May 14, 2018

Ms. Kavita Kale
Executive Secretary
Michigan Public Service Commission
7109 West Saginaw Highway
Post Office Box 30221
Lansing, MI 48909

Re: MPSC Case No. U-20134 – In the matter of the application of CONSUMERS ENERGY COMPANY for authority to increase its rates for the generation and distribution of electricity and for other relief.

Dear Ms. Kale:

Enclosed for electronic filing in the above-captioned case, please find Consumers Energy Company’s Application, a Proposed Notice of Hearing, a Proposed Protective Order, and the Testimony and Exhibits of Consumers Energy Company’s Witnesses. Also included is a Proof of Service showing service upon the parties in Consumers Energy Company’s last two electric rate cases (Case Nos. U-17990 and U-18322). This case has been designated as a paperless case and is therefore being filed in PDF format.

In accordance with filing procedures adopted by the Michigan Public Service Commission in Case No. U-18238: (i) exhibits that were prepared in Microsoft Excel format are being filed in Excel format in addition to PDF format; (ii) tariff changes are being filed in Microsoft Word format in addition to PDF with changes shown in redline format; and (iii) economic models used to support the rate increase request will be provided to parties upon request in working Microsoft Excel version. Copies of the rate case filing are being provided to parties to Case Nos. U-17990 and U-18322 on electronic disks concurrently with this filing and will be made available on electronic disks to all requesting parties to this case. The public workpapers of Consumers Energy Company’s witnesses are being provided on electronic disks in PDF format to the Michigan Public Service Commission Staff and to other parties to Case Nos. U-17990 and U-18322, and will be provided to any parties to Case No. U-20134 who were not parties to Case Nos. U-17990 and U-18322.

Sincerely,

Bret A. Totoraitis

cc:  Mike Byrne, Executive Director, MPSC Staff
     Gary Kitts, MPSC Staff
     Bill Stosik, MPSC Staff
     Brian Ballinger, MPSC Staff
     Paul Proudfoot, MPSC Staff
     Bob Nichols, MPSC Staff
     Parties to Case Nos. U-17990 and U-18322
APPLICATION

Consumers Energy Company (“Consumers Energy” or the “Company”) respectfully requests that the Michigan Public Service Commission (“MPSC” or the “Commission”) authorize Consumers Energy to increase its rates for the sale of electricity and grant it additional relief as set forth herein. In support of this Application, Consumers Energy states as follows:

I. INTRODUCTION

1. Consumers Energy is, among other things, engaged as a public utility in the business of generating, purchasing, distributing, and selling electric energy to approximately 1.8 million retail customers in the State of Michigan. The retail electric system of Consumers Energy is operated as a single utility system, within which uniform rates are charged.

2. Consumers Energy’s retail electric business is subject to the jurisdiction of the Commission pursuant to various provisions of 1909 Public Act (“PA”) 106, as amended, MCL 460.551 et seq., 1919 PA 419, as amended, MCL 460.54 et seq., and 1939 PA 3, as amended, MCL 460.1, et seq. Pursuant to these statutory provisions, the Commission has the power and jurisdiction to regulate Consumers Energy’s retail electric rates.

3. The Commission approved Consumers Energy’s current retail electric base rates in its March 29, 2018 Order in Case No. U-18322. In addition, the Commission has authorized,
through various orders, the recovery of certain additional costs as set forth in the tariffs on file with the Commission, including Power Supply Cost Recovery factors, renewable energy plan surcharges and energy efficiency surcharges, and securitization bond charges.

II. REQUESTED RATE RELIEF

4. For purposes of this case, Consumers Energy has undertaken a complete examination of relevant items of investment, expense, and revenues for the determination of just and reasonable retail electric rates, using a projected test year for the 12-month period ending December 31, 2019. Using a projected test year for the 12-month period ending December 31, 2019 will allow the rates established in this case to more closely reflect investments made and expenses incurred during the time rates established in this case are in effect. As set forth below, Consumers Energy further proposes adoption of a ratemaking mechanism that would adjust rates to reflect incremental investments made in 2020 and 2021.

