 if that will better ensure rates are equal to cost of service. So we can modify if it will be better at cost of service. And also, we have to explore, the utility has to explore different methods for the allocation of production, transmission, distribution, customer-related costs, and overall rate designs that support affordable and competitive electric rates for all customer classes.

So we can go off of 50/25/25, it's going to do a better job at meeting cost of service, but we also have to explore different methods for allocating these costs and rate designs that will support affordable and competitive electric rates for all customer classes. This language was not in the earlier, the first iteration of the statute, it was amended into the statute by some smart people. Now, I'm not referring to myself, I just -- or anybody. Yeah. It was smart to add that into the statute, that's what I'm saying.

MR. MacINNES: And the reason it was smart was?

MR. BZDOK: Let me bookmark that and come back to it.

MR. MacINNES: Okay.

MR. BZDOK: The reason -- no, the reason it was smart was because what are we trying to do here, right? And you'll recall there was some discussions in front of the board when this was all first getting going, and there was some talk about, well, we need to, we need to reset some rates because we are driving up overall costs, and the overall costs of electricty and, you know, electricity rates in Michigan are high, and the place we have to look to do that is we have to reduce peak demands, and so we have to -- we have to price things in a more rational manner, and that was the support that was given for doing this, but that was not the genesis of doing this. The genesis of doing this was a set of meetings that were invite-only meetings -- Douglas tried to get into these meetings and he couldn't -- that were conducted by the Michigan Economic Development Corporation, the utilities were there, and the big business customers were there, the biggest primary customers; and these meetings sort of lead to a report, and the report lead to the statute. And the objective of the meetings was different than the objective of the statute.

The objective of the meeting and the objective of the group was to discuss non-legislative options that will lower rates for energy-intensive industrial customers and to maximize what we can do with existing policies. So -- and the original version of the statute looked a lot more like that. It was being supported with the idea that we need to get a handle on these peak demands in the summer that are driving system costs, but the original version which was driven by this original process was just to lower rates for industrial customers by adding those rates on to other customers. Okay. And so I think it was very smart to add this other language in the statute that says, no, we need to focus on all customers, we need to focus on affordable and competitive rates for everybody.

MR. MacINNES: And I think it's true that NARUC has multiple methods for allocating production/transmission/distribution costs.

MR. BZDOK: Yes. Yes.

MR. MacINNES: So multiple methods should be looked at in determining -- methods should be looked at in determining this, in recognizing that that's the situation.

MR. BZDOK: Totally agree. Totally agree. So this is a manual that everybody used throughout this case that was National Association of Regulatory Utility Commissioners, and has a lot of different methods of -- this is vacation reading if you want, you know, I can loan you a copy. There's a lot of different ways to come at this question of how do you allocate the fixed costs of the system and how much of it do you do based on contribution of peak demand, how much of it do you do based on other factors. So that's -- The purpose of these cases and the purpose of the statute is to explore all that and to figure out, to examine the various methods and proposals, allow people to intervene, including on behalf of residential customers, and try to figure this out, and then the Commission is to issue a final order adopting the methods that it considers appropriate. So the Commission is being given a charge here to do these things.

Now, the proposals that were filed came out of this work group process and out of this report. So this process went on, they produced a report, the report had some allocation proposals that the utilities examined at the request of these participants, and those are the proposals that the utilities filed, and those are the only proposals that the utilities filed.

Detroit -- so DTE, this is a comparison of --

MR. MacINNES: So where do the residential ratepayers come in on this?

MR. BZDOK: Let me get -- yep, let me show you.

MR. CLIFT: Get out your wallet.

MR. BZDOK: Yep.

MR. MacINNES: Oh.

MR. BZDOK: Yep. Here's what we have -- no, and that's part of why the amendments to the statute were so smart. We had a process, the process was focused on how much cost can we shift off of industrial customers and on to somebody else, and the somebody else ended up being residential customers, and the rates, the methods that were examined in that process and that were filed by the utilities did that, they were very effective at doing that.

So here you have production, right, and production here includes both generation and transmission. So we've got a shift from this 50/25/25 method to, for transmission, a shift to 100/0/0, so a shift to 100-percent demand based on the 12 coincident peaks. So each month's peak, 100-percent demand is the transmission allocator. And the reason given for that is that's how MISO, under the MISO tariffs, that's how the transmission providers bill the utilities for transmission, so it makes sense that the utilities would bill customers on that same basis. And for residential customers, that's an $11.6 million per year increase, and for primary customers, that's a $7.7 million decrease.

Production, by which case they mean really generation, going to four coincident peaks, just the summer months, in terms of your contribution to demand, just looking at it in the summer and looking at it as 100-percent demand and nothing having to do with energy use, the shift is $54 million additional to residential customers, and $59.2 million decrease to industrial customers. So this is where a lot of the money is.

And then distribution, they had some changes with respect to how voltage, how distribution is billed based on voltage. Douglas had some thoughts on the offensive side of this about all of that. As far as the defensive side, there's just not enough money there for us to have focused on it. A million eight increase to residentials, a million seven decrease, in the overall context of this case.

And then as I mentioned earlier in our

comments, a change in the way that uncollectibles were being allocated that was proposed by DTE was going to increase residential rates by 22.8 million a year and decrease industrial rates, primary rates by $16 1/2 million per year, for a total difference of $90 million increase to residential, $85 million decrease to industrials in DTE.

