



Jennifer M. Granholm
GOVERNOR

STATE OF MICHIGAN
PUBLIC SERVICE COMMISSION
DEPARTMENT OF LABOR & ECONOMIC GROWTH
ROBERT W. SWANSON
DIRECTOR

J. Peter Lark
CHAIRMAN

Laura Chappelle
COMMISSIONER

Monica Martinez
COMMISSIONER

March 2, 2007

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 (Commission) is pleased to provide you with its 2006 Annual Report in compliance with Public Act 33 of 1989. The following are highlights of Commission accomplishments for 2006.

The Commission maintained its commitment to address the needs of Michigan's low-income and senior citizens, awarding \$70,000,000 for low-income energy assistance and \$13,000,000 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 enhanced its Be WinterWise website, and promoted "Lifeline telephone assistance" awareness and a Beat the Heat and Save campaign for summer conservation.

The Commission continued its consumer outreach efforts by hosting statewide consumer forums, making its Commission meetings available via podcast, handling 41,000 calls on its toll-free line, and assisting consumers and businesses with more than 11,000 electric and natural gas and 7,500 telecommunications complaints and inquiries.

The Commission issued 438 orders, consisting of 164 communications, 165 electric, 71 natural gas, and 38 motor carrier orders.

On August 31, 2006, the Commission approved a settlement agreement that reduced Detroit Edison's electric rates for residential and business customers by \$78.75 million, for an annual decrease of about \$6.00 per residential customer. The Commission initiated the case and directed the company to show cause why its retail electric rates should not be reduced, citing reduced labor costs and a decline in electric choice customer sales.

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On November 21, 2006, Consumers Energy received authorization to increase its natural gas revenues by a total of \$80,804,000 annually to cover the growing costs for natural gas operations, pensions and retiree health care and provide \$17 million to the Low-Income Energy Efficiency Fund. The Commission-authorized increase was significantly below the company's request of \$132,400,000 annually.

The Protect MI Child Registry marked its first anniversary on July 1, 2006. Throughout the year, the Commission engaged in community outreach efforts to educate the public about the registry. As of December 31, 2006, over 122,335 contact points are being protected by the registry.

In February 2006, the Commission further expanded its paperless electronic program so that 66% of the cases are filed electronically. The Commission processed and posted 6,173 documents filed electronically to the e-file system, and nearly 3,000,000 e-filed documents were downloaded from the Commission's website.

And finally, 350 individuals representing 150 organizations assisted Chairman J. Peter Lark in developing a comprehensive assessment of Michigan's long-term electric capacity needs and policy proposals during 2006. These efforts culminated in submission by the Chairman of a 21st Century Electric Energy Plan to Governor Jennifer M. Granholm on January 31, 2007.

We continue to look forward to working with you on utility and motor carrier matters to enhance protection for Michigan residents and businesses.

Sincerely,

J. Peter Lark, Chairman
Michigan Public Service Commission

Laura Chappelle, Commissioner
Michigan Public Service Commission

Monica Martinez, Commissioner
Michigan Public Service Commission

2006 ANNUAL REPORT
MICHIGAN PUBLIC SERVICE COMMISSION

J. PETER LARK
CHAIRMAN

LAURA CHAPPELLE
COMMISSIONER

MONICA MARTINEZ
COMMISSIONER

MARCH 2, 2007

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Commissioner Profiles

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.

Mr. 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. He has testified before the U.S. Congress on electric issues, and serves on the National Association of Regulatory Utility Commissioners Subcommittee on Nuclear Issues.

By Executive Directive 2006-2, Governor Granholm assigned Mr. Lark responsibility for development of the 21st Century Energy Plan for the State of Michigan. In October 2006, he was appointed by Governor Granholm to serve on The Michigan Renewable Fuels Commission established under Public Act 272 of 2006.

From 1985 through 2003, Mr. Lark served as 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.

Mr. Lark received a law degree from Western New England College School of Law in 1976, and earned an undergraduate degree 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 in 2001 and served as Chairman of the Commission until August of 2003. Her appointed term ends July 2, 2007.

Since joining the Commission, Ms. 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 "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 has also served as a program instructor for Michigan State University's Institute of Public Utilities. Ms. Chappelle 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 President of Organization of MISO States (OMS), Vice-Chair of the National Association of Regulatory Utility Commissioners (NARUC) Committee on Electricity, former Vice-President of the Organization of PJM States, Inc. (OPSI), and former Chair of NARUC's Broadband over Power Lines Task Force.

Monica Martinez
Commissioner



Appointed to the Commission: July 3, 2005
Term Ends: July 2, 2011

Monica Martinez was appointed by Governor Jennifer Granholm to the Michigan Public Service Commission 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, energy efficiency promotion, and low-income energy assistance. She has led new Commission efforts promoting lifeline awareness and summer energy conservation. As a member of the National Association of Regulatory Utility Commissioners (NARUC) Committee on Consumer Affairs, she has supported efforts for uniform data collection on energy arrearages and calls for additional federal LIHEAP funding. She is also a member of the NARUC Committee on Telecommunications and its Federal-Regulatory Subcommittee, which is currently examining special access. She was elected as Treasurer for the Mid-America Regulatory Conference (MARC) for the 2007 year and serves on the Federal Interstate Telecommunications Relay Services Advisory Council.

Prior to her appointment to the Commission, Ms. Martinez served as Deputy Director of the Governor's Legislative Affairs Division, with primary responsibility as liaison to the Michigan Senate. Prior to her position in the Executive Office, she served as a policy advisor to the Michigan Senate Democratic Office where she specialized in telecommunications, energy, human services, and family law policy issues. 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 (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.

