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GOVERNOR

STATE OF MICHIGAN
PUBLIC SERVICE COMMISSION
DEPARTMENT OF LABOR & ECONOMIC GROWTH
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J. Peter Lark
CHAIRMAN

Laura Chappelle
COMMISSIONER

Monica Martinez
COMMISSIONER

March 3, 2006

Honorable Jennifer M. Granholm
Governor of Michigan

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

The Michigan Public Service Commission is pleased to provide you with its 2005 Annual Report in compliance with Public Act 33 of 1989. The following highlights Commission accomplishments during 2005.

On July 1, 2005, Michigan became the first state in the nation to launch a child protection registry, enabling parents to guard their children from unwanted electronic messages. By year's end, 3,641 individuals and 41 schools registered e-mail addresses with The Protect MI Child Registry, prohibiting persons from sending to the registered addresses information about products or services that are legally prohibited for children, including pornography, tobacco, gambling, alcohol, or illegal drugs.

With escalating energy costs, the Commission took action to protect Michigan citizens, establishing emergency billing practices, covering the period from November 1, 2005 through March 31, 2006, for retail customers of electric and natural gas utilities subject to the Commission's jurisdiction. The Commission updated its Be WinterWise Website to provide information on ways for consumers to manage their winter energy bills, including information on the home heating credit, state emergency relief, budget billing and conservation tips. The Commission also hosted eight statewide Consumer Forums to provide on-site assistance to customers with utility-related problems.

The Commission continued to respond to the needs of Michigan's low-income and senior citizens, awarding \$56,000,000 for low-income energy assistance and \$15,000,000 for low-income energy efficiency from the Low-Income and Energy Efficiency Fund. The awards provide immediate assistance for heating needs as well as longer term assistance in reducing future heating costs for low-income and senior citizens. Additionally, the Commission approved \$6,000,000 to develop or improve the quality of energy efficient technologies for all customer classes.

Throughout the year, Michigan Public Service Commission staff conducted Michigan's electric Capacity Need Forum, a collaborative effort involving approximately 150 individuals representing approximately 60 organizations. The Forum, established through an October 2004 Commission order, was the first major effort to assess Michigan's electric generating capacity needs since the mid-1980s. Based on a January 3, 2006 MPSC staff report, Michigan's future electric capacity needs are adequate to meet the state's demand at this time but growing demand will require additional measures by 2009 to ensure that its electric grid keeps power flowing. The Commission expects to give careful consideration to the staff's recommendation and will conduct a public hearing in March 2006.

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On December 22, 2005 the Commission unbundled Consumers Energy Company's and The Detroit Edison Company's rate schedules as required by Public Act 141 of 2000. The new unbundled rates are transparent and therefore make it much easier for customers to compare full service and choice service options. The Commission also found that it is unlikely that there will be any new stranded costs in the future.

Natural gas markets were characterized by unprecedented price volatility and sizable increases in wholesale gas prices that prompted the regulated gas utilities to file for re-opening of their gas cost recovery plan proceedings. The Commission instituted expedited schedules for processing these cases, issuing seven orders between October 26 and November 30, 2005. These orders established fixed rate price ceilings that balanced the interests of both the ratepayers and the utilities during the winter.

Significant growth continued in the MPSC's Electronic Case Filings Program, with nearly 62% of all new cases filed electronically. In response to participant support, the Commission expanded its Paperless Electronic Case Filings Program to include all new natural gas and electric cases, other than small business and residential complaints, and expanded local calling applications for telecommunication providers, effective June 1, 2005. Ninety-nine paperless electronic cases were filed with the Commission in 2005, reducing applicant copying and distribution costs and providing nearly immediate public access to these documents on the MPSC Website.

The MPSC issued more than 40,000 2006 MPSC decals for intrastate motor carrier authority and collected \$5.6 million in total decal sales.

We look forward to working with you on future matters vital to Michigan residents and businesses.

Respectfully submitted,

J. Peter Lark, Chairman

Laura Chappelle, Commissioner

Monica Martinez, Commissioner



2005 ANNUAL REPORT MICHIGAN PUBLIC SERVICE COMMISSION

J. Peter Lark, Chairman
Laura Chappelle, Commissioner
Monica Martinez, Commissioner



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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. Mr. Lark also serves on the National Association of Regulatory Utility Commissioners Subcommittee on Nuclear Issues.

He has taught advocacy, trial workshop, and advanced trial workshop at the Thomas M. Cooley Law School.

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

Mr. 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.

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 nationally recognized METRO Act, which coordinated and streamlined local and state right-of-way regulations for broadband lines and facilities.

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 and Chair of NARUC’s Broadband over Power Line Task Force. She has served as past Co-chair of the Future of Transmission Working Group through the Consumer Energy Council of America (CECA) and now serves as Co-chair of CECA’s Nuclear Energy Working Group. Ms. Chappelle participates as a member of the Board of Directors of the Organization of MISO States (OMS), having formerly served as Treasurer of OMS, and currently serves as Vice President of the Organization of PJM States. She also has served as a member of the Department of Energy’s Electricity Advisory Board.

Monica Martinez Commissioner

Appointed to Commission: July 3, 2005

Term Ends: July 2, 2011



Monica Martinez was appointed by Governor Jennifer Granholm on July 3, 2005. Her appointed term ends July 2, 2011.

Since joining the Commission, Commissioner Martinez has taken an active role in issues relating to consumer education and awareness, and low income energy assistance. As a member of the National Association of Regulatory Utility Commissioners (NARUC), Committee on Consumer Affairs, she most recently initiated support for a call to action to promote telephone record privacy and supported efforts for uniform data collection for energy arrearages. She is also a member of the NARUC Committee on Telecommunications, and its Federal-State Task Force.

Prior to her appointment to the Commission, Ms. Martinez served as Deputy Director of the Governor's Legislative Affairs Division. In that capacity, she was responsible for advancing the Executive Branch's views and initiatives to the Michigan Legislature. She also advised on telecommunications and energy, including participating in the Coalition to Keep Michigan Warm. Prior to her position in the Executive Office, she served as a policy analyst to the Michigan Senate Democratic Office where she specialized in telecommunications, energy, human services, and family law policy issues. She was a key advisor to the Senate Democratic Caucus during the legislative deliberation of the Customer Choice and Electricity Reliability Act. Additionally, Ms. Martinez contributed to major legislative packages affecting children and vulnerable adults, including revisions to Michigan statutes affecting child support enforcement, child welfare, and the duties and responsibilities of guardians and conservators.

Before joining the Senate Democratic Office, Ms. Martinez served at the Alumni Association of the University of Michigan and the Center for Corporate and Professional Development at UM-Dearborn.

Ms. Martinez earned her undergraduate degree in economics and political science at The University of Michigan.

