

**MICHIGAN PUBLIC SERVICE COMMISSION
2001 ANNUAL REPORT**

**Laura Chappelle, Chairman
David S. Svanda, Commissioner
Robert B. Nelson, Commissioner**

Michigan Department of Consumer & Industry Services

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State of Michigan
John Engler, Governor

Department of Consumer & Industry Services
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Commissioners
Laura Chappelle
David A. Svanda
Robert B. Nelson

March 2002

Honorable John Engler
Governor of Michigan

Honorable Members of the Senate

Honorable Members of the House of Representatives

It is our distinct pleasure to submit to you, in accordance with MCL 460.5a, the Michigan Public Service Commission 2001 Annual Report. The report provides an overview of the major events that have taken place in each respective utility sector and an update on the status of competition. Special care has been taken throughout the year to ensure that Michigan consumers receive quality service, fair prices, and protection from unlawful market practices.

The telecommunications market has continued to develop with the addition of local and long distance carriers and implementation of amendments to the Michigan Telecommunications Act (MTA). During the year, the Commission granted or amended 44 local telephone service licenses and registered 86 first time intrastate telecommunications providers. Telecommunications providers with more than 250,000 customers implemented adjacent local calling areas in accordance with the amended MTA, as of October 31, 2001. The Commission approved two arbitrated interconnection agreements and 62 negotiated interconnection contracts.

Area code relief was another important telecommunications issue for Michigan residents. We ordered relief plans for six Michigan area codes. Area code relief efforts were supplemented in 2001 with number resource optimization efforts. Trials to allocate smaller blocks of numbers and reclamation of unused numbers are being used to reduce the need for area code relief in the future.

The Commission has completed many steps in 2001 to prepare Michigan for electric competition in compliance with 2000 PA 141. To date, a total of 15 alternative electric suppliers have been licensed. Orders were issued that: defined a code of conduct for the regulated utilities and alternative electric suppliers (AES), established rules and fines for slamming and cramming, determined disclosure requirements for all electric

providers, and provided a structure for the customer education program. The Commission also played an integral part in the development of the Midwest Independent System Operator (MISO) Regional Transmission Operator (RTO), which will enhance electric transmission reliability.

To assist Michigan residents in the transition to market competition, the CHOICE Advisory Council is developing a program to educate consumers on electric choice. The program design will keep pace with actual market development by reaching out to customers and suppliers simultaneously to foster fair implementation of competition.

The natural gas industry has also continued to expand market competition. Voluntary customer choice pilot programs now include more customers and the standards of interaction between gas suppliers and transmission companies have been further defined. During some or all of 2001, many Michigan gas customers continued to benefit from the rate freeze previously ordered by the Commission in conjunction with the expanded gas customer pilot programs, shielding them from price spikes that occurred during the year. Permanent programs that will allow all customers to choose their supplier are underway. An expanded network of pipelines to transport gas and additional permits for gas production are evidence of growth in the industry. Commission staff continued to diligently inspect and certify state pipelines to ensure safe operation.

The Licensing and Enforcement Division has increased safety requirements for transportation of hazardous materials statewide. Closer scrutiny of applications and tightened restrictions have been implemented to protect Michigan residents from accidents involving hazardous waste.

The Commission has continued to expand and enhance its website and made use of new technology to serve the public, industry, and others more efficiently. Additional information is available to consumers on a variety of topics and the format makes locating information quick and easy. The Electronic Case Filing system (E-filings) has been further developed and utility companies are filing an increasing number of cases electronically. With the goal of eventually eliminating the paper filing system, experienced security analysts evaluated the E-filings system and we have approved full-scale implementation on a phase-in basis.

Grant proposals were requested for distribution of monies in the Low-Income and Energy Efficiency Fund, made available through securitization efforts specified in PA 141. Nine proposals were received in January 2002 for the initial portion of the grant to assist low-income residents in the state meet their winter energy needs. The Commission is expected to announce grantees during the first quarter of 2002. RFPs will be issued for energy efficiency activities in February 2002.

As the nation further evolves to restructured energy markets, the Commission will continue to take actions that encourage market development and provide a fair climate for Michigan utility customers.

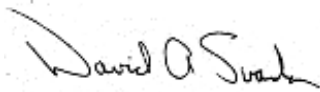
We appreciate your continued support and look forward to working with you on future matters vital to Michigan residents' peace of mind.

Sincerely,

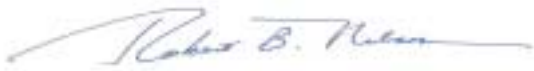
MICHIGAN PUBLIC SERVICE COMMISSION

A handwritten signature in cursive script that reads "Laura Chappelle".

Laura Chappelle, Chairman

A handwritten signature in cursive script that reads "David A. Svanda".

David A. Svanda, Commissioner

A handwritten signature in cursive script that reads "Robert B. Nelson".

