

Consumers Energy - Reliability at What Pace?

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Decision scope: Consumers Energy's electric distribution Reliability Roadmap and anticipated rate case

Case convention: This is an author-created management decision exercise. It does not describe private deliberations or claim that management formally considered the classroom alternatives. Use only information available by the cutoff; no later filing, order or performance outcome is part of the case.

The decision

On the morning of 25 April 2024, Consumers Energy CEO Garrick Rochow told investors that the company expected to file its next electric rate case in late May or early June. The filing would include initial spending from the utility's five-year electric Reliability Roadmap. Management had a large investment plan, but its public comments left open how quickly the program should scale, how work should be prioritized and what measures should demonstrate that customers were receiving value.

Consumers Energy serves customers across Michigan's Lower Peninsula. Its electric system includes about 90,000 miles of line and nearly 1,200 substations, according to management. The company describes its system as aging and exposed to higher winds and more frequent storms. Its proposed \$7 billion roadmap is \$3 billion above the previous plan. The company identifies stronger poles, targeted undergrounding, sectionalizing and automation among its methods. Management says the work should produce fewer and shorter outages. [S1], Item 7, "Electric Distribution-Reliability Roadmap," pp. 55-56; [S3], slide 4; [S4], printed p. 4.

That promise carries a customer cost. Consumers' broader five-year capital plan totals \$17 billion for 2024-28. It includes \$7.3 billion for electric distribution and other projects, \$6.3 billion for gas infrastructure and \$3.4 billion for clean generation. These categories overlap with the roadmap; they should not be added to the \$7 billion as if they were separate plans. The company expects more than 7% annual rate-base growth, subject to regulatory proceedings and cost control. [S1], Item 7, p. 61.

Assignment: Recommend how Consumers should shape the next phase of reliability investment ahead of its anticipated rate case. Decide how much to accelerate, how to combine capital work with operations and vegetation management, what evidence to require before scaling uncertain interventions, and how to address affordability and regulatory recovery. Explain what data should be reported to customers and the Michigan Public Service Commission (MPSC). Use the historical record available on 25 April 2024; do not assume a particular rate increase or recovery mechanism will be approved.

A large, overlapping investment program

Consumers' 2023 annual report describes the five-year roadmap as an update to the company's 2021 electric distribution infrastructure plan. It proposes \$7 billion over five years, \$3 billion more than the previous plan, for infrastructure upgrades, forestry management and grid modernization intended to reduce outage count and duration. The same report's broader capital plan covers \$17 billion of Consumers investment through 2028; its electric distribution-and-other component is \$7.3 billion. The published disclosures do not make the roadmap and that category additive. [S1], Item 7, pp. 55-56, 61.

During the April 25 call, Rochow said the company had incorporated roughly half of the incremental \$3 billion into its current capital plan. He described investment per mile as historically lower than peers and called the system a long-term investment opportunity. These are management's characterizations. The public packet does not provide a normalized peer comparison, project-by-project cost schedule or expected outage reduction by circuit. [S4], printed p. 4.

Exhibit 1. Consumers Energy's capital plans

USD billions; five-year plan periods as reported by Consumers and CMS Energy.

Disclosure	Period	Amount	What the filing says
Electric Reliability Roadmap	Five years from 2023 plan update	\$7.0	\$3.0bn above previous \$4.0bn plan; infrastructure, forestry, grid modernization.
Consumers total planned capital expenditures	2024-28	\$17.0	Electric distribution and other \$7.3bn; gas infrastructure \$6.3bn; clean generation \$3.4bn.
Utility capital plan	2024-28	\$17.0	CMS presentation describes the utility capital plan and says it is \$1.5bn above the prior plan.

Sources: [S1], Item 7, pp. 55-56, 61 and "Material Cash Requirements," pp. 72-73; [S3], slides 6 and 15 and endnote 6. The roadmap and the electric distribution-and-other category overlap. The disclosures do not establish that either \$7bn figure is an addition to total capex.