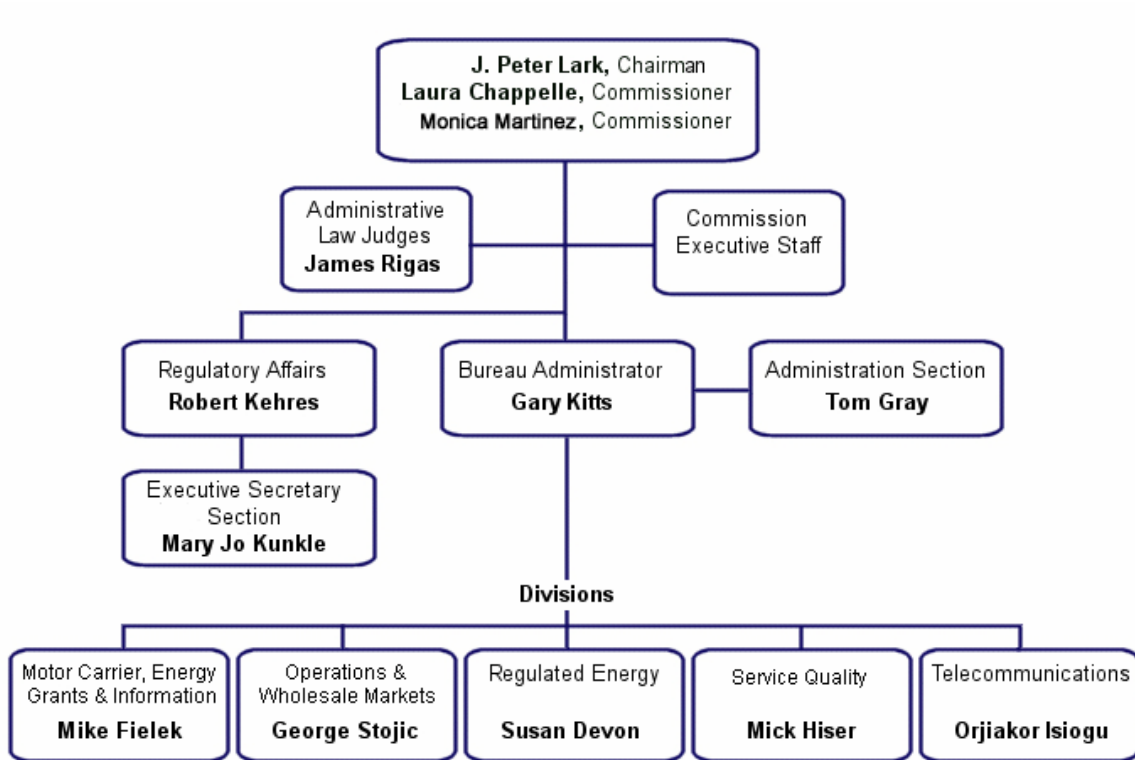
MISSION AND GOALS

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



SOAHR Administrative Law Judge

James N. Rigas, Administrative Law Manager

In 2005, the State Office of Administrative Hearings and Rules (SOAHR) was created by Executive Order No. 2005-1 to provide services related to administrative hearing functions for departments or agencies, including the Michigan Public Service Commission. SOAHR Administrative Law Judges are responsible for conducting hearings in contested cases pursuant to applicable laws, administrative rules and Commission directives. This includes the responsibility 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, SOAHR conducted 189 days of hearings and issued PFDs in 29 cases. In addition, 152 settled or undisputed cases were processed and transmitted to the Commission for its consideration. An Administrative Law Judge also served as mediator to assist the Commission in the resolution of certain interconnection disputes between competing telephone service providers. The SOAHR Administrative Law Judges were responsible for conducting the proceedings in a number 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.

Regulatory Affairs Division

Robert Kehres, Director

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

The Commission issued 466 orders, covering 815 cases. These consisted of 207 Communication, 169 Electric, 83 Natural Gas, and 7 Motor Carrier orders.

Executive Secretary

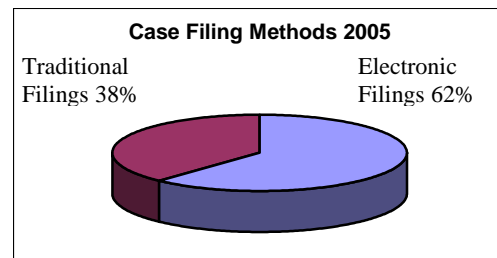
Case Documents and Processing

The Commission received and processed 4,991 official pleadings from applicants, respondents, intervenors and interested persons.

The Commission issued 164 notices of hearing and notices of opportunity to comment. These notices were distributed to subscribers and parties, submitted for publishing, where applicable, and posted to the Commission's Website. The MPSC scheduled and coordinated court reporters for 361 hearings held at the MPSC.

The Commission has adopted an automated electronic notification system to provide natural gas,

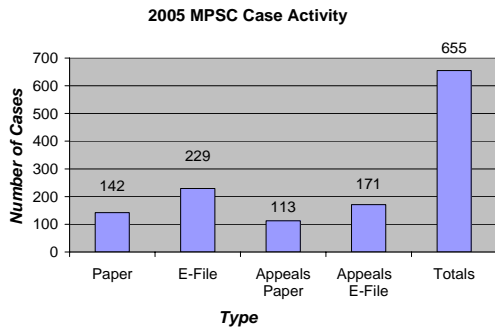
telecommunications, and electric industry officials, and interested parties with nearly immediate notice of Commission's Own Motion orders. One hundred fifty-five telecommunications industry representatives and 60 electric and natural gas representatives have subscribed to the automated electronic subscription list, reducing the Commission's copying and distribution costs for Commission orders and providing interested persons with nearly instant access to Commission actions.



Electronic Filings

The Commission continued its support for participation in its Electronic Case Filings (e-filings) program, which began as a pilot program in 1999.

In 2005, the Commission received 229 electronically filed cases, or approximately 62 percent of all new cases filed. Additionally, the Commission received 171 electronically filed appeals and amendments.



The MPSC posted 6,150 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 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 over 2,000,000 e-filed documents from the Commission Website.

Paperless Electronic Filings

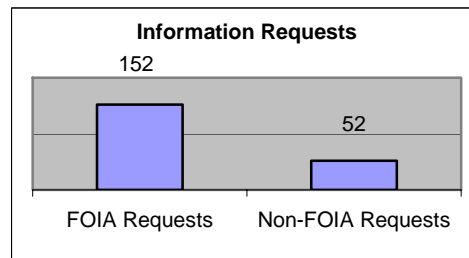
Due to the favorable response from Electronic Case Filings Participants, the Commission expanded its Paperless Electronic Filing Program. On June 1, 2005, the Commission expanded the paperless electronic program to include all natural gas and electric cases filed with the Commission, other than residential and small business complaints. Additionally, the Commission expanded the paperless electronic program to include all expanded

local calling applications for telecommunication providers. In 2005, 99 paperless electronic cases were filed at the MPSC. Since the program began in September 2003 through December 31, 2005, 163 paperless electronic cases have been filed with the Commission.

The MPSC began testing a new Case Tracking System that will improve the efficiency by which cases are administered. Once implemented, all pertinent case status information will be available on the internet and tied directly to the e-file system. The “Legal Edge” system is expected to be implemented in Spring 2006.

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 204 information requests in 2005.



MPSC Annual Report

On March 4, 2005, 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.

Motor Carrier, Energy Grants & Information Division

Michael Fielek, Director

The Motor Carrier, Energy Grants & Information Division is responsible for technical and administrative support to the Commission in the areas of motor carrier regulation, low income energy assistance and efficiency grants, energy emergency preparedness, critical infrastructure protection and energy data and analysis. The Division is comprised of three sections: Motor Carrier Section; Energy Grants Section; and Energy Data, Security & Market Monitoring Section.