5. Consumers Energy has calculated that, without rate relief, it will experience an annual jurisdictional electric revenue deficiency of approximately $58 million for the 12-month period ending December 31, 2019. Based on investments projected for 2020 and 2021, Consumers Energy anticipates that it will experience incremental revenue deficiencies for each of those years of $49 million and $48 million, respectively. An increase in Consumers Energy’s electric rates is required in order to afford the Company a reasonable opportunity to recover its reasonable costs of providing electric service, including a reasonable return on common equity, as more fully described in the accompanying testimony and exhibits.

6. Factors contributing to Consumers Energy’s need for additional electric revenues above levels currently recovered in base rates include:

   (i.) Ongoing investments in electric utility generation and distribution assets to provide safe and reliable service;
(ii.) Ongoing investments in assets to comply with environmental and legal requirements;

(iii.) Ongoing investments in enhanced technology to provide improved operational efficiencies and increased customer satisfaction;

(iv.) Increased Operation and Maintenance expenses necessary to, among other things, reduce tree-related service interruptions, support long-term investments, restore service to customers, and maintain the Company’s grid infrastructure;

(v.) Increased financing costs associated with a higher return on equity necessary to attract capital for the Company’s large capital investment program, partially offset by more favorable long-term debt cost rates; and

(vi.) Reduced sales margin due to a reduction in the delivery forecast driven by incremental energy waste reduction.

The need for additional revenues has been offset, in part, by a significant decrease in the Company’s federal income tax rate. The net impacts of these and other factors described in more detail in supporting testimony and exhibits, when examined in total, necessitate an increase in Consumers Energy’s retail electric rates. In determining its revenue requirements for this filing, Consumers Energy has used the depreciation rates authorized by the Commission in its May 14, 2015 Order approving the parties’ Settlement Agreement in Case No. U-17653 for its electric and common plant, excluding the Ludington pumped storage plant. For the Company’s Ludington pumped storage plant, the calculated depreciation expense and associated accumulated depreciation presented uses depreciation rates approved in Case No. U-16055 through March 2019. Beginning in April 2019, the Company calculates depreciation expense using rates approved in the Commission’s July 12, 2017 Order Approving Settlement Agreement in Case No. U-18195 to coincide with the anticipated timing of the outcome of this case.

7. Without rate relief, Consumers Energy’s retail electric rates will be so low as to deprive Consumers Energy of a reasonable return on the Company’s property, and to amount to confiscation and deprivation of the Company’s property, contrary to the Company’s rights under
the Constitutions of the United States and of the State of Michigan. Without a rate increase, the Company’s revenues and electric overall rate of return will be below a just and reasonable level.

8. A significant driver of the requested relief in this case is related to investments associated with system reliability, environmental compliance, and enhanced technology. Consumers Energy plans to invest approximately $18 billion in Michigan over the next decade. Electric investments to maintain and improve electric utility infrastructure and help ensure that the Company’s electric customers receive the value and service that they expect from the Company account for approximately 55% of this total. Much of the investment will be related to the Company’s five-year Electric Distribution Infrastructure Investment Plan (“EDIIP”) filed with the Commission on March 1, 2018 as directed in Case No. U-17990. Over the next five years, the Company plans on investing over $3 billion in capital into its electric distribution grid as detailed in the EDIIP. These investments, together with the Company’s other investments in its electric infrastructure, will provide added safety, reliability, value, and sustainability benefits for customers. The projected average rate base for the test year ending December 31, 2019 is $10.7 billion.

9. Among other things, Consumers Energy is requesting rate recovery in this case for costs associated with its commercial & industrial and residential Demand Response Programs. These programs provide the Company a flexible portfolio of resources that can be called upon during peak times of the system to reduce overall electricity demand, reducing power supply costs for all of our generation customers. The Company’s $58 million rate request in this case includes capital and Operations and Maintenance (“O&M”) costs associated with these programs of approximately $25.7 million and $12.5 million, respectively. Once included
in rates, these costs are subject to reconciliation pursuant to the Commission’s September 15, 2017 Order in Case U-18369.

10. Sales levels, including Retail Open Access levels, were last updated by the Commission in its March 29, 2018 Order in Case No. U-18322. Consumers Energy has determined revenue requirements using a fully projected sales forecast for the projected test year.