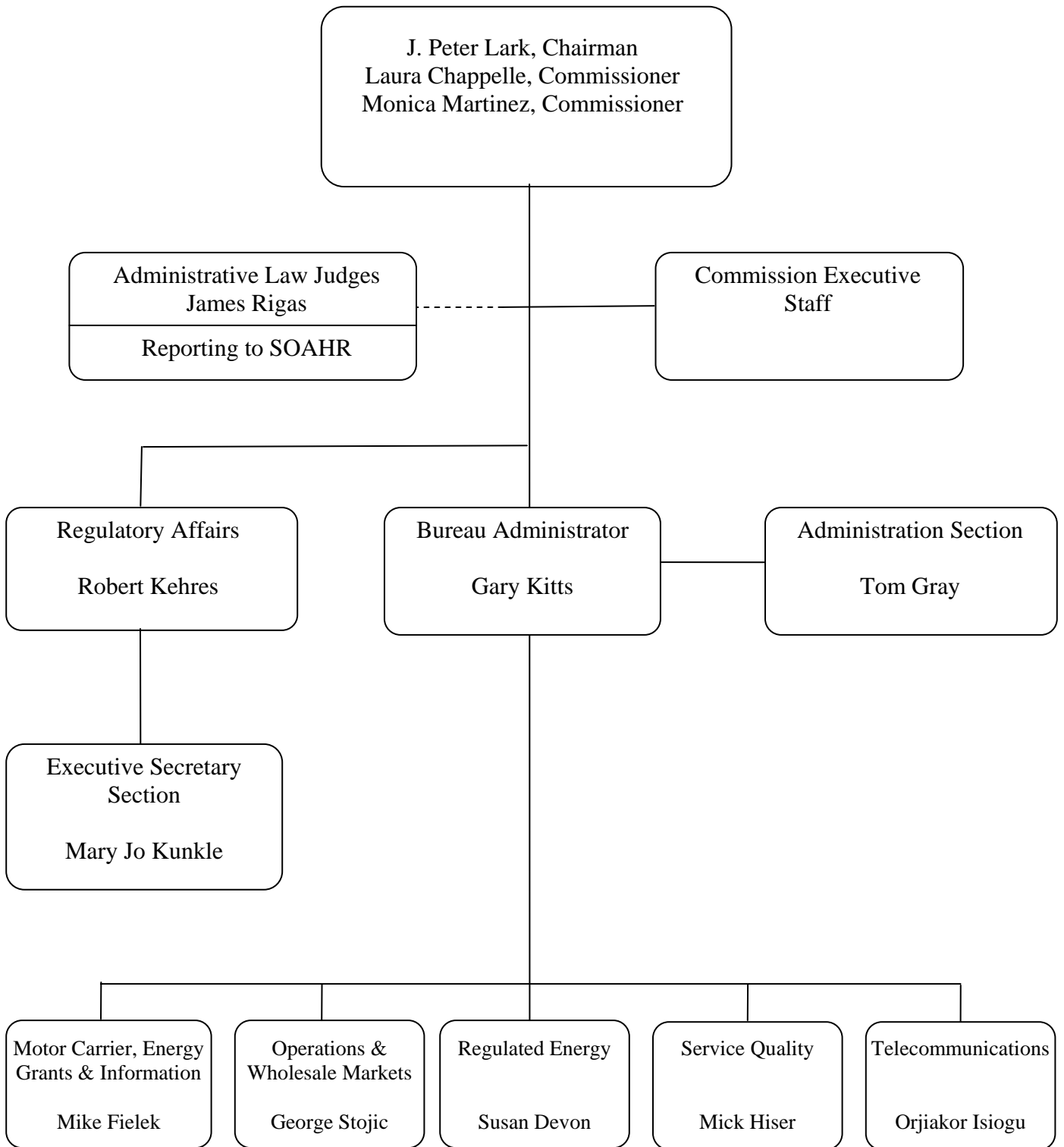
Staff Organization

The Michigan Public Service Commission has a staff of 158, organized into six Divisions: (1) Regulatory Affairs Division, which is primarily responsible for drafting of Commission orders and maintaining the Commission's files and official dockets; (2) Motor Carrier, Energy Grants & Information Division, which is primarily responsible for licensing, grant administration, critical infrastructure protection, and data analysis; (3) Operations & Wholesale Markets Division, which is primarily responsible for ensuring safe, adequate, and reliable energy supplies; (4) Regulated Energy Division, which is primarily responsible for electric and natural gas utility ratemaking functions; (5) Service Quality Division, which is primarily responsible for assisting utility customers and enforcement of Commission rules relating to customer service; and (6) Telecommunications Division, which is primarily responsible for all aspects of the Commission's authority related to telecommunications services.

The Commission also has an Administration Section, which is responsible for office management, personnel, and budget functions, as well as a State and Federal Legislative Liaison, and a Media and Public Information Specialist. In addition, the State Office of Administrative Hearings and Rules maintains an office of Administrative Law Judges, who conduct hearings on Commission cases.

The Commission performs functions that are common to state government. Every state in the nation has a similar agency that is responsible for utility regulation and other functions handled by the Public Service Commission. However, in Michigan, the Commission is relatively small compared to others. For example, the Michigan Commission has a staff of 15.5 per million population compared to the national average of 31.1 and an average of 24.6 in other Great Lakes States. Similarly, the Michigan Public Service Commission's budget of \$2.02 per capita is much lower than the national average of \$3.02 and the average of \$3.77 in other Great Lakes States.

Organizational Chart



Division Reports

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, coordinating court reporting functions, and responding to Freedom of Information Act requests.

The Commission issued 438 orders. These orders consisted of 164 Communications, 165 Electric, 71 Natural Gas, and 38 Motor Carrier orders.

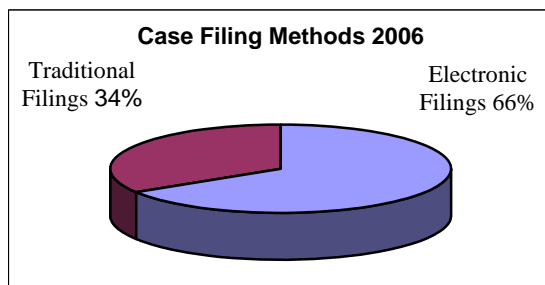
Executive Secretary

Case Documents and Processing

The Commission received and processed 8,062 official pleadings from applicants, respondents, intervenors and interested persons, an increase of nearly 62 percent over the previous year.

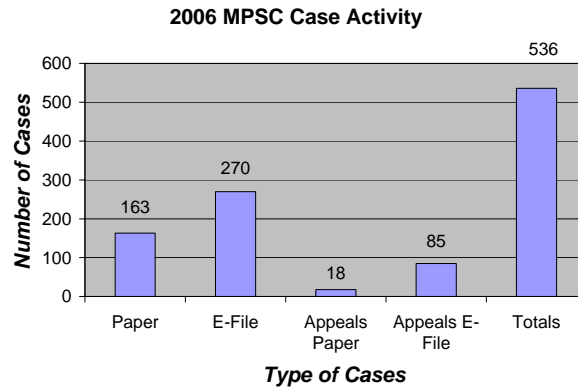
The Commission issued 181 notices of hearing and notices of opportunity to comment. These notices were distributed to subscribers and parties, submitted for publishing where applicable, and posted to the Commission's website. Court reporters were scheduled for 394 Commission hearings, of which 288 were conducted.

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. Two hundred twenty-six telecommunications industry representatives and 100 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 number of electronically filed cases continued to grow this year, with the Commission receiving 270 electronically filed cases. Additionally, the Commission received 85 electronically filed appeals and amendments.



The Commission posted 6,173 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. 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 3,000,000 e-filed documents from the Commission website.

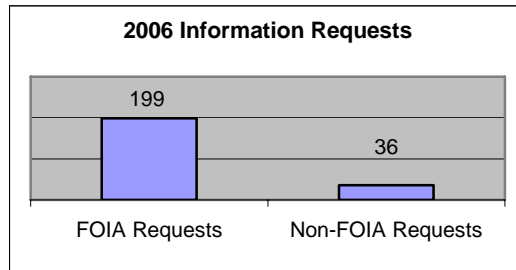
Paperless Electronic Filings

Due to the favorable response from Electronic Case Filings participants, the Commission further expanded its Paperless Electronic Filing Program. On February 1, 2006, the Commission expanded the paperless electronic program to include all telecommunications cases filed with the Commission, other than residential and small business complaints. As a result of this expansion, most filings are filed through the paperless electronic program. Since the program began in September 2003 through December 31, 2006, 423 paperless electronic cases have been filed with the Commission.

The Commission began preliminary testing of a new Case Tracking System designed to improve administrative efficiency. Once implemented, all pertinent case status information will be available on the Internet and tied directly to the e-docket system. This so-called "Legal Edge" system is expected to be implemented in 2007.

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 Commission processed 235 information requests.



Commission Annual Report

On March 3, 2006, the Commission 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 four sections: Motor Carrier Credentials & Customer Service Section; Motor Carrier Safety & Compliance Section; Energy Grants Section; and Energy Data & Security Section.

Motor Carrier Regulation

Applications for Intrastate Authority

The Commission received 528 applications for original operating authority. Related actions included 40 applications for transfer authorization to new ownership, 17 changes of operating name, 80 temporary discontinuance of operations, 39 permanent discontinuances, and 27 reinstatements of authority from discontinuance. The Commission granted 224 requests for temporary operating authority.

The annual renewal of active and temporarily discontinued intrastate operating authorities was initiated October 20, 2006. More than 6,000 2007 Commission decals were issued by December 31, 2006.

Insurance Filings

Each motor carrier applying for intrastate authority is required to submit proof of commercial public liability/property damage (PL/PD) insurance. Original and replacement filings were received of 307 cargo policies, and 2,442 PL/PD policies.

Decals and Special Identification Cards

Intrastate carriers are required to register power unit vehicles utilized in their authorized operations. Decal sales generated \$1.8 million. Carriers may also purchase and utilize a 72-hour Special Identification Card (SID), for \$10.00, valid for one year, which may be utilized as a temporary substitution for a Commission decal. Four thousand, three hundred forty-three 72-hour SIDs and 763 360-hour SIDs were issued.

Safety and Compliance

The Commission reviewed 637 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. The Commission scheduled 198 informal conferences, served 27 formal complaints, scheduled 29 administrative hearings, and ordered \$9,450 in assessment fees.

Rates and Tariffs

Carriers who conduct for-hire intrastate movements of household goods submitted 120 amendments and additions to tariff filings for Commission approval. The Commission received and investigated 37 complaints against household goods movers and advised complainants on available remedies.

Household Goods Carriers

On September 29, 2006, the Michigan Movers Association (MMA) filed an application for a general rate increase of 9 percent for Tariff MPSC MMW 4000 (Tariff 4000) with an effective date of November 24, 2006 (Case No. T-1849). On November 13, 2006, following a review of the MMA's filings, the Commission issued a suspension order and notice of hearing in order to investigate whether the proposed rate increase would result in just and reasonable rates. After negotiations, Commission staff and MMA submitted a settlement agreement in which the MMA would be authorized to increase rates charged under Tariff 4000 by 4.5 percent. MMA also agreed to cap the existing fuel surcharge for household goods moves of less than 40 miles at \$50 and to refrain from filing a rate increase request before January 1, 2008. On December 12, 2006, the Commission approved the settlement agreement, authorizing the rates for service rendered by the MMA members pursuant to Tariff MPSC MMA 4000 to be increased by 4.5 percent.