MR. CLIFT: And that's year one.

MR. BZDOK: Year one. Pure Michigan.

And the effects of that, and something I want you to note about that, is that these -- let me get back to where I was. These changes are changes using the utilities' last rate case test year. So for DTE, this is using 2011 data and 2011 rates, that's what this U-16472 is, that's their last rate case. Consumers Energy, the same thing, 17087, their last rate case.

Both utilities, as you know, have pending rate cases filed, and the impacts of these changes are magnified in the pending rate cases. And that's the table at the beginning of the memo about the rate cases where, you know, when you take DTE's proposal and run it through a $370 million overall rate increase, residentials get 321 million of that; when you run it through a Consumers Energy $167 million increase, residentials get 200 whatever million of that. So these are differences using the old rates, but at the very same time these proposals will be adopted, or almost at the same time, new rates are going to go into effect either by self-implementation or by Commission final order.

MR. MacINNES: And correct me if I'm wrong, but even as it is, isn't it -- don't the residential rates, aren't they the highest of any other state in the midwest?

MR. BZDOK: Douglas can give you more detail on that.

MR. MacINNES: Is that right?

MR. BZDOK: We do have a slide on that.

MR. JESTER: They are, and in national rankings we're, depending on the utility, 11th to 14th.

MR. MacINNES: Okay. There's the chart.

MR. JESTER: And we're similarly ranked across classes.

MR. MacINNES: But so in the midwest, though, we are the highest, is that safe -- is it safe to say we are the highest residential rates in the -- we have the highest residential rates in the midwest?

MR. JESTER: Right here is Michigan, Wisconsin is the highest of our neighbors, so they're just a couple notches down.

MR. MacINNES: Uh-huh. But we are the

highest of --

MR. JESTER: Here's Ohio, Minnesota.

MR. CLIFT: Highest in the midwest.

MR. BZDOK: And under this proposal, we're going to higher than everybody but Hawaii, New York, Alaska, Connecticut.... You know, these are states that obviously everybody knows have really high rates. And so under this proposal, yes -- so the answer to your question is yes. And that gets back to, you know, how is the outcome of these cases --

MR. MacINNES: And that's the way it is now before these cases?

MR. BZDOK: What Douglas had here was both.

MR. JESTER: Here's Michigan average, this is DTE's current, this is DTE's proposed.

MR. MacINNES: So the point is that currently we're -- we have the highest residential rates in the midwest, --

MR. JESTER: Yes.

MR. MacINNES: -- and under this new deskewing proposal, which will further deskew the rates away from energy intensive users to residential users, we will have even -- that will move us up the chart of all the states and we will remain the highest in the midwest?

MR. BZDOK: Yes.

MR. JESTER: Yes.

MR. BZDOK: And we will leapfrog Massachusetts, New Jersey, Rhode Island, which when you think of a low cost of living, you know, that's what you think of.

So yeah, it's going to take a -- so when we talk about the statute that was smartly drafted, about, you know, methods that are going to support affordable and competitive electric rates for all customer classes, and then you overlay that on those results, Mr. Moody asked Mr. Stanczak from DTE in cross-exam, well, what do you think this means, and he said on the stand, well, I think affordable is subjective, it means different things to different people.

MR. SMITH: Well, that's true.

MR. BZDOK: What else could he say? Moody had him dead to rights.

MR. MacINNES: So I'm just wondering if that chart that you're passing around showing the rates, if that's some of what's precipitated some of this discussion about expanding the role of, you know, these, I guess intervention on behalf of residential ratepayers, you know, as -- given where Michigan is on this chart and the fact that the rates are going to go up, that there seems to be some interest in having more residential ratepayer advocacy.

MR. BZDOK: I can't speak to that.

MR. MacINNES: But that's what it -- that would certainly be, you know, a factor, it could be a factor, you know, you can just look at the chart and where Michigan falls on this.

MR. BZDOK: When you look at a chart like this, what does not come to mind is, well, the solution is residential customers should pay more, higher rates. Right. I mean that's -- that does not come to mind when you look at that.

Consumers, the numbers are not as high. The thing that we are very interested in, the shift in production costs increases residential customers' costs by $46 million, decreases industrial by 50 million. So it's very comparable numbers to the shift based on production costs in DTE. I'm focused more on DTE just because we only have so much time.

But DTE is -- so this is a discovery response. DTE is making two decisions: One decision that they're making is they are going from -- they're going to, in figuring out the contribution to those peaks, they're going from the average of 12 monthly peaks to the average of 4 monthly peaks; Consumers is already at 4 monthly peaks. And then they're going from 50/25/25 to 100-percent demand. Okay. So we asked them in discovery to break that out, and they broke that out as, you know, here's the transmission again, here's going to the 4 monthly peaks instead of the 12, that's a $19 1/2 million difference; here's going from -- and then here's going from that to the 100-percent demand, that's a $36.7 million difference.

So the items that we are -- and in fairness -- you don't hear me say that very often -- but in fairness to the utilities, you can make a good case that these are -- these are for CP utilities, they are -- these are peak, these are the average, these are the monthly peak demands in different years, and you can see there's a very clear sort of summertime, sort of a summertime peak demand quality to it that really drives you towards a consideration of the 4 months rather than the 12. Right. You can see that -- you can see that summer is definitely a different type of a state in Michigan.

