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October 15, 2021

Lisa Felice
Executive Secretary
Michigan Public Service Commission
7109 West Saginaw Highway
Post Office Box 30221
Lansing, MI 48909

Re: Case No. U-21141: In the matter of the application of Consumers Energy Company for approval of a voluntary Carbon Offset Program.

Dear Ms. Felice:

Enclosed for electronic filing is **Consumers Energy Company's Application for Ex Parte Approval of Voluntary Carbon Offset Program, including the Testimony and Exhibits of Company witnesses Neal P. Dreisig, Jennifer Harding, and Hannah L. Patton** in the above-captioned case. This is a paperless filing and is therefore being filed only in a PDF format. I have enclosed a Proof of Service showing electronic service upon the parties.

Sincerely,

Digitally signed by Anne M. Uitvlugt
Date: 2021.10.15 13:04:38 -04'00'

Anne M. Uitvlugt

cc: Patricia Poli, MPSC
Spencer Sattler, MPSC Staff

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Application of **CONSUMERS ENERGY COMPANY** for approval of a voluntary Carbon Offset Program.	)))))	Case No. U-21141

CONSUMERS ENERGY COMPANY'S APPLICATION FOR *EX PARTE* APPROVAL OF VOLUNTARY CARBON OFFSET PROGRAM

Consumers Energy Company ("Consumers Energy" or the "Company") respectfully requests that the Michigan Public Service Commission ("MPSC" or the "Commission") approve a voluntary Carbon Offset Program as described in this Application, supported by the attached direct testimony, and detailed in the proposed tariff sheets. In support of this Application, Consumers Energy states as follows:

1. Consumers Energy is a public utility engaged in, among other things, the transportation, distribution, and sale of natural gas to approximately 1.8 million customers in the lower peninsula of the state of Michigan. Consumers Energy's gas system is fully integrated and interconnected, and is operated as a single system within which uniform rates for the sale and distribution of natural gas are charged.

2. Consumers Energy's retail natural gas utility business is subject to the jurisdiction of the Commission pursuant to various provisions of 1909 PA 300, as amended, MCL 462.2 et seq.; 1919 PA 419, as amended, MCL 460.54 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq., including 1982 PA 304, MCL 460.6h; and 1969 PA 306, as amended, MCL 24.201 et seq.

3. The Company has received multiple inquiries from business and residential customers to provide a mechanism to allow customers to reduce their carbon footprint related to

natural gas usage. Such a program also would support the Company's clean energy and decarbonization goals by allowing a voluntary mechanism to reduce carbon emissions for customers who want to directly reduce the impacts of climate change or who need a carbon reduction solution as a component of doing business. Accordingly, based on research conducted by the Company in 2018, and again in 2021, Consumers Energy is seeking approval to implement a voluntary Carbon Offset Program. This Program will be marketed as a voluntary program to natural gas customers which allows customers the ability to offset a portion, or all, of their carbon emissions from natural gas use through carbon offsets procured or developed on the customers' behalf.

4. For residential and small to medium business customers, the Company proposes a program that allows customers to purchase blocks of offsets. These blocks allow customers a subscription to match a portion, or all, of their natural gas usage with carbon offsets at a fixed cost per month. Under this option, customers would participate in a 12-month program with rolling reenrollment for month to month participation. This structure provides a mechanism for customers to increase or decrease participation as they desire to meet their sustainability goals. Customers are able to terminate participation at any time after the initial one-year term. The carbon offsets procured will be prioritized to be in Michigan or the Midwest region, depending on availability. If offsets are not available within Michigan or the Midwest region, the Company will purchase offsets from a broader geographic region.

Under this offering, a block size would equal one tenth of the annual average residential customer natural gas usage, estimated to be 97.9 mcf, divided over 12 months, which is defined as 0.8 mcf. The approximate cost per block will be $1.00, although actual costs will be based on the market costs of carbon offsets, marketing, and program administration. Should large price fluctuations of 25% or more be identified that would raise the cost of the estimated carbon offset, the price would be adjusted on a quarterly or annual basis, and customers would be notified of the additional cost and given the option to terminate participation.

5. For large business customers, the Company proposes to offer a program where customers set, on an "a la carte" basis, the percentage of natural gas use to be addressed with offsets. Customers can also specify vintage, offset type, and location from regional, national, and international offsets, subject to market availability. The cost to participating customers would be based on estimated costs for the carbon offsets as well as program administration and marketing. These estimates will be based on market value of carbon offsets, actual costs of any offsets procured, Request for Proposal responses, and/or costs for the Company to develop offset projects. On an annual basis, at the time offsets are procured, participating customers would pay any additional premium associated with the offsets they specify should they have specific carbon offset co-benefit, project type, or vintage requirements. In addition, each March, an annual reconciliation will be completed for each proceeding program year, and customers will be charged or credited for any underage or overage in actual procurement costs.