Single State Registration System 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 Single State Registration System (SSRS) states, with the capability to complete the registration of vehicles through Michigan for each of the 38 states. Michigan collected \$614,570 for the operational year 2006, the majority of which was forwarded to other SSRS states. Michigan received \$248,230 from the operation registrations completed by participating states. This revenue was significantly lower than previous years, since no 2007 renewal was conducted for SSRS in 2006 for reasons discussed below.

Public Law 109-59, the "Safe, Accountable, Flexible, Efficient Transportation Equity Act: a Legacy for Users" or "SAFETEA-LU," was signed into federal law on August 10, 2005. "Subtitle C – Unified Carrier Registration Act of 2005" was included within this public law and sets forth various changes to title 49, United States Code, relating to regulation of motor carrier activities. SAFETEA-LU requires that a Unified Carrier Registration (UCR) System be established to replace, among other things, the Single State Registration System, effective January 1, 2007. Thus SSRS is effectively repealed as of December 31, 2006.

Registration of Interstate Exempt Movements

Approximately 694 carriers transporting interstate commodities declared as exempt from interstate regulation were issued certificates of registration.

Renewal and Equipment Registrations for 2007 – Impact of UCR

The “Unified Carrier Registration Act of 2005” (UCRA) sets forth various changes to title 49, United States Code, relating to regulation of motor carrier activities. The Commission is preempted from requiring carriers with registered interstate operations to pay fees and complete annual renewal of authority and vehicle registration. The loss of related SSRS registration fees and intrastate and interstate decal and renewal revenues is to be replaced by revenues generated under the UCR system.

The enactment of the UCRA has had impact on the vehicle registrations, authority renewals, and fee payments received during the 2006 calendar year. Revenue loss has been incurred due to the cancellation of the SSRS for 2007. October through December of the year preceding the effective operational year of the SSRS are traditionally the highest months of registration and fee payment. In 2006, these renewal fees were eliminated. Simultaneously, the UCR impacted the required renewal of intrastate operating authority and vehicle registration related to 2007 intrastate registrations. Where the carrier also had registered interstate operations, neither authority renewal nor vehicle registration is permitted. Additionally, carriers performing only interstate operations were also eliminated from required registration for 2007. The UCR enactment has significantly impacted the required processing of transactions and collections of fees with the Commission.

The Commission has registered as a participating member state of the UCR program. As a member, Michigan will serve as a state accepting and processing the registrations of private, for-hire, and exempt carriers operating in interstate commerce, as well as the registration of interstate brokers, freight forwarders, and leasing companies. Once the UCR web-based registration system, promulgated rules and procedures are implemented, Michigan will serve as a base state processing applications of interstate operations based in Michigan and in other states and countries (i.e., Canada) that are not participating members of the UCR program. Currently, the required software, operations rules and procedures are being developed by the UCR Board under the chairmanship of the Director of the U.S. Department of Transportation (USDOT). Dates of implementation have not yet been established.

Other Activities

Staff chaired the Motor Carrier Advisory Board and participated as a member of the Michigan Highway Reciprocity Board. A joint venture of the USDOT and the Michigan Departments of Transportation, State Police, Treasury, and State, and the Commission to develop a coordinated state one-stop electronic shop was placed on temporary hold due to reduction in available funding. Staff also began a multi-year project to revise its Motor Carrier Information System to be completed in 2007.

On May 1, 2006, Champion’s Auto Ferry, Inc., (Champion) filed Tariff M.P.S.C. No. 32, which specified an effective date of June 1, 2006 for the increase in the rates for ferry service that Champion provides between Harsens Island and Algonac, Michigan (Case No. T-1814). On May 10, 2006, the Commission issued an order suspending the effective date of the tariff until July 1, 2006 and scheduling a June 8, 2006 evidentiary hearing to review the matter. On May 24, 2006, Champion filed a request seeking dismissal of its May 1, 2006 filing without prejudice, which the Commission approved on May 25, 2006. Subsequently, Champion filed a revised tariff which proposed to reduce its original request by 50 percent, and included reinstatement of the super discount for Algonac Community School Buses. The new tariff was allowed to go into effect.

Energy Grants

Low-Income & Energy Efficiency Fund

On February 21, 2006, the Commission issued an order awarding \$25 million in low-income energy assistance grants to seven organizations. The Commission authorized the release of these funds through its administration of the Low-Income and Energy Efficiency Fund (LIEEF), 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 through financial assistance for low-income customers, and to promote energy efficiency and education for all customer classes. The table below summarizes the February 21, 2006 energy assistance grants:

Low-Income Energy Assistance Order Date 02/21/06

Organization	Amount Awarded
Department of Human Services	\$20,000,000
Downriver Community Conference	\$200,000
Lighthouse Emergency Services	\$100,000
Michigan Community Action Agency Association	\$1,500,000
Newaygo County Community Services	\$200,000
The Heat and Warmth Fund	\$1,500,000
Salvation Army	\$1,500,000

On October 24, 2006, the Commission awarded \$45 million in low-income energy assistance grants to the following 10 organizations.

**Low-Income Energy Assistance
Order Date 10/24/06**

Organization	Amount Awarded
Capital Area Community Services	\$100,000
City of Livonia Housing Commission	\$18,000
Michigan Department of Human Services	\$31,000,000
Downriver Community Conference	\$500,000
Lighthouse Emergency Services	\$250,000
Michigan Community Action Agency Association	\$2,332,000
Newaygo County	\$1,000,000
The Heat and Warmth Fund	\$4,800,000
Salvation Army	\$4,800,000
Society of St. Vincent de Paul of Detroit	\$200,000

On December 12, 2006 the Commission awarded \$13 million in low-income energy efficiency grants to the following eight organizations:

**Low-Income Energy Efficiency
Order Date 12/12/06**

Organization	Amount Awarded
Bay de Noc Community College (MTEC)	\$700,000
Michigan Department of Human Services	\$9,000,000
Habitat for Humanity	\$279,000
Newaygo County Community Services	\$450,000
Nonprofit Facilities Assistance Center/United Way Community Services	\$500,000
Nova Development Group	\$1,450,000
Urban Options	\$421,000
Warm Training Center	\$200,000

On November 21, 2006, the Commission authorized Consumers Energy Company (Consumers Energy) to set rates that collect \$17,427,000 annually for the Low-Income and Energy Efficiency fund. This brings total annual funding for the LIEEF to \$83,821,000 with funding from the following sources:

<u>Company</u>	<u>Case No.</u>	<u>Amount</u>
The Detroit Edison Company	U-13808	\$39,858,000
Consumers Energy Company (Electric)	U-14347	\$26,536,000
Consumers Energy Company (Gas)	U-14547	\$17,427,000

The Commission's Annual Report on the Low-Income and Energy Efficiency Fund was prepared and submitted on June 1, 2006 to the state budget office, fiscal agencies, and subcommittees in compliance with Public Act 153 of 2006.

Energy Data & Security

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 the Department's emergency response and preparedness efforts.

As part of its energy emergency preparedness responsibilities, the Commission issued an updated version of the "Michigan Energy Emergency Operations Manual" in September 2006. The purpose of the manual is to provide an overview of energy emergency preparedness and response in Michigan. It identifies the role state government will play in response to an energy emergency, relevant legal authorities and key contacts at the Commission, and other state and federal agencies. It brings together summaries of contingency plans for electric and natural gas utilities, and outlines alternatives for responding to petroleum shortages. Staff also participated in a number of emergency exercises involving disaster response, nuclear plant drills and responding to an energy emergency.

The National Association of Regulatory Utility Commissioners adopted a resolution encouraging state commissions to initiate discussions on pandemic influenza planning. As a result, the Commission surveyed Michigan utilities and found generally that they are working on pandemic plans as part of their emergency and continuity of operations planning. The Commission staff also prepared a phase I continuity of operation plan to assure the preservation of essential Commission duties and responsibilities.

Critical Infrastructure

The Commission continues to support 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 energy and telecommunications infrastructure. Staff serves on the Michigan Homeland Security Advisory Council and is a member of the U.S. Department of Energy's Government Coordinating Council, for development of the National Infrastructure Protection Plan. The Commission participated in and helped to organize Michigan's first Critical Infrastructure Protection Conference held in March 2006 attracting over 400 participants.

Statistical and Data Analysis

The Commission 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 Commission conducts a weekly survey of residential heating oil and propane prices which are posted on its website. The Commission also assisted in maintaining the michigan.gov/gasprices website that provides extensive information on gas prices and regulatory requirements, and addresses a number of inquiries for data on Michigan energy use supply and prices.

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. The division also monitors federal and regional electric and natural gas issues and recommends policy proposals at the federal and regional levels. Three sections comprise the Operations and Wholesale Markets Division: Engineering, Energy Markets, and Safety and Reliability.