Motor Carrier Regulation

Applications for Intrastate Authority

The MPSC received 531 applications for original operating authority. Related actions included 46 applications for transfer authorization to new ownership, 10 changes of operating name, 90 temporary discontinuance of operations, 68 permanent discontinuances, and 28 reinstatements of authority from discontinuance. The Commission granted 244 requests for temporary operating authority. The MPSC issued more than 40,000 2006 MPSC decals for intrastate operating authority by December 31, 2005.

Insurance Filings

Each motor carrier applying for intrastate authority is required to submit proof of commercial public liability/property damage (PL/PD)

insurance. The MPSC received 2,723 PL/PD policies and 194 cargo policies. The MPSC mailed letters of pending cancellation/expiration of required coverage to 2,226 carriers.

Decals and Special Identification Cards

Intrastate carriers are required to register power unit vehicles utilized in their authorized operations. Decal sales generated \$5.6 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 or a 360-hour SID for \$50.00. Four thousand three hundred sixty-eight 72-hour and 682 360-hour SIDs were issued.

Safety and Compliance

The MPSC reviewed 583 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 filed and processed. The MPSC scheduled 202 informal conferences, served 45 formal complaints and scheduled their administrative hearings, and ordered \$1,200 in assessment fees.

Rates and Tariffs

Carriers who conduct for-hire intrastate movements of household goods submitted 88 amendments and additions to tariff filings for Commission approval. The MPSC

received and investigated 53 complaints against household goods movers and advised complainants on available remedies.

Household Goods Carriers

In May, Michigan Movers Association (MMA) filed a petition to amend tariff MPSC MMW 4000 by adding a permanent fuel cost price tariff item. This item was intended to reflect the volatility in diesel fuel prices which increased over 35% in 2004 alone. After negotiations with Staff, the MMA agreed to adjust the base fuel cost and to utilize a U.S. Department of Energy weekly survey to derive a weighted average price per gallon of diesel fuel. This surcharge was to be applied to the "weight and distance" provisions of the MMA tariff. After publication of the proposed change in the Biweekly Information Bulletin, the Commission allowed the amendment to take effect.

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. Michigan collected more than \$4.9 million for operational years 2005 and 2006, the majority of which was forwarded to other SSRS states. Michigan received \$1,846,244 from operation registrations completed by the participating states.

Registration of Interstate Exempt Movements

Approximately 900 carriers transporting interstate commodities declared as exempt from interstate regulation were issued certificates of registration.

Other Activities

Staff chaired the Motor Carrier Advisory Board and participated as a member of the Michigan Highway Reciprocity Board. In a continuing 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.

In June 2005, the United States Supreme Court issued two separate opinions affirming the Michigan Court of Appeals finding that Michigan's motor carrier fees do not violate the Commerce Clause by placing an undue burden on interstate commerce (*American Trucking Associations, Inc., et al. v. Michigan Public Service Commission et al. No. 03-1230* and *Mid-Con Freight Systems, Inc., et al. v. Michigan Public Service Commission et al. No. 03-1230*).

Energy Grants

Low Income & Energy Efficiency Fund

On June 30, 2005, the Commission issued an order awarding energy efficiency grants totaling up to \$6 million to eleven 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. The table below summarizes the June 2005 energy efficiency grants:

**LOW-INCOME ENERGY EFFICIENCY/ALL CLASSES
ORDER DATE 06/30/05**

ORGANIZATION	AMOUNT AWARDED
Automation Alley Technology Center	\$550,000
Elkton-Pigeon-Bay Port Laker School District	\$265,000
Grand Valley State University	\$1,000,000
Michigan Department of Environmental Quality/Next Energy	\$185,000
Michigan State University/Biosystems & Agriculture Engineering	\$2,000,000
NextEnergy Center	\$150,000
Northwestern Michigan College (MTEC)	\$450,000
Ovonic Fuel Cell Company LLC	\$400,000
Traverse City Light & Power	\$400,000
U.P. Steel	\$530,000
West Michigan BioDiesel LLC	\$70,000

On January 25, 2005, the Commission awarded \$15 million in

low-income energy assistance grants to the following six organizations:

**LOW-INCOME ENERGY ASSISTANCE
ORDER DATE 01/25/05**

ORGANIZATION	AMOUNT AWARDED
Family Independence Agency/Low Income Home Energy Assistance Program	\$11,400,000
Lighthouse Emergency Services	\$100,000
Michigan Community Action Agency Association/Direct Heating Assistance & Deliverable Fuels Programs	\$1,100,000
Newaygo County Community Services	\$250,000
The Heat and Warmth Fund	\$1,100,000
Salvation Army	\$1,050,000

On February 24, 2005, the Commission awarded \$5 million in low-income energy efficiency grants to eight organizations as summarized below:

**LOW-INCOME ENERGY EFFICIENCY
ORDER DATE 02/24/05**

ORGANIZATION	AMOUNT AWARDED
Detroit Housing Commission	\$250,000
Family Independence Agency/Weatherization and Client Education	\$1,050,000
Metro Neighborhood Housing and Community Development	\$1,050,000
Michigan Community Action Agency	\$1,050,000
Bay de Noc Community College (M-Tec)	\$450,000
Nonprofit Facilities Center/ United Way Community Services	\$450,000
Nova Development Group of Detroit, LLC	\$400,000
Urban Options	\$300,000

On October 18, 2005 the Commission awarded \$41 million in low-income assistance grants to seven organizations as summarized below:

**LOW-INCOME ENERGY ASSISTANCE
ORDER DATE 10/18/05**

ORGANIZATION	AMOUNT AWARDED
Downriver Community Conference	\$275,000
Michigan Department of Human Services/Emergency Relief and shutoff restoration	\$26,525,000
Lighthouse Emergency Services	\$200,000
Michigan Community Action Agency Association/Direct Heating Assistance & Deliverable Fuels Programs/Walk for Warmth	\$4,500,000
Newaygo County	\$500,000
The Heat and Warmth Fund	\$4,500,000
Salvation Army	\$4,500,000

On December 20, 2005 the Commission awarded \$10 million in low-income energy efficiency grants to the following eight organizations:

**LOW-INCOME ENERGY EFFICIENCY
ORDER DATE 12/20/05**

ORGANIZATION	AMOUNT AWARDED
Michigan Department of Human Services	\$4,500,000
Habitat for Humanity	\$250,000
Bay de Noc Community College (MTEC)	\$750,000
Michigan Community Action Agency Association	\$2,000,000
Nonprofit Facilities Assistance Center/United Way Community Services	\$500,000
Nova Development Group	\$1,350,000
Urban Options	\$400,000
Warm Training Center	\$250,000

The Commission’s Annual Report on the Low-Income and Energy Efficiency Fund was prepared and submitted on June 1, 2005 to the State budget office, fiscal agencies, and subcommittees in compliance with Section 335 of Public Act 526 of 2002.

Energy Data, Security & Market Monitoring

Energy 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 includes all energy resources. Commission staff serves as the Emergency Management Coordinator for the Department of Labor & Economic Growth and coordinates emergency response and preparedness efforts.