11. Consumers Energy is requesting approval of an Investment Recovery Mechanism (“IRM”) that provides for recovery of the Company’s incremental 2020 and 2021 capital investments, beyond investments incorporated in rates through the end of December 2019, associated with six specific electric distribution programs. The proposed IRM would calculate the incremental annual revenue requirement associated with recovery of these incremental capital investment programs. The IRM will operate through a surcharge effective from January 1, 2020 until rates are reset in a subsequent general rate case. Following the end of 2020, the Company will file the first of at least two reconciliations, which update the initial incremental revenue requirement calculation with actual balances and determine if the actual incremental capital expenditures are greater or less than projected amounts reflected in the surcharge rates. In the event that total incremental spending in any given year of the IRM is less than the final Commission-approved level of spending used to calculate the surcharge for that year, the Company would credit back to customers the revenue requirement associated with the underspending. The Company’s IRM proposal also includes an IRM Excess Returns Sharing Mechanism component that provides the potential for a refund in the form of excess earnings sharing if the distribution plan is executed at a lower cost or external factors cause the Company to earn above its Commission-authorized ROE. If the IRM is approved as requested, the Company is prepared to defer a request for base rate increases until January 2022, subject to
(i) an opportunity to accept or reject the Commission’s approved IRM following the final order in this case and (ii) the condition that no unforeseen events arise external to the EDIIP and not addressed by the IRM that require the Company to seek rate relief as soon as possible. The Company’s IRM proposal is described in more detail in testimony which is being filed in support of this Application.

12. Consumers Energy is also requesting approval of a Foundational Infrastructure Program as a part of this filing, which is designed to seed the Electric Vehicle (“EV”) market in Company territory and enable Michigan drivers to own and use EVs by deploying foundational infrastructure across the Company’s service territory. This program will assess and amplify customer education, smart charging, grid impact, and efficacy of EV infrastructure deployment. The Company proposes no rate recovery associated with this program during the 2019 test year in this case. Instead, the Company requests that the Commission approve a regulatory asset to defer recovery of the costs associated with this program until the EV program rebate and related O&M costs are confirmed. At this time, the regulatory asset approach for the EV Foundational Infrastructure Program best aligns customer benefits and Company incentives by providing a return on an activity that the Company believes will create lower costs for all utility customers. If approved, Consumers Energy plans to invest $7.5 million for the three-year program, with $3.8 million in expenses in the first year.

13. Consumers Energy proposes that rates established in this case include an authorized rate of return on common equity of 10.75% and reflect an overall rate of return on total rate base of 6.33%. Consumers Energy submits that the requested returns reasonably balance interests of customers and investors.
III. RATE DESIGN, TARIFF, AND OTHER PROPOSALS

14. Pursuant to the requirements of MCL 460.11(1), the Company proposes to establish rates equal to the cost of providing service to each customer class. In order to comply with that requirement, the Company proposes, among other things, to allocate production capacity using an Average and Excess cost allocation methodology, which is developed using a weighted average of each rate class’s average hourly energy consumption throughout the test year and their average contribution to the utility’s overall system peak demand during the 4 coincident peak months.

15. Consumers Energy proposes to allocate the required electric revenue increase among rate classes as set forth on Attachment A to this Application. A comparison of typical residential bills under present and proposed rates is shown on Attachment B to this Application. The Company also proposes to update its calculation of the capacity-related component of its power supply charges included in base rates, based on inputs from the total electric Cost-of-Service-Study, for its State Reliability Mechanism plan year beginning June 1, 2019. This proposal is consistent with Section 6w of PA 341 of 2016 and the Commission’s November 21, 2017 Order in Case No. U-18239. The Company also proposes a long-term redesign of residential rates to conform to the Commission’s March 29, 2018 Order in Case No. U-18322 and to establish two new time of use rates and to modify options for participation in the Peak Power Savers Peak Reward Program to replace certain residential rates proposed for gradual elimination. Furthermore, the Company is proposing a new market-based interruptible pilot provision for Rate GPD, which will be offered in addition to the Company’s current Interruptible Provision GI.
16. In addition to seeking authority to increase the level of rates and charges, Consumers Energy is proposing various revisions to its electric rules, regulations, and tariffs. Reference to Consumers Energy’s testimony and exhibits provide additional details on the relief being sought. Among other things, Consumers Energy is proposing to: (i) increase the residential system access charge from $7.00 per month to $7.50 per month; (ii) increase the penalty for resale customers who fail to comply with the annual audit and meter testing requirement; (iii) add a Universal Peak Rewards option to the new Residential Summer On-Peak Basic Rate; (iv) align Power Supply Energy Charges with calendar days from June 1 through September 30 each year instead of billing portions; and (v) include new language in the Company’s Wireless Under Glass Meter tariff to reflect the fact that Consumers Energy is replacing Retail Open Access meters that are dependent on a telephone line to transmit consumption and demand data with a Wireless Under Glass meter by 2020.