6. To ensure only high-quality offsets are offered, the Company is committed to making purchases on behalf of customers from well-established and reputable offset vendors with strong track records in the industry. For this reason, the Company is focusing on purchasing offsets that are verified to meet the standards of one of the following entities: Gold Standard, Verra's Verified Carbon Standard, Climate Action Reserve, or American Carbon Registry.

7. Customers who participate will pay all costs of the program for carbon offset procurement, administration, and marketing. The Company will use a regulatory liability account to segregate customer costs and program revenues to allow for clear accounting to verify there is

no subsidization by non-participating customers. This treatment is discussed further by Company witness Hannah L. Patton. Exhibit A-2 (HLP-1) provides an example of the journal entries.

8. The Company will maintain an annual report documenting the voluntary Carbon Offset Program. Specifically, the annual report will show current subscriptions and forward year expected demand. The report would show current offset commitments with associated pricing, current expenditures, and account balances. Additionally, the report will demonstrate how the offsets are verified prior to use, as well as indicate the vintage and types of offsets purchased.

9. Additional details and support for the voluntary Carbon Offset Program are provided by the testimony of Company witness Neal P. Dreisig and the testimony and exhibit of Company witnesses Jennifer Harding and Patton, that are attached to this Application.

10. The voluntary Carbon Offset Program details are contained in a proposed tariff sheet attached to the testimony of Jennifer Harding as Exhibit A-1 (JH-1).

11. The approvals requested in this Application will not result in "an alteration or amendment in rates or rate schedules" and "will not result in an increase in the cost of service to customers," and thus the approvals sought in this Application "may be authorized and approved without notice or hearing." MCL 460.6a(1). As indicated in the direct testimony of Company witness Dreisig, participants in the Company's voluntary Carbon Offset programs will bear all program costs and non-participants do not subsidize the program.

12. The Carbon Offset subscription charges will only apply to customers who voluntarily choose to participate in the programs, and customers who do not choose to participate in the programs will not be subject to the charges. The Commission has routinely recognized that *ex parte* approval is appropriate where additional charges are limited to those who voluntarily enroll in a program. For example, see Case No. U-18076, October 11, 2016 Order (granting

ex parte approval of DTE Electric Company's voluntary renewable energy program); Case No. U-16822, July 26, 2011 Order (granting *ex parte* approval of revisions to the voluntary Green Generation Program); and Case No. U-14471, April 28, 2005 Order, page 2 (granting *ex parte* approval because additional charges will only be paid by those who voluntarily enroll). Thus, approval of this Application without notice or hearing is lawful and appropriate. See *Attorney General v Pub Serv Comm*, 227 Mich App 148; 575 NW2d 302 (1997); and Case No. U-15805, July 27, 2010 Order, pages 5 and 6.

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

A. Approve the Company's proposed voluntary Carbon Offset Program;

B. Approve the Company's proposed tariff sheet attached to the testimony of Company witness Jennifer Harding as Exhibit A-1 (JH-1);

C. Approve the requested accounting treatment for the Carbon Offset Program;

D. Determine that the relief requested herein should be granted *ex parte* without the time and expense of a public hearing; and

E. Grant Consumers Energy such other and further relief as is just and reasonable.

Respectfully submitted,

CONSUMERS ENERGY COMPANY

Dated: October 15, 2021

By: Lauren Youngdahl Snyder
Lauren E. Youngdahl Snyder
Vice President Customer Experience
Consumers Energy Company

Anne Uitvlugt

Anne M. Uitvlugt (P71641)
Gary A. Gensch, Jr. (P66912)
One Energy Plaza
Jackson, Michigan 49201
Attorney for Consumers Energy Company
(517) 788-2112

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Application of **CONSUMERS ENERGY COMPANY** for approval of a voluntary Carbon Offset Program.	)))))	Case No. U-21141

VERIFICATION

Lauren E. Youngdahl Snyder, being first duly sworn, deposes and says that she is the Vice President of Customer Experience of Consumers Energy Company; that she has executed the foregoing Application for and on behalf of Consumers Energy Company; that she has read the foregoing Application and is familiar with the contents thereof; that the facts contained therein are true, to the best of her knowledge and belief and that she is duly authorized to execute such Application on behalf of Consumers Energy Company.

Dated: October 15, 2021

By: Lauren Youngdahl Snyder

Lauren E. Youngdahl Snyder
Vice President of Customer Experience

S T A T E   O F   M I C H I G A N

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of	)	
CONSUMERS ENERGY COMPANY	)	
for approval of a voluntary	)	Case No. U-21141
Carbon Offset Program.	)	
	)	

DIRECT TESTIMONY

OF

NEAL P. DREISIG

ON BEHALF OF

CONSUMERS ENERGY COMPANY

October 2021

Q. Please state your name and business address.

A. My name is Neal P. Dreisig, and my business address is 1945 West Parnall Road, Jackson, Michigan 49201.

Q. By whom are you employed?

A. I am employed by Consumers Energy Company ("Consumers Energy" or the "Company").

Q. What is your position with Consumers Energy?

A. I am a Manager of Asset Strategy in the Gas Strategy Department, a position I have held since March 2020.

Q. What are your responsibilities as Manager of Asset Strategy?

A. As Manager of Asset Strategy, I am responsible for the cross-functional research, analysis and oversight of natural gas decarbonization technology projects, portfolio management, and strategy. This includes the development, recommendation, and administration of the Natural Gas Delivery Plan.

