

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
MICHIGAN CONSOLIDATED GAS COMPANY for)
authority to implement deferral accounting and to)
recover customer choice education expenditures.)
_____)

Case No. U-12983

At the May 16, 2002 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. Laura Chappelle, Chairman
Hon. David A. Svanda, Commissioner
Hon. Robert B. Nelson, Commissioner

OPINION AND ORDER

On June 14, 2001, Michigan Consolidated Gas Company (Mich Con) filed an application, with supporting testimony and exhibits, requesting authority to implement deferral accounting as a means of recovering its expenditures for participation in the statewide customer choice education program (statewide program).

Pursuant to due notice, a prehearing conference was held on September 17, 2001 before Administrative Law Judge James N. Rigas. Mich Con, Attorney General Jennifer M. Granholm, and the Commission Staff participated in the proceedings.

Subsequently, the parties submitted a settlement agreement resolving all issues in this case.

According to the terms of the settlement agreement, attached as Exhibit A, the parties agree that Mich Con's expenditures arising from participation in the statewide program should be

recovered through the use of deferral accounting, and that Commission approval of the settlement agreement is therefore appropriate.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1909 PA 300, as amended, MCL 462.2 et seq.; 1919 PA 419, as amended, MCL 460.51 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq.; 1982 PA 304, as amended, MCL 460.6h et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1992 AACCS, R 460.17101 et seq.

b. The settlement agreement is reasonable and in the public interest, and should be approved.

THEREFORE, IT IS ORDERED that:

A. The settlement agreement, attached as Exhibit A, is approved.

B. Michigan Consolidated Gas Company is authorized to implement deferral accounting as a means of recovering its expenditures for participation in the statewide customer choice education program.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ Laura Chappelle
Chairman

(S E A L)

/s/ David A. Svanda
Commissioner

/s/ Robert B. Nelson
Commissioner

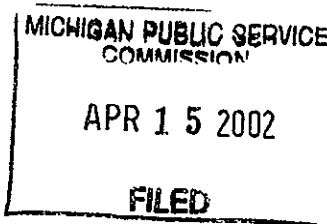
By its action of May 16, 2002.

/s/ Dorothy Wideman
Its Executive Secretary

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of Michigan)
 Consolidated Gas Company for Authorization)
 To Implement Deferral Accounting and recover)
 Customer Choice Education Expenditures)



Case No. U-12983

SETTLEMENT AGREEMENT

On June 14, 2001, Michigan Consolidated gas Company (MichCon) filed an application seeking advanced rate making and deferred accounting authority as a prerequisite to MichCon's participation in a combined gas and electric CHOICE education program called the "Statewide Customer Education Program" ("Statewide Program" or "Program"). The Statewide Program is the product of industry, consumer and governmental agency collaboration which resulted in a comprehensive plan designed to provide CHOICE education to both electric and gas or just electric customers. The Program is consistent with Section 10r(2) of 2000 PA 141; MCL 460.10r(2) which required implementation of a funding mechanism for an electric open access program by January 1, 2002, and provided the practical benefits of integrating the administration of gas CHOICE education under a combined electric and gas plan.

On October 11, 2001 the Commission issued its Order in Case No. U-12133 approving the Statewide Program, as amended by the April, 2001 settlement agreement, but *only* for electric utilities (subsequently referred to as the "April 2001 Agreement"). The same statutory authority that provides for recovery of electric CHOICE education costs, and requires implementation of electric CHOICE programs, does not exist for gas. MichCon's application is designed to provide for the recognition of the Company's belief that gas CHOICE programs are

voluntary in nature, and through Commission order, provide the means to allow MichCon recovery of CHOICE education costs. The parties to this Settlement Agreement ("Agreement") expect that the provisions of the April 2001 Agreement, combined with the appropriate Commission order, will provide the relief requested by MichCon and resolve all of the issues in this proceeding. Accordingly the parties agree as follows:

1. In consideration of the Commission's order in case U-12133, natural gas CHOICE education may be developed, and to the extent possible under different statutory provisions, integrated with the Commission approved Statewide Program.
2. To accomplish integration of MichCon's gas CHOICE education with the Statewide Program, MichCon will, upon Commission approval of this Agreement and issuance of a Commission order as described in Paragraph 3, participate subject to the terms of the April 2001 Agreement, in the Statewide Program.
3. MichCon's participation in the Statewide program is contingent upon Commission approval of this Agreement, as well as a Commission order that establishes the Statewide Program as a combined electric and gas education program. The parties acknowledge that the Commission's order must include proper recognition of the number of gas utilities that have agreed to participate in both the budgeting of CHOICE education funds as well as appropriate pro-rata allocation of those funds by total meter count among the participating gas utilities. In the event that MichCon is the only gas utility that participates in the Statewide Program the budget for CHOICE education should be capped at the dollar amount that reflects that gas CHOICE educational materials are aimed at reaching customers within MichCon's service territory.