Commission Orders Number of Orders Issued by Type and Industry, 2006

20	Pipelines
6	Renewable Energy
1	Gas Production
3	Safety and Reliability
2	Conservation and Efficiency
2	Interconnection
2	Other
36	Total

21st Century Energy Plan

Primary responsibility for assessing Michigan's long-term electric capacity needs and developing policy proposals for consideration in Michigan's 21st Century Energy Plan resided with the Operations and Wholesale Markets Division, with participation by about 350 individuals representing 150 different organizations. Draft resource assessment reports were completed and posted on the 21st Century Energy Plan website in mid-November. Division staff received many comments on the resources assessments and preliminary policy proposals, and prepared policy proposals. Chairman Lark authorized the 21st Century Electric Energy Plan and delivered it and two volumes of appendices to Governor Granholm on January 31, 2007.

Safety and Reliability

The Commission's natural gas safety program maintained its federal certification following receipt of a favorable review by the USDOT. Division staff inspected all jurisdictional pipeline operators on schedule, thus meeting the requirements of Public Act 165 of 1969 and the USDOT. Staff also investigated all jurisdictional natural gas incidents that met USDOT requirements.

The Commission monitored a number of energy related emergency and outage events. Problems with the transmission system in northern Wisconsin and the Upper Peninsula, coupled with incidents at the Presque Isle Generating Plant, continued to require Commission attention. The Commission also continued to closely monitor the capacity and load of Consumers Energy and The Detroit Edison Company (Detroit Edison) during the summer period. Due to the sustained period of hot summer weather from July 1 to August 2, both Consumers Energy and Detroit Edison and the entire surrounding region set record levels of demand for electricity. The Midwest Independent Transmission System Operator, Inc. (Midwest ISO or MISO), which operates the electric power grid in 15 states and the Canadian province of Manitoba, experienced a new peak demand during this period.

The Commission also monitors utility efforts to restore electric service after storm events. There were five major storms in Michigan in 2006:

- On February 16 a strong low pressure system that contained thunder and lightning storms along with heavy wet snow and icing conditions caused power outages for 256,000 customers in the middle of the Lower Peninsula.
- On March 13 an early morning thunder and lightning storm went through the southern portion of the state, along the I-94 corridor. Later that same day, a second major low pressure system, accompanied by high winds, crossed the state starting in the early afternoon causing widespread outages.
- On May 11 a low pressure system that contained heavy rain and lightning storms caused 88,000 customer outages throughout the state. The heaviest damage was caused from strong winds on the afternoon of Thursday, May 11, along the Lake Michigan shoreline.
- On July 17 a low pressure system that contained strong straight line winds and numerous lightning storms caused 325,000 customer outages across the entire lower peninsula of Michigan. There was heavy wind damage with this storm that caused numerous tree related outages, and heavy lightning damage to poles and transformers.
- On December 1 heavy icing conditions caused numerous interruptions to service across the lower portion of the lower peninsula of Michigan.

The Commission continued to monitor compliance with rules governing service quality and reliability for electric distribution systems. Under these rules, Michigan electricity customers are protected by some of the most stringent service quality standards in the country that include penalties for utilities that fail to live up to the standards. Electric utility customer service standards cover the number and duration of service outages, distribution facility upgrades, repairs and maintenance, telephone service request response times, billing service, operational reliability, and public and worker safety.

The Commission also completed work on two rulemaking procedures. One activity updated the Michigan Gas Safety Standards. The second set standards and utility performance requirements for stray voltage on Michigan Farms.

Pipelines

The Commission issued 20 pipeline orders. Generally, natural gas pipelines are used to deliver natural gas that is produced from Michigan gas wells to markets both within and outside of the state. These orders followed Commission determinations that the proposed natural gas pipeline was practicable, met the requirements of the Michigan Gas Safety Standards, and served the public convenience and necessity.

Natural Gas Production

The Commission issued 447 gas well connection permits (31 more than in 2005), with 437 for gas wells in the Antrim formation. Total gas production in 2006 is estimated to be 170 billion cubic feet compared to 180 billion cubic feet for 2005. Antrim gas wells provided approximately 85 percent of the total.

Federal and Regional Issues

The price and reliability of Michigan's electricity and gas supply are significantly affected by federal and regional decisions. In Michigan, nearly all electric transmission lines and interstate gas pipelines are regulated by the Federal Energy Regulatory Commission (FERC). With the establishment of independent regional transmission operators (RTOs), management of the electric transmission system and dispatch of most generators in Michigan are done by RTOs under FERC-approved tariffs and procedures. Most Michigan electric utility customers are served by entities in the Midwest ISO. The RTO for a small portion of southwest Michigan, served by Indiana Michigan Power Company, is the PJM Interconnection, LLC (PJM). The Commission develops policy positions and participates in rate cases to assure Michigan's interests are protected at the Federal and regional (Midwest ISO) levels. The Commission continued to monitor development of the American Transmission Company's Northern Umbrella Project which is designed to substantially increase electric transmission into and through the Upper Peninsula.

In addition to its own orders, the Commission speaks through its comments, interventions, and positions in FERC and related judicial and agency proceedings. For example, the Commission participated in a rate docket for Michigan Electric Transmission Company (METC) at FERC. Negotiations to reach a settlement in principle in this rate docket were completed in December 2006 and included a refund of \$20 million for Michigan customers of METC. This settlement will be implemented in early 2007.

The Commission also coordinates regulatory oversight and formulates policy in the working group and board of director processes of the Organization of MISO States (OMS) and the Organization of PJM States, Inc. (OPSI). Commissioner Laura Chappelle is the newly elected President of OMS, was Vice President of OPSI in 2006, and is a member of the board of

directors for both organizations. The Commission has formally endorsed numerous filings in FERC proceedings through these two organizations of state public utility commissions. The Commission also actively participated in energy stakeholder forums at the Midwest ISO and PJM to ensure the best possible prices and service for Michigan energy consumers.

The development of key electric wholesale market issues critical to Michigan and related mostly to the ongoing implementation of the federal Energy Policy Act of 2005 required review, analysis and recommendations by the Commission and staff. Details of the Midwest ISO's transmission planning process that will affect Michigan customers are being worked out in the Midwest Transmission Expansion Plan process. Proposals for the allocation of costs for transmission projects were developed in the Midwest ISO stakeholder process, with input from the Commission, for consideration by FERC. The Commission has also participated in negotiations on reliability standards, resource adequacy, long term financial transmission rights, development of a possible ancillary services market, 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.

Staff continues work to assure ongoing Commission access to market and planning information. The Commission 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.

Customer Generation

A series of web pages regarding customer generation of electricity were developed to provide information and education on utility interconnection and related rate and tariff issues. On October 24, 2006 the Commission began an investigation into the interconnection of independent power producers with a utility's system. As part of the investigation, the Commission directed staff to convene a public meeting and issue a report in early 2007 on electric utility interconnection procedures, including the identification of any problems or deficiencies in the existing interconnection procedures, and proposals for the development and implementation of remedies.

Michigan Renewable Energy Program

The staff developed an updated Michigan renewable energy resource assessment and a series of renewable and alternative energy technology policy recommendations that were incorporated into the 21st Century Electric Energy Plan.

Because of the extensive time commitments required during the 21st Century Electric Energy Plan process, most Michigan Renewable Energy Program (MREP) committees suspended meetings for the remainder of 2006. MREP efforts will resume once updated guidance is received from the Commission, based on the proposals incorporated in the 21st Century Energy Plan and MREP program reports for 2004-2005, and 2006.

Several MREP Collaborative participants became active in the state's newly created Renewable Fuels Commission (RFC). The RFC was established in the Michigan Department of Agriculture

in September 2006 following passage by the Michigan Legislature of a package of seven bills. Commission Chairman J. Peter Lark was appointed to the RFC by Governor Granholm to represent the Department of Labor & Economic Growth. Among other duties, the RFC is charged with: “Investigate and recommend strategies that the governor and the legislature may implement to promote the use of alternative fuels and encourage the use of vehicles that utilize alternative fuels . . . [and] identify mechanisms that promote research into alternative fuels.” The RFC is directed by its enabling legislation to “issue a written report on its investigation and recommendations to the legislature and the governor.” The first meeting of the RFC was held in Lansing on November 30, 2006.

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 regulatory oversight of various financial aspects of Commission-regulated energy utilities in Michigan, including recommendations of appropriate utility rates. The division administers the Commission's Gas Cost Recovery and Electric Power Supply and Cost Recovery Programs, Uniform System of Accounts, Annual Reports, and Utility Tariff Books. RED is also 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 Tariffs. In 2006, RED staff were involved in a total of 124 electric and natural gas related cases before the Commission throughout the year.