Robert B. Nelson, Commissioner

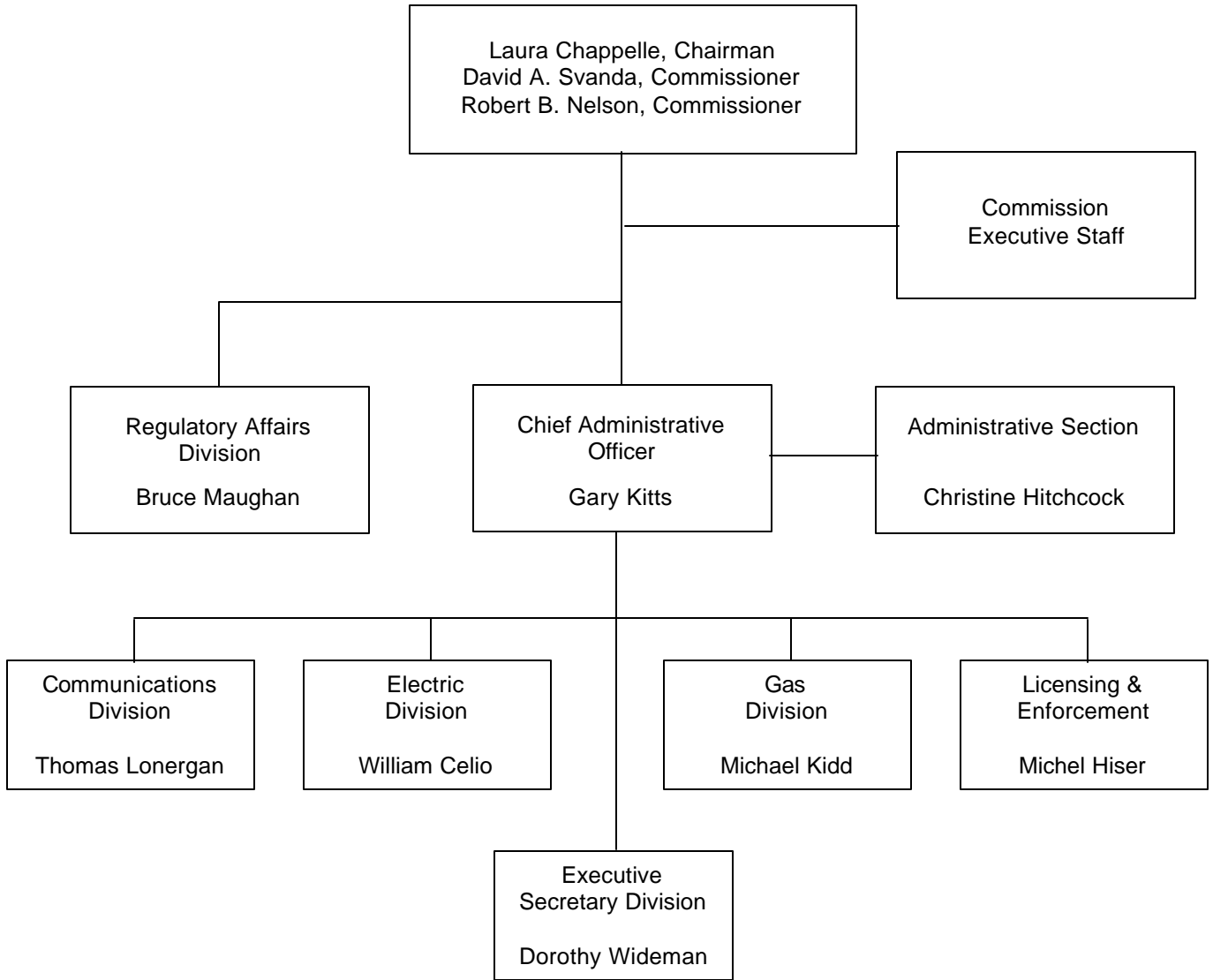
Mission and Goals

The *mission* of the Michigan Public Service Commission is to formulate and administer policies and regulations necessary to ensure that regulated energy, communication, and transportation services are provided in an efficient, reliable and safe manner sufficient to adequately meet the needs of Michigan citizens. The mission includes supporting a healthy economy and coordinating the state's policy, planning, and program activities related to energy, communication and transportation services.

The *goals* of the Commission are to:

- Encourage the efficient production, distribution, and utilization of the state's energy and regulated communication and transportation services;
- Ensure a supply of regulated services of dependable quality at reasonable rates adequate to meet public need and maintain a healthy state economy;
- Ensure that the regulated services are provided in a safe and efficient manner;
- Ensure that responsive action is directed toward recognized concerns of Michigan ratepayers;
- Minimize hardship and economic disruption in times of service reduction or energy curtailment;
- Provide a fair and efficient ratemaking process that accurately identifies revenues needed to provide regulated services, balances cost to consumers, and ensures adequate supply, reliability and safety.
- Provide for reduced regulation and increased reliance upon market forces where competition is sufficient to protect the public interest; and
- Provide regulatory oversight in the most prudent and expedient manner, while adhering to state constitutional and statutory requirements.

Organizational Chart



The Commissioners

The Michigan Public Service Commission is composed of three members appointed by the Governor with the advice and consent of the Senate. Commissioners are appointed to serve staggered six-year terms. No more than two Commissioners may represent the same political party. One commissioner is designated as chairman by the Governor.



Laura Chappelle Chairman

Laura Chappelle was appointed by Governor John Engler to serve as Chairman of the Michigan Public Service Commission beginning January 16, 2001. She was subsequently appointed to a term ending July 2, 2007.

Prior to her appointment to the Commission, Ms. Chappelle served as Deputy Legal Counsel for Governor Engler and was his Regulatory Affairs Coordinator. She also served as Regulatory Affairs Advisor to the House Republicans, attorney for former House Speaker Paul Hillegonds, legislative aide for Senator William Van Regenmorter, and as an Assistant Prosecuting Attorney with the Saginaw County Prosecutor's Office.

Ms. Chappelle was an adjunct faculty member at Lansing Community College and Michigan State University. She holds a B.A. from the University of Michigan (1985) and a J.D. from Thomas Cooley Law School (1988).

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David A. Svanda Commissioner



David A. Svanda was originally appointed by Governor John Engler to the Michigan Public Service Commission in December 1995, and has been reappointed to a term that expires in 2003.

Mr. Svanda is a member of the Federal Communications Commission's Local and State Government Advisory Committee. He is past president of the 15-state Mid-American Regulatory Conference (MARC) and is very active with the National Association of Regulatory Utility Commissioners. He is the elected First Vice-President of NARUC, where he is also a member of the Executive Committee, and member of the Board of Directors. Mr. Svanda is also former chairman of the Mentoring and New Member Services Committee and the Finance and Technology Committee.

Mr. Svanda served as Director of Administrative Services for Governor Engler from December 1994 until December 1995. In 1994, he was a candidate for the United States House of Representatives in Michigan's First District. From 1991 to 1994, he was the Northern Michigan Representative for Governor Engler, representing him in 28 of the state's 83 counties. From 1980 to 1991, Mr. Svanda was the City Manager for Marquette, Michigan. He has served on many national, state, regional and local boards.

Mr. Svanda is an advisor to the MSU Institute of Public Utilities and the National Regulatory Research Institute. In addition, he is a frequent speaker on energy and telecommunication matters before Congress, administrative agencies, and programs sponsored by such respected entities as the Competitive Policy Institute, the Aspen Institute, and the University of California, Berkeley.

Mr. Svanda has a B.A. in Political Science/Urban Affairs from Western Illinois University (1972), and a Master's of Public Administration from Maxwell Graduate School at Syracuse University (1973).



Robert B. Nelson Commissioner

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

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

Mr. Nelson is a member of the North American Numbering Council, an advisory committee to the FCC on numbering issues. He previously served as chairman of the Administrative Law Section of the Michigan Bar Association. He has also served as Chairman of the East Lansing Cable and Telecommunications Commission.

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

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Communications Division

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Tom LonerganDirector

The Communications Division is responsible for providing the Commission with technical assistance and policy recommendations on communications issues in Michigan. The primary activities of the division focus on administration of 1991 PA 179, as amended, known as the Michigan Telecommunications Act (MTA).

Expansion of Local Calling Areas

In February 2001, the Commission issued an order to resolve concerns regarding the implementation of expanded local calling areas (i.e., defining adjacent areas, implementation schedule, and interconnection issues). In May 2001, the Commission ordered implementation, no later than October 31, 2001, of intraLATA expanded local calling areas and implementation, no later than August 31, 2002, of interLATA expanded local calling areas.

Ameritech Michigan and Verizon completed intraLATA expansion of local calling by October 31, 2001. Ameritech submitted a petition to the Federal Communications Commission (FCC) requesting permission to expand local calling across LATA boundaries. This petition is awaiting FCC action. Providers with less than 250,000 customers in Michigan are not required by law to provide expanded local calling areas.