The roadmap mixes investments and operating methods. Hardening, undergrounding, sectionalizing and automation require project selection, construction time and capital. Tree and line management and restoration practices carry recurring operating requirements. The MPSC had asked Consumers to analyze its line-clearing cycle against customer outage costs, restoration costs and the expense of clearing. This makes the relative contribution of capital, maintenance and operating practice a strategic question, not just a budget question. [S2], paragraph on line-clearing analysis; [S1], Item 7, p. 56.

Reliability evidence and its limits

In February 2024, Consumers reported that nearly 90% of customers who lost power in 2023 were restored in under 24 hours. It reported an average outage duration of 176 minutes during normal weather, a 20-minute improvement over the prior five-year average. The company also reported 150 major upgrades, tree clearing along more than 7,000 miles of line, work on over 100 substations, nearly 100 automatic transfer reclosers and targeted undergrounding. [S5], release paragraphs 1-7.

These figures indicate activity and improvement, but do not establish how much improvement came from each intervention or what additional investment would achieve. The company does not provide circuit-level outage history, customer-class outage costs or an independent counterfactual in this packet. Average annual performance may also obscure the difference between everyday interruptions and severe storm events. Weather, system conditions, operating response and the mix of projects can all affect observed results.

Exhibit 2. Publicly reported reliability indicators

Measure	2023 / comparison	Source and definition
Customers restored within 24 hours	Nearly 90%	Consumers release; share of customers who lost power in 2023.
Average outage duration in normal weather	176 minutes	Consumers release; 20 minutes below the average for the previous five years.
Major upgrades	150	Consumers release; company-reported count of major upgrades in 2023.
Lines cleared	More than 7,000 miles	Consumers release; company-reported tree-clearing work in 2023.
Substations upgraded, rebuilt or expanded	More than 100	Consumers release; company-reported count.
Automatic transfer reclosers added	Nearly 100	Consumers release; company-reported count.

Source: [S5], 6 February 2024 release. These are issuer-reported measures, not independently verified causal estimates. The release does not provide a full time series, circuit comparison or project-level cost-effectiveness analysis.

Regulation and affordability

Consumers' prior electric rate case offers a recent example of how requested investment and eventual customer rates may differ. The company initially requested an annual \$216 million increase and later reduced that request to \$170.8 million. On March 1, the MPSC announced an approved increase of \$92.009 million. The MPSC release said a typical residential customer using 500 kWh a month would see a \$1.53, or 1.61%, increase. It reported an authorized 9.9% return on equity and 5.85% overall return on a \$13.669 billion jurisdictional rate base, compared with requested figures of 10.25% and 6.11%. [S2], rate-increase and allowed-return paragraphs.

The MPSC's public release said the Commission partially approved the investment recovery mechanism proposed in that earlier case, approved first-year costs for an undergrounding pilot, directed Consumers to share distribution investment plans, and required a future filing to connect operational metrics with proposed incentive compensation. It also said Consumers was directed to analyze line clearing using customer outage costs, restoration costs and line-clearing expense. The release summarizes the Commission's action and states that the Commission's order-not the release-is the official action. This case uses the release for its public summary and does not treat it as the text of the order. [S2], paragraphs on investment recovery, reporting, undergrounding and line clearing.

At the April 25 call, Rochow said the next filing would balance reliability investment and customer affordability, with cost offsets among the company's considerations. He said management expected to look again at an infrastructure recovery mechanism and consider a storm recovery mechanism. CFO Rejji Hayes said the filing would include initial roadmap spending; the company expected a Commission decision in Q1 2025. These were forward-looking management statements, not approved regulatory terms. [S4], printed pp. 6-7.

