



Jennifer M. Granholm
GOVERNOR

STATE OF MICHIGAN
PUBLIC SERVICE COMMISSION
DEPARTMENT OF LABOR & ECONOMIC GROWTH
DAVID C. HOLLISTER
DIRECTOR

J. Peter Lark
CHAIRMAN

Robert B. Nelson
COMMISSIONER

Laura Chappelle
COMMISSIONER

March 4, 2005

Honorable Jennifer M. Granholm
Governor of Michigan

Honorable Members of the Michigan Senate
Honorable Members of the Michigan House of Representatives

Following the largest electric blackout in North American history in August 2003, the Commission committed to a number of actions designed to prevent future disruptions for Michigan citizens. On January 24, 2004, the Commission formally adopted rules governing service quality and reliability for electric distribution systems. Under these rules, Michigan consumers have in place some of the best standards in the country, which include stiff penalties for utilities that fail to live up to the standards.

On November 23, 2004, the Commission issued an order granting The Detroit Edison Company \$87,382,000 in rate relief. This followed an interim order issued in February in which the Commission granted \$248,430,000 in interim relief. At the same time, the Commission reduced the Power Supply Cost Recovery charge by \$126 million annually. This rate case, described as one of the most complex ever before the Commission, was Detroit Edison's first rate case in 10 years and its first since the passage of Public Act 141 of 2000. Detroit Edison residential customers will not see a rate increase until January 1, 2006 due to rate caps established in the Act. As a result of these two actions, the typical residential customer will see a monthly increase of \$5.64. As part of this order, the Commission made permanent the Low Income and Energy Efficiency Fund, providing \$40 million annually to assist Michigan most needy citizens.

On October 14, 2004, the Commission responded to Michigan's low-income and senior citizens needs by awarding \$20 million from the Low-Income and Energy Efficiency Fund for low-income energy assistance. On October 22, 2004, the Commission followed this action with a second award of \$8 million from the fund for low-income energy efficiency grants. The two awards provide immediate assistance for heating needs as well as longer term assistance in reducing future heating costs for low-income and senior citizens. Additional funds continue to be awarded in the first quarter of 2005.

The MPSC continues to focus on homeland security issues to protect the safety and health of Michigan residents and to reduce critical infrastructure risks and vulnerabilities. In 2004, 10 MPSC staff members underwent training in emergency procedures involving the State Emergency Operations Center to assist in the event of a future crisis.

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Two hundred ninety three cases were filed electronically with the Commission in 2004, accounting for 52% of all cases filed. Additionally, the MPSC began to implement a Paperless Electronic Filing Pilot for power supply cost recovery and gas supply cost recovery plan and reconciliation cases. By eliminating the need for filing any paper copies of a document, both participants and the State of Michigan benefited through reduced costs and nearly immediate electronic access to these documents 24 hours a day. Nearly two million e-filed documents were downloaded from the Commission's Website in 2004, compared with approximately one million the previous year.

The Commission launched wireless internet access (Wi-Fi) in their hearing rooms as a way of enhancing the electronic filing experience. Wi-Fi allows case participants to access and e-file documents, conduct research, e-mail or schedule case hearing dates without leaving the hearing room.

The MPSC continued to provide direct support for Michigan consumers and businesses through the Commission's Call Center. Calls to the toll-free number are taken live and result in a record for each complaint or request for information. Nearly 44,000 Michigan consumers and businesses received assistance on electric, natural gas or telephone issues.

Forty three competitive local exchange carriers were granted licenses or approved amendments to existing licenses, with 208 competitive carriers licensed to provide telecommunication services in Michigan. Nearly 1.7 million Michigan telephone lines are being served by competitive local telephone service providers. With 26.5% of Michigan customers receiving telephone service from a competitive provider, Michigan's basic local telephone service market is one of the most competitive in the nation.

We are pleased to provide you with this Annual Report. We look forward to working with you on future matters vital to Michigan residents.

Respectfully submitted,

Michigan Public Service Commission

J. Peter Lark, Chairman

Robert B. Nelson, Commissioner

Laura Chappelle, Commissioner

2004 ANNUAL REPORT MICHIGAN PUBLIC SERVICE COMMISSION



J. Peter Lark, Chairman
Robert B. Nelson, Commissioner
Laura Chappelle, Commissioner

Michigan Department of Labor & Economic Growth

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J. Peter Lark Chairman

Appointed to Commission: August 4, 2003

Term Ends: July 2, 2009



J. Peter Lark was appointed to serve as Chairman of the Michigan Public Service Commission by Governor Jennifer Granholm on August 4, 2003. His appointed term ends July 2, 2009.

J. Peter Lark most recently served as Assistant Attorney General in charge of the Special Litigation Division of the Michigan Attorney General's office where he served since 1979. The Special Litigation Division advocated on behalf of the Attorney General before the Michigan Public Service Commission, the Federal Energy Regulatory Commission, the Federal Communications Commission, and federal and state trial and appellate courts. Mr. Lark headed the Special Litigation Division under three Attorneys General. While at the Attorney General he has served on the Litigation Advisory Board and the Opinion Review Board. He has tried cases in the federal and Michigan courts, and has argued numerous cases in the state and federal appellate courts, including the Michigan Supreme Court and the U.S. Court of Appeals.

In 2003, Mr. Lark was appointed by Governor Granholm to serve on both the Electric System Working Group and the Nuclear Working Group for the Joint United States - Canada Energy Task Force established by President George W. Bush and Prime Minister Jean Chrétien to investigate the causes of the August 2003 blackout. Lark also serves on the National Association of Regulatory Utility Commissioners Subcommittee on Nuclear Issues.

He has been an adjunct professor at the Thomas M. Cooley Law School teaching advocacy, trial workshop, and advanced trial workshop.

Before joining the Attorney General's Office, he served as an Assistant Prosecuting Attorney in Wayne County, Michigan.

Lark received a law degree from Western New England College School of Law in 1976, and earned an undergraduate degree, with honors, from Boston College in 1973.

Robert B. Nelson Commissioner

Appointed to Commission: May 10, 1999

Reappointed: August 3, 1999

Term Ends: July 2, 2005



Robert Nelson was originally appointed by Governor John Engler on May 10, 1999. He was subsequently reappointed for a term ending July 2, 2005.

Mr. Nelson served as President of the Michigan Electric and Gas Association from December 1987 until his appointment to the Commission in 1999. From 1979 to 1987, he was Director of the Commission's Office of Regulatory and Consumer Affairs, overseeing the legislative, legal, public affairs and consumer services functions of the Commission. From 1976 to 1979, he served as both Assistant and Deputy Director of Policy at the Commission. From 1974 to 1976, he was an Assistant and, later, Senior Assistant Prosecutor for Ingham County. From 1970 to 1974, he was a trial attorney for the Federal Communications Commission (FCC). Mr. Nelson serves on the National Association of Regulatory Utility Commissioners' Consumer Affairs Committee Intercarrier Compensation Task Force, and the Telecommunications Committee, of which he is chairman. He serves on the Advisory Council for the Center for Public Utilities at New Mexico State University and the Advisory Committee of the Institute for Public Utilities at Michigan State University.

Mr. Nelson is a member of the North American Numbering Council, an advisory committee to the FCC on numbering issues, and is a member of the Universal Services Joint Board. He previously served as chairman of the Administrative Law Section of the Michigan Bar Association. He has also served as Chairman of the East Lansing Cable and Telecommunications Commission and NARUC's Triennial Review Implementation Project.

Mr. Nelson received a B.A. in Political Science from Wayne State University (1968), and a J.D. from the University of Michigan Law School (1970).

Laura Chappelle Commissioner

Appointed to Commission: January 16, 2001

Reappointed: June 29, 2001

Term Ends: July 2, 2007



Laura Chappelle was appointed by Governor John Engler to the Michigan Public Service Commission on January 16, 2001 and served as Chairman of the Commission until August, 2003. Her appointed term ends on July 2, 2007.

Since joining the Commission, Commissioner Chappelle has taken an active role in issues relating to the development and implementation of the first FERC-approved “multi-state entity,” state retail electric choice markets, and regional wholesale markets. She was also a key advisor in the drafting and implementation of Michigan’s recent, nationally recognized “Broadband” law that, in part, coordinated and streamlined local and state right-of-way regulations.