17. In addition, Consumers Energy is seeking Commission approval of certain accounting requests. First, if the Commission grants the Company’s proposed Foundational Infrastructure Program, the Company requests that the Commission: (i) authorize the recognition of a regulatory asset to record deferred Foundational Infrastructure Program costs; (ii) authorize the amortization of deferred EV Program cost over 10 years beginning the year after the costs are incurred; (iii) following a review of incurred costs in this rate case and future rate cases, include recovery of the resulting amortization expense in rates; and (iv) include the deferred net unamortized balance of EV Program costs in rate base. Second, Consumers Energy requests that the Commission authorize the Company to record the Traverse City Service Center acquisition adjustment in Account 406 for the purpose of providing for the extinguishment of the adjustment amortized over 15 years. Finally, Consumers Energy requests the accounting
authority to accumulate IT project implementation costs for cloud-based solutions in Plant Account 303, Miscellaneous Intangible Plant, to amortize the intangible asset to expense over the expected useful life of the cloud-based solution. The Company’s accounting proposals are described in more detail in testimony which is being filed in support of this Application.

IV. TESTIMONY, EXHIBITS, AND RESERVATION OF RIGHT TO AMEND

18. Consumers Energy is, concurrently with this Application, filing written testimony and exhibits in support of rate relief and other relief Consumers Energy is seeking in this case. Reference to this material will provide additional details on the relief being sought. The relief described in the testimony and exhibits should be considered as if specifically requested in this Application. Consumers Energy expressly reserves the right to revise, amend, or otherwise change the relief it is requesting in any way appropriate depending upon the duration and progress of hearings in this proceeding, the issuance of orders that have an impact upon this case, or the occurrence of other material events.

19. In addition to the issues described above, it is possible that other pending or to be filed proceedings or other events may have impacts upon the rate adjustments requested at this time. These impacts will be evaluated for materiality and may need to be considered in the results of this proceeding.

VI. REQUEST FOR RELIEF

WHEREFORE, Consumers Energy Company requests that the Michigan Public Service Commission:

A. Authorize Consumers Energy to adjust its retail electric rates so as to provide additional revenue of $58 million annually above levels established in Case No. U-18322 based on a projected 12-month test year ending December 31, 2019;
B. Authorize Consumers Energy to adjust its existing retail electric rates so as to produce a rate of return on common equity of not less than 10.75%;

C. Authorize Consumers Energy to implement an Investment Recovery Mechanism to recover the annual revenue requirement for the six specified electric distribution programs associated with 2020 and 2021 average incremental rate base and the associated direct expenses beyond the level ultimately approved in test year ending December 31, 2019 rates; and to adjust its retail electric rates in each of those years so as to provide an incremental rate increase sufficient to provide incremental annual revenue of $49 million and $48 million, respectively, that is in addition to the $58 million increase noted above, and that would be subject to reconciliation as explained in the Company’s filing;

D. Approve modifications to the rates, rules, and regulations as are described in the testimony and exhibits that accompany this Application;

E. Approve the Company’s accounting requests and regulatory asset treatment, as appropriate, related to the Company’s proposed EV Foundational Infrastructure Program, if adopted, and the Company’s cloud-based solutions costs and authorize the Company to record its Traverse City Service Center acquisition adjustment in Account 406 for amortization over 15 years; and
F. Grant Consumers Energy such other and further relief as is just and reasonable.

Respectfully submitted,

CONSUMERS ENERGY COMPANY

Dated: May 14, 2018

By: Michael A. Torrey
Vice President, Rates and Regulation
Consumers Energy Company

Bret A. Totoraitis (P72654)
Anne M. Uitvlugt (P71641)
Robert W. Beach (P73112)
Gary A. Gensch (P66912)
Theresa A. G. Staley (P56998)
Michael C. Rampe (P58189)
One Energy Plaza
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Attorneys for Consumers Energy Company
(517) 788-0835
STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the application of
CONSUMERS ENERGY COMPANY
for authority to increase its rates for
the generation and distribution of
electricity and for other relief.

