

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)	
AQUILA NETWORKS – MGU, f/k/a MICHIGAN)	
GAS UTILITIES, for authority to increase its rates)	Case No. U-13470
for natural gas service and for other relief.)	
_____)	

At the March 12, 2003 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

ORDER APPROVING SETTLEMENT AGREEMENT

On August 2, 2002, Aquila Networks-MGU (Aquila) filed an application, with supporting testimony and exhibits, requesting authority to increase its rates for retail natural gas service by \$14,283,246 annually. Aquila also filed a motion for partial and immediate rate relief requesting an interim rate increase of \$9,281,000 annually.

Pursuant to due notice, a prehearing conference was held September 24, 2002 before Administrative Law Judge James N. Rigas. Aquila and the Commission Staff (Staff) participated in the proceedings, and petitions to intervene filed by Attorney General Jennifer M. Granholm¹ (Attorney General) and Wolverine Power Supply Cooperative, Inc., were granted. At a hearing on November 14, 2002, the petition to intervene filed by the Association of Businesses Advocating Tariff Equity (ABATE) was granted on a post-interim case basis. On December 6, 2002, the

¹On January 1, 2003, Michael A. Cox replaced Jennifer M. Granholm as Attorney General.

Commission issued an order in this case that approved a settlement agreement and authorized Aquila to increase its annual gas revenues by \$8,243,647 on an interim basis.

Subsequently, the parties entered into a settlement agreement resolving all issues pending for final decision in this case.

According to the terms of the settlement agreement, attached as Exhibit A, the parties agree that Aquila's retail electric rates should be increased by \$9.1 million annually based on a projected test year ending December 31, 2003 and a return on common equity of 11.40%. Coincident with the filing of the rate case settlement agreement, Aquila, the Attorney General, and the Staff submitted a settlement agreement revising Aquila's depreciation rates in Aquila's pending depreciation proceeding, Case No. U-13393. The Commission is today issuing an order approving the settlement agreement in Case No. U-13393. The rates reflected in the revised rate case tariff sheets set forth on Appendix A to the rate case settlement agreement incorporate the revised depreciation rates.

The parties also agree that the personal property tax expense used in calculating the rates reflects the new personal property tax multiplier tables to the extent taxing districts are using them, and that no further adjustment to rates is necessary to resolve the issues raised in the November 7, 2002 order in Case No. U-13610. The parties agree that the unbundled cost of service allocation study submitted by Aquila in this docket complies with the July 11, 2001 order in Case No. U-12550.

The settlement agreement also reflects Aquila's agreement to adopt the Affiliate Transaction Guidelines currently applicable to Michigan Consolidated Gas Company, as set forth in the Commission's October 28, 1993 order in Case No. U-10150, and further revised to reflect the fact that Aquila does not operate under a holding company structure. Finally, the settlement agreement

addresses potential financing arrangements for Aquila that may require the encumbrance of utility assets for regulated and unregulated operations. In the settlement agreement, the Staff does not endorse such encumbrances and reserves that right to challenge any adverse effects on Aquila's Michigan ratepayers.

After a review of the settlement agreement, the Commission finds that the agreement is reasonable and in the public interest, and should be approved.

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.; 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.
- c. Partial and immediate relief should be terminated.

THEREFORE, IT IS ORDERED that:

- A. The settlement agreement, attached as Exhibit A, is approved. Due to their length, the appendices to the settlement agreement are not attached to copies of this order.
- B. On the day following issuance of this order, Aquila Networks-MGU shall implement the rates for the sale of natural gas, as well as the rates for gas transportation service and related services, approved by this order.
- C. Within 30 days of the issuance of this order, Aquila Networks-MGU shall file with the Commission four sets of tariff sheets essentially the same as those set forth in Appendix A to the settlement agreement.

D. Partial and immediate rate relief is terminated.

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 March 12, 2003.

/s/ Dorothy Wideman
Its Executive Secretary

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)	
AQUILA NETWORKS – MGU (formerly known as)	
MICHIGAN GAS UTILITIES) for authority to)	Case No. U-13470
increase its rates for natural gas service and for other)	
relief.)	
_____)	

SETTLEMENT AGREEMENT

Pursuant to MCL 24.278 and Rule 333 of the Rules of Practice and Procedure before the Michigan Public Service Commission (“MPSC” or “Commission”), Aquila Networks – MGU (“Aquila”), formerly known as Michigan Gas Utilities or MGU, the MPSC Staff (“Staff”), Attorney General Mike Cox (“AG”), the Association of Businesses Advocating Tariff Equity (“ABATE”) and Wolverine Power Supply Cooperative, Inc. (“Wolverine”) agree as follows:

1. On August 2, 2002, Aquila submitted its application, testimony, exhibits and motion for partial and immediate rate relief, in support of proposed interim and final revenue increases of \$9,281,000 and \$14,283,246, respectively.
2. On August 22, 2002, the Commission issued its Notice of Hearing, scheduling a prehearing conference for September 24, 2002, before the Honorable James N. Rigas.
3. In accordance with the Commission’s Notice of Hearing, Aquila provided notice of this proceeding throughout its service territory.
4. At the prehearing conference on September 24, 2002, Aquila’s proof of mailing and publication were accepted without objection, and the petitions to intervene of the AG and Wolverine were granted. Staff also entered its appearance and participated in the prehearing conference.