Prior to her appointment to the Commission, Ms. Chappelle served as deputy legal counsel for Governor John Engler and was his regulatory affairs coordinator. She also served as the regulatory affairs advisor to the House of Representatives, legislative aide for Senator William Van Regenmorter, attorney for House Speaker Paul Hillegonds, and was an assistant prosecuting attorney with the Saginaw County Prosecutor's Office. Ms. Chappelle has served as an adjunct faculty member at Lansing Community College, Michigan State University and the Thomas M. Cooley Law School. She holds a B.A. from the University of Michigan (1985) and a J.D. from Thomas Cooley Law School (1988). She is admitted to practice law in Michigan and Illinois.

Ms. Chappelle is currently the Vice-Chair of the National Association of Regulatory Utility Commissioners (NARUC) Committee on Electricity, Chair of NARUC’s Broadband over Power Line Task Force, Co-chair of the Future of Transmission Working Group through the Consumer Energy Council of America (CECA). Formerly she was the Treasurer of the Organization of MISO States (OMS), and has served as a member of the Department of Energy’s Electricity Advisory Board.

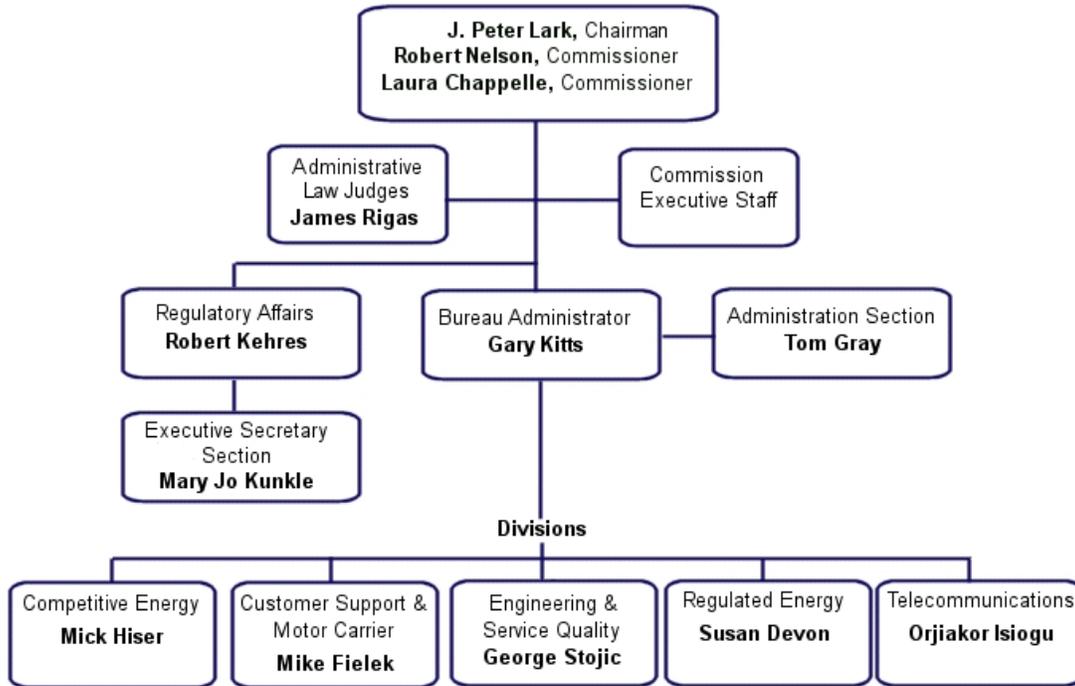
MISSION AND GOALS

The mission of the Michigan Public Service Commission is to grow Michigan's economy and enhance the quality of life of its communities by assuring safe and reliable energy, telecommunications, and transportation services at reasonable prices.

The goals of the Commission are to:

- Establish fair and reasonable rates for regulated services and adopt and administer fair terms and conditions of service for the State's utility customers.
- Assure adequate and reliable supplies of regulated services to all Michigan customers, and the safe and efficient production, distribution, and use of the State's energy, telecommunications, and transportation services.
- Assure the security of the State's critical infrastructure by promoting homeland security.
- Promote the State's economic growth and enhance the quality of life of its communities through adoption of new technologies like broadband telecommunications and efficient renewable energy resources.
- Provide customers with the opportunity to choose alternative electric, natural gas, telecommunications, and transportation providers.
- Provide regulatory oversight in a prudent and efficient manner while implementing legislative and constitutional requirements.

Organizational Chart



Administrative Law Judges Division

James N. Rigas, Director

The Administrative Law Judges Division conducts hearings in contested cases pursuant to applicable laws, administrative rules and Commission directives. Administrative Law Judges are responsible for scheduling hearings and filing dates, ruling on motions, presiding over hearings, participating in mediations and arbitrations and issuing a proposal for decision (PFD) at the conclusion of each contested case.

During the year the Division conducted 341 days of hearings and issued PFDs in 55 cases. In addition, 103 settled or undisputed cases were processed and transmitted to the Commission for its consideration. An Administrative Law Judge also chaired an arbitration panel, which provided recommendations to the Commission for the resolution of certain interconnection disputes between competing telephone service providers.

In addition to the normal array of rate cases, Power Supply and Gas Cost Recovery Plans and Reconciliations, special contracts, certificates of public convenience and necessity, pipeline cases, complaints and licensing applications, the Division was responsible for conducting the proceedings in a number of more remarkable matters. In March of 2003, Consumers Energy Company (Consumers Energy) filed an application seeking authority to increase its gas rates by \$156 million annually in Case No. U-13730. The matter continued into 2004 and a Proposal for Decision was issued in March 2004. During the course of the proceeding, the

Commission granted interim rate relief in the annual amount of \$19.34 million. The Commission's final order authorized additional annual revenues of approximately \$58 million.

The Division also conducted hearings in a consolidated proceeding addressing Michigan Consolidated Gas Company's (MichCon) request to increase its rates for gas sales and transportation by approximately \$194 million annually in Case No. U-13898, as well as its request for authority to implement revised depreciation rates in Case No. U-13899. The record in these consolidated cases consists of over 1,500 pages of transcript and 110 exhibits. A Proposal for Decision was issued in this matter on December 10, 2004 recommending, among other things, a rate increase of approximately \$60 million.

Case No. U-14032 was Consumers Energy's application to build a natural gas pipeline along a 24-mile route in western Oakland County to improve the utility's ability to serve an increasing population in that area. The proposed pipeline route crossed several environmentally sensitive areas including the Big Valley Fen in the Buckhorn Lake Complex, the Huron Swamp and Huckleberry Bog. Over 100 interested citizens, organizations and government officials expressed their views on the proposal in written comments and at public hearings, including a public hearing held in Springfield Township to facilitate participation by Oakland County

residents. Several property owners, three townships, and the Huron-Clinton Metropolitan Authority intervened in the case. The significant public input and extensive opportunity to conduct discovery provided in the contested case process helped the parties reach a settlement agreement that the Commission approved, modifying the pipeline route to reduce the environmental disruption and otherwise accommodate the various parties' concerns.

In August 2004, the Division issued a 123 page Proposal for Decision in Case No. U-13808, The Detroit Edison Company (Detroit Edison) rate case. The Commission described this case as "among one of the most complex cases ever considered." This was Detroit Edison's first rate case in 10 years and its first since the passage of 2000 Public Act 141, the Customer Choice and Electric Reliability Act. The record included 3239 pages of transcript and more than 13,000 pages of record. The Proposal for Decision recommended over \$253 million in new rates for the company. On November 23, 2004, the Commission granted Detroit Edison \$87,382,000 in rate relief. This followed a February 2004 Commission order granting \$248,430,000 in interim relief.

In September 2003, Detroit Thermal requested authority to implement initial default tariff rates for the provision of steam service in the City of Detroit in Case No. U-13691. This service had been previously provided by Detroit Edison. Because the Commission had not reviewed the rates for steam service in the City of Detroit since 1980, the litigation of this case, with 12 parties participating, was very contentious.