4. The following process will be used as the means for MichCon to recover gas CHOICE education expenditures:
- a) MichCon shall file with the Commission Staff, and provide a copy to all parties to this proceeding, an annual reconciliation of its revenues and expenses for the Statewide CHOICE education program. MichCon shall submit its first report for the first calendar year when the summation of its CHOICE education expenditures actually reach \$1 million. The first report shall include a proposed method for implementing the surcharge recovery mechanism described in Paragraph 5. Subsequent reports, based upon the previous calendar year, shall be submitted by April 1 of each following year thereafter, through the two calendar years subsequent to the termination of the Statewide Program, and shall utilize the same Commission approved surcharge recovery mechanism. All report filings will include workpapers.
 - b) Commission Staff ("Staff") will review the annual filing and prepare a report in response to each filing. Staff will serve a copy of their report on each party to this proceeding.
 - c) A party may, upon reviewing Staff's reports request that the Commission initiate a contested case proceeding to review MichCon's filing. The period for requesting a contested case proceeding shall commence upon the party's receipt of Staff's MichCon report and shall continue until the latter of:
 - (i) 45 days after the party's receipt of the Staff's MichCon report; or

- (ii) 45 days after the Staff publicly issues its last contemporaneous report per paragraph 14 of the April 2001 Settlement Agreement in Case No. U-12133; or
 - (iii) 10 business days after a request for a contested case proceeding is filed at the Commission in any contemporaneous CHOICE proceeding.
- d) If a contested case proceeding is initiated, it will be for the purpose of reviewing:
- 1) the Staff report, 2) the sufficiency of MichCon's accounting for CHOICE education program revenues and expenses, 3) only those expenditures and decisions alleged to be inconsistent with the Program, including any expenditures or decisions alleged to be inconsistent with the recommendations and decisions of the CHOICE Advisory Council and the Council subcommittee, and 4) the surcharge recovery mechanism and amounts.
5. All CHOICE expenditures that MichCon incurs that are not subject to a contested case proceeding are deemed to be consistent with the Statewide Program. Expenditures that are consistent with the Program are recoverable in a separate surcharge. This surcharge will be billed to *all* MichCon customers using the meter count allocation process for gas utilities contained in Attachment B to the April 2001 Agreement. The meter count allocation process will be modified to reflect the number of gas utilities that participate in the Program. The modified allocation process will also be reflected in the Commission's order as discussed in Paragraph 3 which is necessary to address appropriate budget and participation issues. The surcharge shall be implemented in the first available billing cycle that occurs once expenditures are determined to be consistent with the Statewide Program.

6. Upon issuance of a Commission order approving this Agreement, including the provisions of Paragraph 3 of this Agreement, MichCon will actively participate in the customer CHOICE education plan established by the CHOICE Advisory Council and incur customer CHOICE education costs as described in the April 2001 Agreement.
7. Consistent with the methods proposed in the April 2001 Agreement, as modified by paragraph 4(a) of this Agreement, MichCon will defer all costs incurred in the implementation of CHOICE education debiting these costs to Account 186 – Miscellaneous Deferred Debits. MichCon will accrue a carrying charge on any deferred balance at a rate equal to the Company's after-tax weighted average cost of capital approved by the Commission in its most recent rate order. CHOICE Program surcharge amounts collected and costs expensed by the Company shall be recorded in separate sub-accounts. Revenue from such surcharges shall be recorded in a sub-account of Account 400, Operating Revenues. Costs charged to operating expense from Account 186 shall be recorded in a sub-account of Account 930.1, General Advertising Expenses. Entries shall be supported by source documents such as work orders and vendors' bills.
8. A party's signature on this Agreement does not constitute a waiver of that party's right to challenge the Commission's jurisdiction and authority with respect to the subject matter of this Agreement if this Agreement is not adopted in its entirety, or the Commission issues an order modifying this Agreement.
9. The Company shall file with the Commission with service to the parties to this case, a summary reconciliation of all surcharge revenues collected and expenses incurred for the multi-year period ended two calendar years after the termination of the Statewide

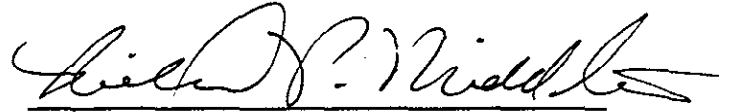
CHOICE Program. As part of this summary reconciliation filing the parties may propose a method of dealing with any over or under recoveries.

10. This Settlement Agreement has been made for the sole and express purpose of reaching a compromise among the positions of the signatories without prejudice to their rights to take new and/or different positions in other proceedings. All offers of settlement and discussions relating to this settlement agreement shall be considered privileged under MRE 408. If the Commission approves this Settlement Agreement without modification, neither the parties to this Settlement Agreement nor the Commission shall make any reference to or use this Settlement Agreement to the order approving it as a reason, authority, rationale, or example for taking any action or position or making any subsequent decision in any other case or proceeding; provided however, such references or use may be made to enforce the Agreement and order.
11. Unless the Commission approves this Agreement in its entirety, it shall be withdrawn.

12. The provisions of Section 81 of the Administrative Procedures Act may be waived.



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