Local Telephone Competition

The Commission granted licenses and/or approved amendments of existing licenses to 44 telephone companies in 2001. The Commission has licensed a total of 172 competitive local exchange carriers since 1999.

FCC Requirements of Incumbent Carriers

Section 271 of the Federal Telecommunications Act (FTA) requires former Regional Bell Operating Companies (RBOCs) to obtain approval from the FCC to offer interLATA and interstate long distance telephone service. The FCC must consult with the state public utility commissions and has come to rely heavily on their recommendations. The RBOCs have received Section 271 approval in the following states:

SBC - Arkansas, Kansas, Missouri, Oklahoma, Texas
Verizon - Connecticut, Massachusetts, New York, Pennsylvania
Bell South - none
Qwest - none
Ameritech - none

Ameritech filed initial documents with the FCC purporting to demonstrate compliance with the 14 criteria set forth in Section 271. A consulting firm has conducted comprehensive state-required tests of the support services that Ameritech provides to competitors that interconnect with its network. In addition, a set of performance measures have been developed and a remedy plan approved that requires payments of penalties to competitors and states for inadequate performance. The Commission will not issue a determination to the FCC until the support services testing are completed and further input is received from staff and competitors. In the Ameritech region of the SBC (Michigan, Ohio, Wisconsin, Illinois, Indiana), the Commission is several months ahead of other states in Section 271 proceedings and testing.

Intrastate Telecommunications Service Provider Program

The Commission registered 86 first-time telecommunications providers in 2001, increasing the total number of companies registered in the Intrastate Telecommunications Service Provider database to 629.

Staff also developed and implemented an online registration system to expedite the process of bringing additional competitors into the market. Improvements include the elimination of a cumbersome password process in favor of a simpler, user-friendly method, redesign of the registration form, and the addition of a frequently asked questions (FAQs) section.

Commission Website

The Commission website is a significant information resource for both customers and providers. Staff added three new sections: Ameritech InterLATA s271, Area Codes and Right-of-Way, to the Communications Division homepage. Staff also added the Michigan Exchange Carrier Association (MECA) access tariffs to the tariff area, and the Local Calling Area and Broadband Internet Access pages to the Reports and Studies area.

Local Rights-of-Way Issues

In January 2001, Metromedia Fiber Network (MFN) filed a complaint against the city of Dearborn, Michigan alleging that the city failed to grant or deny access to the public rights-of-way within 90 days as required by the MTA. After hearings on the matter, the Commission found that the city of Dearborn had violated certain provisions of the MTA and ordered fines and other remedies.

As complaints on this issue increased, the Commission directed staff to convene a collaborative process with telecommunication services providers, local governments, and other interested persons to facilitate implementation of the MTA. This process ended in August 2001. A major accomplishment was the development of "model" permits and

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applications that municipalities and providers may use when seeking to secure access to and use of public rights-of-way in Michigan.

Mediations and Arbitrations

The FTA permits resolution of interconnection issues between incumbent basic local exchange providers and competing providers by negotiation, mediation or arbitration. Interconnection allows customers of competing local exchange providers to place calls to and receive calls from customers of other local exchange providers. The Commission approved two arbitrated interconnection agreements and 62 negotiated interconnection contracts in 2001.

Area Code Relief

The Commission concluded public hearings on area code relief plans filed by the North American Numbering Plan Administrator (NANPA) on behalf of the Michigan telecommunications industry. Due to the forecasted demand for telephone numbers, the 517, 810, 248, 734, and 616 area codes were placed in “jeopardy” status by NANPA, and the industry determined rationing levels to prevent the complete exhaust of telephone numbers before area code relief could be implemented.

Implementation of the Commission-ordered geographic split for the 517-area code began in October 2001 with permissive dialing of the new 989-area code. The approved 810-relief plan also resulted in a geographic split, forming the new 586-area code. Permissive dialing for the 810 and 586-relief plan began September 22, 2001, with mandatory dialing to begin March 23, 2002. The Commission ordered relief plans for the 248, 616, 313, and 734 area codes in 2001. Implementation of the 248 and 616-relief plans are scheduled to begin in 2002, while implementation dates for the 313 and 734 relief plans have yet to be determined.

Numbering Resource Optimization Efforts

The Commission submitted comments to the FCC regarding area code relief and number optimization efforts on five occasions in 2001 on topics ranging from technology-specific overlays for area code relief to the national thousands-block telephone number pooling schedule.

The North American Numbering Council (NANC) oversees the NANPA and advises on national numbering resource planning issues. Commissioner Robert Nelson represents the Commission on the NANC.

Number Reclamation: The FCC delegated authority to the Commission for reclaiming Central Office codes (blocks of 10,000 telephone numbers) from carriers who had been unable to activate these Central Office codes in a timely manner. Working with the NANPA, the Commission has been

able to reclaim 30 percent of the delinquent Central Office codes for reassignment.

Number Pooling: Historically, telephone numbers have been allocated to carriers in blocks of 10,000 (commonly called CO codes). On January 26, 2001, the Commission requested delegated authority from the FCC to begin number pooling trials in Michigan to recapture and reallocate telephone numbers in blocks of 1,000, which provides a much more efficient use of numbering resources. On August 24, 2001, the FCC granted delegated authority to the Commission, and on October 10, 2001, the Commission ordered thousands-block number pooling trials in the 313 and 734 area codes. These number pooling trials will be transitioned to the national number pooling effort within the next year. Number pooling should reduce the need for area code relief in the future.

"We are pleased to have number pooling as another tool to help us minimize the need for future area code splits and overlays in Michigan."

**Robert Nelson
Commissioner**

Service Quality

Staff processed 19,875 customer contacts regarding telecommunications service quality issues in Michigan. Staff also coordinated 129 formal complaints against providers, an increase of 74 percent from 2000.

Significant delays in companies completing repairs and other service issues, coupled with the escalating number of customers affected, prompted the Commission to open a contested case to establish enhanced standards and enforcement provisions for telephone service quality. Work continues on the proposed administrative rules, which have undergone several modifications. Final adoption of the standards is expected in 2002.

Illegal Telephone Service Switches (Slamming)

The Commission issued orders assessing fines in formal complaint cases filed against providers after finding that customers had been slammed (switched to another provider without the customer's consent). Many of these complaints were a result of false and/or misleading telemarketing regarding company services. Some providers settled formal complaints by making substantial cash awards to customers prior to the issuance of a Commission order in formal complaint cases. Customers filed 49 formal and 2,369 informal slamming complaints during 2001, a 1,972 increase from 2000.

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Billing Problems

While billing problems represent the highest portion of customer complaints, identity theft or fraudulent accounts established in customers' names were also important issues in 2001.

Payphone and Operator Service Providers

Staff registered 123 payphone providers and 55 operator service providers in 2001, while customers made nearly 40,000 calls to the Commission on its designated toll-free telephone number to report out-of-service payphones. Staff subsequently notified the appropriate payphone service providers of the reported problems. ♦

The Electric Division provides the Commission with technical assistance, recommendations and options on electric services and issues facing the state of Michigan to strengthen its competitive environment and to ensure that electric service is provided in a safe, reliable and efficient manner. The restructuring of the electric industry has led to the development of programs and approaches designed to introduce competitive market concepts to utility regulation.