Detroit Thermal's recent acquisition of the central heating district from Detroit Edison in January 2003 further complicated the matter. These factors resulted in a lengthy but necessary discovery process with many disputes. On November 22, 2004, a Proposal for Decision was issued recommending that the Commission establish an initial default tariff rate of \$17.22 per thousand pounds of steam. A Commission decision is pending.

Proceedings were also conducted in Case No. U-13796. This proceeding arose out of the Federal Communication Commission's (FCC) Triennial Review Order and addressed the unbundling obligation of incumbent local exchange carriers and the implementation of the local competition provisions of the Federal Telecommunications Act of 1996. Geographic markets were identified and the provisioning of mass market switching, high-capacity loops and dedicated transport was examined. Pursuant to the schedule requirements of the FCC, a Proposal for Decision was issued in May 2004. The Commission transmitted the record of the case, including the recommendation in the PFD, to the FCC for use in the development of the FCC's permanent rules.

Competitive Energy Division

Michel Hiser, Director

The Competitive Energy Division (CED) provides the Commission with technical assistance in the form of oversight, analysis, and recommendations on the reliable and efficient provision of electric and natural gas utility service through competitive markets at both the wholesale and retail level. Specific CED responsibilities include: implementation and oversight of the Commission's electric and natural gas customer choice programs, licensing of Alternative Electric and Gas Suppliers, managing the Commission's Low-Income and Energy Efficiency Fund grants, participation in regional energy forums and coordination of technical interventions at the Federal Energy Regulatory Commission, and energy data analysis and monitoring relating to energy emergency preparedness and the State's energy infrastructure security. CED is comprised of three sections: Customer Choice, Federal and Regional Issues, and Energy Data, Security & Market Monitoring.

Customer Choice

Electric Choice Programs

The Commission issued 34 orders in 2004 relating to implementation of Public Act 141 of 2000, Michigan's Customer Choice and Electricity Reliability Act.

The Commission's Order in Case No. U-13808 yielded changes to the

Detroit Edison electric choice tariffs, with implementation and tariff language issues addressed. The Commission directed Detroit Edison to conduct and lead a collaborative to address electric choice metering issues, with a report due from Detroit Edison in March 2005.

The number of customers participating in Electric Choice is now at 18,740; an annual increase of approximately 45%. The number of MW (Megawatts) served by Alternative Electric Suppliers (AES) totals 3317 MW; a 22% increase over the prior year end total. The number of licensed AESs increased to 28, which included three new licenses issued and an alternative supplier that relinquished its license. The number of AESs actively serving customers in the Consumers Energy service territory in 2004 was seven, and 17 AESs served in the Detroit Edison territory.

The Commission's Annual Report: Status of Electric Competition in Michigan is delivered to the Governor and Legislature by February 1st each year and is available on the Website.

Gas Choice Programs

The natural gas choice program customers and volumes declined in 2004, as suppliers were unable to match utility gas prices during this period of steep increases in the

market price of natural gas. The number of Gas choice customers decreased from 260,000 to 220,000 during 2004.

Seven alternative gas supplier licenses were issued in the year under the licensing process developed and approved by the Commission in March 2003.

Low Income & Energy Efficiency Fund

On October 14, 2004, the Commission issued an order awarding energy financial assistance grants totaling \$20 million to eight organizations. The Commission authorized the release of these funds through its administration of the Low-Income and Energy Efficiency Fund, under authority of the Customer Choice and Electricity Reliability Act of 2000. The purpose of the Fund is to provide shut-off and other protection for low-income customers and to promote energy efficiency for all customer classes.

LOW-INCOME ENERGY ASSISTANCE ORDER DATE 10/14/04

| ORGANIZATION | AMOUNT AWARDED |
|---|----------------|
| Community Self-Sufficiency Center | \$50,000 |
| Downriver Community Conference | \$50,000 |
| Family Independence Agency/Low Income Home Energy Assistance Program | \$10,000,000 |
| Lighthouse Emergency Services | \$100,000 |
| Michigan Community Action Agency Association/Direct Heating Assistance & Deliverable Fuels Programs | \$2,500,000 |
| Newaygo County | \$500,000 |
| The Heat and Warmth Fund | \$3,400,000 |
| Salvation Army | \$3,400,000 |

On October 22, 2004, the Commission awarded \$8 million in low-income energy efficiency grants to eight organizations.

LOW-INCOME ENERGY EFFICIENCY ORDER DATE 10/22/04

| ORGANIZATION | AMOUNT AWARDED |
|---|----------------|
| Family Independence Agency/Weatherization and Client Education | \$4,240,000 |
| Habitat for Humanity | \$175,000 |
| Lac Vieux Desert Band of Lake Superior Chippewa Tribal Government | \$10,000 |
| Metro Neighborhood Housing and Community Development | \$1,700,000 |
| Bay de Noc Community College (M-Tec) | \$500,000 |
| Nonprofit Facilities Center/ United Way Community Services | \$825,000 |
| Nova Development Group | \$300,000 |
| WARM Training Center | \$250,000 |

The Commission’s Annual Report on the Low-Income and Energy Efficiency Fund was prepared and submitted on June 1st to the State budget office, fiscal agencies, and subcommittees in compliance with Section 335 of Public Act 526 of 2002.

Service Quality

The MPSC received and responded to 296 complaints and inquiries on Competitive Energy issues. The vast majority of contacts, 259, involved natural gas customer choice concerns. The MPSC also handled 37 complaints and inquires on Competitive Electric issues.

Michigan Renewable Energy Program (MREP)

Michigan Renewable Energy Program (MREP) activities were expanded in 2004. The Commission issued orders in May 2004 initiating a new renewable energy program for Consumers Energy and directed Detroit Edison to issue a request for proposals (RFP) for a new renewable energy program. Later, in the Detroit Edison rate case, the Commission directed Detroit Edison to institute a renewable energy program. Staff and Michigan's regulated utilities were able to form a consensus agreement on a proposed statewide net metering approach, which will simplify the process for small renewable energy generators seeking to interconnect with their utility company for the exchange of electricity. The proposal was submitted to the Commission for approval in December, and Commission action on that proposal is expected in the first half of 2005. The Commission will issue its MREP 2004 annual report in the spring 2005. All MREP reports are shared on the Commission's MREP Website, www.michigan.gov/mrep, which was expanded in 2004 to include a statewide Renewable Energy Events Calendar. MREP also provides a public email distribution list. Subscriptions to that list nearly doubled in 2004, reaching nearly 150 individuals at the present time.

Federal and Regional Issues

The MPSC actively participated in many Federal Energy Regulatory

Commission (FERC) and regional energy forums. The national effort to increase energy reliability and competition, in coordination with state involvement, has resulted in many FERC decisions that affect the states on a regional basis. The vast majority of the transmission lines in Michigan belong to Regional Transmission Organizations (RTO) and FERC's decisions on these matters will have significant bearing on the price and reliability of this state's future electricity supply.

After several years of preparation and filings, FERC issued an order approving the Midwest Independent Transmission System Operator's (MISO) market tariff which establishes the rates and procedures for the implementation of the wholesale market scheduled to commence in early 2005. The Commission continued to play an active role in FERC proceedings on RTO through and out rates and the hold harmless requirement related to the RTO choices of certain utilities. FERC issued an order which removed through and out rates and established a long term transmission pricing plan. Many of the issues related to the hold harmless proceeding were settled in 2004, but the remaining issues will continue to be heard in 2005. The Commission also participated in two rate cases for American Transmission Company and Wolverine Power Supply Cooperative, both of which resulted in settlement agreements.

Staff provided input to the MISO advisory committee on decisions that would affect the state's electricity

users through this RTO. The Commission and its staff continued to play a primary role in the development of the Organization of MISO States (OMS), a group of 14 state commissions and one Canadian province, whose utilities have joined MISO. Commissioner Chappelle was the Treasurer of the OMS in 2004 and Commissioner Robert Nelson served as the Chairman of the OMS Seams Issues Work Group. Since the integration of a Michigan utility (American Electric Power) into the PJM Interconnection RTO, Michigan began following PJM activities more closely. The Commission and its staff also participated in the establishment of a new states' organization, the Organization of PJM States, which is comprised of state commissions whose utilities have transmission assigned to PJM.