Following the hurricanes that devastated New Orleans and the Gulf States, Chairman Lark notified the Governor of the estimated impact of Katrina’s disruption of crude oil supplies to Midwest refineries. The Governor subsequently declared an energy emergency and issued a series of executive orders waiving state rules on environmental specifications for gasoline sold in southeast Michigan, and limitations on driver hours for petroleum tanker deliveries. These actions helped increase the availability of supply from other areas of the state and

permitted increased gasoline production at the Detroit refinery. Because of Michigan's position at the end of the petroleum distribution network, retail gasoline prices here were briefly among the highest in the nation. As a result of the industry's rapid response to the pipeline disruptions, resumption of crude oil pipeline shipments, and actions by Governor Granholm to increase supply and provide flexibility to the industry to respond, prices fell below \$3.00 per gallon by the beginning of the Labor Day weekend. The MPSC worked with the Executive office to provide supply assessments and served as liaison with the oil industry in addressing both industry and government response and assisted with the State's overall effort to provide aid to the affected states and meet the needs of evacuees arriving in Michigan.

The MPSC also participated in a Regional Energy Emergency exercise held in June 2005, which involved Midwest states and how they would coordinate the response to an energy emergency resulting from a terrorist attack. As part of this exercise, a major crude oil pipeline from the Gulf was assumed to be damaged and the consequences of the loss of supply formed the basis for the response. When this in fact occurred due to Hurricane Katrina, the response was more rapid than it might have been since the consequences were understood by many Midwest states.

Critical Infrastructure

The MPSC continues to be actively involved in critical infrastructure protection efforts as part of the state's overall Homeland Security Strategy, working with the private sector and other state and local agencies to find ways to improve protective measures and build greater resiliency within the State's Critical Infrastructure. This also included participation from the U. S. Department of Energy, Government Coordinating Council for development of the National Infrastructure Protection Plan.

Statistical and Data Analysis

The MPSC issues a short-term energy forecast report of supply and demand each spring and fall. The Energy Appraisal Report focuses on factors and market trends that impact price supply and availability. During the winter months, the MPSC conducts a weekly survey of residential heating oil and propane prices which are posted on its website. The MPSC also assisted in coordinating the establishment of a Website (michigan.gov/gasprices) that provides extensive information on gas prices and regulatory requirements. Complaints of "price gouging" can also be registered at this Website. To assist Michigan consumers, the MPSC, along with the Departments of Transportation and Agriculture, expanded this site to offer additional information on how to cut gasoline costs use via ride sharing and through other energy saving tips.

MPSC Website Activity

MPSC Website visitor sessions in 2005 totaled 1.71 million, an average of 142,000 a month or 4700 a day, excluding state government use. Nearly 7,915 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 570,000 e-mail messages, reducing the time and expense needed for postal mailings.

The electronic filing applications also continued to see substantial growth in 2005. 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 346,522 visitor sessions during 2005, an average of 28,900 per month, a 60% increase over 2004.

New Developments

Considerable work has been done to provide live streaming audio of Commission meetings and select hearings. This service should be fully functional by fall of 2006. Currently all Commission meetings are available via podcast on the Website.

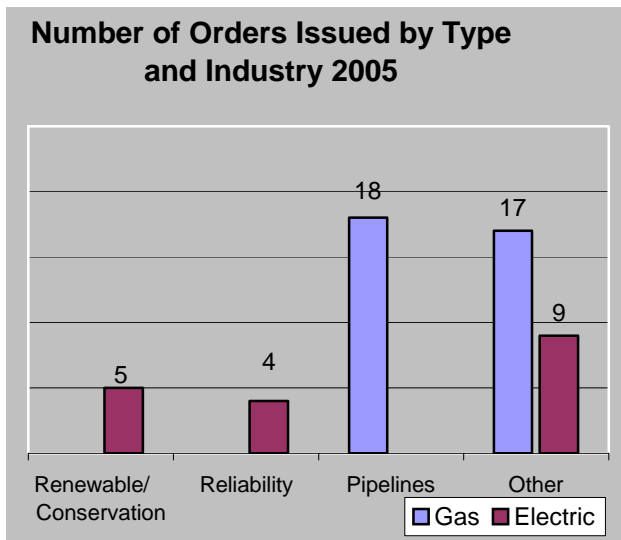
A new Be WinterWise site was developed to help provide information to Michigan citizens faced with higher heating bills this winter season.

Operations & Wholesale Markets Division

George Stojic, Director

The Operations & Wholesale Markets 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 Operations and Wholesale Markets Division: Engineering, Energy Markets and Safety and Reliability. For much of 2005, the Service Quality Section was also part of the Division.

Commission Orders



Capacity Need Forum

Throughout 2005, the MPSC conducted Michigan's electric Capacity Need Forum, a collaborative effort involving approximately 150 individuals

from approximately 60 organizations. The Forum's mission was to assess Michigan's future electric generating needs and to review the Commission's resource addition and ratemaking methods. This was the first major effort to assess Michigan's electric generating capacity needs since the mid-1980's. Members of the Forum examined a broad array of potential resources for meeting Michigan's future needs and Division staff issued a status report on July 1, 2005 and a final report on January 3, 2006.

Safety and Reliability

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). The MPSC investigated all jurisdictional incidents that met the USDOT requirements. The safety program maintained its federal certification following receipt of a favorable review by the USDOT.

During 2005, the MPSC continued to participate in pole attachment dispute cases with electric utilities, school districts, and other parties working to adopt uniform pole attachment tariffs. In addition, Staff testified in a service extension dispute between two neighboring electric utilities.

Pipelines

The Commission issued 18 pipeline orders in 2005. The orders followed MPSC 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 416 gas well connection permits (70 more than in 2004), with 403 for gas wells in the Antrim formation (an increase of 77). Total gas production in 2005 is estimated to be 176.4 billion cubic feet compared to 186 billion cubic feet estimated for 2004. Antrim gas wells provided approximately 85 percent of the total.

Emergency and Outage Events

The MPSC monitored a number of energy related emergency and outage events. The summer of 2005 turned out to be one of the warmest on record and thunderstorm activity was 125% higher than normal. In early June, a severe windstorm heavily damaged distribution facilities on the Consumers Energy and Detroit Edison systems resulting in the loss of service to about 240,000 customers. In July, Consumers Energy's system was hit by another thunderstorm that caused a loss of service to 68,000 customers. In late September, a thunderstorm caused 48,000 Detroit Edison customers to suffer power outages. Detroit Edison suffered storm damage again on November 6 when it lost 120,000 customers, and Consumers Energy was hit by a severe windstorm on November 17 that caused 256,700 customers to lose their electric 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 Generating Plant, continued to require MPSC monitoring. Several 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 contact with the entities involved and monitored service restoration.

The MPSC also continued to closely monitor capacity and load review of Consumers Energy and Detroit Edison during the summer load period.

The MPSC continued to monitor compliance with 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 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.

The MPSC also initiated two rulemaking procedures in 2005. One activity updated the Michigan Gas Safety Standards. The second activity involved Rules to set standards and performance requirements for Stray Voltage on Michigan Farms.