VERIFICATION

Michael A. Torrey, states that he is Vice President, Rates and Regulation of Consumers Energy Company; that he has executed the foregoing Application for and on behalf of Consumers Energy Company; that he has read the foregoing Application and is familiar with the contents thereof; that the facts contained therein are true, to the best of his knowledge and belief; and that he is duly authorized to execute such Application on behalf of Consumers Energy Company.

Dated: May 14, 2018

Michael A. Torrey
Vice President, Rates and Regulation
Consumers Energy Company
ATTACHMENT A
### Consumers Energy Company

#### Summary of Present and Proposed Revenue

<table>
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<th>Line</th>
<th>Description</th>
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<th>Proposed Revenue</th>
<th>Difference Revenue</th>
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<td></td>
<td>(a)</td>
<td>(b)</td>
<td>(c)</td>
<td>(d)</td>
</tr>
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<td>No.</td>
<td></td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
<td>%</td>
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<td>Residential RS/Summer On Pk</td>
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<td>Total Residential Class</td>
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<td>Secondary Energy-Only GS</td>
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<td>Secondary Demand GSD</td>
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<td>Secondary Energy-Only GS TOU</td>
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<td>1,066,635</td>
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<td>(5.6)</td>
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<td>Primary Time of Use Pilot GPTU</td>
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<td>Metered Lighting Service GML</td>
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<td>Unmetered Lighting Service GUL</td>
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<td>Unmetered Exp. Lighting GU-XL</td>
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<td>Unmetered Service GU</td>
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<td>Small Self-Generation GSG-1</td>
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<td>Large Self-Generation GSG-2</td>
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<td>$ -</td>
<td>$ -</td>
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<td>Residential Time-of-Day RT</td>
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<td>-</td>
<td>-</td>
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<tr>
<td>28</td>
<td>Total Residential Class</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>NA</td>
</tr>
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<td>29</td>
<td>Secondary Energy-only GS</td>
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<td>Secondary Demand GSD</td>
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<td>996</td>
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<td>$4,191,347</td>
<td>$4,250,806</td>
<td>$59,459</td>
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ATTACHMENT B
### Comparison of Present and Proposed Monthly Bills

**Consumers Energy Company**

**Residential Service RS Summer On Peak**

#### Bundled Service

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<td>kWh</td>
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<td>100</td>
<td>21.56</td>
<td>23.07</td>
<td>1.51</td>
<td>7.0</td>
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<td>28.84</td>
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**Summer (Jun - Sep)**

**Winter (Oct - May)**

### RS Summer On Peak Load Profile

- Power Supply Charges
  - First 600 kWh/mth: $0.094525
  - Excess kWh/mth: $0.127235
  - On Peak kWh/mth: $0.146791
  - All Else kWh/mth: $0.098827
  - PSCR Factor kWh/mth: $0.000800

- Distribution Charges: $0.050297
- System Access: $0.048652

- Delivery Charges: $0.000800
STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of
CONSUMERS ENERGY COMPANY
for authority to increase its rates for
the generation and distribution of
electricity and for other relief.

PROOF OF SERVICE

STATE OF MICHIGAN
COUNTY OF JACKSON

Melissa K. Harris, being first duly sworn, deposes and says that she is employed in the Legal Department of Consumers Energy Company; that on May 14, 2018, she served an electronic copy of Consumers Energy Company’s Application, a Proposed Notice of Hearing, a Proposed Protective Order, and the Testimony and Exhibits of Consumers Energy Company’s Witnesses upon the persons listed in Attachment 1 hereto, at the e-mail addresses listed therein. She further states that she mailed electronic disks containing: (i) Consumers Energy Company’s Application, a Proposed Notice of Hearing, a Proposed Protective Order, and the Testimony and Exhibits of Consumers Energy Company’s witnesses in PDF format; (ii) exhibits in Excel format that were filed in Excel format; (iii) tariff changes in Word format that were filed in Word format; and (iv) Public Version of the Workpapers in PDF format of Consumers Energy’s witnesses to all of the addresses listed in Attachment 1 by depositing the same in the United States mail in the City of Jackson, Michigan with first-class postage thereon fully paid.

Melissa K. Harris

Subscribed and sworn to before me this 14th day of May, 2018.

Tara L. Hilliard, Notary Public
State of Michigan, County of Jackson
My Commission Expires: 09/12/20
Acting in the County of Jackson
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