Michigan also continues its strong commitment to participate in natural gas proceedings before FERC, which greatly influence price and availability of gas to meet the state's supply needs.

Energy Data, Security & Market Monitoring

Critical Infrastructure Protection

In 2004, the Commission adopted a new mission statement which includes a goal to "Assure the security of the State's critical infrastructure by promoting homeland security." In support of this goal, the MPSC is actively involved in critical infrastructure protection efforts and has been

working jointly with other states to protect the nation's critical infrastructure from the risk of deliberate attacks, technological failures and natural hazards.

Emergency Preparedness

The Commission monitors the state's overall energy supply as part of its responsibility for Michigan's energy emergency preparedness (Public Act 191 of 1982, as amended). Chairman J. Peter Lark serves as the Chair of the Energy Advisory Committee created by this act which covers all energy resources. Commission staff continues to serve as the Emergency Management Coordinator for the Department of Labor & Economic Growth and coordinates emergency response involving any of the Department's bureaus.

Following the electricity blackout of August 14, 2003, the Commission issued a report making recommendations to both help prevent a reoccurrence and to respond more effectively should one occur. As part of this plan, 10 additional staff members have been assigned to assist in the event of a future crisis and have undergone training in emergency procedures involving the State Emergency Operations Center (SEOC).

Statistical and Data Analysis

The MPSC prepares short term energy forecasts of supply and demand each spring and fall and presents its findings to the executive

office and others on the supply and demand outlook.

During the winter months, the MPSC conducts surveys of residential heating oil and propane prices which are posted on its website. The MPSC also assisted in coordinating the establishment of a Website where one could check gasoline prices by city and zip code and submit complaints of price gouging. To assist Michigan consumers, the MPSC has coordinated efforts with the departments of Transportation and Agriculture to revamp and expand this site to offer additional information on how to cut gasoline costs use via ride sharing and through other energy saving tips. See: michigan.gov/gasprices .

Market Monitoring

On August 9, 2004, FERC selectively approved market tariffs for MISO. Among the major issues remaining to be resolved include state access to data, data confidentiality, and automatic mitigation measures. The Commission has been working with other Midwest states on state needs regarding access to confidential data to carry out statutory duties in regulating retail electric rates and conditions of service.

Website Management

In addition to the administration, management, and maintenance of the Commission's Website, a number of improvements were made to the MPSC Website during 2004. Key among them are:

- The electronic filing system was updated with changes to the hardware and network configuration, including a new server with a faster and higher capacity Internet connection. The new server replaced an aging computer and a number of software upgrades and enhancements were made that will provide a more secure location for future expansion and testing.
- Work began on a new Case Tracking System which will replace the current system in the summer of 2005. Once implemented, this system is expected to provide greater flexibility, stability and ease of use by Executive Secretary staff. This system will also reduce redundant data entry and will eventually provide the means for case status data to be posted to the internet for public access.
- The automated email subscription lists were moved to the main State of Michigan listserv. This greatly increased the speed at which messages are sent to subscribers and also provides a more reliable way for users to subscribe and unsubscribe from the lists.
- MPSC hearing rooms became wireless internet access (Wi-Fi) "hotspots"

in September 2004, allowing those with electronically filed cases to directly access all documents while in the hearing room.

Customer Support & Motor Carrier Division

Michael Fielek, Director

The Customer Support & Motor Carrier Division is responsible for technical and administrative support to the Commission in the areas of consumer information and customer complaints. The Division is comprised of two sections: Customer Support Section and Motor Carrier Section.

Customer Support

Customer Information and Education

The MPSC continued its public education outreach by developing a new consumer alert on local telephone number portability and updating alerts on lifeline telephone assistance, higher natural gas costs, home heating help and telephone *cramming* practices. These alerts were posted on the Commission's Website and made available to those who subscribe to the Commission's e-mail subscription service. Additionally, approximately 2,350 alerts were mailed to customers who called the MPSC requesting information on a particular topic. MPSC publications were provided to state legislators and local and statewide organizations upon request, and also distributed at consumer forums and speaker bureau presentations. In total, over 10,500 publications were distributed during 2004.

Consumer Forums

For the 17th year, the Commission hosted statewide consumer forums, providing the public with an opportunity to meet the Commissioners, learn about current issues in the electric, natural gas, and telecommunications industries, and discuss utility issues and concerns. In 2004, forums were held in Detroit, Flint, Hancock, Monroe, Muskegon, Benton Harbor and Cheboygan. Over 320 consumers and community organization representatives attended the seven forums. MPSC staff and utility representatives were available to assist customers with utility-related problems.

Complaint and Inquiry Calls

Michigan businesses and consumers may contact the Commission's toll-free number and receive assistance on telephone, electric, and natural gas complaints and inquiries. These calls are taken live and result in a record for each complaint or inquiry. During 2004, 43,798 calls were handled on the toll-free line. Calls were answered in an average of 26 seconds. The MPSC also assists the Governor's office and Legislative staff with constituent concerns.

Complaint and Inquiry Data

The MPSC administers a customer complaint and inquiry database, including ensuring the security of the data and the validity of the reports generated from the data, and generates monthly reports on types of complaints and inquiries received and the number of complaints from customers of each regulated utility.

Motor Carrier Regulation

Applications for Intrastate Authority

The MPSC received 422 applications for original operating authority and 58 applications for grants of reissuance of revoked intrastate operating authority. Related actions included 46 applications for transfer authorization to new ownership, 19 changes of operating name, 115 temporary discontinuance of operations, 47 permanent discontinuances, and 34 reinstatements of authority from discontinuance. The Commission granted 155 requests for temporary operating authority.

The annual renewal of active and temporarily discontinued intrastate operating authorities was initiated September 17, 2004. Nearly 40,000 2005 MPSC decals were issued by January 7, 2005. This renewal process collected \$3,870,400 in fees.

Insurance Filings

Each motor carrier applying for intrastate authority is required to submit proof of commercial public

liability/property damage (PL/PD) insurance of a minimum of \$750,000 for general commodities, and \$1,000,000 where hazardous materials will be transported. If the carrier possesses authority to transport household goods, an additional commercial cargo policy sufficient to provide coverage of the items transported must also be submitted. During 2004, original and replacement filings were received of 324 cargo policies, and 3,406 PL/PD policies. Letters of pending cancellation/expiration of required coverage were mailed to 2,753 carriers.

Decals and Special Identification Cards

Intrastate carriers are required to register power unit vehicles utilized in their authorized operations. During 2004, decal sales generated over \$5 million. Carriers may also purchase and utilize a 72-hour Special Identification Card (SID), for \$10.00, valid for one year from the date of issuance, which may be utilized as a temporary substitution for an MPSC decal. A total of 4,928 SIDs were issued.

Safety and Compliance

The MPSC reviewed 505 applications for intrastate for-hire authority and the transfer of existing authority to ensure compliance with safety requirements, including carrier's safety policy, drug and alcohol testing policy, and driver qualification files. Forty-two complaints were also filed and processed. In 2004, 310 informal

conferences were scheduled, 39 formal complaints were served and administrative hearings scheduled, and \$12,000 in assessment fees were ordered.

Rates and Tariffs

Carriers who conduct for-hire intrastate movements of household goods submitted 242 amendments and additions to tariff filings for Commission approval. Complaints were received and investigated from 6 individuals utilizing household goods movers and complainants were advised on available remedies.

Household Goods Carriers

In October, Michigan Movers Association (MMA) applied for a 12% rate increase for its member-companies (Tariff MPSC MMA 4000). The Commission approved a 6.4% general rate increase on January 25, 2005.

Champion's Auto Ferry

On November 19, 2004, Champion's Auto Ferry, Inc. filed an application requesting an increase in revenue of approximately \$102,000 by increasing the round trip rates for automobiles from \$5.00 to \$6.00. Due to a substantial revenue shortfall experienced by Champion's Auto Ferry, Inc. in 2003 and 2004, the rate increase became effective on December 19, 2004. Customers who purchased coupon books saw no increase in their rates, however.