Energy Markets

The price and reliability of Michigan's electricity and gas supply are

significantly affected by federal and regional decisions. In Michigan, most electric transmission lines and interstate gas pipelines are regulated by the Federal Energy Regulatory Commission (FERC). With the establishment of regional transmission operators (RTO), the management of the transmission system and the dispatch of generation in Michigan are primarily accomplished by RTOs, under FERC approved procedures. Michigan falls within the footprints of two RTOs: Midwest Independent Transmission System Operator, Inc. (Midwest ISO) and PJM Interconnection, L.L.C. (PJM).

In addition to its own orders, the MPSC speaks through its comments, interventions, and positions in FERC and related judicial and agency proceedings. During 2005, Division staff, on behalf of the MPSC, participated in rate cases for American Electric Power Company (AEP) and Michigan Electric Transmission Company (METC) at FERC. The MPSC also actively participated in many energy stakeholder forums to ensure the best price and service for Michigan energy consumers.

In April, after FERC approval of the tariff establishing the appropriate rates and procedures, the Midwest ISO successfully implemented operation of the day ahead, real time, and financial rights electricity markets. With the integration of AEP into PJM and the increased desire by some market participants for the economic benefits of a common market between the Midwest ISO and PJM, Michigan increased its participation in PJM activities and stakeholder groups.

The MPSC coordinates regulatory oversight of energy markets in the committee and board of director processes of the Organization of MISO States (OMS) and the Organization of PJM States, Inc. (OPSI). Since Michigan had taken a leadership role in the creations of OMS, it played a key role in the development of OPSI, which is comprised of state commissions whose jurisdictional utilities have joined PJM. Commissioner Laura Chappelle is on the boards of both OMS and OPSI and was the Vice President of OPSI in 2005. The Commission signed on to several filings in FERC proceedings through these two state commission organizations.

The issues for regional and federal initiatives are ever changing and evolving. In 2005, the MPSC focused on key electric wholesale market issues critical to Michigan such as: transmission planning, pricing, and facility transfers; resource adequacy; financial transmission rights and grandfathered agreements; ancillary services; market monitoring and access to confidential data; the management of seams between RTOs and between RTOs and non-RTO areas; and a joint and common market for PJM and the Midwest ISO. Michigan also continued its commitment to provide input on natural gas issues that affect the price and availability of natural gas to meet the state's needs.

[Michigan Renewable Energy Program \(MREP\)](#)

Approximately 100 individuals participated in Michigan Renewable Energy Program (MREP) meetings. The annual Michigan Renewable

Energy Conference, held in Lansing in October, attracting well over 500 people. Commissioner Monica Martinez addressed the Conference at the kick-off session. Subscribers to the Commission's MREP email distribution list increased to 185 in 2005.

The Commission issued several orders enhancing the Michigan Renewable Energy Program. Consumers Energy began offering its customers new renewable energy service choices in October, and the Commission approved seven new power purchase agreements for new in-state renewable resources that will serve Consumers Energy customers. The contracts call for five new or expanded landfill gas projects and two wind farms to be developed in Michigan. Construction has already started on the largest of the two wind farms, near Ubly in Huron County. Detroit Edison submitted its program proposal and associated renewable energy program tariff on July 1, 2005 (revised September 14, 2005) in Case No. U-14569.

Regulated Energy Division

Susan Crimmins Devon, Director

The Regulated Energy Division (RED) provides the Commission with technical assistance and recommendations to ensure that regulated electric, gas, steam and wastewater services are provided in a safe, reliable and efficient manner at fair and reasonable prices for Michigan's citizens and businesses and to enhance Michigan's competitive environment. RED is responsible for all regulatory oversight of the Commission-regulated energy utilities in the State, including recommendations of appropriate utility rates. The division administers the Commission's Gas Cost Recovery and Electric Power Supply Cost Recovery Programs, Uniform System of Accounts, Annual Reports, and Utility Tariff Books. RED is responsible for oversight of Michigan's electric and natural gas customer choice programs, including administering the Commission's code of conduct, designing choice rates, and tariff rules, and the licensing of alternative electric and gas suppliers. RED is comprised of four sections, Accounting and Auditing, Act 304 and Sales Forecasting, Financial Analysis and Customer Choice, and Rates and Tariff.

Rate Cases

In 2005, the Commission issued five orders approving rate increases for SEMCO Energy Gas Company, Michigan Consolidated Gas Company (MichCon), Consumers

Energy, and Detroit Thermal. On March 29, 2005, SEMCO requested an increase in its retail natural gas rates of \$11,652,252 annually. The Commission approved a settlement agreement authorizing an annual increase of \$7,113,000, which represents a monthly increase of \$2.18 for a typical residential customer bill.

MichCon sought rate relief of \$193.6 million. On April 28, 2005, the Commission authorized the company to increase its annual gas revenues by \$60,756,000 (\$35.3 million of this amount was approved on an interim basis by the MPSC in September 2004). The final order resulted in an incremental increase in a typical residential customer's monthly bill of approximately \$2.10.

On September 8, 2005, the Commission granted Detroit Thermal a default steam service rate of \$19.77 per Mlb, ordered refunds for certain customers and approved a mechanism to adjust future steam rates to account for changes in natural gas prices.

On December 22, 2005, the Commission approved two orders for Consumers Energy involving an electric rate increase request of \$319.7 million, and a deferred costs recovery request of \$627.7 million. In Consumers Energy's first base electric rate case since 1996, the Commission granted an electric rate increase of \$86,149,000. The order resulted in an increase for a typical residential customer's monthly bill of approximately \$1.53. In addition, the Commission approved recovery of

\$27 million for the Low Income Energy Efficiency Fund. The \$27 million, along with other amounts provided for in Detroit Edison’s rates, provides funding for energy efficiency projects and bill payment assistance to low-income customers in Michigan. The second case addressed the recovery of certain deferred costs provided for under Section 10d(4) of PA 141 of 2000. In the order, the Commission authorized Consumers Energy to gradually recover over the next five years \$333,395,000 in electric costs via a surcharge.

Company	Rate Increase	Typical Residential Monthly Bill Increase
Consumers Energy-(electric)	\$86,149,000	\$1.53
SEMCO	\$7,113,000	\$2.18
MichCon	\$60,756,000	\$2.10

TIER Cases

In 2005, the Commission approved five settlement agreements authorizing revised rates for the sale of electricity and reimplementation of times interest earned ratio (TIER) ratemaking. TIER is a mechanism used by Michigan’s Cooperative Electric utilities to determine whether the rates in place for that utility are at a reasonable level. The utilities included: MidWest Energy Cooperative, TriCounty Electric Cooperative, Alger-Delta Cooperative Electric, Thumb Electric Cooperative and Cherryland Electric

Cooperative. On October 18, 2005, the Commission approved MidWest’s revenue increase of \$1,359,686 (\$1,446,591 requested); TriCounty’s requested increase amount of \$408,115, and Alger-Delta’s increase of \$710,145 (\$727,324 requested).

On November 10, 2005, Thumb and Cherryland settled on revenue increases of \$453,620 and \$991,286 (\$995,388 requested), respectively.

In all five cases, the settlement agreements provided for the implementation/reimplementation of TIER on a carefully structured basis.