Q. What is your educational background?

A. I graduated from Michigan State University with a Bachelor of Science in Construction Management in 2006. Additionally, in 2019, I earned a Master of Science degree in Management from Colorado State University.

Q. Do you have any professional certifications?

A. Yes, I have received a Project Management Professional certification from the Project Management Institute in 2011.

Q. What is your work experience?

A. In addition to my current role, I previously held the Manager of Cost Engineering position in the Enterprise Project Management Department for three years. In this role, I had responsibility for the financial predictability of capital forecasting, estimate refinement, and spending efficiency, approximately $1 billion in capital, annually. I have also served the Company as a cost engineer and generation outage planner. In these roles, I assisted in capital project development, planning, and predictable execution. Prior to this, I worked as a construction engineer working on large industrial and automotive projects.

Q. Have you previously testified before the Michigan Public Service Commission ("MPSC" or the "Commission")?

A. Yes, I have previously provided testimony in MPSC Case No. U-20893, the Company's Investment Recovery Mechanism Reconciliation.

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to describe the Company's proposed voluntary carbon offset program, its benefits, and its structure.

Q. Are you sponsoring any exhibits?

A. No.

Q. Please describe the voluntary carbon offset program.

A. The Company is proposing to develop a voluntary program for natural gas customers which allows them the ability to offset a portion, or all, of their carbon emissions from natural gas use through carbon offsets procured or developed on the customers' behalf.

Q. What is a carbon offset?

A. The National Renewable Energy Laboratory[1] defines a carbon offset as a set of "activities that reduce carbon emissions and are usually measured in metric tons." The majority of carbon offsets are derived from forestry, land use changes, and renewable energy. There

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[1] National Renewable Energy Laboratory, (2021). Carbon Offsets. Retrieved from: https://www.nrel.gov/climate-neutral/carbon-offsets.html

are two principal markets associated with carbon markets, compliance, and voluntary. Compliance offsets provide entities a mechanism to achieve a certain emissions level in compliance with a state legal requirement similar to how renewable energy credits can be used in compliance with renewable portfolio standards. Voluntary offsets are available for individuals or other non-compliance entities to achieve certain emission levels, but unconnected with a legal requirement. This program is based on the voluntary market.

Q. Why is the Company proposing a voluntary carbon offset program?

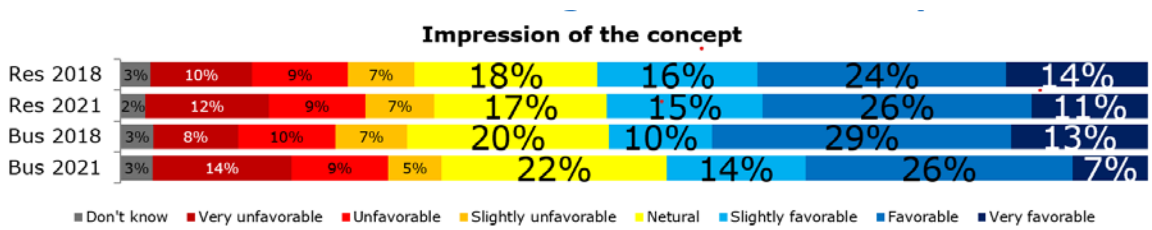
A. The Company has received multiple inquiries from business and residential customers to provide a mechanism to allow customers to reduce their carbon footprints for natural gas usage. Such a program also supports the Company's clean energy and decarbonization goals by allowing a voluntary mechanism to reduce carbon emissions for customers who want to directly reduce the impacts of climate change or who need a carbon reduction solution as a component of doing business.

Q. What value does the voluntary carbon offset program provide to customers?

A. The carbon offset provides value by securing verified carbon offsets from well-established and reputable offset markets on behalf of customers who wish to offset their carbon footprint from natural gas use. Additionally, carbon offset transactions are managed entirely on behalf of the customer.

Through Company research and customer interviews, customers have expressed interest in offsetting their natural gas usage with carbon offsets. The Company found, during research in 2018 and again in 2021, that many customers would participate in a voluntary program that allowed them to offset their natural gas usage. Using current market pricing in 2021, the Company's research found that 37% of residential customers, as well as 33% of small to medium business customers, had a favorable or very favorable impression of the concept.