Single State Registration System (SSRS) for Interstate Carriers

As a member of the Single State Registration Plan, Michigan joins 37 states in providing interstate motor carriers, based in Michigan, Canada, and those based in non-participating SSRS states, with the capability to complete the registration of vehicles through Michigan for each of the 38 states. State registrations for operational years 2004 and 2005 processed by Michigan collected more than \$4.4 million. The majority of these funds were forwarded to other SSRS states. Michigan operation registrations completed by the participating states were forwarded to Michigan in the amount of \$1,896,000.

Registration of Interstate Exempt Movements

Approximately 900 carriers transporting interstate commodities declared as exempt from interstate regulation were issued certificates of registration. Each carrier received a unique Michigan Identification Number (MIN).

Intercorporate Hauling Permits

The Commission approved renewal of 39 applications for intercorporate hauling permits and two new permits. Intercorporate Hauling Permits authorize a member of a corporate family to provide transportation services, for a fee, to other members of the same corporate family.

Other Activities

Staff chaired the Motor Carrier Advisory Board and participated as a member of the Michigan Highway Reciprocity Board. In a joint venture with the USDOT and the Michigan Departments of Transportation, State Police, Treasury, and State, the MPSC worked toward developing coordinated state programs that will permit electronic filing and issuance of credentials to motor carriers and provide online credential and safety data to enforcement officers at the roadside. The MPSC, working closely with USDOT and the Michigan Center for Truck Safety, hosted 13 free educational training sessions on topics vital to motor carrier operations.

A new Three Hundred Sixty (360) consecutive hour temporary permit to serve as an extended Special Identification Card or as temporary registration pending decal issuance was made available to motor carriers this year. In response to concerns expressed by various carriers at the July 15, 2004 meeting of the Motor Carrier Advisory Board (MCAB), the issues to be addressed included (1) extended hour coverage (from the existing 72 hours to 360 hours) and (2) a means to accomplish temporary MPSC registration of a vehicle pending receipt of a processed MPSC decal. A new temporary permit was created to serve this purpose.

In December 2004, two separate judgements were entered in the Court of Claims against the State of Michigan and the Michigan Public

Service Commission in favor of Yellow Transportation, Inc., in the amount of \$556,020.79 and Schneider National Carriers, Inc., in the amount of \$1,609,278.77.

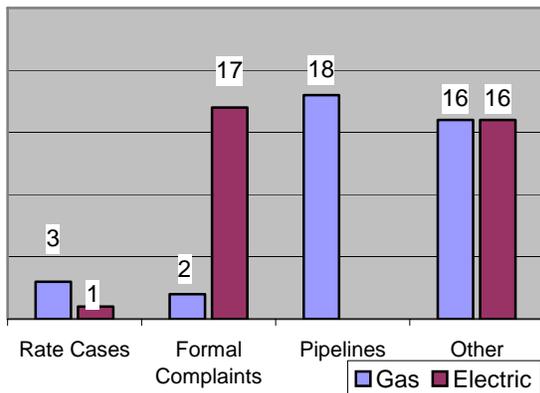
Engineering & Service Quality Division

George Stojic, Director

The Engineering & Service Quality Division provides the Commission with technical assistance and recommendations on electric and natural gas services and issues necessary to ensure that regulated electric and natural gas services are provided in a safe, reliable, and efficient manner to enhance Michigan's competitive economic environment. Three sections comprise the Engineering & Service Quality Division: Engineering, Gas Safety and Service Quality.

Commission Orders

Number of Orders Issued by Type and Industry 2004



Gas Safety

The MPSC inspected all jurisdictional pipeline operators on schedule, thus meeting the requirements of Public Act 165 of 1969 and the United States Department of Transportation (USDOT)

requirements. The MPSC investigated all jurisdictional incidents that met the USDOT requirements. The safety program maintained its federal certification following receipt of a favorable review of the USDOT. The MPSC also worked with underground facility owners to implement a \$300,000 grant program from the USDOT to fund an advertising campaign designed to reduce underground damages.

Service Quality

The MPSC received more than 9,500 gas and electric complaints and inquiries. This resulted in over 27,948 telephone calls and 72,087 activities to fully respond to these complaints and inquiries. This reflects an 8% increase in the number of complaints and inquiries handled over 2003. Although there was an increase in activity, the complaints and inquiries concerned usual issues related to increased natural gas prices, high bills, responsibility for bills, estimated bills, bill payment assistance, shutoffs as well as other billing and service issues.

Michigan businesses and consumers filed more than 25 formal complaints against gas and electric companies in 2004. However, the MPSC was able to resolve most of these complaints before the administrative hearing. While the MPSC encourages participants to exercise their right to bring a complaint to the Commission when the complaint cannot be resolved informally, early resolution benefits all parties involved.

The customer and company representatives eliminate travel time to Lansing for the hearing, and the MPSC staff increases its efficiency in coordinating cases.

Major revisions to the complaint tracking system were made in 2004. These revisions provide detailed information about the quality of service provided by Commission-regulated natural gas and electric companies, as well as, rural electric cooperatives. This information, provided on the Commission's Website, allows viewers to see the number of complaints against companies that were the result of a violation of the Commission's rules, the company's tariffs or a customer's dissatisfaction with the company's operations.

The MPSC participated in three pole attachment dispute cases involving an electric utility and the school districts, and testified in a service extension dispute between two neighboring electric utilities.

Pipelines

The Commission issued 18 pipeline orders in 2004. The orders followed staff determinations that the proposed transmission pipeline was practicable, met the requirements of the Michigan Gas Safety Standards, and served the public convenience and necessity. Generally, pipelines are required to deliver natural gas that is produced in Michigan for markets within and outside the state.

Natural Gas Production

The MPSC issued 346 gas well connection permits (16 more than in

2003), with 326 for gas wells in the Antrim formation (an increase of 4). Total gas production in 2004 is estimated to be 185.6 billion cubic feet compared to 201 billion cubic feet estimated for 2003. Antrim gas wells provided approximately 80 percent of the total.

Emergency and Outage Events

The MPSC monitored a number of energy related emergency and outage events during 2004. Starting on Friday May 21st and continuing through the weekend, a series of major storms containing severe lighting and heavy rain swept across Michigan. These storms caused extensive damage to the electric distribution systems in Michigan. Over half a million customers were without electric service at one time or another during the storm event. An early June storm centered in southeastern Michigan caused over 80,000 Detroit Edison customers to lose electric service. Another storm in late October resulted in over 200,000 Detroit Edison and Consumers Energy customers losing service. The MPSC monitored these events and the recovery activity.

Problems with the transmission system in northern Wisconsin and the Upper Peninsula, coupled with incidents at the Presque Isle Plant, continued to require monitoring. Three separate incidents caused power shortages in the western Upper Peninsula which resulted in taconite mine load curtailments. Due to the critical nature of these situations the MPSC maintained constant contact with the entities involved.

The MPSC also maintained capacity and load review of Consumers Energy and Detroit Edison during the summer load period that consisted of weekly meetings and follow-up, as needed during the week. Several outage situations at the Palisades Facility were also monitored during 2004.

On January 24, 2004, the Commission formally adopted rules governing service quality and reliability for electric distribution systems. Under these rules, Michigan consumers will have in place some of the best standards in the country, which include stiff penalties for utilities that fail to live up to the standards. Standards include those for service outages, distribution facility upgrades, repairs and maintenance, telephone service, billing service, operational reliability, and public and worker safety.

Regulatory Affairs Division

Robert Kehres, Director

The Regulatory Affairs Division provides the Commission with legal, technical and research expertise, handles media and public information, and other administrative duties performed by the Executive Secretary Section, including: maintaining the security of all official records, providing appropriate access to records, and distributing all official Commission documents.

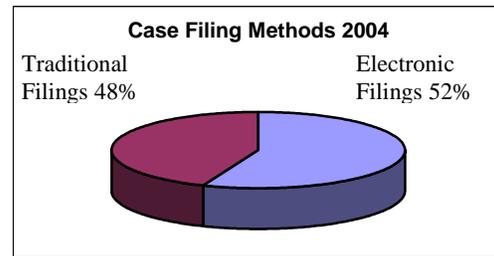
Executive Secretary

Case Documents and Processing

The Commission received and processed 7,842 official pleadings from applicants, respondents, intervenors and interested persons, compared with 5,565 from the previous year. The Commission served 14,915 paper copies of Commission orders to case files, subscribers and the public, a reduction of nearly 20%, due in part to the implementation of automated electronic subscription lists for the electric and natural gas and telecommunications industries. One hundred forty nine telecommunications industry officials and fifty nine electric and natural gas officials began receiving an electronic notice immediately following the issuance of all Commission's Own Motion orders, thus reducing the Commission's copying and distribution costs.

