

On May 26, 2011, the Michigan Public Service Commission (MPSC) approved a settlement agreement entered into by Consumers Energy and various intervenors to this case. The agreement reflects an increase to Consumers base gas rates of \$31 million annually with an authorized ROE of 10.5%. The settlement agreement does not resolve issues concerning the structure of the gas pilot revenue decoupling mechanism approved by the Commission in U-15986; however, the agreement proposes that the current decoupling mechanism will continue until the Commission addresses decoupling in a subsequent order. On, February 8, 2011 the Commission delayed Consumers planned self implementation of \$29 million. Overall, the settlement agreement increases customer rates 1.5% versus rates set in the last gas case (U-15986).

| Item | Company Self Imp. Plan (mils) | Settlement (mils) | Settlement B/(W) (mils) | Remarks |
|--------------------|--|----------------------|-------------------------------|--|
| 1. O&M | \$7 | \$2 | (\$5) | General reduction in O&M expenditures |
| 2. Gross Margin | 3 | 15 | 12 | Decreased sales (279 Bcf vs 283 Bcf): \$17 Higher misc. revenue: (\$5) |
| 3. Investment | 28 | 29 | 1 | |
| 4. Cost of Capital | <u>(9)</u> | <u>(15)</u> | <u>(6)</u> | Lower Return on Equity (10.5% vs. 10.55%): (\$1) Lower debt cost & capital structure: (\$5) |
| Total | <u>\$29</u> | <u>\$31</u> | <u>\$2</u> | |

| Ratemaking Capital Structure % | Existing (U-15986) | Consumers Filed | Settlement |
|-----------------------------------|-----------------------|----------------------|----------------------|
| Long Term Debt | 43.58% | 41.86% | 41.12% |
| Short Term Debt | 1.30 | 2.39 | 2.36 |
| Preferred Stock | 0.46 | 0.42 | 0.41 |
| Common Equity | 40.78 ⁽¹⁾ | 40.51 ⁽²⁾ | 40.10 ⁽³⁾ |
| Deferred FIT | 13.30 | 14.33 | 15.50 |
| JDITC/Other | 0.58 | 0.49 | 0.51 |
| | 100.00% | 100.00% | 100.00% |

| Rate Base and Return Percentage | Existing (U-15986) | Consumers Filed | Settlement |
|------------------------------------|-----------------------|--------------------|-----------------------|
| Rate Base (bils) | \$2.74 | \$2.90 | \$2.86 ⁽⁴⁾ |
| Return on Rate Base | 7.02% | 7.10% | 6.69% |
| Return on Equity | 10.55% | 11.00% | 10.50% |

⁽¹⁾Equivalent to 48.07% on a financial basis

⁽²⁾Equivalent to 48.93% on a financial basis

⁽³⁾Equivalent to 49.12% on a financial basis

⁽⁴⁾Implied

*Gas Rate Case U-16418 can be accessed at the Michigan Public Service Commission's website.

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