Exhibit 3. Prior case: request and reported outcome

Measure	Company request / MPSC-reported action
Initial annual increase request	\$216.0m
Later company request	\$170.8m
Increase the MPSC said it approved	\$92.009m
Typical residential use in example	500 kWh/month
Typical monthly increase in MPSC release	\$1.53 (1.61%)
Requested / authorized ROE	10.25% / 9.9%
Requested / authorized overall return	6.11% / 5.85%
Rate base reported in the release	\$13.669bn

Source: [S2], MPSC public release on Case U-21389, 1 March 2024. Figures are reported as the MPSC summarized them. The authorized increase is not a forecast for the next case, and no “approval ratio” should be carried mechanically into a new filing.

Earnings context and investment drivers

CMS Energy reported first-quarter 2024 GAAP EPS of \$0.96 and adjusted EPS of \$0.97, compared with \$0.69 and \$0.70 in the first quarter of 2023. It reaffirmed 2024 adjusted EPS guidance of \$3.29-\$3.35. The release attributed the adjusted increase primarily to higher weather-normalized sales and lower storm-restoration costs. Management describes adjusted earnings as a supplemental non-GAAP measure; it is not a substitute for reported earnings. [S3], Q1 release and financial statements.

The investment choice also sits within company-wide funding and regulatory constraints. Capital is deployed across Consumers' electric and gas systems and its clean generation program. CMS Energy's presentation describes its utility investment plan as \$17 billion over 2024-28 and shows rating-agency reaffirmations in March and April. The materials provide no

project-level financing plan or guarantee that future capex will be placed in rate base on the expected schedule. [S3], slides 8 and 15.

A neighboring utility's investment plan

DTE Energy, another Michigan utility, projected \$20 billion of DTE Electric capital investment for 2024-28: \$9 billion for distribution infrastructure, \$4 billion for base infrastructure and \$7 billion for cleaner generation. [S6], Item 7, "Capital Investments." This gives students local context for system investment and competition for regulatory and customer attention. DTE has a different service territory, scale and capital mix; the figures are not a normalized reliability or cost-efficiency benchmark.

What research can-and cannot-tell you

Two studies offer useful mechanisms and measurement ideas. Neither estimates the effect or cost-effectiveness of Consumers Energy's roadmap.

Cambini, Rondi and Fumagalli examine quality incentives and investment at Enel, Italy's largest electricity distributor. Their dataset is a balanced panel of 115 distribution zones from 2004 to 2009. Fixed-effects models relate network assets and operations to SAIDI; dynamic panel and Granger tests examine how regulatory rewards and penalties relate to subsequent spending. They report that underground cable share and automated secondary substations are associated with lower SAIDI in their sample. Lagged quality incentives predict later investment in their Granger tests, while lagged investment does not predict incentives. Effects differ by baseline performance: penalties are associated with investment in low-performing zones, while rewards are associated with investment in top-performing zones. [S7], §§4-6, Tables 4-6.

This is evidence about a different country, operator, period and incentive system. The findings do not establish that a given Consumers project will produce the same minutes saved, nor that any particular recovery mechanism will improve service. The authors note that operating-cost data are aggregated and that many network interventions have multiple purposes. Read their results as a reason to distinguish capital, operations and baseline conditions and to monitor outcomes, not as a transferable forecast.

Lawton and coauthors combine 24 outage-cost studies conducted by eight U.S. utilities from 1989 to 2002. They standardize the survey data and estimate customer damage functions using Tobit models that accommodate zero-cost responses. For a one-hour summer-afternoon outage, the report estimates average costs of about \$3 for residential customers, \$1,200 for small/medium commercial and industrial customers, and \$82,000 for large commercial and industrial customers, in 2002 dollars. [S8], abstract and §§2-6.

The report shows why outage duration, timing, customer type and geography matter when assessing reliability benefits. Its estimates are old, survey-based and drawn from varied study designs; some residential models lack Midwest and Northeast observations. They are not Consumers-specific willingness-to-pay or a benefit-cost estimate for its roadmap. Consider what local, circuit-level and customer-class information would be needed before relying on such a calculation.