Accounting and Depreciation Cases

In 2005, the Commission issued orders in five accounting related cases. The utilities included in these cases were Detroit Edison, Upper Peninsula Power Company, and Alpena Power Company. In a related matter, the Commission ordered an investigation of the reasonableness of Detroit Edison’s expenditures for its administrative and general activities. The Commission ordered Detroit Edison to report on its administrative and general expenditures by February 1, 2006.

Four depreciation cases, involving Wisconsin Public Service Corporation, Consumers Energy, MichCon and Upper Peninsula Power, were completed by the Commission during 2005. On February 24, 2005, Wisconsin Public Service Corporation received

recognition of depreciation rates approved by the Public Service Commission of Wisconsin.

The Commission initiated a generic case to explore the appropriate regulatory response to changes in financial accounting standards related to the cost of removing utility plant from service. The largest gas and electric utilities were ordered to participate in the case, and other parties were invited to participate. All together, 25 parties participated in the case, creating a record consisting of 1032 pages and 59 exhibits. The case is currently awaiting a Commission decision.

The Commission also issued orders related to nuclear decommissioning surcharges in Michigan. The Commission approved a contested settlement agreement in a Consumers Energy case, U-14150, on September 20, 2005 that provides for the continuation of the company's current decommissioning surcharge for the Palisades nuclear power plant. On December 5, 2005, Consumers Energy announced its plan to sell the Palisades nuclear plant. This sale will be subject to Commission review in 2006.

Tariff Administration

The Commission efficiently processed almost 200 energy tariff sheet filings utilizing its electronic tariff processing system implemented the previous year.

The Commission approved six special contracts between utilities and large usage customers. Also, in

continuing its efforts to attract new industrial development to Michigan, the Commission approved a new large industrial economic development tariff for Consumers Energy on November 22 in Case No. U-14692.

Unbundling

In its orders in the Detroit Edison and Consumers Energy cases U-14399 and U-14347, the Commission adopted residential, commercial and industrial rate schedules that unbundled distribution and power supply charges, and included choice distribution charges on the same rate schedules as full service customers so that customers may more easily compare the full-service and choice rates.

The Commission also issued 17 orders during 2005 that unbundled rates for commercial and industrial member-customers of Michigan's electric cooperatives with a peak load of 50 kilowatts (kw) or more.

Act 304 Recovery Programs

Gas Cost Recovery Program

The Commission established retail Gas Cost Recovery (GCR) factors for seven regulated gas utilities. The GCR regulatory process provided for the recovery of over \$3.5 billion of wholesale gas costs in 2005.

Natural gas markets during 2005 were characterized by unprecedented price volatility. During the first three quarters of the year, wholesale prices rose in step

with rapidly escalating world crude oil prices. During September and October, Hurricanes Katrina and Rita disrupted the majority of Gulf Coast offshore natural gas production. Shut-ins of production and processing facilities caused NYMEX natural gas futures prices to spike above \$14 per Million British thermal unit (MMbtu). Although the level of shut-ins fell throughout the balance of the year, sustained cold weather during the month of December caused prices to rise again to the \$14 per MMBtu range.

The severe increase in wholesale gas prices prompted the regulated gas utilities to file for re-opening of their GCR Plan proceedings. The Commission instituted expedited schedules for processing emergency rate increases. The Commission issued seven orders between October 26, 2005 and November 30, 2005 establishing fixed rate price ceilings that would balance the interests of both the ratepayers and the utilities during the winter of 2005-2006.

Power Supply Cost Recovery Program

The Commission conducted over 60 electric related cases, including Power Supply Cost Recovery (PSCR) plans for 2005 and 2006, PSCR reconciliations for 2004, and other power supply cases related to Act 304 of 1982. There also were six orders approving capacity charges associated with purchase power agreements with terms in excess of six months.

In December, the Commission conducted expedited hearings to authorize temporary factors for Detroit Edison and Consumers Energy, that would take into account the rate shock customers would experience coming off of rate caps beginning January 2006.

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.

Customer Choice

Electric Choice Program

The Commission issued 58 orders in 2005 to implement the framework for Michigan's electric customer choice programs and the provisions of Public Act 141 of 2000.

The number of electric choice program customers and volumes declined in 2005, as power supply costs and federal and state regulatory changes increased Alternative Electric Suppliers' (AESs) operating costs. The number of customers enrolled in Electric Choice by year-end reached almost 15,000 commercial and industrial customers. The number of MW (Megawatts) served by AES totaled 2,076 MW of load.

There are 27 licensed AESs in Michigan, down by one from the prior year. The Commission issued four new licenses and five alternative suppliers relinquished their licenses. Nine AESs actively served

customers in the Consumers Energy service territory and 18 AESs served in the Detroit Edison territory.

The Commission delivered its annual report *Status of Electric Competition in Michigan* to the Governor and Legislature on February 1, as required by PA 141 of 2000. The report is available on the Commission's Website.

Natural Gas Choice Programs

The number of customers participating in the natural gas choice program increased in 2005 to about 228,000, compared to approximately 221,000 in the prior year. Alternative gas suppliers served 36 billion cubic feet (Bcf) of annual gas sales. Larger commercial and industrial customers have had the ability to choose alternative gas suppliers under Michigan's gas transportation programs that have been in place since 1988.

The Commission issued six alternative natural gas supplier licenses in 2005. The new licenses went to Direct Energy Services, Exelon Energy, My Choice Energy, Presque Isle Electric & Gas Co-op, Universal Gas and Electric, and WPS Energy Service.

Code of Conduct

The Commission levied fines totaling \$1,075,000 on Detroit Edison for electric choice tariff violations, based on findings of a recurring history of prolonged delays in processing new choice customers within 45 days for

Strategic Energy, LLC, Constellation NewEnergy, Inc., Nordic Marketing and Quest Energy LLC. The fine equates to \$5,000 for each of the days the company was not in compliance.

There are also two pending complaints related to alleged violation of Consumer Energy's electric code of conduct. The issuance of orders in Case Nos. U-13948 and U-14329 are expected sometime in 2006.

Stranded Costs

Both Detroit Edison and Consumers Energy filed applications for determination and approval of net stranded cost recovery charges. These cases are pending before the Commission with final orders expected in 2006.

Service Quality

The Commission received and responded to 405 complaints and inquiries on Competitive Energy issues. The majority of contacts, 332, involved natural gas customer choice concerns. The Commission also handled 73 complaints and inquiries on electric choice issues.

Service Quality Division

Michel Hiser, Director

The Service Quality Division is responsible for assisting the Commission with the development, implementation, and enforcement of utility quality of service rules, orders, and policies relating to the Commission's customer information and support functions. The Division is comprised of two sections: Customer Support and Service Quality.

Customer Support

Customer Information and Education

The Commission 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. Five of the most popular consumer alerts were translated into Spanish. 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 12,450 alerts were mailed to customers who called the Commission requesting information on a particular topic. Commission publications were also sent to public libraries statewide, distributed at consumer forums and speaker bureau presentations, and, upon request were provided to state legislators and local and statewide organizations. In total, over 20,000

publications were distributed during 2005.

Consumer Forums

For the 18th 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. Forums were held in Escanaba, Alpena, Bad Axe, Jackson, Traverse City, Hudsonville, and two in Detroit. Over 300 consumers and community organization representatives attended the eight forums. Commission staff and utility representatives were present at all forum locations to provide on site assistance to customers with utility-related problems.