Rate Cases

The Commission issued five orders approving base rate changes for Detroit Edison, Consumers Energy, Upper Peninsula Power Company (UPPCO), Great Lakes Energy Cooperative and Presque Isle Electric & Gas Cooperative.

On May 10, 2006, the Commission approved an interim natural gas rate increase of \$18.4 million (\$132,400,000 requested) in Consumers Energy's Case No U-14547. On November 21, 2006, the final order authorized Consumers Energy to increase its natural gas revenues by a total of \$80,804,000 annually (includes interim increase). The rate increase covers the growing costs for natural gas operations, pensions and retiree health care, and \$17 million for the Low-Income and Energy Efficiency Fund. The final order resulted in an increase in a typical residential customer's monthly bill of approximately \$3.27.

On June 15, 2006, the Commission approved a settlement agreement for Presque Isle Electric & Gas Cooperative authorizing a rate increase of \$1,021,926 (\$1.7 million requested), which represents a monthly increase of \$3.01 for residential customers. The order also authorized the reimplementing of the times interest earned ratio (TIER) ratemaking mechanism; an annual mechanism used by most Michigan electric cooperatives to determine reasonable rate levels.

UPPCO's settlement agreement authorized an increase in electric rates of \$3,813,000 (\$6,606,856 requested) on June 27, 2006. The settlement agreement required UPPCO to invest at least \$10.3 million annually on distribution operation and maintenance, including \$1.7 million per year on line clearance. The order resulted in an increase in a typical residential Integrated Retail System UPPCO customer's monthly bill of approximately \$5.13. The average residential Iron River UPPCO customer's monthly bill increased by approximately \$3.68.

On August 31, 2006, a settlement agreement was approved by the Commission in Detroit Edison's Case No. U-14838 that reduced electric rates for residential and business customers by a total of \$78.75 million. This order represents an annual decrease of approximately \$6.00 for residential customers. The Commission initiated the case and directed Detroit Edison to show cause why its retail electric rates should not be reduced, citing the utility's labor cost savings and a decline in electric choice customer sales. The order also approved an experimental Choice Incentive Mechanism and an experimental load aggregation program for large commercial and industrial customers.

On September 12, 2006, the Commission approved a settlement agreement in Great Lakes Energy Cooperative's electric rate case, increasing rates by \$4 million (\$6,019,460 requested); plus \$1,115,000 earmarked for right-of-way maintenance expenditures. The order also approved the implementation of the TIER ratemaking mechanism. The settlement agreement authorized an increase in an average residential customer's monthly bill of about \$1.77.

TIER Cases

The Commission approved three settlement agreements authorizing revised rates for the sale of electricity and implementation of the TIER ratemaking mechanism. This type of ratemaking is an annual mechanism used by most Michigan electric cooperatives to determine reasonable rate levels.

On August 22, 2006, the Commission granted Alger Delta Cooperative Electric Association an electric rate increase of \$247,877 (\$269,305 requested), which resulted in an average residential customer's monthly bill increasing by \$2.05. On that same date, the Commission authorized Ontonagon County Rural Electrification Association an increase of \$137,654 (\$297,923 requested), and Tri-County Electric Cooperative an increase of \$843,584 (\$1,024,567 requested). The orders authorized an increase in a typical residential customer's monthly bill of approximately \$2.50 and \$1.50, respectively.

Utilities	Rate Change Increase or (Decrease)	Effect on a Typical Residential Monthly Bill
Alger Delta Cooperative	\$247,877	\$2.05
Consumers Energy (Natural Gas)	\$80,804,000	\$3.27
Detroit Edison	(\$78,750,000)	(\$0.48)
Great Lakes Energy	\$5,115,000	\$1.77
Ontonagon Co. Rural Elec. Association	\$137,654	\$2.50
Presque Isle Electric (Electric)	\$1,021,926	\$3.01
Tri-County Electric Coop	\$843,584	\$1.50
Upper Peninsula (Integrated)	(see above)	\$5.13
Upper Peninsula (Iron River)	(see above)	\$3.68

Accounting and Depreciation Cases

The Commission issued orders in four accounting related cases. The utility companies included in these cases were Michigan Gas Utilities Corporation, UPPCO, Detroit Edison, and Michigan Consolidated Gas Company (MichCon). There were two depreciation rate cases involving Michigan Gas Utilities Corporation and Wisconsin Electric Power Company completed by the Commission. In addition, the Commission issued orders in two stranded cost cases involving Consumers Energy and Detroit Edison.

The Commission initiated a generic case, Case No. U-14561, to determine the appropriateness of funding natural gas research and development efforts through utility rates. The final order approved natural gas utilities' research and development expenses up to \$0.0174 per thousand cubic feet (Mcf) that may be collected from their customers if approved in general rate cases.

MichCon received authority to increase rates to recover incremental uncollectible accounts expense as measured by the Uncollectibles Expense True-up Mechanism. The surcharges commenced on January 1, 2007.

Tariff Administration

The Commission processed 303 electric and 118 natural gas tariff sheet filings in 2006 utilizing its electronic tariff processing system implemented in 2004. The Commission also issued six orders that changed tariffs for Indiana Michigan Power Company, UPPCO, Wisconsin Public Service Corporation, and South Romeo Gas Storage.

The Commission approved seven special contracts between utilities and large usage customers of Detroit Thermal, Edison Sault Electric Company and Wisconsin Electric Power Company.

Utility tariffs are available in the electric and natural gas rate books located on the Commission website.

Act 304 Recovery Programs

Gas Cost Recovery Program

The Commission established retail Gas Cost Recovery (GCR) factors for six regulated gas utilities. The GCR regulatory process provided for recovery of approximately \$3.5 billion in wholesale gas costs in 2006.

Natural gas markets in 2006 were characterized by declining prices after the large increases experienced in 2005. After reaching an unprecedented high of \$15 per million British Thermal Units (mmBtu) in December of 2005, gas prices steadily decreased. This decline was attributed to diminishing effects of the 2005 hurricanes Katrina and Rita, the record warm weather experienced during January through March 2006, and natural gas storage inventories well above normal throughout the entire 2006 injection season.

As a result of the market price decline, the Commission issued five orders for the 2006-2007 GCR plan cases that significantly reduced the GCR base factor from the GCR plan cases of 2005.

Power Supply Cost Recovery Program

The Commission issued over 60 electric related orders, including 18 Power Supply Cost Recovery (PSCR) plans for each of 2006 and 2007, PSCR cost reconciliations for 2005, and other power supply cases related to Act 304 of 1982. There also were six orders related to Detroit Thermal that addressed new contracts and establishment of a natural gas clause, natural gas factors, and reconciliation. There were also a few applications filed that requested approval of capacity charges associated with purchase power agreements with terms in excess of six months.

Financial Analysis Information

The annual *Financial & Operational Utility Reports* submitted to the Commission by the regulated utilities became available in electronic format in 2006.

The updated *Public Utility Assessment* revenue report forms for natural gas, electric, and telephone are available electronically on the Commission website. The S-102 Gas pipeline information under Public Act 9 rules may also be accessed online.

In addition, the *Quarterly Financial Reports on Michigan Electric and Natural Gas Utilities* highlighting 13 months of earned return on equity data from 2003 to 2006 for the eight Michigan jurisdictional utilities are located on the Commission website.

Customer Choice Programs

The Commission received and responded to a total of 560 complaints and inquiries on natural gas and electric customer choice issues. The majority of contacts were inquiries that involved 304 natural gas and 13 electric customer choice concerns. The Commission also handled 228 natural gas and 15 electric choice complaint issues.

Electric Customer Choice

The Commission issued 40 orders in 2006 to implement the framework for Michigan's electric customer choice programs and the provisions of Public Act 141 of 2000, Michigan's Customer Choice and Electricity Reliability Act.

The number of electric choice program customers and volumes declined as higher wholesale power supply costs made the prices offered by alternative electric suppliers (AES) less attractive to potential customers. A total of 7,252 commercial and industrial customers were enrolled in Detroit Edison and Consumers Energy electric choice programs during the year. The number of MW (megawatts) served by AESs totaled 1,189 MW of load. There are 27 licensed AESs in Michigan. The Commission issued two new AES licenses to BlueStar Energy Services Inc. and

American PowerNet Management, and approved requests for relinquishing of two AES licenses held by Cook Inlet Power, LP, and North American Energy, LLC.