Your recommendation

Prepare a decision memo for Consumers Energy's senior leadership ahead of its anticipated electric rate filing. Recommend how to phase the Reliability Roadmap and what evidence and customer protections should accompany it. You may recommend accelerating hardening, targeting projects by circuit and expected customer benefit, or staging spending while testing alternatives. State the trade-offs, identify the strongest argument against your recommendation, and explain what evidence would cause you to change course.

In your memo:

- distinguish the five-year roadmap from the broader \$17 billion capital plan;
- address the roles of capital work, vegetation management, automation and operating response;
- discuss reliability, storm resilience, affordability, recovery timing and customer cost allocation;
- propose a practical way to measure results and report progress;
- identify the evidence missing from the public record that matters most to your recommendation.

Do not assume that all spending will be approved, immediately recoverable or equally beneficial across circuits. Do not treat management's asserted benefits or the competitor's investment scale as proven outcomes.

Discussion questions

1. How should Consumers define “improved reliability” for this decision? Which customer groups and outage types might be hidden by averages?
2. Which interventions should lead the next phase of the roadmap, and why? What mix of capital and operating work is credible?
3. What evidence and safeguards should accompany a request for faster recovery? How should the company address the MPSC's recent requests for measurement and line-clearing analysis?
4. How should the investment plan account for affordability and the distribution of costs and benefits among customer classes?
5. What should Consumers measure over the next two years to determine whether the plan is working, and what would make you revise your recommendation?

Sources and conventions

S1. CMS Energy and Consumers Energy, 2023 Form 10-K, year ended 31 December 2023, filed 8 February 2024, [SEC filing](#), [company annual report PDF](#). Item 7, Consumers Electric Utility, “Reliability Roadmap,” pp. 55-56; “Capital Investment,” p. 61; “Material Cash Requirements,” pp. 72-73.

S2. Michigan Public Service Commission, “MPSC approves \$92M rate increase for Consumers Energy electric customers,” 1 March 2024, [public release](#), Case U-21389. The cited release summarizes the order and is not the order itself.

S3. CMS Energy, 2024 Q1 results release, 25 April 2024, [company release](#), and [Q1 Results & Outlook presentation](#), 25 April 2024. Slides 4, 6, 8, 9 and 15; endnote 6.

S4. CMS Energy, Q1 2024 earnings call, public call held 25 April 2024, [edited transcript linked from investor relations](#). Printed pp. 4, 6-8. Statements are attributed to CEO Garrick Rochow and CFO Rejji Hayes; transcript is an edited record of the public call.

S5. Consumers Energy, “Reliability Roadmap: Power Restored to Nearly 90% of Customers in Less Than 24 Hours in 2023,” 6 February 2024, [company release](#).

S6. DTE Energy, 2023 Form 10-K, filed 8 February 2024, [SEC filing](#), Item 7, “Capital Investments.”

S7. Cambini, Carlo, Laura Rondi and Elena Fumagalli. “Incentives to Quality and Investment: Evidence from Electricity Distribution in Italy.” *Journal of Regulatory Economics* 49(1) (2016), 1-32. [Publisher DOI](#); [author-uploaded July 2015 manuscript](#). Student locators: §§4-6, Tables 4-6. The manuscript is an author draft, not the publisher-formatted article.

S8. Lawton, Leora, Michael J. Sullivan, Kent Van Liere, Aaron Katz and Joseph Eto. *A Framework and Review of Customer Outage Costs: Integration and Analysis of Electric Utility Outage Cost Surveys*. Lawrence Berkeley National Laboratory, LBNL-54365 (November 2003). [Full report](#). Student locators: abstract; §§2-6.

All monetary values are nominal USD unless stated. Management statements, plans and forecasts are distinguished from MPSC actions and reported financial results. No later rate-case filing or outcome is included.