Table 1



For larger businesses, the Company learned during discussions with customers that many businesses are requiring suppliers to demonstrate carbon neutrality now or in the near future. While the Company has many options for matching a customers' electric use with renewable energy through its Voluntary Green Pricing programs, a comparable solution is not currently available for Consumers Energy's natural gas customers. A voluntary carbon offset program fills this gap by allowing these customers flexibility in price, location, and type of offset that reflects the varying needs of this customer group, as is discussed more below.

Q. How is the voluntary program structured for residential customers and small to medium business customers?

A. Due to the seasonal fluctuations of natural gas use, the Company surveyed customers to better understand whether these customers would prefer a program that directly matches their natural gas usage on a monthly basis or uses a block structure that will levelize costs over the course of a year. The Company found that the majority preference was a levelized cost structure.

As a result, the Company proposes to offer residential and small to medium business customers, specifically non-residential general service customers in Rate Schedule GS-2 and smaller, a program to purchase blocks of offsets in a subscription. These blocks allow customers a subscription that matches a portion or all their natural gas usage with carbon offsets at a fixed cost per month. This structure also provides a mechanism for customers to increase or decrease participation as they desire to meet their sustainability goals, which they can choose to do at any time after the initial 12-month period of program participation.

The block size would equal one-tenth of the annual average residential customer natural gas usage, estimated to be 97.9 mcf, divided over 12 months, which is defined as 0.8 mcf. The approximate cost per block will be $1.00, although actual costs will be based on market costs of carbon offsets, marketing, and program administration at the time of program launch. Should large price fluctuations of 25% or more be identified that would raise the cost of the estimated carbon offset, the price would be adjusted on a quarterly or annual basis, and customers would be notified of the additional cost and given the option to terminate participation.

The location of carbon offsets procured to serve the residential and small to medium business customer classes will be prioritized to be in Michigan or the Midwest region, depending on availability. If offsets are not available within Michigan or the Midwest region, the Company will purchase offsets from a broader geographic region.

The Company is actively engaging with customers who participate in other Company sustainability programs to best understand how the program can be clearly communicated and what information will assist these customers in deciding to participate.

Customers in this option would participate in a 12-month program with rolling reenrollment for month-to-month participation. Customers are able to terminate participation at any time after the initial one-year term.

Q. How is the voluntary program structured for larger business customers?

A. The Company recognizes that the priorities and preferences of large customers in utilizing offsets will vary widely. As a result, the proposed program for these customers provides broad flexibility. The Company proposes to offer customers in this group, which includes the rate categories for non-residential customers on Rate Schedule GS-3 and transportation customers, a program through which customers set, on an "a la carte" basis, the percentage of natural gas use to be addressed with offsets. Customers can also specify vintage, offset type, and location from regional, national, and international offsets, subject to market availability.

The cost to customers per mcf would be based on estimated costs for the carbon offsets as well as program administration and marketing. These estimates will be based on market value of carbon offsets, actual costs of any offsets procured, Request for Proposal responses, and/or costs for the Company to develop offset projects. On an annual basis, at the time offsets are procured, participating customers would pay any additional premium associated with the offsets they specify should they have specific carbon offset co-benefit, project type, or vintage requirements. In addition, each March, an annual reconciliation will be completed for each proceeding program year, and customers will be charged or credited for any underage or overage in actual procurement costs.

The Company has outreach in process to these customers to better understand the full scope of customer needs for this option, and no participation cap is being proposed for participation.

Q. What assumptions did the Company make in regards to the costs associated with program marketing and administration?

A. To direct market the program, the Company assumed that the cost per acquisition for a residential or small to medium business customer would be $50, which is similar to the cost today to acquire a new Solar Gardens customer. For large business customers, the Company assumes minimal direct marketing cost as the Company's Energy Services Managers work directly with customers and would be the conduit to communicate the program. For administrative costs, the Company estimated, based on the experience of delivering renewable energy customer programs, that the combined cost of a program manager and support services, which include marketing labor, business customer care, customer research, and experience design, would cost $425,000 in the first year of the program. As this is a new voluntary customer program, the Company has the expectation that research and iterative testing in the market will be needed to clearly communicate the value of this program.

Q. Will customers who participate in either of these options under the voluntary carbon offset program pay all of the costs associated with the program?

A. Yes. Customers who participate will pay all costs of the program for carbon offset procurement, administration, and marketing. As discussed by Company witness

Hannah L. Patton, the Company will use a regulatory liability account to segregate customer costs and program revenues to allow for clear accounting to verify there is no subsidization by non-participating customers.

Q. From where will the Company source its carbon offset supply?

A. To ensure only high-quality offsets are offered, the Company is committed to making purchases on behalf of customers from well-established and reputable offset vendors with strong track records in the industry. For this reason, the Company is focusing on purchasing offsets that are verified to meet the standards of one of the following entities: Gold Standard, Verra's Verified Carbon Standard, Climate Action Reserve, or American Carbon Registry. These standards are considered the best in the offset market, and thus provide the highest assurance that a customer's purchase of an offset represents a measurable, durable reduction in greenhouse gases in the atmosphere. In doing so, the Company also has the opportunity to, depending on offset type, allow customers to provide important co-benefits when purchasing an offset, such as water quality improvements, wildlife habitat protection, or poverty reduction in developing nations.

