RESIDENTIAL ENERGY BILL CHARGES

The following charges may appear on your Electric bill:

Distribution/Delivery Service

Distribution/Delivery Service charges are applicable to full service customers and retail open access (electric choice) customers. Full service customers receive their electricity from the regulated utility in their service territory. Retail open access customers choose a different company to provide their electricity. Delivery service includes both customer-related and distribution services that are provided by the regulated utility.

> **Customer Charge** (Also reflected as any of the following: Availability Charge, Facilities Charge, Facility Charge, Monthly Charge, Monthly Service Charge System Access Charge, Service Charge)
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> A customer charge is a fixed monthly charge on your bill for the utility to recover the costs of metering, meter reading, billing, and other customer-related operating costs, exclusive of demand and energy consumption.
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> **Distribution Charge** (Also reflected as any of the following: Delivery Capacity Kw, Delivery Services, Dist Energy Charge, Energy Charge)
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> A distribution charge is a charge based on the quantity of electric energy or kilowatt-hours (kWh) used by a customer. This charge recovers costs for a utility's generating resource, such as a power plant or wind farm to deliver electric energy from the transmission system to a customer's premises through the distribution system. It includes expenses for operation and maintenance of the distribution facilities.

Power Supply Charges

Power supply charges are applicable to full service customers, meaning their power supply and delivery services come from the regulated utility. Power supply charges include generation and transmission costs. Delivery charges include customer-related and distribution costs.

> **Energy Charge** (Also known as any of the following: Electric Usage, Energy Usage, KW Demand Charge, PSCR, Power Supply Capacity, Power Supply Energy Charge, Power Supply Charge,)
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> The energy charge is based on the quantity of electric energy or kilowatt-hours (kWh) used by a customer. Energy charges recover some of the costs to produce power and the fuel to produce power that are not collected through the capacity (demand) charge or PSCR charge. Some rates separate the energy charge into on-peak and off-peak rates. Power supply costs are higher during the on-peak period than during the off-peak

period. On-peak periods are typically during the week when most people are at work and businesses are operational; times when most people are using electricity. Off-peak periods are generally early morning hours, late evening hours, and weekends; times when most people are not using as much electricity.

Power Supply Cost Recovery (PSCR) Charge (Also reflected as any of the following: Power Supply Cost Recovery, Pwr Supply Cost Rec., Wholesale Pwr Adj)

The Power Supply Cost Recovery (PSCR) charge contains costs for fuel used in generating electricity for customers by the utility's power plants or electricity purchased by the utility to serve its customers. It is based on the quantity of electric energy used by each customer. There is no mark-up or profit for fuel or electricity purchased by a utility to serve its customers. The PSCR contains some of the more unpredictable and volatile costs that a utility incurs to serve customers.

Under Public Act 304 of 1982, every year, regulated utilities are required to file a PSCR plan with the Commission explaining how it intends to meet its customers' supply needs for the next year, as well as what costs and charges are anticipated to do so. The plan is reviewed by various intervening parties, including the Commission staff, and evidence is presented at a hearing to support or refute the utility's plan. An administrative law judge (ALJ) also provides a recommendation on what the Commission should do, based on the evidence in the case. At the end of the hearing process, the Commission issues an order establishing a PSCR factor, which is a "cap" or limit on what the utility can charge customers for the coming year. The utility may only charge the amount of the "cap", or less. A utility might charge less (i.e. a lower factor) if costs or customer use is lower than expected. At the end of the year, a reconciliation case is filed with the Commission to reconcile the costs charged to customers based on the plan and the actual costs of the fuel to produce electricity and purchased power to serve customers. Any difference is rolled into next year's PSCR plan. The utility does not have any incentive to over collect from customers since the amounts are reconciled and any over collected amounts will be returned to customers at a higher interest rate the following year.

Other Surcharges/Riders

Other statutory requirements and Michigan Public Service Commission directives.