Commission Orders

The Commission issued 117 orders related to electric utility matters, including 24 power supply cost recovery (PSCR) plans and reconciliation cases, eight tariff changes, three rate cases, and 28 orders to further establish the framework for Michigan’s Retail Open Access program and implement the provisions of PA 141.

Rate Increases and Decreases

The division coordinated 11 PSCR plan and reconciliation cases and processed five Times Interest Earned Ratio and earnings reviews. Staff completed bill comparisons and tariff studies and processed eight applications for tariff changes, three rate cases, and two special contract applications.

Staff continued to monitor and evaluate quality of service, system performance, and maintenance programs, and review and investigate stray voltage issues and line extension disputes. Staff addressed numerous public inquiries on electric restructuring, electric company generation resource capacity plans, service reliability and outages. Service Quality staff handled more than 4,600 customer contacts, responding to issues that included tree trimming, estimated electric bills, power outages, quality of electric service and bill payment assistance.

Electric Industry Restructuring

The Commission continued to prepare the state for competition in the electric industry. The Center for the Advancement of Energy Markets (CAEM) administers a Retail Energy Deregulation (RED) Index to monitor the progress of energy restructuring nationwide. Each state is scored on over 20 different market attributes on a scale of zero to 100 points. The RED Index score for the state of Michigan increased by 28 points in 2001. Only six states had higher increases.

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Throughout the year, the Commission addressed issues including those below related to implementation of PA 141.

Open Access

- Seven investor-owned utilities (IOU) and six cooperatives established, filed, and obtained Commission approval on open access tariffs. Effective January 1, 2002, all customers of the IOU and large (1 megawatt (MW) or more) customers of the cooperatives have the opportunity to choose their electric supplier.

Code of Conduct

- Michigan’s electric markets now have a Commission-adopted code of conduct. The code covers both regulated electric utilities and alternative electric suppliers, addresses the relationships between a utility’s regulated and unregulated services, and includes measures to prevent cross-subsidization, information sharing, and preferential treatment.

Standards

- The Commission adopted standards 1) to protect electric customers against “slamming and cramming” (a switch to another supplier without a customer’s consent or receipt of bills for unsolicited and/or unwanted goods and services); and 2) for information that must be disclosed to electric customers to ensure fair competition.
- Ten service quality and reliability standards were established for Michigan electric distribution companies. The standards cover such things as service outages, repair and maintenance, response to service requests, operational reliability, and public and worker safety. The Commission initiated a rulemaking proceeding to promulgate the standards as administrative rules. Regulated utilities were directed to begin collecting and submitting data regarding their performance with respect to the proposed standards.

Reliability

- Generation and transmission capacity operating procedures were reviewed to assure reliability for peak summer usage. Despite record peak loads being set several times during the hottest days of 2001, Michigan utilities experienced no supply shortages or activations of emergency procedures.

"We've approved simple, concise guidelines to help promote a robust market while providing significant penalties to discourage slamming and cramming."

Laura Chappelle
Chairman

Education Program

- A statewide customer and supplier education program was approved and will be implemented when market conditions allow more choice for customers. The program will help customers understand new electric choices available to them and how to be informed electric consumers. A similar education program for suppliers is under development.

Low-Income and Energy Efficiency Fund

- Grant proposals were requested for distribution of monies in the Low-Income and Energy Efficiency Fund, made available through securitization efforts specified in PA 141. The funds disbursement will fall into three broad categories: energy assistance for low-income households, conservation and efficiency measures targeted toward reducing the usage and bills of low-income households, and the development of energy efficiency programs that benefit all customer classes. We project that approximately 75 percent of the fund will be allocated to the low-income energy assistance and conservation and energy efficiency programs for low-income households and approximately 25 percent for energy efficiency programs for all customer classes. The initial set of grants will assist low-income families in the state to meet their energy needs this winter. Nine proposals were submitted to the Commission for this purpose in January 2002, and we expect to award the first set of grants shortly. Requests for proposals will be issued for energy efficiency programs for all customer classes in February 2002 and for low-income conservation and energy efficiency programs in April 2002.

Stranded Costs

- Methodology was established for calculating net stranded costs, and, as a result of applying that methodology, stranded cost transition charges for 2002 were set at zero. The Commission will review the stranded costs for Detroit Edison and Consumers Energy on a yearly basis. The reviews will recognize the existing level of retail open access participation and the level of cost recovery experienced.

Distributed Generation Rider

- Detroit Edison received approval for a new Distributed Generation Rider that will facilitate the ability of customers to install small, on-site generators (up to 100 kilowatts) and to interconnect and exchange power with the utility.

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Green Power Program

- Consumers Energy received Commission approval to implement a new Green Power Pilot Program. It provides customers an option to purchase all or a portion of their energy from new, in-state, zero-emissions generators. The first two large wind generators (0.9 MW each) were installed in early December 2001 and customers have already subscribed to purchase the entire output.

These changes made Michigan an especially attractive location for energy competitors. In the 18 months since the passage of PA 141, construction has begun on almost 6,000 MW of new generating plants by companies not affiliated with any Michigan utility. Construction by affiliates of Michigan utilities during this same period was less than 1000 MW.

Generating Plant Additions

In 2001, 970 MW of generating capacity was completed in Michigan. Though there is no requirement that new power plant construction be reported to the Commission, commissioners and staff have knowledge of 13,945 MW of new generation at some stage of development, 3645 MW of which is currently under construction in the state.

Federal Activities

Regional electric wholesale markets in the United States were exceptionally active during the 12-month period ending December 2001. Key Midwest market issues centered on the development of a standardized rate that would be available to transmission customers across a broad geographic region. In response to urging from numerous parties, including the active involvement of the Commission, on December 19, 2001, the Federal Energy Regulatory Commission (FERC) issued a series of orders which elevated the Midwest Independent System Operator (MISO) to a Regional Transmission Organization (RTO) status, and directed non-participating companies to explore options for moving forward under the auspices of the newly-approved MISO RTO. Michigan's IOUs are required either to join a FERC-approved multi-state RTO or divest their transmission assets. Both Consumers Energy and Detroit Edison spun-off their transmission assets into separate affiliates and are now in the process of selling their transmission businesses to unaffiliated companies. All affected Michigan utilities are moving forward to complete the required restructuring of transmission markets. ♦

The Gas Division offers technical support to the Commission on the production, purchase and delivery of natural gas in Michigan. This support helps to ensure that regulated natural gas services are safe, reliable and efficient and enhance Michigan's economic environment.