Q. Will customers who do not sign up for the program pay for any of its costs?

A. No, only customers who sign up for the program will pay for the cost of the Program. In other words, this program's costs will not change base rates paid by all customers.

Q. How will the Company evaluate and report on the program's results?

A. The Company will maintain an annual report documenting all aspects of the Program. Specifically, the annual report will show current subscriptions and forward year expected demand. The report would show current offset commitments with associated pricing, current expenditures, and account balances. Additionally, the report will demonstrate how the offsets are verified prior to use, as well as indicate the vintage and types of offsets purchased.

Q. How does the Company propose to market the new voluntary carbon offset program to customers?

A. The Company will identify the lowest cost and most effective channels to engage residential and small to medium business customers utilizing email, the Company's website, social media channels, and other means as identified as cost effective. Large business customers will learn about the program and participation options through ongoing consultation with dedicated account managers who already support customer sustainability and other needs.

Q. Does this conclude your direct testimony?

A. Yes.

In the matter of the Application of)
CONSUMERS ENERGY COMPANY) Case No. U-21141
for approval of a voluntary)
Carbon Offset Program.)

AFFIDAVIT OF NEAL P. DREISIG

Neal P. Dreisig, being first duly sworn, deposes and says as follows:

1. I am the Manager of Asset Strategy for Consumers Energy Company.

2. I am the witness who sponsors the accompanying testimony entitled Direct Testimony of Neal P. Dreisig on Behalf of Consumers Energy Company (the “Testimony”).

3. The Testimony was prepared by me and under my direction and supervision.

4. If inquiries were made as to the facts in the Testimony I would respond as set forth therein.

5. The Testimony is true and correct to the best of my knowledge, information, and belief.

Neal P. Dreisig

Subscribed and sworn to before me this 15th day of October, 2021.

Melissa K. Harris, Notary Public
State of Michigan, County of Jackson
My Commission Expires: 06/11/2027
Acting in the County of Jackson

S T A T E   O F   M I C H I G A N

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of **CONSUMERS ENERGY COMPANY** for approval of a voluntary Carbon Offset Program.	)))))	Case No. U-21141

DIRECT TESTIMONY

OF

JENNIFER HARDING

ON BEHALF OF

CONSUMERS ENERGY COMPANY

October 2021

Q. Please state your name and business address.

A. My name is Jennifer Harding, and my business address is One Energy Plaza, Jackson, Michigan 49201.

Q. By whom are you employed and in what capacity?

A. I am employed by Consumers Energy Company ("Consumers Energy" or the "Company") as a General Rate Analyst II in the Rates and Regulation Department.

Q. Please state your educational background.

A. I graduated from Michigan State University College of Law in 2005 with a Juris Doctorate in Taxation Law, and from Western Michigan University Thomas M. Cooley School of Law in 2011 with a Master of Laws in Taxation Law. I also earned a Bachelor of Arts from Michigan State University in 2000.

Q. Please describe your responsibilities as a General Rate Analyst II.

A. My primary responsibilities include supporting monthly billing processes, supporting Code of Conduct Compliance, developing tariff filings for Electric and Gas, developing tariff exhibits for rate cases, and documenting and tracking new orders from the Michigan Public Service Commission ("MPSC" or the "Commission").

Q. What is the purpose of your direct testimony in this proceeding?

A. The purpose of my direct testimony is to present the tariff for the proposed Carbon Offset Program supported by Company witness Neil P. Dreisig.

Q. Are you sponsoring any exhibits?

A. Yes, I am sponsoring the following exhibit:

Exhibit A-1 (JH-1)	Carbon Offset Program Tariff.

Q. Was this exhibit prepared by you or under your direction or supervision?

A. Yes.

Q. Please describe Exhibit A-1 (JH-1) Proposed Carbon Offset Program**.**

A. Exhibit A-1 (JH-1) provides the tariff for a new program for the Company's Gas Rate Book called the Carbon Offset Program; proposed as new Rule C18.

Q. Please explain the modifications to Company's Gas Rate Book by Proposed Rule C18.

A. Proposed Rule C18 provides for the voluntary Carbon Offsets Program which enables all eligible Full Service and Transportation Customers to purchase carbon offsets through the Company in order to offset the Customer's annual natural gas usage.

Q. Does this complete your direct testimony?

A. Yes.

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of **CONSUMERS ENERGY COMPANY** for approval of a voluntary Carbon Offset Program.	)))))	Case No. U-21141

AFFIDAVIT OF JENNIFER HARDING

Jennifer Harding, being first duly sworn, deposes and says as follows:

1. I am a General Rate Analyst II in the Rates and Regulation Department for Consumers Energy Company.

2. I am the witness who sponsors the accompanying testimony entitled Direct Testimony of Jennifer Harding on Behalf of Consumers Energy Company (the "Testimony").