So our primary focus on the defense side of this is this uncollectible number of 22.8 million from the exhibit, and the $36.7 million number from the 100-percent, switch to 100-percent demand. So out of 90 million, you know, that's really about 54-55 million that we believe is the most live areas of dispute.

On the question of the uncollectibles, I mentioned that already. On the question of the 100-percent demand, I want to show you one of Douglas's exhibits. So when we're talking about peaks -- why don't you tell them what this is since you made it.

MR. JESTER: Okay. So I picked the hours of the year when DTE's load was high, highest, and that worked out to be about 80 hours of the year. And this graph shows when those hours are; horizontally it's the day of the year, and vertically it's the hour of the day. So what you can see here is these are very end of June and July, and in terms of hours of the day, it's, you know, somewhere at 11:00 o'clock in the morning to as late as 9:00 o'clock in the evening. The translation is, these are heat waves, a few hot days or heat waves that drive these hours. That is the difference between the minimum load that I used here and the load they planned for is almost 15 percent of their capacity. And we pay, you know, depending on what class you're in, 8 to 15 cents a kilowatt hour, but the cost of serving these, the marginal costs, is more on the order of $9.70 a kilowatt hour, you know, just for the incremental above normal. So that's an idea of what's going on.

MR. BZDOK: So what that means is we're proposing to allocate the cost of DTE's entire generating fleet, all of its different kinds of generating plants, everything that goes into generating, all the fixed costs that go into generating electricty based on the contribution to peak demand, peaks that occur -- I mean we're picking out the top peak in each of these summer months, but peaks that really are occurring in very, very finite time durations.

And so probably my last exhibit, and then I'll turn it over to Douglas for what's the solution to this -- and I can't, for whatever reason, my computer squeezes these down, so I can't show you the whole thing. But what I'm showing you here is an all-in cost, fixed cost of ownership and operation for various types of DTE power plants. This was the other expert, Sansoucy, put this together. So steam, which is coal, all-in cost, dollars per megawatt, $75. Nuclear, everybody knows is expensive, $144.

MR. MacINNES: So do those costs include depreciation?

MR. BZDOK: Yes, that's all this stuff here.

MR. MacINNES: And what year does it assume those plants were built?

MR. JESTER: These are actual.

MR. CLIFT: These are actual.

MR. BZDOK: These are actual based on FERC form data.

MR. MacINNES: So if they want to built a new coal plant or new nuclear, it would be likely higher than that.

MR. BZDOK: Yes, no question about it. The coal's at $75, the nuclear is at 144. Hydraulic is hydro. Renaissance purchase is this peaker. So again, we're talking about, you know, these summer peaks, right; and how do you meet a summer peak, you buy a combustion turbine or a bunch of combustion turbines and you run them and it costs you a ton of money to pay for the natural gas, but you're only doing it for a very short period of time, and as a result, your fixed costs are very low, and that's what DTE is proposing in the new rate case right now; they're buying the Renaissance plant, which is like 700 megawatts, and they also have an RFP out for additional combustion turbine capacity at a price that they estimate with some estimating that we've done based on operating costs of about $45. So we're going to charge residential customers based on their contribution, 100 percent on their contribution to peak demand for all of these costs, right, because what happens at 6:00 o'clock on July 5th when the air conditioners go on; well, then they crank up Fermi 2, right? No. Fermi 2 runs all the time and provides really cheap variable cost energy, which helps who? It helps the large energy users who are using energy 24/7/365, and that's why it's worth it to spend the big bucks, I mean at least in theory, on these base load plants is because then you're providing cheap energy at high volumes over a long period of time in a steady way, and then when you're getting to these peaks, you know, you charge a lot for the energy because you're paying a lot for the variable costs, but your cost of ownership and your fixed cost of operation is much cheaper. And so that's kind of the case we're presenting on the defense side for the production end of it.

Now this is an argument about basically how are you slicing up the pie, and then Douglas is presenting, and is more or less the only witness for any party presenting, you know, how are we going to maybe be able to get at this larger issue. Right. The only witness who's offering any idea other than, you know, just how much cost are we going to take off of the industrial customers and dump on to the residential customers.

MR. MacINNES: So let me ask you this:

So what if we were to beef up the transmission line between western MISO areas and Michigan, and take the same gas turbine, you know, let's say in Kansas versus Michigan, if you could beef up the transmission line, and so you have that peaker gas turbine that you just run during the hottest part of the Kansas day, and then several hours later you get the peak in Michigan and you use that same gas turbine and send the power, why couldn't we do some of that as a way to deal with that rather than having to own all this capacity in Michigan?

MR. BZDOK: I can't speak to the technical specifics of that, but that's the kind of discussions that we need to be having.

MR. MacINNES: I mean I know you need robust, you know, voltage control and all that stuff, and that's part of the answer, but it seems like transmission is so inexpensive compared to generation, it would seem like we'd be considering that as a solution. Of course, that would be a plant that the utilities wouldn't own, which has other implications in terms of they won't get their 10-percent return, 10 1/2-percent return.

MR. CLIFT: Probably even more so, that would point out how expensive our base load power is and that how marginal, how many marginal units we have compared to Kansas that wouldn't even run the base load power because theirs is significantly less expensive than ours.