There are 12 regulated natural gas companies in Michigan: Aurora Gas Company, Citizens Gas Fuel Company, Presque Isle Gas & Electric Cooperative, Consumers Energy Company, Michigan Consolidated Gas Company (MichCon), now a DTE Energy company, Michigan Gas Utilities (MGU), Xcel Energy, formerly Northern States Power-Wisconsin, Peninsular Gas Company, Peoples' Natural Gas Company, SEMCO Energy Gas Company (SEMCO), Wisconsin Public Service Corporation, and Superior Energy Company. The Commission regulates some aspects of the natural gas business, excluding rates, for Aurora, Citizens, Presque Isle, Superior, and the Battle Creek Division of SEMCO.

2001 Gas Costs

About 95 percent of the gas customers that purchased gas from Consumers Energy, MichCon and SEMCO had frozen gas commodity rates during the first quarter of 2001. These rates were approximately one-third less than the market rates for gas during the same period, saving customers hundreds of millions of dollars in gas costs. The rates were frozen as part of a three-year price freeze that included expanded gas customer choice pilot programs. Consumers Energy's frozen rates expired on April 1, 2001, MichCon and SEMCO rates were frozen throughout 2001 and SEMCO's rate freeze expires on March 31, 2002.

Rate Cases

On June 30, 2001, Consumers Energy filed an application seeking authority to increase its rates by \$140 million for the transportation, storage, and distribution of natural gas, and a motion for partial and immediate rate relief for an annual increase of \$34.5 million. The Commission approved a \$15.4 million interim gas rate increase for Consumers Energy on December 20, 2001. A final Commission order is expected in 2002 following the completion of the rate case proceeding.

Gas Customer Choice

Permanent Gas Customer Choice Programs

The Commission advanced natural gas customer choice in Michigan by establishing uniform terms and conditions for voluntary natural gas customer choice programs for mid-sized gas utility companies in Michigan. MichCon obtained approval for its permanent gas customer choice tariff

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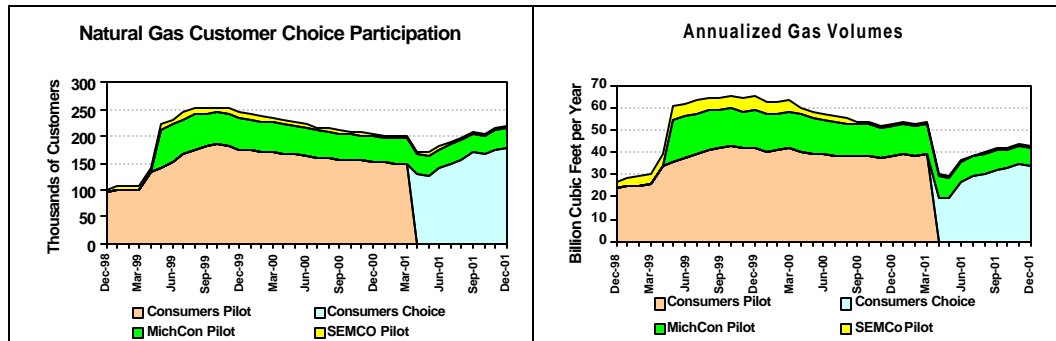
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provisions. Existing pilot program tariffs will expire on March 31, 2002. All of MichCon's gas customers will be able to choose an alternative gas supplier subject to annual enrollment caps until April 1, 2004, when all customers will be eligible to participate. MGU filed an application, on December 19, 2001, for authority to implement a gas utility customer choice program that, if approved, will provide choice to all of its customers beginning June 1, 2002. Both MichCon and MGU programs include utility transportation codes of conduct, residential customer protections, solicitation requirements, supplier code of conduct and registration, and procedures for complaints between suppliers and the company.

Other Gas Choice Activities

The Commission ordered each gas utility company to provide detailed and comprehensive unbundled gas cost of service allocation studies that interested persons may use to advocate or oppose unbundling in the utilities' next general rate cases. The companies are required to file an unbundled gas cost of service study prior to or with the filing of its next general rate case, but in no event later than January 1, 2005. Consumers Energy filed such a study in its pending rate case. The Commission also ordered staff to provide recommendations on low-income assistance programs and the customer choice education program.



Customer Choice Pilot Program Refunds

The Commission authorized Consumers Energy to refund \$4.9 million to its customers who paid market-based rates for their natural gas costs between November 2000 and March 2001 under Consumers Energy's experimental gas customer choice pilot. The company charged market-based rates to customers that participated in the choice pilot and then returned to sales service. The Commission found that the market-based rates, while properly charged by Consumers Energy, were significantly higher than anticipated when it approved the choice pilot in 1997. The refunds mitigate the effect of the market-based rates during the 2000-2001 heating season.

DTE Energy and MCN Energy Merger

MCN Energy (MCN) and DTE Energy (DTE) completed their merger on May 31, 2001, in which MichCon became an operating subsidiary of DTE.

To address Federal Trade Commission staff concerns, MichCon entered into a special contract granting Exelon Energy Company the right to use a portion of MichCon's transportation and storage facilities. The special contract, approved by the Commission on February 14, 2001, facilitated Exelon's market presence as a competitor selling integrated packages of gas services, on-site power generation technologies, and standby or supplemental power in the MichCon/Detroit Edison overlapping service territories.

Service Quality

Service Quality staff responded to customer complaints and inquiries on a variety of issues, including the merger of MCN and DTE, gas customer choice, high gas prices, billings, payment arrangements, disconnection of service, and deposits. Additionally, staff handled more than 5,000 customer complaints and inquiries in 2001, resulting in over 24,500 contacts with customers and utility companies. In addition to providing recommendations to the Commission on customer service, staff provided information to consumers, consumer groups and other organizations through presentations and individual customer interface via the Internet, telephone, fax, U.S. mail and face-to-face meetings.

Natural Gas Pipelines

Sixteen pipeline certificate orders were issued in 2001. The Commission issued these orders after staff made determinations that the proposed transmission pipelines were 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.

Wolverine Pipe Line Company filed a proposal on March 3, 2000, to install a 16-inch and 12-inch pipeline extending over 63 miles, starting near Jackson, Michigan, traversing Meridian Township in Ingham County, and ending at the LaPaugh pumping station located north of DeWitt. There was significant opposition to the portion of the pipeline that traversed Meridian Township. On February 5, 2001, Wolverine filed a motion to withdraw the most controversial portion of the pipeline and the Commission approved the motion on March 7, 2001. On December 6, 2001, Wolverine again filed a request to construct, operate, and maintain a pipeline in Ingham, Clinton, and Eaton Counties. The 26-mile pipeline would transport liquid petroleum products from a location on I-96 in the vicinity of Meridian Road in Ingham County to Marathon Ashland Petroleum's Lansing Terminal located in Clinton County. Wolverine held several "open houses" to provide information about the proposed pipeline and the Commission requested comments from the public. A Commission order is expected by fall of 2002.

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Natural Gas Production

Petroleum Engineering Section staff issues gas well connection permits. In 2001, they issued 379 permits; 366 were for gas wells in the Antrim formation. Total gas production in 2001 was approximately 230 billion cubic feet; Antrim gas wells provided 75 percent of the total.