3. The Testimony was prepared by me and under my direction and supervision.

4. If inquiries were made as to the facts in the Testimony I would respond as set forth therein.

5. The Testimony is true and correct to the best of my knowledge, information, and belief.

Jennifer Harding

Subscribed and sworn to before me this 15th day of October, 2021.

Melissa K. Harris

Melissa K. Harris, Notary Public
State of Michigan, County of Jackson
My Commission Expires: 06/11/2027
Acting in the County of Jackson

S T A T E O F M I C H I G A N

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of	)	
CONSUMERS ENERGY COMPANY	)	
for approval of a voluntary	)	Case No. U-21141
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	)	

EXHIBIT

OF

JENNIFER HARDING

ON BEHALF OF

CONSUMERS ENERGY COMPANY

October 2021

INDEX
(Continued From Sheet No. A-2.00)

SECTION C
COMPANY RULES AND REGULATIONS

(Continued on Sheet No. A-4.00)

(Continued from Sheet No. C-70.00)

C18. CARBON OFFSET PROGRAM

A. Eligibility

The Carbon Offset Program provides eligible Customers with the opportunity to subscribe to Carbon offsets equal to up to 100% of their total annual natural gas usage as measured in metric tons of carbon dioxide. The source of the Carbon offset credits varies depending on the preferences and size of the qualifying Customer, with two program options including: 1) Carbon offsets procured from resources in the Midwest, through Program Option A; or 2) Carbon offsets procured regionally, nationally, or internationally, according to Customer preference, through Program Option B.

Customers will not be eligible for any of these programs if they have received a shutoff notice within nine months preceding their application. A Customer that receives a shutoff notice after enrolling in the program will be de-enrolled and restricted from participating in the Carbon Offsets Program for a minimum of nine months, contingent on not receiving any shutoff notices within that nine-month period.

Subscriptions will be available on a first-come, first-served basis. The Carbon Offset Program is dependent upon the availability and affordability of contracted Carbon offsets as secured by the Company. In the event Carbon offsets are unavailable or cannot be procured to serve the authorized purpose of the program, the program will close to new subscriptions until additional supply is cost-effectively available. In all events, the Company reserves the right to prioritize Customer participation based on economic, financial, operational, legal, or other considerations. Subject to the provisions of this program, both options of the Carbon Offset Program will remain open until a future date to be announced by the Company.

B. Definitions

Carbon block - A block equal to 0.8 Mcf per month. Based on average residential customer usage, a subscription of approximately 10 carbon blocks would equal a 100% match of customer usage.

Carbon offset - A set of activities that reduce greenhouse gas emissions or remove greenhouse gases from the atmosphere and is usually measured in metric tons. Examples may include forestry projects or renewable natural gas projects.

Co-benefit - Additional beneficial attributes related to a Carbon offset, such as water quality improvements, poverty reduction, or wildlife habitat protection or development.

Project type - The different options of Carbon offset sources. Examples may include forestry projects, reduction in landfill gas emissions, and other types of Carbon offset options.

Retire - To remove a Carbon offset from circulation and apply it against a Customer's usage.

Vintage - The year a Carbon offset is generated from a Carbon offset project.

(Continued on Sheet No. C-72.00)

(Continued from Sheet No. C-71.00)

C18. CARBON OFFSET PROGRAM (Contd)

C. Carbon Offset Program Option A

(1) *Customer Eligibility*

Residential Customers and Non-Residential Customers taking service on rate categories General Service Rate GS-1 or GS-2 may be eligible to participate in Carbon Offset Program Option A.

Subject to any restrictions, subscriptions are available for a portion of a Customer's annual natural gas usage, not to exceed the following:

(a) *For Residential Customers: the number of Carbon offset blocks sufficient to offset the average annual Residential natural gas usage, as measured in metric tons of carbon dioxide, or*

(b) *For Non-Residential Customers taking service on rate categories General Service 1 or 2 (GS-1, GS-2): the number of Carbon offset blocks sufficient to offset a Non-Residential Customer's actual annual natural gas usage, in metric carbon tons, as represented by the Customer's subscription under this program.*

(2) *Enrollment*

Customers shall submit an online application that will be made available on the Company's website to enroll in the program and commit to their desired subscription level. The Company will procure Carbon offsets based on Customer subscription levels through market purchases, Requests for Proposal (RFP), by purchasing Carbon offsets directly from projects as available, or by other Company-chosen methods. The Company may also develop Carbon offset projects to self-supply offsets for to the program. The enrollment period is open through the full calendar year. The participation period is twelve months, with automatic re-enrollment unless the Customer cancels its subscription or is de-enrolled according to the provisions of this program. Customers shall be permitted to cancel or change their level of participation at any time after the initial 12 months have elapsed.