Since 2001, Michigan Electric Cooperatives have phased-in customer choice for all commercial and industrial member-consumers with a peak load of 50 kW (kilowatts) and above. On January 30, 2007, the Commission issued an order in Case No. U-13698. In this case, the Commission continued the current electric choice service to commercial and industrial member-consumers of the electric cooperatives with peak loads of between 50 kW and 199 kW, and ordered the cooperatives to file updated status reports by February 1, 2008.

In response to complaints filed in Case No. U-13808, the Commission ordered Detroit Edison to convene a collaborative process to resolve issues involved in electric choice metering issues. The settlement agreement resulting from the collaborative on metering, with amended electric choice tariffs, was approved in Case No. U-14838. The tariff changes included the following provisions:

- Primary customers require interval meters and working telephone lines prior to going to choice service;
- Three phase customers are no longer required to have an interval meter;
- Interval metering is optional for secondary customers at a monthly charge with working telephone lines;
- Standard load profiles will be used for non-interval metered customers to determine their hourly usage;
- The monthly charge for current interval metered customers will be waived for 24 months; and
- Where a telephone line is required and installation of a landline is impractical, the customer may request digital cell-phone service.

The Commission delivered its annual report *Status of Electric Competition in Michigan* for the calendar year 2006 to the Governor and legislature on February 1, 2007, as required by PA 141 of 2000. The report is available on the Commission's website.

Natural Gas Customer Choice

The number of customers participating in the statewide natural gas choice programs increased to 254,967 compared to about 228,000 in the prior year. Alternative gas suppliers served 45.412 billion cubic feet (Bcf) of annualized natural gas sales compared to 36 Bcf in 2005. A portion of the year-to-year growth was in SEMCO Energy's service territory, as a new alternative gas supplier started serving customers in May 2006. In addition to service being provided by alternative gas suppliers, larger statewide commercial and industrial customers have

had the ability to choose a natural gas supplier under Michigan's gas transportation programs that have been in place since 1988.

The Commission issued three new Alternative Gas Supplier licenses. New licenses were granted to Charlevoix Energy Trading, LLC, Volunteer Energy Services, Inc., and Constellation New Energy Gas Division. Shell Energy Services Company, LLC, relinquished its license.

Code of Conduct

There were several cases that related to electric Code of Conduct issues. In Case No. U-14329, the Commission found that the use of Consumers Energy's billing system by an unregulated affiliate creates a subsidy, and that the company must ensure that its unregulated services are charged the full amount of the subsidy provided. This case is pending before the Court of Appeals.

There was also a pending complaint filed by FirstEnergy Solutions Corp. that alleged Detroit Edison violated the code of conduct by promising customers rates in an unjust and discriminatory fashion. An order is expected in Case No. U-15081 in 2007.

In Case No. U-14778, the Commission granted Thumb Electric Cooperative a limited partial waiver to section II.F of the code of conduct that allowed the company to calculate its equity margin requirement based solely on its distribution assets.

Electric Generation Plant

The Commission approved Consumers Energy's settlement agreement in Case No. U-14981 to sell all of its interests in the Midland Cogeneration Venture Limited Partnership facility to MCV Power Partners, Inc. Customer rates were not changed by the order.

Consumers Energy filed an application seeking approval of a purchase power agreement in its proposed sale of the Palisades Nuclear Power Plant to Entergy Nuclear Palisades, LLC, for \$380 million. In Case No. U-14992, Consumers Energy seeks Commission approval to buy all of the plant's power output for 15 years through a power purchase agreement. The sale of the 798 MW Palisades plant is being reviewed by the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission, and the Commission. The Commission is expected to make a decision in the first quarter of 2007.

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 two new consumer alerts on summer energy bill savings and updating alerts on lifeline telephone assistance, natural gas choice, home heating help, the Home Heating Credit, and the Earned Income Tax Credit. These alerts were posted on the Commission's website and made available to those who subscribe to the Commission's email subscription service. Additionally, approximately 15,077 alerts were mailed to customers who called the Commission requesting information on a particular topic. Commission publications were also sent to public libraries, distributed at consumer forums and speaker bureau presentations and, upon request, were provided to state legislators and local and statewide organizations. In total, over 21,000 publications were distributed.

Consumer Forums

For the 19th 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 Marquette, Petoskey, Detroit, Saginaw, Grand Rapids, Riverview, and Canton Township. Over 300 consumers and community organization representatives attended the seven 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 Commission 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 telephone line. These calls are taken live and result in establishment of a record for each complaint or inquiry, allowing the customer's complaint or inquiry to be tracked through to completion. The Commission responds directly to the customer's issues, forwards the customer to a specialist for resolution, or forwards the call, when appropriate, to the utility's Executive Customer Assistance Center. During 2006, over 41,000 calls were handled on the Commission's toll-free line. Initial call answer time averaged 32 seconds. The Commission also assists the Governor's office and legislative staff with constituent concerns involving utility customer quality service matters.

Complaint and Inquiry Data

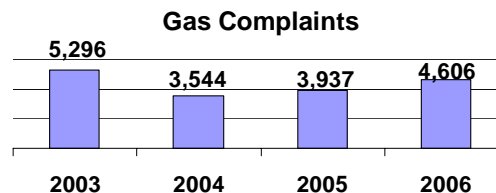
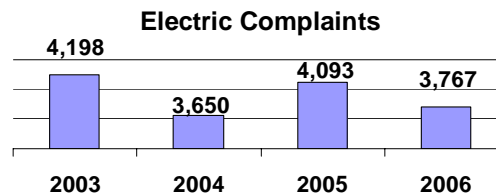
The Commission administers a customer complaint and inquiry database, ensuring the security of the data and the validity of the reports generated from the data. During the year, several improvements were made in the coding of complaints, data system, and system security. Using the data on number of calls, types of complaints, and geographic and industry data, the Commission 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 to address areas of concern and internally to identify new areas for consumer outreach. A customer satisfaction survey was also undertaken to identify ways to improve the Commission complaint and inquiry process.

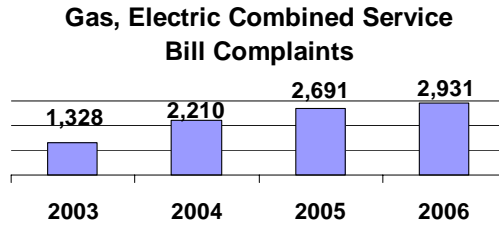
Service Quality

The Commission received 11,304 “new” energy (gas or electric) and 7,510 telecommunications complaints and inquiries.

Energy (Gas and Electric)

The number of gas and electric complaints and inquiries handled by the Commission increased nine percent over the previous year. The complaints and inquiries concerned issues typically related to increased natural gas prices, high bills, responsibility for bills, delinquent accounts, bill payment assistance, shutoffs, frequent outages and repetitive interruptions as well as other billing and service quality/reliability issues.



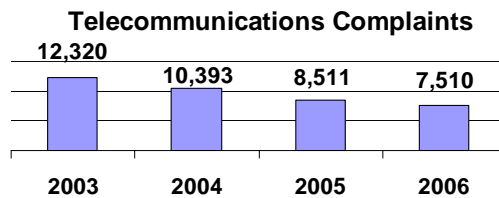


The Commission has continued to receive a number of calls related to frequent outages and repetitive interruptions throughout the state of Michigan. These calls decreased from 778 in 2005 to 551 in 2006. Commission mandates to accelerate utility maintenance and repair on substations serving problem circuits has helped to improve this situation. Utility companies are now asked to report the changes that have occurred to the affected areas.

Michigan businesses and consumers filed more than 105 formal complaints against gas and electric companies in 2006, up from the 39 filed in 2005 and 45 in 2004. However, the Commission was able to resolve most of these complaints without need for an administrative hearing. While the Commission encourages participants to exercise their right to bring a formal complaint to the Commission when the complaint cannot be resolved informally, resolution via informal settlement generally benefits all parties involved.

Telecommunications

The Commission processed 7,510 telecommunications complaints, a decline from the previous three 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.



The Commission processed 60 formal complaints brought against telecommunications companies during 2006, compared to 48 formal complaints handled during 2005 and 96 in 2004. The decline over the past two years in part can be attributed to aggressive action at the Commission to enforce rules and infractions along with stiff penalties assessed by the Commission for violations of the law. Billing charges and credit issues remain the largest complaint categories, followed by service quality, repair and maintenance problems, cramming and billing errors.

The Commission continued to see a significant increase in billing issues, receiving 1,308 complaints, compared to 993 in 2005. This will be an area the Service Quality Division will focus attention on in 2007. Also, in 2006 the Commission received a number of complaints regarding telephone outages for Talk America. Over a period of four months, approximately 27,000 customers experienced outages when Talk America transitioned to a new switch.