Complaint and Inquiry Calls

The MPSC handles the intake of all complaint and inquiry calls on the Commission's toll-free number and assists with many customer calls to the Commission's main phone line. These calls are taken live and result in a record for each complaint or inquiry, allowing the customer's complaint or inquiry to be tracked through to completion. The MPSC responds directly to the customer's issues, forwards the customer to a specialist to resolve the complaint, or forwards the call, when appropriate, to the utility's Executive Customer Assistance Center. This year the MPSC contracted with a translation service, which provided better service to customers who do not

speaking English or have limited abilities to speak English as a second language. During 2005, over 42,000 calls were handled on the Commission’s toll-free line. On average, calls were answered within 24 seconds. The MPSC also assists the Governor’s office and Legislative staff with constituent concerns involving utility matters.

Complaint and Inquiry Data

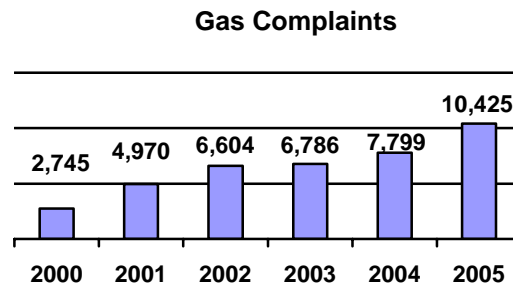
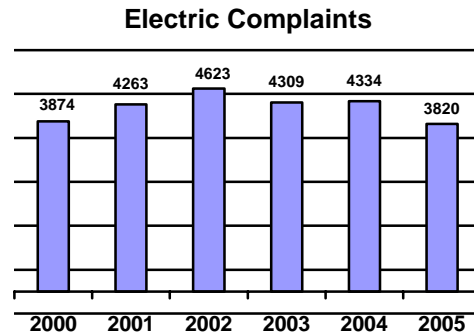
The MPSC administers a customer complaint and inquiry database, insuring the security of the data and the validity of the reports generated from the data. During the year, several improvements were made in the coding of complaints, data system, and system security. Using the data on number of calls, types of complaints, geographic and industry data, the MPSC generates weekly and monthly reports on types of complaints and inquiries received and the number of complaints from customers of each regulated utility. These reports are used in working with the companies on areas of concern and internally to identify new areas for consumer outreach. A customer satisfaction survey identifies ways to improve the Commission complaint and inquiry process.

Service Quality

The MPSC received more than 14,245 energy (gas/electric) and 10,831 telecommunications complaints and inquiries.

Energy (gas and electric)

The number of gas and electric complaints and inquiries handled by the MPSC increased 8% over the previous year. Although there was an increase in activity, the complaints and inquiries concerned issues typically related to increased natural gas prices, high bills, responsibility for bills, estimated bills, bill payment assistance, shutoffs as well as other billing and service quality/reliability issues.



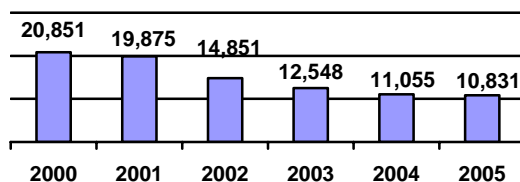
Michigan businesses and consumers filed more than 27 formal complaints against gas and electric companies in 2005, up from the 24 filed in 2004. However, the MPSC was able to resolve most of these complaints without need for an administrative

hearing. While the MPSC encourages participants to exercise their right to bring a formal complaint to the Commission when the complaint cannot be resolved informally, early resolution benefits all parties involved. This year the Commission has initiated steps to improve the hearing process, speed up the handling of complaints and enable complaints to be filed using the Commission’s Website.

Telecommunications

The MPSC processed 10,831 telecommunication complaints during 2005, a decline from the previous four years. Some of the decline is due to pro-active staff efforts to work with the companies to identify problems and find solutions before they escalate into complaints.

Telecommunication Complaints

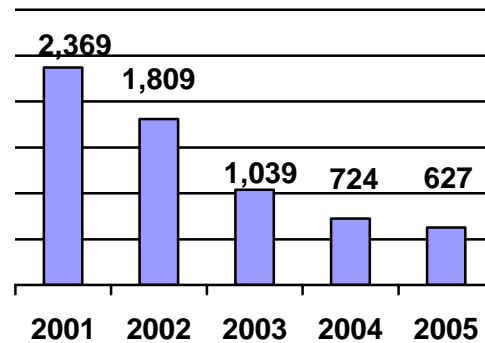


The MPSC processed 31 formal complaints against communications companies during 2005, compared to 126 formal complaints handled during 2004, 19 in 2003, 86 in 2002, and 129 in 2001. The decline in part can be attributed to aggressive action at the MPSC to enforce rules and infractions along with stiff penalties assessed by the Commission for violations of the law.

Billing issues remain the largest complaint category, followed by service quality, slamming, and false/misleading information provided by companies to customers.

The Commission continued to see a significant decrease in slamming complaints, receiving 627 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. Strict Commission enforcement has been instrumental in successfully reducing the number of slamming complaints.

Slamming Complaints



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. New rules were issued on August 1, 2005.

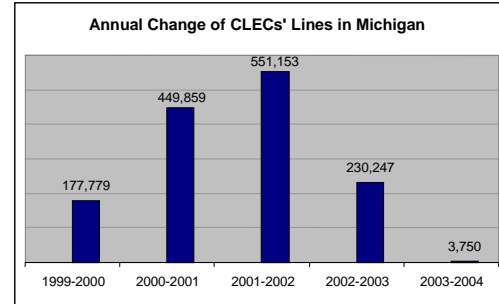
Telecommunications Division

Orjiakor N. Isiogu, Director

The Telecommunications Division is responsible for providing the Commission with technical assistance and policy recommendations on telecommunication issues impacting the state and its citizens. Among other things, the division fulfills its responsibilities by supporting the Commission in all activities relating to the regulation of basic local telephone service, Emergency 911 service, telephone service for the speech and hearing impaired and all other state regulatory requirements as defined by Public Act 179 of 1991, as amended, known as the Michigan Telecommunications Act (MTA) of 1996 and the Federal Telecommunications Act (1996 FTA). In addition, the Telecommunications Division is responsible for administering the Michigan Children's Protection Registry Act (2004 PA 241). As a result of the restructuring that occurred in 2005, the Division is comprised of three sections: Licensing and Competitive Issues; Operations and Tariff; and Rates and Financial Analysis.

Local Telephone Competition

During 2005, the Commission granted licenses or approved amendments to existing licenses for 29 telephone companies. At the end of the year, 218 competitive local exchange carriers (CLECs) were licensed to provide telecommunication services in Michigan. CLECs were serving 27.5



percent, or about 1.7 million lines provided to customers in Michigan, according to results from an annual survey staff conducted in early 2005.

The number of lines served over an unbundled network platform (UNE-P) that CLECs purchased from SBC (now AT&T) was 1.1 million, or 66 percent of all of the CLEC line activity. Resale accounts for 67,890 lines, while lines served over unbundled network facilities were 296,402, and lines served via CLEC-owned facilities were 149,247. As of December 2005, there were approximately 177 Commission approved interconnection agreements in effect between AT&T and its competitors.