The Commission issued 266 notices of hearing and notices of opportunity

to comment, compared with 176 from the previous year. These notices were distributed to subscribers and parties, and posted to the Commission's Website.



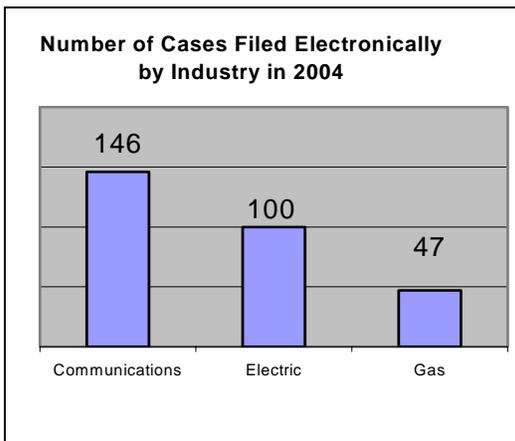
Electronic Filings

The Commission continued to encourage and support participation in its Electronic Case Filings (e-filings) program, which began as a pilot program in 1999. The Commission issued Hearing Room Procedures – Electronic Cases to assist electronic case filing participants with appearance forms, prefiled testimony, official exhibits, service of documents, digital signatures and document security.

In 2004, the Commission received 293 electronically filed cases, or 52 percent of all new cases filed. A number of the traditional filings (paper cases) were residential and small business complaints.

One hundred forty-six telecommunications, 100 electric, and 47 natural gas cases were filed electronically. The MPSC posted 6,844 documents that utility companies, intervenors, Commission

staff, administrative law judges, the Attorney General, ratepayers and court reporters electronically filed to the e-filing system, continuing the Commission’s efforts to improve document processing efficiencies. Filers also benefited by providing a reduced number of paper copies of pleadings to the Commission. Additionally, parties to the cases, other interested persons and the general public enjoyed the convenience of 24-hour access to all electronic case records via the Internet. The success is evidenced by the downloading of nearly two million e-filed documents from the Commission Website in 2004, compared with one million the previous year.



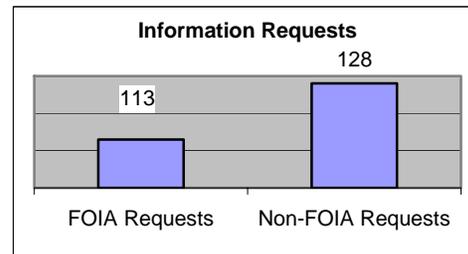
Paperless Electronic Filings

In September 2003, the Commission implemented a Paperless Electronic Filing Pilot, selecting all 2003 gas supply cost recovery and power supply cost recovery reconciliation cases, 21 in all, for the pilot. Because of the positive reception by participants and staff alike, the pilot was expanded in 2004 to include 2004 and 2005 gas cost recovery

and power supply cost recovery plan and reconciliation cases. Every Commission-regulated natural gas or electric utility company has participated by filing at least one paperless electronic case with the Commission. A recommendation to further expand the paperless program was submitted to the Commission in January 2005.

Information Requests

The Commission responds to information requests under Michigan’s Freedom of Information Act as well as non-FOIA requests from regulated utility companies, the legal community, case proceeding participants and the public on a broad range of issues. The MPSC processed two hundred forty one information requests in 2004.



Additionally, the Commission is prohibited by statute from responding to consumer and business correspondence when it involves a proceeding currently before the Commission. The Executive Secretary responded to more than 4000 business and consumer letters in 2004.

MPSC Annual Report

On March 1, 2004, the MPSC submitted its annual report to

Governor Granholm and the Michigan legislature as required by Public Act 33 of 1989. The report was submitted electronically, to reduce copying and distribution costs.

energy, and the increase in natural gas prices.

The MPSC provided information and assistance to over 460 media contacts in 2004.

Media and Public Information

The Commission issued 123 press releases resulting from Commission orders, programs and activities. Press releases announced Commission action on a wide range of issues, including: taking several actions to improve electric reliability in Michigan; adopting electric service quality and reliability standards; issuing a report on the status of electric choice in Michigan that showed a significant increase in choice customers; approving SBC wholesale costs; initiating an investigation into Voice over Internet Protocol issues in Michigan; establishing funding for a Consumers Energy renewable energy resource program; approving rate increases for Detroit Edison and Consumers Energy gas customers; granting interim rate relief to Mich Con; announcing that a consensus has been reached on offering net metering to Michigan customers; awarding \$28 million in grants from the Low Income and Energy Efficiency Fund; and continuing the Be WinterWise campaign that highlights what customers can do to lower their natural gas bills.

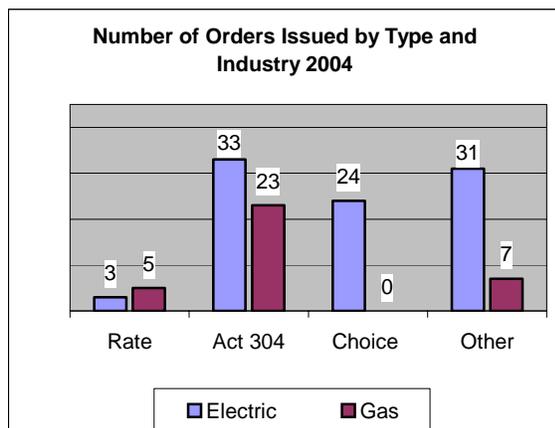
Dominant issues of interest to the media were: proposed changes to Michigan's electric choice laws, electric reliability issues, renewable

Regulated Energy Division

Susan Crimmins Devon, Director

The Regulated Energy Division was established by the Commission on April 12, 2004 for the purpose of overseeing all functions related to regulating electric and natural gas utility rates and terms of service. It is comprised of four sections, Accounting and Auditing, Act 304 and Sales Forecasting, Rates and Tariff, and Financial Analysis. The Regulated Energy Division provides the Commission with technical assistance and recommendations on electric and natural gas services and issues necessary to ensure that regulated electric and gas services are provided in a safe, reliable and efficient manner at fair and reasonable prices for Michigan's citizens and businesses.

Commission Orders



Rate Cases

The Commission approved rate increases for 3 utilities in 2004: Detroit Edison, Consumers Energy and MichCon. Detroit Edison sought to

increase its electric rates by \$582,837,000 and also requested partial and immediate rate relief of \$536,029,000. The Commission granted Detroit Edison interim rate relief in the amount of \$248,430,000; offset by a \$126,000,000 reduction in its PSCR rates effective February 21, 2004. On November 23, 2004, the Commission authorized an additional \$87,382,000 in final rate relief which resulted in a total base rate increase of \$335,812,000 and PSCR rate decrease of \$126,000,000. However, residential ratepayers will not see an increase because of rate caps that remain in effect until January 1, 2006. At that time, the typical residential customer will see a rate increase of \$5.64 per month. The majority of the rate increase covers pension expenses, clean air costs, a low income fund, an increase in common equity, and inflation. Detroit Edison's last rate increase was granted in 1985. The Commission's order also provided for recovery of stranded costs, choice implementation costs, and regulatory assets pursuant to statutory mandates required under Public Act 141 of 2000. The Commission ordered Detroit Edison to file an unbundling and rate design case during 2005. That case is currently pending.

Consumers Energy requested authority to increase its natural gas rates by \$155,997,000. In its application, Consumers Energy also requested partial and immediate rate relief for the entire amount. By order dated December 18, 2003, the Commission granted Consumers Energy interim rate

relief in the annual amount of \$19,340,000. The Commission granted final rate relief to Consumers Energy in an order dated October 14, 2004 authorizing the company to increase its rates by a surcharge to existing rates in the amount of \$58,124,000, or \$38,784,000 more than the interim relief. The surcharge is approved for a two-year period. In addition, the company must file a rate case within two years to allow the Commission to review an appropriate level of revenues and expenses for the company. This increase will add approximately \$2.31 to a typical residential customer's monthly bill, or approximately \$1.54 per month in addition to the \$0.77 per month interim relief granted in December 2003.