(3) *Subscription Payments*

Customers pay a per-block fee based on their subscription preference. Initial subscription fees will be based on a Carbon offset value based on best available procurement costs plus an additional administrative fee to support program administration, Carbon offset procurement, and marketing. Subscription fees shall be adjusted on an annual basis if needed. Should Carbon offset prices, as referenced above, increase 25% or more above current program subscription costs, for the Carbon offset component of the charge during the year, the subscription fee will be adjusted quarterly or annually. The Company shall retire the Carbon offsets on the Customer's behalf.

(4) *Term and Form of Contract*

This program shall require a written contract with a minimum term of 12 months. Customers are automatically re-enrolled in the program at the end of the 12-month period for a rolling month-to-month contract unless they choose to cancel program participation or are de-enrolled according to the provisions of this program.

Customers that relocate must submit a new application to enroll in the program at the new service location.

(Continued on Sheet No. C-73.00)

(Continued from Sheet No. C-72.00)

C18. CARBON OFFSET PROGRAM (Contd)

D. Carbon Offset Program Option B

(1) *Customer Eligibility*

Customers taking service General Service 3 (GS-3) and Transportation Customers, may be eligible to participate in Carbon Offset Program Option B.

Subscriptions are limited to a match of up to 100% of Customer actual monthly usage with Carbon offsets as measured in metric tons of carbon dioxide.

(2) *Enrollment*

Customers shall agree to a written contract to enroll in the program and commit to their desired subscription level. The Company will procure Carbon offsets based on Customer subscription levels through market purchases, through RFP, by purchasing Carbon offsets directly from projects as available, or by other Company-chosen methods. The Company may also develop Carbon offset projects to self-supply offsets for the program. The enrollment period is open through the full calendar year. The participation period is for a twelve-month period, as specified in the written contract.

Customers with specific Carbon offset Co-benefit, Project type, or Vintage requirements may identify those requirements in their participation contract and will be responsible for any premium costs resulting from those requirements.

(3) *Subscription Payments*

Customers pay a per-Mcf fee based on their subscription preference. Initial subscription fees will be based on an estimated Carbon offset cost based on best available procurement costs, plus an additional administrative fee to support program administration, Carbon offset procurement, and marketing. Subscription fees shall be adjusted on an annual basis if needed. Should Carbon offset prices, as referenced above, increase 25% or more above current program subscription costs, for the Carbon offset component of the charge during the year, then the subscription fee will be adjusted quarterly. The Company shall retire the Carbon offsets on the Customer's behalf.

An annual reconciliation will be completed by March 31 for each proceeding program year, and Customers will be charged or credited any underage or overage in actual procurement costs.

(4) *Term and Form of Contract*

This program shall require a written contract with an initial term of 12 months. A written contract will be required for every year of participation, and participants will not be automatically reenrolled in the program.

S T A T E O F M I C H I G A N

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of **CONSUMERS ENERGY COMPANY** for approval of a voluntary Carbon Offset Program. ______________________________	)))))	Case No. U-21141

DIRECT TESTIMONY

OF

HANNAH L. PATTON

ON BEHALF OF

CONSUMERS ENERGY COMPANY

October 2021

Q. Please state your name and business address.

A. My name is Hannah L. Patton, and my business address is One Energy Plaza, Jackson, Michigan 49201.

Q. By whom are you employed?

A. I am employed by Consumers Energy Company ("Consumers Energy" or the "Company").

Q. What is your position at Consumers Energy?

A. I am a Senior Accounting Analyst III in the Electric and Gas Revenue and Fuel Reconciliation section of the General Accounting Department.

Q. Please state your educational background and work experience.

A. I graduated from Albion College in May 2009 with a Bachelor of Arts degree in Economics and Management. I began working for the Company in January 2012 in the Electric Revenue and Fuel Reconciliation section of the General Accounting Department. I was an external auditor employed by Rehmann Robson from December 2007 through December 2011. I obtained my Certified Public Accountant license in February 2011.

Q. What are your responsibilities in your present position?

A. My primary responsibilities include the accounting for cost of gas, the analysis of gas revenues and costs, and the associated gas cost over- or under-recoveries. Additionally, I am responsible for accounting of the Company's Renewable Energy ("RE") Plan and voluntary RE programs, as well as the analysis of electric revenue and gross margin.

Q. Have you previously filed testimony with the Michigan Public Service Commission ("MPSC" or the "Commission")?

A. Yes. I filed testimony in the following cases:

- MPSC Case No. U-17631, the Company's 2013 RE Reconciliation Case;

- MPSC Case No. U-17803, the Company's 2014 RE Reconciliation Case;
- MPSC Case No. U-18081, the Company's 2015 RE Reconciliation Case;
- MPSC Case No. U-18241, the Company's 2016 RE Reconciliation Case;
- MPSC Case No. U-17918-R, the Company's 2016 Power Supply Cost Recovery ("PSCR") Reconciliation Case;
- MPSC Case No. U-20068, the Company's 2017 PSCR Reconciliation Case;
- MPSC Case No. U-20202, the Company's 2018 PSCR Reconciliation Case;
- MPSC Case No. U-20220, the Company's 2019 PSCR Reconciliation Case;
- MPSC Case No. U-20802, the Company's 2021 PSCR Plan Case; and
- MPSC Case No. U-20542, the Company's Gas Cost Recovery ("GCR") Reconciliation Case.