MR. JESTER: There's a persistently lower locational marginal price in western MISO than in Michigan, and less congestion. The only challenge with what you're talking about is if the wires go through Chicago, Chicago will absorb all of that benefit, so.

So I want to talk a little bit about just the concept. I'm happy to share the testimony, it was about 120 pages double spaced for Consumers and about 140 for DTE, the difference being the treatment of this reallocation of uncollectible expenses that was an issue in the DTE case and not in the Consumers case. I'm not going to talk about that particularly, I want to talk about rest of it.

So the sort of starting point here was to say the proposition is to shift costs based on some theory of who's responsible, but then the actual rates with which people are confronted on their bills, both at present and as proposed by the companies, failed to pass that price signal through to customers. So in the case of residential customers, they're really saying, we're going to really sock it to you for a big share of our capacity, but in terms of how we charge you for using power, we're going to keep it secret, that it's expensive for you to use power on that July afternoon because we're going to charge you the same amount that we charge you, you know, at midnight in April when power is truly cheap to supply. And so that results in residential ratepayers being in effect gulled into expensive habits; and it also means that because the demand charges -- and I'll speak to that more -- give a little bit of guidance to the industrial customers, it also shifts the balance of load at a peak time more to residential ratepayers, leading to them carrying a bigger part of the cost. So I wanted to take a different approach here and look at something that would truly give signals so that people could make rational choices about their use of power with consideration of what it is really costing them when they do that rather than hiding it.

So let's go to the first slide. So some definitional things just so what I say will be of meaning. Required revenue is what the utilities have been determined by the Commission to be entitled to earn as -- through their charges to their customers, and that's in aggregate numbers.

Cost allocation is taking those big numbers and parsing them out to who is responsible for what share. And as we have been talking about, those are in cost pools like production, transmission, distribution and so on, recognizing that the share that of, say, distribution that residential customers should be responsible for is different than the share of production that residential customers should be responsible for.

And then rate design is, okay, I'm going to get this amount of money from residential ratepayers, what units of service I'm going to charge for and how much for each unit of service. So do I charge for kilowatt hours, do I distinguish between different times, or do I charge for demand, you know, kilowatts or for being connected to the grid, et cetera. That's what rate design is.

So while we certainly took issue with their cost allocation and the things that I proposed have implications for cost allocation, where we differed from everybody else was addressing this question of rate design in more than just continuing to do what they've always done and giving those price signals that would let people make changes to lower the total cost of the system back up here, reducing the required revenue, therefore, the cost allocation and so on.

So the next slide. So the Company proposals, Chris has already talked about pretty well, but I just want to reiterate here, both of them are proposing to do the production plant on the 4CP 100/0/0 scheme, so to use the proportions of the peaks of 4 months, June through September, and allocate 100 percent of the production plants based on that. And then transmission, use the monthly peaks and 100 percent on that. And both of them really didn't propose a change in the way that they billed customers.

So I'm not going to read all this to you, but basically we defended the current cost allocation to a certain degree, while saying in our offensive case that there's a natural change in cost allocation if you actually bill people based on when they use power, things like that. There's no reason, you know, if I use a kilowatt hour at a particular time than General Motors does, that those should have different costs. The market price is the market price for power, and so ultimately you get to a change in how you do cost allocation if you actually bill based on when people use power and things like that.

We also proposed creating a low income rate. By law, in these general rate cases, the companies have an obligation to propose low income and senior citizen rates. They didn't do it in the cost allocation cases, which just seems kind of nuts to me, so we proposed doing it and suggested how it should be done. And the basic argument that we made there is it's fair to say even low income people should bear the costs of the -- that they actually cause the Company to incur. So marginal costs. But to the extent we are taking shared costs and allocating them across customers, we probably shouldn't burden low income people with those. So that was the essence of our logic there.

And then on rate design and cost allocation, Ramsey Boiteux over here as an economic theory specifically asks the following question: If you are a monopoly and you have shared costs that, you know, aren't marginal to each customer and you're going to allocate them to the customers, what is the way that you should do that that maximizes the welfare of your customers? So it's specifically the theory that should be applied by the Commission in deciding how these monopolies should allocate their fixed costs to their customer, and so I tried to be rigorous about applying that approach to this question. So I'm going to do it with more pictures, but the essence of it is charge a marginal cost when you can, and then take care in allocating your joint and shared costs so that you have the least welfare impact. And when you think about least welfare impact, it actually makes sense to try not to burden industrial customers too much because they can basically move away, and it makes sense not to burden low income customers, and then the remainder of the argument is, don't distort anybody's prices too much; and the essence of our argument is that the companies are really distorting everybody's prices quite badly, leading to great economic inefficiency and unfairness.

MR. SMITH: Doug, what's your second to last bullet about merging these classes?

MR. JESTER: Okay. Going back a few years I had suggested in various conversations that instead of allocating, instead of doing rates by customer class, who are you are, we should be doing it by the nature of the service you get, and that the best way to approach that is at what voltage are you connected to the grid. So companies actually adopted that by way of the workgroup, I think I'm actually responsible for the origin of the idea, for their primary customers, but then they maintained a distinction between business and residential secondary customers.

So our argument here was -- I use my own residence as an example. I live in a multistory condominium building, first floor is retail, upper floors are residential, we are served by literally the same infrastructure, but we have different rates because they're businesses and I'm residential. That makes no sense. So our argument was, just combine for purposes of allocating distribution costs all secondary customers. And that turns out to be the biggest number at play in all of this.