On September 30, 2003, MichCon requested \$193,600,000 in rate relief. The company also requested partial and immediate rate relief in the amount of \$153,700,000. The Commission granted MichCon interim rate relief, effective September 22, 2004, in the amount of \$35,311,000 for natural gas service, on an annual basis. The increase will raise a typical residential customer's monthly bill approximately \$1.43. MichCon's request for final rate relief is pending before the Commission.

| Company | Rate Increase | Typical Residential Monthly Bill Increase |
|------------------------|---------------|---|
| Consumers Energy-(gas) | \$58,124,000 | \$2.31 |
| Detroit Edison | \$335,812,000 | \$5.64* |
| MichCon (Interim) | \$35,311,000 | \$1.43 |

*Residential electric customer's rates are capped until 2006.

Accounting & Auditing

The MPSC conducts rate case audits, Gas Cost Recovery reconciliation audits, Power Supply Cost Recovery reconciliation audits, and special audits as the need arises. Also, for electric and natural gas utilities regulated by the MPSC, staff is responsible for accounting standards, depreciation rates, and administering the Uniform System of Accounts.

In 2004, the MPSC coordinated and participated in three rate cases, with responsibility for determining expenses, rate base, certain revenues, and the overall revenue requirement of each utility. Also, the MPSC participated in four TIER (Times Interest Earned Ratio Ratemaking Mechanism) rate cases filed by cooperative utilities, providing the audit support and revenue requirement recommendations, as well as 7 GCR reconciliation cases and 14 PSCR reconciliation cases filed in 2004, providing audit support and over/under recovery computations in each case. Finally, the MPSC participated in 14 other cases, consisting of requests for accounting approvals, depreciation rate cases, and Act 141 cost recovery cases.

Act 304 & Sales Forecasting

The MPSC administers the Gas Cost Recovery (GCR) Program, and the Electric Power Supply and Cost Recovery (PSCR) Program, both created by P. A. 304 of 1982.

In 2004, the Commission established retail GCR rates for seven regulated gas utilities. The GCR regulatory process provides for the recovery of over \$2.5 billion of wholesale gas costs, making it

one of the largest gas recovery programs in the nation. During 2004, the Commission moved MichCon and Aquila Networks-MGU from a calendar-year review to an operational-year review period. The new annual review period commences in April. The move to an operational year allows for a coordinated planning process for the winter heating season, in which more than 70 percent of annual sales occur.

Beginning in 2003 and continuing through 2004, natural gas wholesale prices continued their rise to very high levels. Because of extreme wholesale gas market price volatility, the Commission approved New York Mercantile Exchange (NYMEX) contingent GCR factors for all seven regulated gas utilities. Contingent GCR factors provided utilities with retail rate flexibility and the ability to more accurately recover the cost of gas in the year in which the costs were incurred. Thus, the GCR recovery issues that plagued 2003 were mitigated during 2004. Michigan's average residential gas rates, at \$6.18 per thousand cubic feet, were below the national average of \$6.39 per thousand cubic feet (EIA, Dec 2004).

The MPSC participated in 51 electric related cases, including Power Supply Cost Recovery plans for 2004 and 2005, PSCR cost reconciliations for 2003, Detroit Edison's general rate case, Consumer's Resource Conservation Plan case, and other power supply cases related to Act 304. The MPSC analyzed power supply costs, determined appropriate power supply levels, reviewed power supply contracts and other duties relevant to ensuring

prudent and reasonable regulatory oversight.

Rates and Tariffs

The MPSC is responsible for cost of service studies and rate design for gas and electric utilities, gas and electric special contracts, gas storage rates and tariff administration activities.

The MPSC coordinated TIER cases for each of the state's cooperative utilities. Based on the TIER ratemaking mechanism, the Commission approved rate increases for Alger Delta and Ontonagon in 2004.

Detroit Thermal's rate case to set default steam rates is pending a Commission decision.

The Commission received applications for six special contract cases, which are contracts between utilities and large usage customers. It approved special contract orders for Consumers Energy-electric, Cherryland, Great Lakes and SEMCO Energy in 2004.

More than 100 tariff sheet filings are processed at the MPSC annually. During the summer of 2004, the Commission implemented a new electronic tariff processing procedure. To participate in the electronic tariff program, companies send tariff filings electronically to the MPSC tariff email box. Once the MPSC has reviewed and approved the tariff sheets, they are stamped electronically and sent via email back to the company. This new electronic procedure has greatly reduced the time necessary to process tariff filings. The new electronic processing program has a very high

participation rate and the Commission has received very positive feedback from utilities on the new procedure.

As part of developing and implementing the new electronic tariff processing procedure, a detailed and comprehensive tariff sheet processing manual has been prepared.

Financial Analysis

During 2004, the MPSC participated in three major company rate cases in the areas of cost of capital and capital structure.

The MPSC reviewed Consumers Energy's 2004 request for true-up adjustments in securitization Case No. U-12505 and Detroit Edison's true-up request in Case No. U-12478. The Commission approved routine securitization true-up adjustments for Consumers Energy and Detroit Edison on November 23, 2004 and February 12, 2004, respectively. The MPSC worked on a Consumers Energy application request for authority to securitize certain generation-related assets. The Commission had originally approved the securitization of the generation assets in 2003, with asymmetrical securitization rates for bundled sales customers and choice customers. Subsequently in 2003, the Commission granted a petition for rehearing filed by Consumers Energy with regard to the asymmetrical securitization rates. On October 14, 2004 the Commission issued a final decision vacating its original order approving the securitization of certain generation-related assets, thereby denying Consumers Energy's request to securitize the assets and rendering

moot the issue of the legality of asymmetrical securitization rates. However, the Commission noted that the denial of Consumers Energy's request for securitization of the generation-related assets in no way precluded the company from pursuing recovery of the costs pursuant to Section 10d(4) of Public Act 141 of 2000.

The Commission is currently reviewing a proposed settlement agreement regarding Consumers Energy's adjustment of surcharges for nuclear power plant decommissioning for the Palisades Nuclear Plant.

Four quarterly utility earnings reports with accompanying Economic Newsletters were prepared and published on the Commission's Website. In addition, a new internal monthly utility earnings report was developed and distributed to the Commissioners and senior MPSC staff.

A report detailing the affiliated transactions between Michigan-regulated electric and gas utilities and unregulated affiliates was prepared in November. The report assists the Commission in monitoring utility companies and their affiliates in order to ensure that regulated utilities do not subsidize the unregulated ventures of affiliates.

The MPSC collected and audited revenue data from each utility company within the Commission's jurisdiction and prepared a report for the calculation of the Annual Public Utility Assessment.

The MPSC is currently working with utilities to implement a new reporting

system whereby utility companies will be able to file their annual reports electronically. The reports would subsequently be posted on the Commission Website. Among other results, the information contained within the annual reports would be easily accessible to the general public, Commission Staff, other regulatory agencies, and members of the financial community.

Telecommunications Division

Orjiakor N. Isiogu, Director

The Telecommunications Division is responsible for providing the Commission with technical assistance and policy recommendations on telecommunications issues in Michigan. The primary activities of the Division focus on administration of Public Act 179 of 1991, as amended, known as the Michigan Telecommunications Act (MTA). Four sections comprise the Division: Service Quality, Operations, Competitive Services and Broadband and Federal Issues.

Local Telephone Competition

During 2004, the Commission granted licenses or approved amendments to existing licenses for 43 telephone companies. At the end of the year, 208 competitive local exchange carriers (CLECs) were licensed to provide telecommunication services in Michigan. CLECs were serving 26.5 percent, or about 1.7 million lines provided to customers by telecommunication carriers in Michigan, according to results from an annual survey staff conducted in early 2004. This percentage has increased from the prior year and places Michigan as one of the most competitive basic local service markets in the nation.

The number of lines served over an unbundled network platform (UNE-P) that CLECs purchased from

SBC/Ameritech was 1.2 million, or 73 percent of all of the CLEC line activity. Resale accounts for 28,018 lines, while lines served over unbundled network facilities were 249,882, and lines served via CLEC-owned facilities were 126,208. As of December 2004, there were approximately 147 Commission approved interconnection agreements in effect between SBC Ameritech and its competitors.