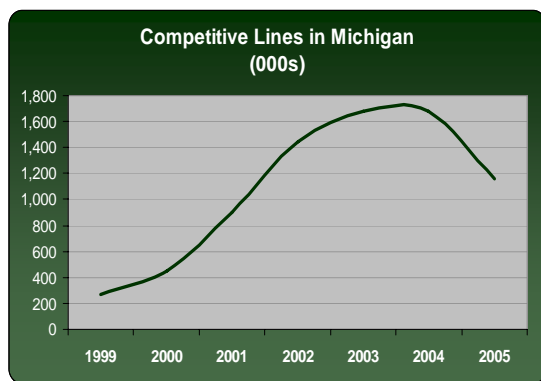
Telecommunications Division

Orjiakor N. Isiogu, Director

The Telecommunications Division is responsible for providing the Commission with technical assistance and policy recommendations on telecommunications 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) and the Uniform Video Services Local Franchise Act (2006 PA 480). The division is comprised of three sections: Licensing and Competitive Issues; Operations and Tariff; and Rates and Financial Analysis.

Local Telephone Competition

The Commission granted licenses or approved amendments to existing licenses for 21 telephone companies. At the end of the year, 223 competitive local exchange carriers (CLECs) were licensed to provide telecommunications services in Michigan. CLECs were serving 21.2 percent, or about 1.1 million lines provided to customers in Michigan, according to results from an annual survey staff conducted in early 2006.



Based on 2005 data, competition in the wireline telecommunications market in Michigan experienced the first decrease in the level of wireline competition since the Commission monitoring began in 1999. The number of lines served over an unbundled network element platform (UNE-P) that CLECs purchased from AT&T Michigan was 153,988 lines or 13 percent of all of the CLEC line activity. AT&T Michigan's alternative offer to UNE-P, referred to as Local Wholesale Complete, accounted for 312,288 lines or 27 percent of the CLEC lines. Resale accounts for 47,286 lines, while lines served over unbundled network facilities were 535,251, and lines served via CLEC-owned facilities were 70,170. As of December 2006, there were approximately 190 Commission approved interconnection agreements in effect between AT&T Michigan and its competitors.

Federal Unbundling Issues

As directed by the Federal Communications Commission (FCC) Triennial Review Order and Triennial Review Remand Order, the Commission continued facilitating the migration of CLECs' customers from UNE-P to other methods of provisioning. Interconnection agreements with AT&T Michigan were amended as needed in Case No. U-14447; while Verizon was in the final stages of amending its interconnection agreement with CLECs. In addition, the mediation to resolve certain issues related to hot cuts continued over the course of the year in Case No. U-14463.

Cost Proceedings

As a result of the arbitration between several Michigan Exchange Carriers Association (MECA) companies and Verizon Wireless in Case No. U-14678, the Commission commenced a proceeding in Case No. U-14781 to investigate and review the total service long run incremental costs of several MECA companies. The twelve company MECA cost study as well as the separate Upper Peninsula Telephone Company cost study were filed accordingly.

Primary Basic Local Exchange Service Rates

Pursuant to the new law which amended Section 304(1) of the MTA, the Commission initiated Case No. U-14731 in order to implement the provisions of the MTA related to setting the rates for Primary Basic Local Exchange Service (PBLES). A total of 91 companies filed their PBLES tariffs and rates for review with the Commission.

K Table

On January 6, 2006, the evidentiary record was closed on the contested case hearing regarding the issue of whether the K table, a statistical tool utilized to adjust random variations of AT&T Michigan's performance measures, should be eliminated in order to better ensure that AT&T Michigan allows the CLECs to purchase network elements on a nondiscriminatory basis. The case continued into the briefing phases during 2006.

Provider to Provider Disputes

On May 30, 2006, MECA filed an application regarding a dispute on the measurement of usage and the payment of usage-based rates with Verizon in Case No. U-14905.

On July 7, 2006, a number of CLECs jointly filed a complaint against AT&T Michigan regarding the bundling of services with unwanted services and the cross connect.

On August 1, 2006, a formal complaint was filed by CMC, Grid 4 and MCCA against AT&T Michigan in Case No. U-14975 regarding resale practices.

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 access by simplifying the permit process and standardizing fees for local rights-of-way access, the Commission approved METRO Tax Credits for 51 providers and submitted this information to the Department of Treasury for the processing of providers' tax filings.

In compliance with Act 48, the Commission has issued Annual Permit Activity reports for 2003, 2004, 2005 and 2006 with quarterly updates during the year. This information is posted on the Commission's website. The Commission received notices of permit approvals/denials from 58 municipalities in 2006. Of the 54 that were approved, 43 were for unilateral permits, 7 were for bilateral permits and 4 were unspecified.

Expansion of Local Calling Areas

Four companies applied to expand their local calling to adjacent or adjacent and some non-adjacent exchanges for PBLES customers in the fall of 2006. These applications were filed in accordance with the requirement of Section 304(10) of the MTA as amended in 2005. One application was approved, two were partially approved and one was denied because the rate increase required to enact expanded local calling would nearly double the company's PBLES rates.

VNXX

The Commission began a collaborative proceeding in December 2005 to investigate and report to the legislature and Governor the implications of Section 304(9) of the MTA and the changes effective December 31, 2007. The working group, made up of industry stakeholders, the Attorney General's Office, consumer groups and Commission staff met during 2006, but could not reach consensus on legislative action to be recommended. A Commission report on the progress of the Virtual NXX workgroup and recommendations for legislative action was presented to the legislature and Governor Granholm in June 2006 as required by the MTA.

Rulemakings

The MTA as amended, required the Commission to promulgate rules to establish and enforce quality standards. Those standards relate to quality standards for basic local exchange service, the provision of unbundled network elements and local interconnection services to providers, the transfer of end users from one provider to another, and the transfer of customers to another provider when a provider of basic local exchange service ceases to provide service. These areas are currently being studied and the Commission expects to begin the formal rulemakings shortly.

Intercarrier Compensation

The FCC has an ongoing proceeding considering comprehensive reform of intercarrier compensation. In July 2006, a group of regulators and industry representatives filed a proposal, called the “Missoula Plan,” with the FCC. The goal of the Missoula Plan is to provide a modernized intercarrier compensation and universal service model for the current paradigm that is collapsing as new technologies such as Voice over Internet Protocol and wireless change the telecommunications landscape. The FCC has taken comments on the plan and is currently accepting reply comments. Commission staff held informational meetings and participated in webinars with industry and consumer groups. The Commission is following the docket closely.

Numbering Resource Optimization

The Commission submitted a petition to the FCC on April 7, 2005, requesting delegated authority to implement Thousands-Block Number Pooling in the 989 area code. Thousands-Block Number Pooling is a telephone number conservation method, primarily used in large metropolitan areas, to provide telephone numbers to companies in smaller quantities. The petition was submitted due to the expected need for area code relief, in 989, by 2010. On February 24, 2006, the FCC granted the Commission delegated authority and mandatory telephone number pooling began in the 989 area code on December 1, 2006.

Abbreviated Dialing Number: 2-1-1

In accordance with the MTA, the Commission approved one entity, representing Livingston, Monroe, and Washtenaw counties, to be community resource information and referral answering points, directing the implementation and use of the 2-1-1 abbreviated dialing number. Michigan citizens can now dial 2-1-1 for human service assistance in 12 Lower Peninsula counties and the entire Upper Peninsula.

Abbreviated Dialing Number: 8-1-1

In response to a change in Public Law 107-355, the Pipeline Safety Act, the FCC is requiring telecommunications carriers to implement the abbreviated dialing number, 8-1-1, to enable contractors and citizens to reach One Call centers prior to excavation.

On June 27, 2006, the Commission initiated a proceeding under Case No. U-14923, taking comment on the delegation of the abbreviated dialing number, 8-1-1, to a specific entity and technical issues regarding the implementation. On November 9, 2006, the Commission issued an order designating MISS DIG as Michigan’s sole 8-1-1 designee and addressing cost recovery.

Allband Communications Cooperative

Allband Communications Cooperative (Allband) was licensed to provide basic local exchange service by the Commission in August 2004. The company’s territory covers a heavily forested area with few potential customers. No other company had been willing to serve the territory prior to the Allband application. Among other problems, businesses face immense odds and

emergency services are non-existent where there is no telephone service. Establishing a telephone infrastructure where there has never been facilities is a large project. The company's first (test) customer had telephone service on November 30, 2006.

Michigan Relay Center

CapTel allows people who have difficulty understanding what is being said over the telephone to receive live captions of their telephone conversation.