MR. BZDOK: And the Staff agreed with you, they just wanted to cap the rate at which that was phased in.

MR. JESTER: Correct.

MR. BZDOK: The Staff ultimately agreed with the rationale.

MR. JESTER: So that would be about $140 million a year savings to DTE's residential customers; somewhat less for Consumers, 36-40 million, in that range.

MR. MacINNES: So you and I both saw a presentation about rate design with, and it was a speaker from Oklahoma Gas & Electric, which was very interesting, because they put the high -- you know, they sent a message. And I just signed up for this at my house, I have Consumers Energy new like time of day metering for electric vehicles kind of thing, so my 13-cent rate went down to 9 cents at night and on weekends, and then it went mid week, it went up to 15 cents during nonpeak, and then during peak, it's 22 cents from 2:00 to 6:00 I believe, and you can be sure I'll be watching my energy consumption during the peak, the summer, that's the summer. In the winter, it's not that way. But so -- and that's what Oklahoma Gas & Electric did, they gave a nice benefit, if you want to use the energy, you know, on an off-peak time, you get a discount from your current cost, and then if you want to use it during the prime time, you know, then you pay a prime price.

MR. JESTER: And effectively that's where I'm at, a few differences from the Oklahoma Gas & Electric, but same idea.

MR. MacINNES: And they've been successful, I think, as reported.

MR. JESTER: Yes, they represent that they have.

So let's go ahead and go to the next slide. Just I want to give the sort of the conceptual background with some pictures here. But in the end, I was really recommending that for businesses who currently have demand charges, that instead of that being a demand charge -- let me make sure everybody understands this. Both companies will basically look at each business customer and say, over the last 12 months, what was your peak hour, and how much did you use in that hour; and it doesn't matter what hour it was, it was just sometime in the last 12 months, that's the basis for your demand charge. Some businesses, their demand, their peak hour is in one of these high load times when the company has to build more capacity; other businesses, it's not. Jim's business, I presume, is typically not peak in July, it's peak maybe on a January evening or something when you're making snow. A lot of agricultural processors, they're busy in the fall, not in the summer, and so on. So in that sense, the demand charge is unfair within the class, industrial class, and it also -- if you take, you know, an operation like Jim's, he can change when he makes snow, but when he makes snow, it takes more or less the same amount of energy, so right now we're just telling him don't make your peak too big with the demand charge, we argued for switching from that to a peak period charge, so now if he makes snow when it's, when demand on the whole system is low, there's not a significant upcharge for that, it's only if he does it in July. And if you start making snow in July, Jim, you deserve to be charged for it.

MR. MacINNES: To this point, exact point, we met with Cherryland Electric and Wolverine Power this December, and they're -- they, starting January 1, have changed the structure, so we no longer have the $10.50 -- $10 per kilowatt month of demand charge we were paying in the winter, that's been cut in half, and then they have another demand charge that is more based on the demand, the peak demand for MISO, which would be peaking in the summer when we only draw 500 kW. So they get it, hats off to Wolverine Power and Cherryland Electric for changing that and recognizing that exact point.

MR. JESTER: Right. So that's the core change in idea for the industrial customers, over what the Company proposed is let's just charge, instead of demand charges, let's charge peak period at these few hours of the year when load is really high, and on the residential, small business side, instead of never charging for peak, just charging energy, let's charge for these peak periods and then lower the price the rest of the time. That's the core of the proposal. There are lots of details, but that's really it.

So just to explain, 8,760 hours to the year, this happens to be Consumers from a few years ago, but it's -- this is the load for each of those hours, and it varies a lot.

So go to the next slide. It's pretty typical in utility planning to just sort those hours; instead of the hours in order, do it by the size of the load from highest to lowest, and that's called a load duration curve. So you can look up here and, say, at 5,000 megawatts, go over here, that happens about here, so we're that much or more 2,353 hours of the year. That's the way to interpret that graph. And then if you look at what the company has to do to satisfy this at lowest cost, well, first of all, they have to meet the peak, so they have to own enough capacity to do the peak plus some reserve margin, and that has a cost, and then they have to run plants, and they run the least costly ones up to whatever the load is over here, and so that's the variable cost of the fuel and so on that they get. So that's the basic cost structure they face.

So the next slide, the Company says that the capacity costs should be allocated by the load shares in these four peak hours, the 4CP, so I put them in there and you can see where they are just to understand what this debate is about.

So next one. Now we talk about base load and peak load and all that, so here's how that really works. There are technical limitations on turning nuclear plants up and down and that sort of thing, but the economic logic here is they are expensive to build and cheap to run. Same is true of most coal plants. And so for the part of your load that's always there, you build expensive plants that are cheaper to run if the total cost is less, then you do something else, and that's this base load part of the load duration curve.

And then in here, you get plants where it's sort of intermediate, they're not as expensive to build, but you invest enough in building them to make them relatively efficient, and these days that's typically a combined-cycle plant. Ludington pump storage plant also kind of fits in here, although its fuel is buying power from down here.

And then these are peakers, and those are now typically combustion turbines.