Pipeline Safety

Certification of the gas safety program is required by the U.S. Department of Transportation. Certified Gas Division safety staff inspect and investigate incidents on natural gas transmission and distribution systems to ensure compliance with applicable pipeline safety standards. If operators do not meet specific pipeline safety standards (Michigan Gas Safety Standards and 49 CFR, Part 192), a notice of probable non-compliance is issued. In 2001, over 600 inspections were conducted and 27 notices issued. Gas safety inspectors also investigated 11 natural gas incidents.

On October 6, 2000, the Commission commenced a rulemaking proceeding to revise the Michigan Gas Safety Standards. The revision, known as The 18th Edition of the Michigan Gas Safety Standards, became effective March 21, 2001. ♦

The Licensing and Enforcement Division provides the Commission with technical assistance and policy recommendations on commercial motor carrier issues, primarily in connection with the administration of Michigan's motor carrier credentialing authority and related safety responsibilities. Additionally, it offers support on economic, financial, accounting and technology issues. The division is also responsible for administering the state's Alternative Electric Supplier Licensing program.

Certificates to New Motor Carriers

To conduct business in Michigan as a motor carrier, persons and/or companies must first obtain a motor carrier certificate from the Commission. Division staff issued 450 certificates to new motor carriers in 2001. To qualify for a certificate, the motor carrier must demonstrate compliance with applicable laws, administrative rules and safety regulations, and show proof of proper liability insurance.

Motor Carrier Applications

The Commission collected more than \$5 million in intrastate motor carrier fees. Staff processed 525 motor carrier applications, including 75 transfers, changes of name, discontinuances, and extensions, in addition to 450 certificates of authority. All applications were reviewed for compliance with applicable state and federal safety requirements. Further, staff issued 54,900 vehicle-specific decals, processed more than 5,534 insurance filings, and 3,260 insurance cancellation notices.

Single State Registration System for Interstate Carriers

Staff registered over 536,000 interstate vehicles and collected revenue in excess of \$2.4 million from interstate carriers conducting business in Michigan. Staff registered over 840,000 vehicles and collected \$5 million for other states from motor carriers claiming Michigan as their base state. Additionally, approximately 1,000 applications were processed for interstate motor carriers that exclusively haul commodities in Michigan and are exempt from Federal Highway Administration regulation, but are considered interstate carriers.

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Motor Carrier Safety and Compliance

The division investigated 78 complaints and intervened in 14 contested cases, successfully challenging grants of authority for carriers with forged medical cards, forged drug testing documentation, and other safety and licensing problems. Staff advised 395 carriers of insurance violations, 86 resulted in formal complaints against carriers for failure to maintain insurance. Staff advised 67 carriers of lease violations for failure to maintain leases on file and staff also advised one household goods carrier of tariff violations for failure to have tariffs on file and other tariff-related violations. The division completed more than 1,153 informational contacts with motor carriers about U. S. Department of Transportation (USDOT) and State of Michigan safety regulations, and conducted 484 safety reviews of new and transfer applications. Staff initiated 25 formal complaints against carriers who currently hold Commission authority and have been rated less than satisfactory by the USDOT. A less than satisfactory rating leads to questions about the carrier's ability to provide safe transportation services in compliance with the Michigan Motor Carrier Act. Staff met with each carrier and required proof that they had each taken steps to upgrade their safety rating to a satisfactory level.

“The Commission is deeply committed to working with other state agencies to ensure that hazardous materials are transported safely throughout the state.”

David Svanda
Commissioner

Motor Carrier Rates and Tariffs

Staff reviewed 51 tariffs filed by household goods motor carriers, conducted three compliance audits of moving companies, and intervened in the general rate case filed by the Michigan Movers and Warehousemen's Association. Their application sought approval of a 6 percent cost-of-living increase for its 190 members. The Commission approved a 3.2 percent increase.

Other Motor Carrier Activities

Staff chaired the Motor Carrier Advisory Board and participated as a member of the Michigan Highway Reciprocity Board. In a joint venture with the USDOT and the Michigan Departments of Transportation, State Police, Treasury and State, the division 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.

As a result of the events of September 11, 2001 and the nationwide terrorism investigation, the division has enhanced its screening procedures for all motor carrier applicants seeking intrastate authority to transport hazardous materials within Michigan. Applicant screening now includes criminal background and law enforcement checks with the

cooperation of the Departments of State, State Police and Consumer & Industry Services.

Electric Industry Restructuring

The division developed and implemented programs associated with Michigan's electric industry restructuring program. Staff prepared the Commission's market power report on the electric utility industry in Michigan's Upper Peninsula, as mandated by PA 141. It included an extensive description of the industry, various market power tests, and an assessment of transmission adequacy in the Upper Peninsula. Staff also reviewed and analyzed reports covering transactions between Michigan-regulated electric and gas utilities and their unregulated affiliates. These reports are used to monitor utility companies to assure that unregulated ventures of their affiliate companies are not subsidized. The division also supported the Commission's participation in the development of the MISO RTO by participating in numerous program development efforts covering the topic of market monitoring.

Alternative Electric Suppliers

Division staff worked with several applicants seeking licenses to sell electric generation service in Michigan as alternative electric suppliers. Two licenses were issued to applicants in 2001, bringing the total number of licensed alternative electric suppliers in Michigan to 12. Five applications were pending at year's end. By January 15, 2002, the Commission had licensed 15 alternative electric suppliers.

Financial and Accounting Support Services

Staff participated in two rate cases covering Michigan's household moving industry, prepared and submitted testimony covering rate of return in three rate cases, and reviewed one application by a utility to waive restrictions imposed by the Public Utilities Holding Company Act on non-utility investments. The division also conducted the annual public utility revenue assessment, managed the annual report filings of approximately 70 investor-owned and cooperative electric, natural gas, and gas pipeline companies, and provided the Commission with reports that highlighted the financial performance of Michigan utilities and the performance of non-utility and foreign utility investments made by Michigan utilities and their affiliated companies. In conjunction with the division's responsibility for auditing transactions between regulated utilities and their unregulated "sister" companies, staff completed one utility audit of affiliate transactions.