Individuals who can benefit from this service are: people with some degree of hearing loss, who find it difficult to understand telephone conversations, people using hearing aids, assistive listening devices or cochlear implants, and those who are deaf or hard of hearing, but have understandable speech. There are currently 249 subscribers in Michigan.

Intrastate Telecommunications Service Providers

The Intrastate Telecommunications Service Providers (ITSP) database was transferred to the Telecommunications Division. As a result of amendments to the MTA, providers of telecommunications services using new or emerging technology, such as VoIP and Broadband over Powerlines are required to register with the Commission. The ITSP database was updated to reflect these changes and over 360 carriers are registered.

Federal Universal Service Fund

The Commission approved two carriers as Eligible Telecommunications Carriers (ETC). In addition to the new ETCs, the Commission processed filings covering 49 study areas and 41 wire line and wireless carriers who will be eligible for Federal Universal Service Fund support in 2007. Michigan is a net payer state, contributing \$163,818,000 into the fund and receiving \$82,853,000 back in support.

Electronic Tariffs

Progress continued in the effort to allow telecommunications carriers to e-file tariff revisions and post their tariffs for public viewing on the Internet. The Commission issued an order in Case No. U-14973, which outlines tariff filing procedures and mandates all carriers required to file a tariff with the Commission to display their tariffs on-line by January 25, 2007. Over 550 electronic tariff revisions were processed in 2006. Currently, over 68 carriers are taking advantage of e-filing their tariffs with the Commission.

Protect MI Child Registry

The Protect MI Child Registry marked its one-year anniversary of operation on July 1, 2006. Prior to the one-year anniversary, the Protect MI Child Registry added new features that allow for the registration of instant messaging IDs, mobile text messaging, and fax numbers, in addition to the registration of e-mail addresses. These new features became available in early

January 2006. In addition to the new features, a Commission Consumer Alert was also developed. This Consumer Alert is available in both English and Spanish.

Throughout the year, Protect MI Child staff engaged in community outreach activities to educate the public about the Registry. Information was distributed to thousands of schools, churches, libraries, family and youth organizations, and also through monthly magazine publications intended for families. The Protect MI Child staff made presentations to several groups including the Lions Club, Kiwanis Club, Michigan Safe Schools Initiative, the Department of Community Health and others.

As of December 31, 2006, over 122,335 contact points are being protected by the Registry. These contact points include both individual contact points and addresses associated with over 220 schools and organizations that have registered their e-mail domains. On August 10, 2006, the Attorney General's office filed suit against two companies that may have violated the Michigan Children's Protection Registry Act (Protect MI Child Registry).

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

U-14985, ACLU Michigan v AT&T Michigan and Verizon

On July 28, 2006, the American Civil Liberties Union of Michigan submitted a formal complaint and request for investigation of AT&T and Verizon to the Commission (Case No. U-14985). The complaint alleges that, in light of media reports of sharing of information between the National Security Agency (NSA) and these companies, their stated privacy policies are false, misleading, or deceptive and so violate the MTA. On December 8, 2006, an amended complaint was filed with the Commission and on January 18, 2007, the complainants filed a request to withdraw their complaint without prejudice. On January 30, 2007, the Commission dismissed the complaint without prejudice.

Media and Public Information

The Commission issued 99 press releases resulting from Commission orders, programs and activities.

Press releases announced Commission action on a wide range of issues, including: release of its Capacity Need Forum report; release of its energy efficiency report; \$70 million in grants for low-income energy assistance and \$13 million in grants for low income energy efficiency; creation of the Save Energy with Ease program with utilities that provided thousands of free programmable thermostats and energy conservation kits; the Protect MI Child first anniversary; rate cuts for certain Detroit Edison customers; approval of stray voltage rules; improvements in the Lifeline program that assists low-income telephone customers; voluntary efforts by utilities to assist more low-income customers during the heating season; and commencement of an investigation into interconnection of independent power projects with electric utilities.

Dominant issues of interest to the media were high natural gas prices, findings of the Commission's Capacity Need Forum report, energy conservation tips, and renewable energy efforts.

The Commission provided information and assistance to over 480 media contacts.

SOAHR Administrative Law Judges

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 the 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 at the conclusion of each contested case.

During the year SOAHR conducted 258 days of hearings and issued Proposals for Decision (PFD) in 56 cases. In addition, 138 settled or undisputed cases were processed and transmitted to the Commission for its consideration. Administrative Law Judges also chaired two Arbitration Panels in the resolution of certain interconnection disputes between competing telephone service providers and served as mediator pursuant to the provisions of the Metropolitan Extension Telecommunications Rights-of-Way Oversight Act, 2002 PA 48.

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 SOAHR Administrative Law Judges were responsible for conducting the following proceedings.

In March 2005, Detroit Edison filed an application seeking to reconcile both its power supply revenues and expenses and net stranded costs for the 12-month period ending December 31, 2004. Detroit Edison requested authority to refund \$75,852,692 in over collected revenue and sought to recover an additional \$98,942,000 for net stranded costs. The April 10, 2006 PFD recommended approval of Detroit Edison's over collection in the amount requested, but recommended recovery of only \$18,671,000 in net stranded costs. The Commission's final order adopted these recommendations.

On July 1, 2005, Consumers Energy filed an application to increase its rates for the distribution of natural gas by \$132.4 million and make permanent the \$58.1 million annual increase awarded on October 14, 2004 in Case No. U-13730. Additionally, Consumers Energy filed a motion for partial and immediate (interim) rate relief, seeking an interim rate relief increase of \$75.1 million above levels established in Case No. U-13730. A PFD was issued on July 14, 2005 recommending final rate relief of \$74,127,000 and deferral of the decision to make permanent the \$58,124,000 surcharge established in Case No. U-13730. On May 10, 2006, the Commission issued its order granting Consumers Energy interim relief in the annual amount of \$18,434,000. On November 2, 2006, the Commission issued its final order authorizing Consumers Energy to increase its annual gas revenues by \$80,804,000 and continue collection of the surcharge approved in Case No. U-13730 on a permanent basis.

In May 2006, Sprint Communications Company (Sprint) initiated the first contested case brought under the Metropolitan Extension Telecommunications Rights-of-Way Oversight Act (the METRO Act) requesting *de novo* review of the METRO Authority's Determination No. 5. The METRO Authority had concluded that the annual fee to be paid for use of the public rights-of-way should be applied to each and every telecommunications service provider that makes use of facilities located on public property. Sprint, along with several other providers that intervened in the proceeding, argued the plain language of the METRO Act indicates that such fees can only be assessed on owned facilities, and not on those being leased from some other entity. On October 10, 2006, a PFD was issued agreeing with those providers and recommending that the Commission overturn Determination No. 5. The Commission's final order adopted the PFD, concluding that telecommunications providers who lease facilities in municipal rights-of-way are not subject to the METRO Act's annual maintenance fee, and that only the owner of the facilities should be assessed.

Website Activity **(michigan.gov/mpsc)**

The Commission website continued to see strong growth in its use with approximately 1.9 million visitor sessions, a growth of 11 percent over 2005. A visitor session is when an individual comes to the site and actively views different pages without more than a 5 minute pause in their activity. The e-mail notification subscriptions available on the website for notices of Press Releases, meeting schedules and agendas, notices of hearing and opportunities to comment continue to be heavily used with a total of about 7,000 current subscribers.

The electronic case filing system also saw substantial growth in use. Visitor sessions grew to 668,000, a 93 percent increase over 2005. Much of this growth can be attributed to the electronic case filing program, which completed its phased conversion to allow most cases to be filed as paperless electronic filings. In 2006, over 6,000 documents were electronically filed with the Commission.

New Developments on the Commission Website

Commission meetings became available via podcast for individuals unable to attend in person.

The electronic case filing program underwent a complete overhaul and update in October 2006. Both the design and the underlying system were updated to better prepare us for future expansion and integration with case docket information. The new site is now known as E-Dockets (michigan.gov/mpsc-edockets).

The Commission developed a Be SummerWise website to aid Michigan citizens in efforts to reduce summer utility bills. This website is only available to customers during the summer months.

Commission Website Marks its 10th Year of Operations

2006 marked the 10 year anniversary of the establishment of the Commission website. This was among the first websites in state government and was a natural evolution from the Commission's award winning electronic bulletin board system that was established in 1986 and operated through 1996.

The website began as a tool to disseminate Commission information, such as orders, press releases, meeting schedules, hearing notices, studies and reports. Over the years, the Commission has strived to embrace appropriate technology and expanded its online services to include publicly available wireless Internet access in its hearing rooms to allow access to the electronic case filings dockets, online complaint filing, email subscription lists, electronic document filing, and podcasts of Commission meetings.