So that's the idea. And we say capacity costs should be measured as the cost of owning enough peaking capacity, the lowest capital cost of capacity to meet the peak load plus reserve margin. And then over here when you talk about energy, it's both the extra cost of investing in a plant that's cheap to run, and the cost of running it. So instead of putting the full cost of a nuclear plant on these few hours, we say the nuclear plant gets credit for the cost of an equivalent amount of peaker plant over there and then has to live off the energy value over here. That's really where the cost allocation argument is that's between us and the proposals by the Company.

Next slide. Now, here's where we do something that, there's a lot of economics literature, but it's really rarely done, and sort of where Oklahoma

Gas & Electric has gone. Say over here, if people really knew how much it cost to serve, they would use less, so let's charge it, and the result will be that we'll lower the peak by this amount and we'll save that much in capacity costs through the price signal, and aggregate between the two companies, we're into a few hundred million dollars, depends on the details you pick, but, you know, easily $300 million of savings in what they need to have. That's small in the context of a $10 billion total cost, but it's not trivial, and it cascades through some of the other things as well.

So next slide. Just to make a point on the side, if you do renewables, the way to think about them is, even though they're variable, think of them as sort of negative load and do the same analysis on what's left and you still get the same sort of results. All the noise about reliability and so on, it's just that, you can use the same methods they've always used until you get to very high penetrations.

So now let's take that load and break it out by class. And these are those four peaks that I've showed on the other, and again, they're peaks of certain months, that's the definition of 4CP; that's not too much different than the actual peaks, which are right across here.

So next slide puts that into the load duration curve format. So now you can see what share of the load over here is residential, commercial, industrial, and streetlighting, and there's a little bit of wholesale going on, so it's in the graph, too. So yeah, there is a big spike in residential load over here at the peak, and it is heat-related, but when you actually parse it out, you know, commercial also increases, industrial is relatively stable, as the difference across all of those.

MR. SMITH: Doug, just to clarify that, then, are you saying that everybody's use is going up during those peak times, so by placing the burden almost exclusively on the residential class, it's unfair because others are driving it, too?

MR. JESTER: Correct. And then by not charging people and telling them that they're not making their best choices.

MR. SMITH: Smart choices.

MR. MacINNES: But wait a second. When you say everybody's peak is going up, I mean it's really being driven by the residential?

MR. JESTER: There's a bigger swing in the residential, but if you actually break it out, there's a peak in commercial and industrial driven by temperature as well, you know, chiller plants --

MR. MacINNES: It's just not so big?

MR. JESTER: It's just not as big.

So next slide. So if I translate that into shares at these different parts of the load duration curve, you can see here the 4CP residential share, this is for Consumers, is 44.4 percent, 33 percent for commercial and 21.7, you can get, you know, the balance on the year by coming out over here and you can see that it's, you know, 5 percent less for residential, so that's kind of where all these arguments are going.

The next one.

MR. SMITH: So I'm sorry, I just can't see that slide quite so well. So on the left-hand side where the blue hits the thing, is that basically 50 percent, is that what you're saying?

MR. JESTER: 44.4 percent.

MR. SMITH: And what --

MR. JESTER: At the peak.

MR. SMITH: I guess I don't understand that slide. Can you explain it one more time?

MR. JESTER: At this -- okay. I see what you're saying. The 4CP is 44.4, this is about, I don't know, 46 right in here. This is the share of the peak load, the single highest hour that the residential customers have, and then arranging the hours from highest to lowest, how the shares change.

MR. SMITH: Gotcha.

MR. MacINNES: But the point is, they all share in the peak load, commercial and industrial, they're all there drawing power?

MR. JESTER: Right.

MR. SMITH: Thank you.

MR. JESTER: So we used some studies, some pilot projects that DTE and Consumers have done on peak period pricing, as well as some literature on a hundred and some odd other experiments with this kind of pricing, and not only said this is the right way to do the pricing, but estimated what would happen if they did. So if DTE went this way, we propose the peak period pricing threshold of 9,250 megawatts, where they're forecasting their peak as 10,478, and we think by pricing, you can actually get, hold customers down to that 9,250. For Consumers, 6,300 megawatts, where they're at 8,865, they're more spiky than DTE. So that's, you know, 12-percent reduction in peak load for DTE, 29-percent for Consumers. Only 80 hours of the year for DTE, only 54 hours of the year for Consumers. So a lot of costs being driven by a few hours.

Taking this approach should

automatically -- almost immediately produce a reduction in required revenue, about 2.6 percent for DTE and 6 1/2 percent for Consumers. After peak will have time to adjust, which will take a few years, you know, to invest in the practices of the equipment that lowers their peak load, that can be, in our estimate, 11.4-percent cost reduction, total system cost reduction for DTE, and Consumers, as much as 26 percent. Really big effects.

And to give you an idea, I don't want you to get the wrong idea here, this is a measure of economic inefficiency; that doesn't mean that it's all extra costs being charged by the Company, some of it could be people consuming more than they would if they were -- if they had the price signals. But for DTE, it's $510 million a year, and Consumers it's over a billion dollars a year. So these are not minor matters in terms of the welfare of the people in businesses in Michigan.

Then this last point, combining the residential and secondary commercial into one class and allocating the costs there. By the way, right now the delivery charges are per kilowatt hour, and our recommendation was to make it as a percentage markup. If you're going to these time varying rates, then you want to take that same approach; not add as much at night when it's cheap, add more when it's expensive. But it's $142 million cost shift between residential and secondary business customers, and you can see the percentage bill reductions there. Consumers, because of different historical rate treatment, it's only a $34 million cost allocation shift between the two, but again, not trivial.