Broadband/Right-of-Way

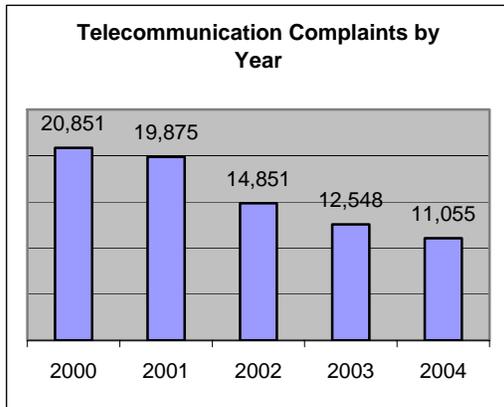
Pursuant to the adoption of Public Act 48 of 2002, which was designed to stimulate the availability of affordable high-speed Internet by simplifying the permit process and standardizing fees for local rights-of-way access, the Commission acted as follows:

- The Commission continues to work with the METRO Authority on permit and mapping issues and resolving disputes informally. On June 3, 2004, the Commission issued an order in Case No. U-13981 resolving a right-of way dispute between McLeod and the City of Saginaw.
- The Commission approved METRO Tax Credits for 56 providers and submitted this information to the Treasury Department for the processing of providers' tax filings.
- In compliance with Act 48, the Commission has issued Annual Permit Activity reports for 2003 and 2004 with monthly updates during

the year. This information is posted on the Commission's Website. The Commission received notices of permit approvals/denials from 352 municipalities in 2004. From this number, 332 were for unilateral permits and 20 were for bilateral permits.

Service Quality

The MPSC received and processed 11,055 telecommunication complaints during 2004. The total number of complaints in 2004 declined from the previous four years.

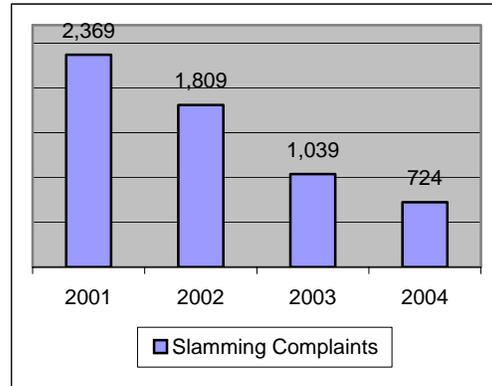


The staff processed 126 formal complaints during 2004; this compares with 19 formal complaints handled during 2003, 86 in 2002 and 129 in 2001.

Billing issues remain the primary complaint category. The second highest category is service quality, followed by slamming, then false/misleading information provided by companies to customers.

The MPSC continued to see a significant decrease in slamming complaints. In 2004, it received 724

complaints. Slamming is the practice of illegally switching a customer's telephone service without the customer's authorization. The Commission and the FCC have issued rules to protect consumers from having their telephone service slammed.



Public Act 591 of 2004 authorized the Commission to re-promulgate most of the service quality rules that were nullified by the Court of Appeals. On February 24, 2005, the Commission commenced the re-promulgation process.

Expansion of Local Calling Areas

Pursuant to Section 304 of the MTA, basic local exchange service providers with 250,000 or more end-users are required to offer a rate that includes toll-free calling to contiguous Michigan local calling exchanges. The MTA exempts providers serving less than 250,000 end-users from this requirement if it is not economically feasible.

A number of smaller providers implemented expanded local calling in 2004: Sand Creek, Winn, CenturyTel of Upper Michigan,

CenturyTel of Northern Michigan, CenturyTel of Michigan, CenturyTel of Midwest-Michigan and Pigeon.

Rates for basic local exchange service were increased to recover the cost of expanded local calling.

Numbering Resource Optimization

The Commission submitted comments on telephone number use optimization to the FCC on four occasions in 2004. Topics included wireless telephone number portability, expansion of thousand block number pooling to increase conservation, and the use of numbering resources in Voice over Internet Protocol (VoIP).

The North American Numbering Council (NANC) oversees the North American Numbering Plan Administrator (NANPA) and the Thousands Block Number Pooling Administrator (PA) and advises on national numbering resource planning issues.

Thousands Block Number Pooling

Historically, telephone numbers have been allocated to carriers in blocks of 10,000. Recent advances in technology have provided a method to recapture and allocate unused telephone numbers in blocks of 1,000. This new allocation method is known as “number pooling” and has permitted a much more efficient use of limited numbering resources. Number pooling is mandatory throughout the 313, 248, 947, 586, and 616 area codes. It is also

mandatory in parts of the 231, 517, 734 and 810 area codes.

Abbreviated Dialing Number: 2-1-1

In accordance with Sec. 214 of the MTA, in 2004 the MPSC approved one entity to be a community resource information and referral answering point, directing the implementation and use of the 2-1-1 abbreviated dialing number. In 2004, the First Call for Help in Jackson County joined Ottawa, Kent, Calhoun, and Kalamazoo counties to enable citizens to directly dial the county's designated call center to locate assistance with one call.

Universal Service Fund

In September 2004, the Commission approved two wireless carriers as Eligible Telecommunications Carriers (ETC), enabling them to recover designated costs incurred in service delivery in rural or high cost areas, as determined by the federal Universal Service Administrative Company (USAC). In addition to the new ETCs, the MPSC received affidavits from 43 wire line and wireless carriers who will be able to receive funds for 2005. Commissioner Nelson was appointed to the Universal Service Joint Board in 2004.

Electronic Tariffs

Continuing the progress made in allowing telecommunications carriers to e-file tariff revisions and post their tariffs for public viewing on the Internet in 2003, over 400 electronic tariff revisions were processed in

2004. Currently, over 68 carriers are taking advantage of e-filing their tariffs with the MPSC.

**CASE ACTIVITY
2004**

Total Utility Cases Opened..... 565

Paper Cases.....272

Electric.....38

Gas.....20

Telephone.....128

Appeals to Commission

Electric.....3

Gas.....1

Telephone.....82

E-file Cases..... 293

Electric.....72

Gas.....42

Telephone.....84

Appeals to Commission

Electric.....28

Gas.....5

Telephone.....62

Total Utility Orders Issued..... 415

michigan.gov/mpsc

MPSC Website visitor sessions in 2004 totaled 1.26 million*, an average of 105,000 a month or 3,500 a day, excluding state government use. Nearly 7,700 total subscriptions utilized the Website's automated e-mail distribution lists. Commission meeting agendas, minutes, press releases, notices of hearing and opportunity to comment, and consumer alerts were delivered via 500,000 e-mail messages, reducing the time and expense needed for postal mailings.

The electronic filing applications also continued to see substantial growth in 2004. These systems comprise: Electronic Case Filings program, Intrastate Telecommunications Service Providers system, and the Michigan Oil and Gas Well Production filing system. The Efile web server had 215,000 visitor sessions during 2004, an average of 18,000 per month, a near doubling of Website activity from 2003. A move to eliminate all paper filings will be initiated this spring after a successful paperless pilot program was conducted in 2004.

Website Developments:

In 2004 the MPSC launched wireless internet access (Wi-Fi) in their hearing rooms as a way of enhancing the electronic filing experience. Wi-Fi will allow case participants the ability to access and efile documents, conduct research, email or schedule case hearing dates without leaving the hearing room. Wi-Fi is available to everyone free of charge and is maintained on a separate network from the state system for security purposes.

The electronic filing system was updated this year with changes to the hardware and network configuration, including a new server and updated connections to increase the speed by which the Efile system connects to the internet. The new server replaces an aging computer used for Efile administration, and will provide a secure location for future expansion and testing.

Work has begun on a new Case Tracking System, with targeted completion by the summer of 2005. This system tracks all information regarding cases before the Commission and will improve the efficiency by which these cases are administered. Once implemented, all pertinent case status information will be made available on the internet and tied directly to the Efile system.

*Web traffic statistics for electronic filing system are tabulated independently.



**“Serving Michigan...
Serving You”**

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Authority: P.A. 33 of 1989