Energy Waste Reduction (EWR) Surcharge (Also reflected as any of the following: MI Energy, EO – Surcharge, Energy Efficiency, Energy Waste Reduction, MI Energy Efficiency, Renewable Energy Surcharge)

Public Act 342 of 2016 allows for utilities recovery of approved costs for utilities Energy Waste Reduction Plans. Energy waste reduction aims to use less energy through energy efficiency, load management that reduces utility provider costs, or energy conservation. The MPSC approved a per kWh surcharge for residential customers and monthly per meter surcharges for business customers to recover costs associated with utilities' Energy Waste Reduction Plans and Programs.

Enhanced Security Charge

The Customer Choice and Electricity Reliability Act, 1939 Public Act 3, as amended in 2003, allows for the recovery of reasonable and prudent costs of new and enhanced security measures required by state or federal law, including providing for reasonable security from an act of terrorism. The Nuclear Regulatory Commission issued orders to the electric industry after Sept. 11, 2001 dealing with facility access authorization, vehicle barrier systems, and other security enhancements. The enhanced security charge is only applicable for companies that have a nuclear generating facility. Currently DTE Electric and Indiana-Michigan own nuclear generating facilities.

Low Income Energy Assistance Fund (LIEAF) (Also reflected as any of the following: MI Low Income Energy Fund, Low Income Surcharge)

Public Act 95 of 2013 created a monthly surcharge on each retail billing meter to assist low-income, at-risk residents with their utility bills. The intention is to provide funds to prevent disconnection of service and to help people become more energy self-sufficient. The surcharge is capped at $1.00 per meter. Every customer receiving a retail distribution service from an electric utility, municipally owned electric utility, or cooperative electric utility that did not opt out – regardless of the identity of the customer's electric generation supplier, will receive this surcharge on one meter per residential site.

The Department of Health and Human Services, in consultation with the MPSC, ensures that all money collected from the fund for a geographic area is returned, to the extent possible, to low-income customers seeking energy assistance in that area.

Nuclear Decommissioning Surcharge

The nuclear decommissioning surcharge is a MPSC authorized charge that funds the external trust to pay for the decommissioning obligations of a utility's nuclear plants. Nuclear decommissioning refers to the costs involved with safely removing a nuclear power plant from service at the end of its useful life and restoring the site to a condition that allows for unrestricted use. Decommissioning includes costs of removing buildings and structures, as well as disposing of radioactive materials.

Rate Realignment Surcharge/Credit (Rate Realignment Adjustment)

Public Act 286 in 2008 provides guidance on "closing the gap," or charging cost-of-service-based rates. The Rate Realignment surcharge is a gradual adjustment of rates between residential, commercial, and industrial customer classes so that customers pay the true cost of providing service for their respective customer class, known as cost of service.

Renewable Energy Plan Surcharge (Renewable Energy Charge)

Public Act 295 of 2008, also known as the Clean, Renewable and Efficient Energy act, mandated that by 2015, 10% of a utility's electric supply must be generated from renewable resources, such as solar or wind power. The 2016 energy law increased the renewable energy requirement percentage to 15% by 2021. The Renewable Energy Plan surcharge offsets the company's efforts to harness renewable energy sources.

Sales Tax

The Michigan Department of Treasury requires utility companies to collect 4% sales tax from residential customers and 6% from business customers.

Securitization/Securitization Bond and Securitization Tax Charges (Also reflected as Power Plant Securitization)

Public Act 142 of 200 provides for the MPSC to issue financing orders authorizing the issuance of securitization bonds to recovery certain "qualified" costs as defined in the act. "Qualified" costs include, among other costs, taxes related to the recovery of securitization charges. As proceeds from the bonds are used to refinance higher cost debt, interest savings are realized by the Company and the Company's credit rating improves.

Tax Cuts and Jobs Act Credit (Also reflected as any of the following: Tax Reform Credit A Rider, Cap. Tax Reform Credit, Cap Tax Reform Credit B, TCJA)

In 2018, residential and business rate schedules received negative surcharges (credits) to reflect the MPSC-approved reductions in revenues reflecting the lower tax rate applicable due to the Federal Tax Cuts and Jobs Act of 2017 (TCJA) Tax Reform. The negative surcharges (Tax Credit A) continued until the effects of the tax reform were incorporated into utility's base rates. The second phase of the TCJA Tax Reform (Tax Credit B) reflects excess federal income tax collected from January 1, 2018 until implementation of Tax Credit A.