Yes.

MS. LICATA HAROUTUNIAN: Does doing all of the shifting offend the customers that the utilities are trying to attract or protect?

MR. JESTER: Our estimate here in terms of the industrial customers is that, coming out of the box with our approach here, the industrial customers are still going to get a lower rate than they do now, maybe not quite as much of a gain as they have asked for, but close to it; but then when you take account of within a few years reducing the total system cost, they're actually better off than they would be under the Company's current proposals.

MS. LICATA HAROUTUNIAN: Okay.

MR. MacINNES: Well, and I think that's a really important point, because, as you know, you know, the average age of power plants in Michigan is quite -- isn't it over 50 years or something like that?

MR. JESTER: Fifty-either. Almost as old as me.

MR. MacINNES: So we're about to have a wholesale change in the generation, and these numbers you were showing are all based on existing, you know -- it's like when I have a chairlift, you know, it doesn't cost me as much after it's 25 years old, right. If I have to put a new one in, guess what, it's about double or sometimes triple the cost of the chair lift that I had before, and I'm sure that's the same with a nuclear plant or a coal plant or combined-cycle plant, whatever. So the idea of cutting that demand and reducing the amount of generation, that's the most expensive component, much more expensive than transmission and even distribution, that's a really important factor.

MR. JESTER: Yeah. The particular numbers that we proposed as a threshold actually were based on the current capacity and anticipated retirements, and just sort of saying, well, let's price based on that and then if it turns out that that doesn't reduce the demand enough, they can build something, but if it does reduce, then we avoid building something and we made reasonable forecasts that we will in fact avoid building at this scale. That's almost enough reduction in peak load to eliminate the MISO forecast shortfall between the two companies.

MS. LICATA HAROUTUNIAN: Wow.

MR. JESTER: It's right up there around.

MR. MacINNES: Because if we keep going the direction we're going, it's a bad future, it's an expensive energy future.

MR. BZDOK: I can jump in?

MR. JESTER: Yeah.

MR. BZDOK: So Douglas is the only witness that really proposed anything meaningful to get at the issue of overall system costs and this capacity that they're having to add, right, even though we showed you in that earlier exhibit that the fixed ownership cost of peakers are lower, however low those are, you're owning capacity that you're using to meet peak requirements and reserve margin requirements that you're using only a few hours of the year and you're paying for ownership all year.

And, you know, we found the minutes of those industrial workgroup, that came out in discovery with the Staff, but one of the things that was most interesting to find was that they were talking about some of this stuff, too. This is someone from Dow Corning saying the business customers agree there should be a time-based rate option, and the rate should reflect time-based costs, and that would send a proper price signal, and the customers also, the business customers think the collection of demand-related fixed costs should also have a time-based component. So, you know, these are not dumb people, they saw that this is part of the solution as well, and yet what emerged from this whole process was just a raw political proposal to shift rates from one group to another. And so, you know, part of what we're doing in this case is trying to show that while we're the only ones to formally present this, Staff agrees with it in theory, although they're saying it's, you know, we're not there yet, and the industrial customers wanted it, too. So --

MR. MacINNES: So that would be Rod Williamson from Dow Corning, --

MR. BZDOK: Yes.

MR. MacINNES: -- electrical engineer in charge of all their energy --

MR. BZDOK: Yes.

MR. MacINNES: -- for the Company.

MR. BZDOK: And there were other comments like this by other people as well, that this is --

MR. MacINNES: Head of ABATE, chairman of ABATE.

MR. BZDOK: Yeah. Yep. And sorry. Go ahead.

MS. LICATA HAROUTUNIAN: Does that mean

that people eventually will be listening to this, because you've got not just you but others also saying the same thing?

MR. BZDOK: That will be our pitch. Our pitch will be -- I say this being in the middle of the first draft of the brief in the first case. Our pitch will be the statute requires more than what the utilities are proposing, the statute requires more than just a raw cost shift, and the cost shifts proposed are not fully supported, at least as to those areas that we talked about; and furthermore, the Staff required you to explore other things that will lead to other ways to make rates more affordable and competitive for all customer classes, and this is the only witness who's offered you meaningful proposals to that effect, but this is not the only party that wants this. So that's going to be kind of the way, you know, we're trying to come at it, and just keep hitting them on this and keep trying to --

You know, obviously we disagree with ABATE, for example, about the appropriateness of some of these cost shifts, production on the collectibles, but we very much agree with them about solutions to overall system costs, and I think we both know that -- I don't have that up anymore, but I showed you that slide of the proposal to change the PSCR charges, and that's going on in both rate cases. I mean that's not what -- the utilities want to shift the costs, but then they want to send the opposite price signals because they're in the business of selling energy. So, you know, we are together with some of these other parties and some of these other interests on seeking some things that are going to be part of an overall solution, and we're very much at odds with the utilities over that.

MR. MacINNES: Have you had any Cracker Barrel meetings with the ABATE people on this? Because I think -- I went to the last ABATE meeting, and I thought there was some pretty enlightening conversation going on there. And, you know, I mean I think there's some common, as you've shown, there's some common interests there, and I'm just wondering if there's a way to -- you know, I know it sounds funny -- but to work with them on some of these issues that you agree on? It's like with the AG's office, things that you agree on, working together on to try to, you know -- now, I know the general, you guys are going different directions overall, but I just think there might be some people there, like Rod and maybe some others, that would be, that could be helpful to collaborate with them.