Federal Unbundling Issues and Cost Proceedings

During 2005, the Commission issued several orders on Federal Communications Commission (FCC) items related to the Triennial Review Order (TRO) and Triennial Review Remand Order (TRRO). This included orders in Case No. U-14447, a Commission initiated docket to commence a collaborative proceeding to monitor and facilitate implementation of accessible letters issued by AT&T and Verizon related to unbundled network element (UNE)

tariffs pursuant to the FCC's TRRO. This involved many hours of collaboration that resulted in the formulation of interconnection agreement amendments (ICAs) among the parties. Michigan was one of the first states in the nation to address ICAs in response to the TRO/TRRO.

The Commission also initiated Case No. U-14463 to resolve certain issues related to hot cuts for the migration of customers from UNE-P to other methods of provisioning. This was also delegated by the FCC.

In January 2005, the Commission approved AT&T's total service long run incremental cost (TSLRIC) compliance filing in Case No. U-13531 along with a pricing schedule and an interconnection agreement amendment. These costs form the basis for the prices that incumbents charge competitors for the provision of federally mandated UNEs. In addition, these costs are used in the determination of price floors for services that incumbents provide to retail customers.

METRO Issues/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 approved METRO Tax Credits for 53 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, 2004 and 2005 with quarterly updates during the year. This information is posted on the Commission's Website. The Commission received notices of permit approvals/denials from 34 municipalities in 2005. Of the 30 that were approved, 20 were for unilateral permits and 10 were for bilateral permits.

Expansion of Local Calling Areas

A number of smaller providers implemented expanded local calling in 2005: Chatham, Shiawassee, Wolverine, Blanchard, Chapin, Chippewa County, Hiawatha, Midway, and Ontonagon, and Upper Peninsula Telephone Company. Rates for basic local exchange service were increased to recover the cost of expanded local calling.

In total, 29 of the smaller incumbent local exchange carriers (ILECs) have expanded their local calling areas to provide their customers with local calling to adjacent and to some close nonadjacent exchanges. The amended MTA, Section 304(9) and (10), added a requirement that all providers not yet providing adjacent local calling, submit a plan to the Commission by October 1, 2006, and lists criteria the Commission shall utilize in evaluating whether the plan is in the best interest of customers.

Numbering Resource Optimization

The Commission submitted comments on telephone number use optimization to the FCC on four occasions in 2005. Topics included ILEC determination, local number portability funding, and the use of numbering resources in Voice over Internet Protocol (VoIP). The Commission also submitted a petition to the FCC to expand the MPSC's delegated authority over Thousands Block Number Pooling in the 989 area code.

Abbreviated Dialing Number: 2-1-1

In accordance with Sec. 214 of the MTA, the MPSC approved three entities to be community resource information and referral answering points, directing the implementation and use of the 2-1-1 abbreviated dialing number. The three entities represented Muskegon, Oakland, Macomb and Wayne counties in the Lower Peninsula and 15 counties in the Upper Peninsula. These 19 counties joined Jackson, Ottawa, Kent, Calhoun, and Kalamazoo counties to enable citizens to directly dial designated call centers to locate assistance with one call.

Allband Communications Cooperative

Allband was licensed by the MPSC on August 31, 2004 to bring telecommunications services to a previously unserved geographic area in the northern Lower Peninsula. As the first licensed ILEC in Michigan in almost 60 years, the MPSC supported Allband's petition to the

FCC for designation as an ILEC in certain business arrangements.

Allband was designated an Eligible Telecommunications Carrier (ETC) on November 10, 2005 to be eligible for Universal Service Funds support awarded to rural carriers providing service. On November 23, 2005, Allband was allocated telephone numbers from the North American Numbering Plan Administrator.

Intrastate Telecommunications Service Providers (ITSP)

In 1990, Order U-11900 required all telecommunications companies doing business within Michigan to register with the MPSC. Section 211a of the amended MTA additionally requires providers of telecommunications services using new or emerging technology, such as Voice over Internet Protocol, (VoIP) to register with the MPSC. The ITSP database is being updated to reflect this new change. Currently, over 350 carriers are registered.

Universal Service Fund

In 2005, the Commission approved two carriers as Eligible Telecommunications Carriers (ETC), as well as the expansion of territory eligible for USF support for another carrier. In addition to the new ETCs, the MPSC received affidavits from 42 wire line and wireless carriers who will be eligible for support in 2006.

On October 18, 2005 the Commission approved an order in Case No. U-14530. This order

concur with the FCC's Report and Order in CC Docket 96-45, which amends Universal Service rules for purposes of carriers receiving USF support. The order enhances reporting requirements and becomes effective October 1, 2006.

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, over 400 electronic tariff revisions were processed in 2005. Currently, over 68 carriers are taking advantage of e-filing their tariffs with the MPSC.

Protect MI Child Registry

On July 1, 2005, Michigan became the first state in the nation to launch an electronic registry to help parents shield children from unwanted electronic messages. The Protect MI Child Registry is a secure database of protected e-mail, fax, instant message, and mobile text message addresses that allows Michigan's parents and schools to register, without charge, electronic contact points that children may access.

The Michigan Children's Protection Registry Act (2004 PA 241) prohibits persons from sending to registered contact points messages that advertise – or link to – products or services that are prohibited for minors. Examples of prohibited messages include those related to: pornography, tobacco, gambling, alcohol and illegal drugs.

Compliance mechanisms for senders began on November 16, 2005, following passage of 2005 PA 206. Senders are charged a sender access fee to have their electronic mailing lists "scrubbed" of any registered contact points.

Another amendment to 2004 PA 241 (2005 PA 298) became effective in December 2005. Among other things, this amendment provides for exemption from the Act for senders of otherwise prohibited messages, if written consent of an "age-verified adult" is obtained.

The Michigan Public Service Commission administers the Registry on behalf of the Department of Labor & Economic Growth. The Office of the Attorney General is responsible for enforcement activities.

Media and Public Information

The Commission issued 117 press releases resulting from Commission orders, programs and activities.

Press releases announced Commission action on a wide range of issues, including: deregulation of business and residential telephone rates in certain areas; approval of a natural gas resource conservation plan for Consumers Energy; approval of net metering in Michigan; issuance of several consumer alerts in Spanish; an investigation into frequent electric outages and low voltage complaints; approval of economic development tariffs for both Consumers Energy and Detroit Edison; issuing a status report on the Capacity Need Forum charged with examining the possible future need for additional electric generation in Michigan; establishment of emergency billing rules for electric and natural gas bills from Nov. 1 through March 31, 2006; an investigation into Detroit Edison's administrative and general costs; approving rate increases for Consumers Energy electric customers and MichCon natural gas customers; awarding \$77 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: natural gas prices; deregulation of certain telephone rates; the MPSC's Capacity Need Forum; electric rates and electric

choice; the MPSC's investigation into frequent electric outages and low voltage complaints; the launch of the Protect MI Child registry; and the establishment of emergency billing rules.

The MPSC provided information and assistance to over 558 media contacts in 2005.



Public Service Commission

Labor & Economic Growth



**“Serving Michigan...
Serving You”**

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