Q. What is the purpose of your direct testimony in this proceeding?

A. The purpose of my direct testimony is to describe the accounting for the Company's proposed voluntary Carbon Offset Program.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring the following exhibit:

Exhibit A-2 (HLP-1) Sample Journal Entries – Carbon Offset Program.

Q. Was this exhibit prepared by you or under your supervision?

A. Yes.

Q. Please describe the accounting for the Carbon Offset Program?

A. New revenue general ledger accounts will be created to track the total subscription payments charged enrolled customers. The total amount of these subscription payments will then be deferred or credited to a regulatory liability account created specifically for this program. When the Company purchases carbon offsets they will be placed into a unique inventory account, as the Company uses these carbon offsets for enrolled customers, the Company will expense the offsets at the weighted-average cost through other gas supply expense. The Company will then record the revenue, to match the expenses, drawing from the regulatory liability account established for this program. Any program administrative or marketing expenses will be tracked through unique identifiers in the Company's general ledger and the Company will record revenue, to match any such expenses, drawing from the regulatory liability account for the program.

Q. Will any costs of the program be reflected in the GCR?

A. No, as described by Company witness Neal P. Dreisig, only the customers who sign up for the program will pay for the cost of the program. As such, any costs related to this program will be segregated and not included in the GCR cost of gas sold or base rates, and therefore this program will have no effect on the Company's customers who do no elect to enroll in the program.

Q. Does this conclude your direct testimony in this proceeding?

A. Yes.

S T A T E O F M I C H I G A N

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of **CONSUMERS ENERGY COMPANY** for approval of a voluntary Carbon Offset Program.	)))))	Case No. U-21141

AFFIDAVIT OF HANNAH L. PATTON

Hannah L. Patton, being first duly sworn, deposes and says as follows:

1. I am a Senior Accounting Analyst III in the Electric and Gas Revenue and Fuel Reconciliation section of the General Accounting Department for Consumers Energy Company.

2. I am the witness who sponsors the accompanying testimony entitled Direct Testimony of Hannah L. Patton on Behalf of Consumers Energy Company (the "Testimony").

3. The Testimony was prepared by me and under my direction and supervision.

4. If inquiries were made as to the facts in the Testimony I would respond as set forth therein.

5. The Testimony is true and correct to the best of my knowledge, information, and belief.

Hannah L. Patton

Hannah L. Patton

Subscribed and sworn to before me this 15th day of October, 2021.

Melissa K. Harris

Melissa K. Harris, Notary Public
State of Michigan, County of Jackson
My Commission Expires: 06/11/2027
Acting in the County of Jackson

S T A T E O F M I C H I G A N

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of **CONSUMERS ENERGY COMPANY** for approval of a voluntary Carbon Offset Program.	)))))	Case No. U-21141

EXHIBIT

OF

HANNAH L. PATTON

ON BEHALF OF

CONSUMERS ENERGY COMPANY

October 2021

MICHIGAN PUBLIC SERVICE COMMISSION
Consumers Energy Company

Case No.: U-21141
Exhibit No.: A-2 (HLP-1)
Page: 1 of 1
Witness: HLPatton
Date: October 2021

Consumers Energy Company
Sample Journal Entries - Carbon Offsets Program

	Account Number	Account Name	Debit	Credit
	Journal Entry #1: To Bill Customers for Subscription to Gas Offsets Program			
1	142	Customer Accounts Receivable	XXX	
	495	Other Gas Revenue		XXX
	Journal Entry #2: To defer revenue into Regulatory Liability			
2	495	Other Gas Revenue	XXX	
	254	Carbon Offset REG Liability		XXX
	Journal Entry #3: To Record the Purchase of Carbon Offsets			
3	186	Carbon Offset Credit Inventory	XXX	
	131	Cash		XXX
	Journal Entry #4: To Record the Expenses Associated with Carbon Offsets Utilized For Program			
4	813	Other Gas Supply Expense -Carbon Offset	XXX	
	186	Carbon Offset Credit Inventory		XXX
	Journal Entry #5: To Record Revenue to Match Expenses			
5	254	Carbon Offset REG Liability	XXX	
	495	Other Gas Revenue		XXX
	Journal Entry #6: To Record Administrative or Other Expenses			
6	Various	O&M Expense	XXX	
	131	Cash		XXX
	Journal Entry #7: To Record Revenue to Match Administrative or Other Expenses			
7	254	Carbon Offset REG Liability	XXX	
	495	Other Gas Revenue		XXX