

GAS RATE CASE U-20322*

On November 30, 2018, Consumers Energy filed an application with the Michigan Public Service Commission seeking an increase in its gas delivery and transportation rates of \$229 million based on a 12-month test year ending September 2020. The request seeks authority to recover new investment that will allow Consumers Energy to strengthen infrastructure and improve system capacity and deliverability. The filing also seeks approval of two rate adjustment mechanisms: an investment recovery mechanism and a revenue decoupling mechanism. On April 5, 2019, the MPSC Staff filed their position recommending a rate increase of \$146 million, which included a 9.65% ROE. The MPSC Staff did not support the Company's proposed IRM. The MPSC Staff supported the revenue decoupling mechanism. The variance between Consumers' filed position and the MPSC Staff's position is detailed below.

| <u>Item</u> | <u>Company</u> (MM) | <u>MPSC Staff</u> (MM) | <u>MPSC Staff</u> <u>B/(W)</u> (MM) | <u>Explanation of Variance</u> |
|-----------------------|----------------------------|----------------------------|---|---|
| 1. Investment | \$148 | \$139 | \$(9) | Contingency: \$(5), Vintage Service Replacements: \$(2), Gas Storage: \$(1), Information Technology: \$(1) |
| 2. O&M | 81 | 64 | (17) | Uncollectible Accounts: \$(4), Information Technology: \$(4), Customer Experience: \$(4), Incentive Compensation: \$(2), Benefits: \$(2), Transmission & Distribution: \$(1) |
| 3. Cost of Capital | 28 | (18) | (46) | ROE 9.65% vs. 10.75%: \$(41); Capital Structure & Debt Rates: \$(5) |
| 4. Gross Margin | (28) | (28) | (0) | Contract Revenue |
| 5. Subtotal | <u>\$229^(a)</u> | <u>157</u> | <u>\$(72)</u> | |
| 6. Federal Tax Reform | (11) | (11) | (0) | Amortization of Excess Deferred Tax (Calc. C) |
| 7. Total | <u>\$218</u> | <u>\$146^(b)</u> | <u>\$(72)^(b)</u> | |

| <u>Ratemaking</u> <u>Capital Structure %</u> | <u>Existing</u> <u>(U-18424)</u> | <u>Consumers</u> <u>Filing</u> | <u>MPSC</u> <u>Staff Filing</u> |
|---|-------------------------------------|-----------------------------------|------------------------------------|
| Long Term Debt | 36.79% | 37.95% | 38.28% |
| Short Term Debt | 1.12 | 0.81 | 0.82 |
| Preferred Stock | 0.23 | 0.20 | 0.20 |
| Common Equity | 40.91 ⁽¹⁾ | 42.18 ⁽²⁾ | 41.76 ⁽³⁾ |
| Deferred FIT | 20.34 | 18.24 | 18.31 |
| JDITC/Other | <u>0.61</u> | <u>0.62</u> | <u>0.63</u> |
| | <u>100%</u> | <u>100%</u> | <u>100%</u> |

| <u>Rate Base and</u> <u>Return Percentage</u> | <u>Existing</u> <u>(U-18424)</u> | <u>Consumers</u> <u>Filing</u> | <u>MPSC</u> <u>Staff Filing</u> |
|--|-------------------------------------|-----------------------------------|------------------------------------|
| Rate Base (billion) | \$5.24 | \$6.54 | \$6.46 |
| Return on Rate Base (%) | 5.86 | 6.26 | 5.73 |
| Return on Equity (%) | 10.00 | 10.75 | 9.65 |

^(a)Company position as filed.

^(b)Excludes New Power Generator Tariff contingent on outcome in separate docket, which assumes a \$13 MM deficiency in Staff's position.

⁽¹⁾Equivalent to 52.49% on financial basis.

⁽²⁾Equivalent to 52.50% on financial basis.

⁽³⁾Equivalent to 52.04% on financial basis.

GAS RATE CASE SCHEDULE

| | |
|-----------------------------------|---|
| Cross of All Witnesses | May 13-22, 2019 |
| Initial Briefs | June 7, 2019 |
| Reply Briefs | June 25, 2019 |
| Proposal for decision target date | August 1, 2019 |
| Commission order | Not later than Monday, September 30, 2019 |

*Gas Rate Case U-20322 can be accessed at the Michigan Public Service Commission's website.

<http://www.michigan.gov/mpsc>