Staff continued to monitor the decommissioning of the Big Rock Point nuclear plant and restoration of the site. Also, staff completed an analysis of Indiana Michigan Power Company's (IM Power) nuclear power plant

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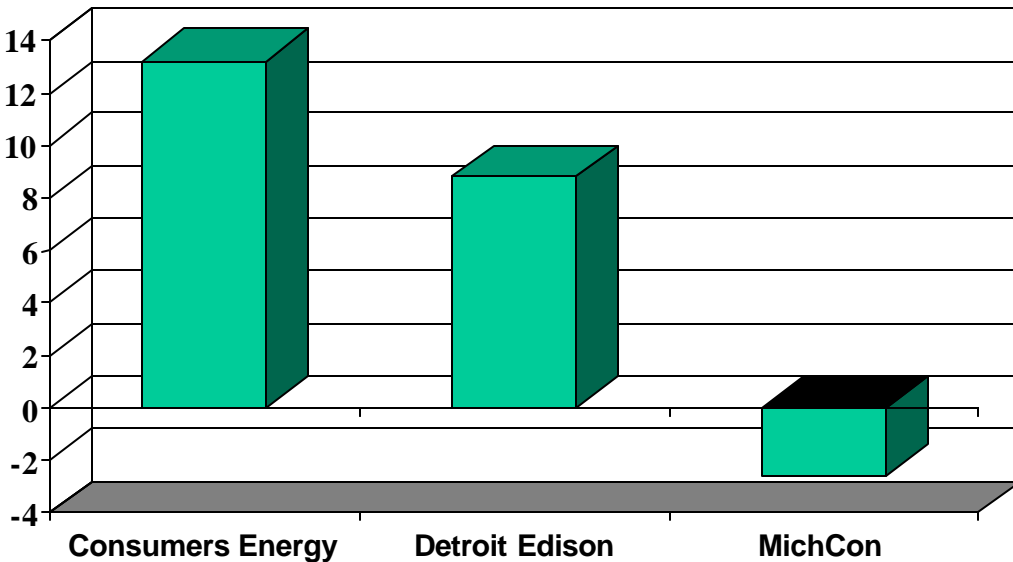
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decommissioning fund, pursuant to the company's required tri-annual funding report and to assure the adequacy of IM Power's nuclear decommissioning funds.

During 2001, staff continued to coordinate the Commission's energy partnership program with the Republic of Georgia. A delegation from the Republic of Georgia visited the Commission's offices and several Commission staff members traveled to the Republic of Georgia to assist that country's regulatory agency in understanding the regulatory process. ♦

**Earned Rate of Return Percentage on Common Equity
Major Michigan Utilities
(Twelve Months Ending September 30, 2001)**



The Executive Secretary Division is responsible for the distribution of official Commission documents and the maintenance and security of all official case records. In addition, the division provides consumer outreach and education on natural gas, electric, and telephone issues to Michigan utility customers and prepares economic, statistical, and energy forecasting support for the Commission.

Case Documents

Staff processed nearly 11,000 official pleadings filed with the Commission, distributed 185 notices of hearing, 20 notices of opportunity to comment, approximately 550 Commission orders, and other official documents to parties, subscribers and interested persons.

Electronic Filings

In February 2001, the division completed its evaluation of the Electronic Case Filings Pilot Program and made recommendations to the Commission for future development. Electronic Case Filings (E-filings) allow Commission staff, utility companies, and case participants to submit pleadings and other documents to the Commission using a web-based system and a Portable Document Format (PDF) file standard. Currently, only selected cases may be filed electronically, though the Commission supports a plan to phase in electronic filing of all cases. During the year:

- 105 cases were filed electronically: 63 electric, 36 gas, and 6 communications.
- Utilities, interveners, Commission staff, administrative law judges, the Department of Attorney General, customers, and court reporters electronically filed over 3,600 documents.
- 126,000 PDF files were downloaded from the Commission website.

E-filings contribute to a more efficient case management system. Paper only versions of filings made to the Commission require filers to submit an original and 15 copies of each document. The 3,600 documents electronically filed in 2001 eliminated the reproduction of at least 39,600 copies of documents totaling over a half million pages. Additionally, parties and the public now have 24-hour access to case documents, and a keyword search to quickly find references to specific facts or issues.

To prepare for full-scale implementation of E-filings, outside security experts conducted an exhaustive security and reliability study of the E-

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filings system. The Commission's system was found to be reliable and secure. Additional system changes have been made to further enhance the E-filings system. These efforts have been conducted in coordination with the E-Michigan Office.

Website Management

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Division staff continued its role in the overall management of the Commission website, including design, new developments, day-to-day operations, and coordination between Commission division web editors and the department's web development team. Staff also maintained a significant amount of the Commission's website content, including Commission meeting minutes, press releases, daily and weekly listings of documents and cases filed, notices of hearing and opportunity to comment, brochures, consumer alerts, and customer complaints and inquiries. In 2001, electronic reporting of oil and gas well production data, which automatically transfers data to the Gas Division and the Department of Environmental Quality, was implemented.

Consumer Education and Information

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The division, with assistance from other Commission staff and the CHOICE Advisory Council, developed and obtained Commission approval of the Statewide Customer Education Program Proposal for Michigan Energy Choice in response to PA 141. On July 25, 2001, the Commission approved recommendations for a subcommittee to oversee the education program, and ordered natural gas utilities to advise the Commission whether they would participate voluntarily in the program. On October 11, 2001, the Commission approved the education program for electricity only, noting that several natural gas companies conditioned their participation in ways that could not be met within the statutory timeframe for implementation of the education program. The Commission also noted that the market was developing more slowly than initially anticipated thus, the mass media initiatives should be delayed until more choices are offered in the market. The Commission directed the Council to monitor the market and revise the timeline as necessary.

The Commission approved mechanisms to administer the state's Low-Income and Energy Efficiency (LI&EE) Fund. Seventy-five percent of the fund will be allocated for low-income energy assistance and twenty-five percent to energy efficiency program. Nine organizations that provide energy assistance to low-income customers submitted proposals for grants in response to the Commission's solicitation for proposals. The Commission is expected to announce grantees during the first quarter of 2002 for the current heating season. Requests for proposals will be issued for the energy efficiency portion of the fund in February 2002.

During 2001, staff also developed nine issue-specific Consumer Alerts and distributed approximately 37,300 copies to radio and television stations, newspapers, libraries, statewide organizations, business associations, senior centers, state departments, human services offices, and consumers through the mail or by e-mail. Additionally, alerts were mailed weekly to customers that called the Commission requesting information on a particular topic. Consumer alert topics included the Home Heating Tax Credit, the Earned Income Credit, Lifeline Telephone Assistance Program, telephone services and costs, casual calling rates, computer-related telephone bills, blocking certain telephone features, the 2001 Consumer Forums, and wise use of electricity in the summer.

Staff distributed approximately 85,000 brochures to state and local agencies and community service organizations throughout the state, including 60,500 copies of "Home Heating Help," a publication describing energy assistance programs available to low-income customers. Additionally, meteorologists at television stations throughout the state were asked to announce the availability of the brochure "Surviving Electrical Power Outages." Most meteorologists either publicized the brochure during a broadcast or established a link to the brochure on their websites.

For the fourteenth year, staff planned and hosted statewide Consumer Forums, providing the public with an opportunity to meet the Commissioners and to discuss utility issues and concerns. In 2001, forums were held in Marquette, Redford Township, Warren, Battle Creek, and Gaylord. At each forum, the attending Commissioner discussed changes occurring in the telecommunications, natural gas, and electric industries. In October 2001, staff conducted a follow-up evaluation to assess the effectiveness of the forums. Of the responses returned, 95 percent of the customers and community organization representatives indicated that the forums were helpful and informative.