MR. BZDOK: So --

MR. MacINNES: There's a lot of smart

people there.

MR. BZDOK: I guess what I can say is half of the cross-exam I did of ABATE's witness was along the lines of, well, you agree with your clients about this, don't you, and you agree with your clients about that, don't you, to try to get on the record that, you know, that this does make sense for industrial customers, the kind of things that Douglas, the category of things Douglas is proposing, and I think there are some other discussions that are going on amongst other people in our coalition, you know, with an eye towards perhaps how these cases conclude and how rate design gets vetted in the rate cases. So your point is well taken, and we will use that as further impetus to have further discussion.

MR. MacINNES: I was pretty pleasantly surprised when I went to that meeting, I thought -- and Senator Nofs -- no, not Senator Nofs. Who is the fellow that came up with the 30-percent cap on the, you know, the ability to switch utilities, who was that? It was a legislator.

MR. CLIFT: Shirkey.

MR. MacINNES: Shirkey, Senator Shirkey now, he's the senator, was there, and he said some pretty impressive things. So I mean I think, you know, I think there could be some opportunity, and I know you're -- I know, I heard the whole deal -- but I think there could be some opportunity in some areas to work with them.

MR. CLIFT: Clearly there's discussions happening in other arena, also, to try to complement this.

MR. MacINNES: Right. Good. More Cracker Barrel discussions, I like that.

MR. JESTER: Upgrade our diet.

MR. MacINNES: Are there any other questions from the board?

MR. SMITH: Does the MPSC have the capacity, then, to just direct this as the solution, or is that --

MR. BZDOK: The MPSC's authority is quite broad in this case, you know, to adopt the methods considered appropriate by the Commission.

MR. SMITH: Okay.

MR. BZDOK: And in the rate cases, their authority is very broad. We doubt that --

MR. CLIFT: Not a history of exercising broad authority.

MS. WILSEY: Right.

MR. BZDOK: What he said. But there's a long-game aspect to this, too.

MR. MacINNES: Well, in the end, if we

want to make Michigan a Pure Michigan, you know, the state, and we want to attract industry and we want to bring, you know, instead of having the moving vans go out as they are now, most recent report, we want them to come in, and the price of electricty is a big part of that.

MR. BZDOK: I know that -- and this is more of an issue a few years ago than it is today, but I know that when cell phone roaming charges were more a part of everyday life, like I, and I think many people, you know, put some effort into, you know, targeting our use in an intelligent way, and the pilot studies that Douglas has have showed that they'll do the same thing if you're charging them -- you know, if those peaks are driving these fixed costs that you have to incur all year round and you're charging them in proportion to that, and people have the information via their Smart Meter or their bill insert so they understand that --

MS. WILSEY: Alert. Alert. I get my Verizon cell phone data usage alert.

MR. CLIFT: Yeah. So I mean part of their discussion is, oh, yeah, people can avail themselves to this, they can opt into these rates, you know, but the difference between opt in and out, opt out when it comes to having these cost impacts is huge.

MR. JESTER: Just to make sure I don't

leave you with a misunderstanding, there is evidence on the effect of this kind of proposal on low income customers, and just in general, I would expect about 80 percent of low income customers would automatically get a lower bill over the course of the year from this kind of a pricing scheme, even if you didn't have a low income rate; the other 20 percent would need to be targeted with some assistance in, you know, reducing those peak load times; but the other good thing about it is that those high costs in the electric bill come in the summertime when they're not challenged with heating bills. So from a perspective of low income residential customers, I think this is a better approach.

MR. MacINNES: Well, that's a great analysis. Thank you.

MR. BZDOK: And to state what's maybe the obvious to you but wasn't to me initially is rate design is essentially free, I mean not totally, but everything else we try to do to change generation, transmission, distribution, customer behavior, I mean everything else you do involves big investments, but changing the rate designs to try to change behavior and communicating that, it may not be free, but it's about the cheapest thing around.

MR. MacINNES: Well, it's really about

asset utilization, and if you can -- if you can increase your asset utilization of the same assets, you can get more use, you can amortize them over more customers or more whatevers, you'll financially be better off. It's just, it's kind of a law of finance actually.

So okay. Any other comments or questions?

MR. SMITH: I want to say thank you, Jim, and to both of you for the presentation. I rank this right up with when you guys introduced the MISO issue to us; this kind of board education, incredibly helpful. Thank you.

MR. MacINNES: Agreed.

MR. BZDOK: Thank you for hearing us out.

MR. MacINNES: Okay. We're on to the public comment section. Is there any public comment? Okay.

We've already talked about the next meeting, right? So do we have a motion to adjourn?

MR. SMITH: So moved.

MR. MacINNES: Okay. We're adjourned. Thank you.

(At 4:05 p.m., the meeting adjourned.)

\- - -

STATE OF MICHIGAN)
)
COUNTY OF MACOMB)

I, Lori Anne Penn, certify that this transcript consisting of 133 pages is a complete, true, and correct record of the proceedings held on Wednesday, February 18, 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.

February 25, 2015
Date

Lori Anne Penn

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