Staff prepared statistical analyses and monthly reports of utility customer complaints and issued monthly and annual reports of complaints and inquiries. Staff also obtained monthly summaries from utilities of customer assistance program participation. Staff monitors federal low-income assistance funds and regularly represents the Commission in the activities of various organizations and committees, providing information on consumer issues.

Energy and Statistical Analysis

As part of the Commission's responsibility for Michigan's energy emergency preparedness, staff continued publication of the *Michigan Energy Appraisal*. This publication addresses the adequacy of the state's electric, natural gas, gasoline, diesel fuel, and home heating oil supplies

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over the winter and summer months. Additionally, a number of special energy supply analyses were prepared.

Michigan gasoline prices spiked twice in 2001, in the spring due to unanticipated refinery shutdowns and problems with the changeover to summer grades of gasoline, and in August and September when supplies were very tight as a result of the August 2001 fire at the Citgo refinery in Lemont, Illinois. Staff analyzed and monitored the impact of this refinery outage, which affected 8.5 percent of the regional gasoline production.

The September 11 terrorist attacks also led to panic buying of gasoline that drove prices up. There were national and regional concerns regarding potential attacks on energy supply or pipeline facilities. Staff and the Emergency Management Division of the State Police conducted assessments and analyses and provided technical assistance to the Director of State Police and the Commission Chairman, which they in turn used to assure the public that gasoline supplies were adequate and the energy industry had taken steps to protect the state's energy infrastructure. Commission coordination with the State Police is well established under Michigan's energy emergency preparedness effort. For example, in May 2001, staff coordinated an interdepartmental energy emergency training exercise with the Emergency Management Division and several other state departments.

In December, staff from the Commission, Emergency Management Division of State Police, and Executive Office met with the U.S. Department of Energy and several other states to discuss critical energy infrastructure protection and identify federal resources that are available to states. A subsequent interagency meeting was held to identify additional actions the state could take presently, and in the future, to help the energy industry assure secure and reliable energy supplies in Michigan. These efforts involve protecting critical energy facilities, ensuring sufficient back-up capability, and maintaining readily available alternate supply methods.

Staff continued its residential heating oil and propane price survey in conjunction with the Energy Information Administration. The survey was conducted on a weekly basis during the winter. Record propane prices reached \$1.79 per gallon at the end of January 2001 before declining to \$1.35 by the end of March.

Staff assisted the Department of Environmental Quality (DEQ) in evaluating U.S. Environmental Protection Agency (EPA) electricity growth rate projections used to set NOx emission controls for Michigan. Staff critiqued the EPA method and growth rate and prepared an alternative growth rate that is supported by DEQ.

Staff provided input to the Commission related to the electric supplier disclosure requirements of PA 141. Topics included marketing materials, contracts, billing, and methods for calculating generation and emissions data.

Staff also continued tracking statistical measures of performance factors for Commission-wide activities. These measures are used to assess agency performance and for quality improvement plans.◆

Case Activity 2001

Cases Pending on January 1, 2001	204
Cases Opened	622
Industry:	
Telecommunications	408
Formal Complaints	159
Rate Cases	2
Electric	135
Formal Complaints.....	21
Rate Cases	3
Gas	77
Formal Complaints.....	7
Rate Cases	1
Electric and Gas.....	2
Cases Closed	600
Industry:	
Telecommunications	384
Electric	131
Gas.....	82
Electric and Gas.....	0
Cases Pending as of December 31, 2001	226
Utility Orders Issued	545
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Orders Appealed to Courts	9

Media and Public Information

Staff is responsible for coordinating communication and public information releases with the news media and information providers. There were 112 press releases resulting from Commission orders, programs, and activities. Press releases announced Commission action on a wide range of issues, including: retail open access tariffs for Detroit Edison and Consumers Energy; the methodology to calculate net stranded costs and setting 2002 transition charges; a rulemaking proceeding for electric distribution system service quality and reliability standards; an expanded natural gas customer choice program for MichCon; standards to protect electric customers from slamming and cramming; a strengthened screening process for transporting hazardous materials; implementation of number pooling in the 313 and 734 area codes; a collaborative process addressing public rights-of-way; interim telecommunications service quality standards; area code relief plans for 248, 616, 313 and 734 area codes; intraLATA expanded local calling; Detroit Edison's 5 percent rate reduction for commercial and industrial customers; Wolverine Pipe Line's application, as modified, for a liquid petroleum products pipeline system; and the Low-Income and Energy Efficiency Fund.

The dominant issues of interest to the media in 2001 were electric industry restructuring, electric capacity and merchant power plant development in Michigan, telecommunications service quality, area code relief and number resource optimization strategies, expanded adjacent local calling, natural gas and heating fuel supplies and costs, heating assistance options, natural gas customer choice programs, pipeline construction and operation, and enhanced security for energy supplies and telecommunications services. Staff provided information and assistance to 685 media contacts in 2001. ♦

Department of Consumer & Industry Services
Michigan Public Service Commission
State of Michigan



[Laura Chappelle](#)
Chairman

[David A. Svanda](#)
Commissioner

[Robert B. Nelson](#)
Commissioner

<http://cis.state.mi.us/mpsc>

During 2001, the Commission website received a total of 8.5 million hits, a 47 percent increase from year 2000 activity levels. On a typical workday, the website received over 2,000 visitors and the total number of visitors to the site in 2001 increased by 160 percent from the prior year.

An automated e-mail distribution list is available on the site for Commission meeting agendas, meeting minutes, press releases, notices of hearing and opportunity to comment, and Consumer Alerts. Over one million e-mail messages were sent in 2001 to 3,000 individual subscribers, up 1,600 from 1,400 in 2000.

The Electronic Case Filings System also grew substantially in 2001. A total of 135 cases have been electronically filed since 1999, including 82 electric, 47 gas, and 6 telecommunications. Case participants have electronically filed over 4,000 documents to the system and this has eliminated the need to reproduce 44,000 documents totaling over a half million pages. During the year, the E-filings System received 586,613 hits, an increase of 286 percent over 2000, and there were 31,519 visitor sessions, an increase of 181 percent. A total of 164,822 PDF files were downloaded from the electronic filing system last year, totaling 13 gigabytes of data.

An extensive evaluation of the E-filings Pilot Program was completed in early 2001. Based on the successful outcome of this evaluation, the Commission supports phase-in of electronic filings for all cases over the next few years. In preparation for full-scale availability, substantial hardware and software modifications were made to assure reliability, increase security, and further meet the needs of electronic filers. In addition, a new search capability was added, pages were redesigned, and the option to use electronic signatures for document submissions was made available.

The Commission continued to host, under a federal grant, the following websites: the Michigan Biomass Energy Program, Midwest Renewable Energy Association, and the Great Lakes Renewable Energy Association.



Michigan Department of
Consumer & Industry Services

“Serving Michigan...
Serving You”

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