DYKEMA GOSSETT A PROFESSIONAL LIMITED LIABILITY COMPANY, 111 W. ALLEGAN STREET, SUITE 800, LANSING, MICHIGAN 48933-1742

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5. On November 8, 2002, with respect to Aquila's interim case, two filings were submitted – (i) Staff filed its interim report through testimony and exhibits of Susan Crimmins Devon and (ii) the AG filed interim testimony through Ralph E. Miller.

6. On November 14, 2002, at the hearing on interim, the evidentiary presentations of Aquila, Staff and the AG were bound into the record and their proposed interim exhibits were admitted into evidence.

7. On November 14, 2002, ABATE was permitted to intervene on a post-interim case basis.

8. On or about November 20, 2002, Aquila, Staff, the AG and Wolverine submitted an executed settlement agreement recommending interim relief in the amount of \$8,243,647.

9. On December 6, 2002, the Commission issued its Order Approving Interim Settlement Agreement authorizing Aquila to increase its annual gas revenues by \$8,243,647 and to place into effect interim surcharges with respect thereto for service rendered on and after December 7, 2002.

10. Since the August 2, 2002, filing of Aquila's testimony and exhibits, the parties have engaged in extensive discovery and review of Aquila's rate filing.

11. On January 27, 2003, and January 28, 2003, the parties engaged in extensive negotiations at the Commission's offices, which negotiations have led to the agreements incorporated in this settlement agreement.

12. It is the opinion of the signatories hereto that this settlement agreement will aid the expeditious conclusion of this proceeding, and will minimize expense which would otherwise have to be devoted to this matter by the Commission and the parties.

13. This settlement agreement finally resolves this case and all provisions of the settlement agreement are dependent upon all other provisions.

14. By this settlement agreement, Aquila, Staff, the AG, ABATE and Wolverine agree as follows:

A. Aquila's rates should be adjusted to provide an annual revenue increase of \$9.1 million based on a 2003 projected test year and a return on common equity of 11.40%.

B. Coincident with the filing of this settlement agreement, Aquila, the AG and Staff are submitting a settlement agreement revising Aquila's depreciation rates in Aquila's pending depreciation proceeding, Case No. U-13393. The depreciation rates adopted therein are approximately \$700,000 less than requested in Aquila's application. The rates reflected on the tariff sheets attached hereto as Exhibit A reflect incorporation of those revised depreciation rates in this rate case settlement agreement, the impact of which reduces the \$9.1 million revenue deficiency by \$700,000.

C. On a class-by-class basis, the tariff sheets in Exhibit A implement the percentage rate increases set forth on the attached Exhibit B.

D. The rates reflected in Exhibit A are to be effective for service rendered on and after the day following the issuance of a Commission order approving this settlement agreement.

E. It is further agreed that the personal property tax expense used in calculating the rates set forth on Exhibit A reflects the new personal property tax multiplier tables to the extent taxing districts are using them. Therefore, no further adjustment to Aquila's rates is necessary in response to the Commission's November 7, 2002, order in Case No. U-13610.

F. It is further agreed that the unbundled cost of service allocation study submitted by Aquila in this docket constitutes compliance with Order ¶B of the Commission's July 11, 2001, Opinion and Order in Case No. U-12550,¹ dated July 11, 2001.

G. Aquila adopts relevant concepts incorporated in the Affiliate Transaction Guidelines currently applicable to Michigan Consolidated Gas Company, as set forth in the Commission's October 28, 1993, order in Case No. U-10150. However, in view of the fact that the holding company structure inherent in the Case No. U-10150 Affiliate Transaction Guidelines is inapplicable to Aquila, such guidelines have been revised for Aquila, as set forth in attached Exhibit C.

H. Staff is aware that Aquila's financing arrangements may include encumbering Michigan utility assets for out of state operations. Staff does not endorse such encumbrance and reserves the right to challenge any adverse impact on ratepayers resulting from such financing in future rate proceedings.

I. By this settlement agreement, Aquila agrees that it is responsible for the provision of safe, reliable and economic service.

J. Each signatory agrees not to appeal, challenge or contest the rates approved by the Commission in this case if they are the result of a Commission order accepting and approving this settlement agreement without modification. If the Commission does not accept this settlement agreement without modification, this settlement agreement shall be withdrawn and shall not constitute any part of the record in this proceedings or be used for any other purpose whatsoever.


¹ In the matter, on the Commission's own motion, to establish uniform terms and conditions for the provision of voluntary gas customer choice programs offered in Michigan.

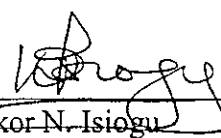
K. The signatories recommend that the Commission issue its Order Adopting Settlement Agreement in the form attached as Exhibit D.

L. Section 81 of the Administrative Procedures Act of 1969 is waived by the signatories.

AQUILA NETWORKS - MGU

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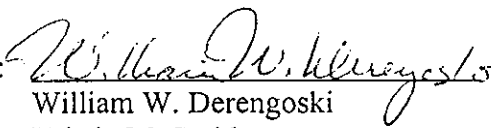
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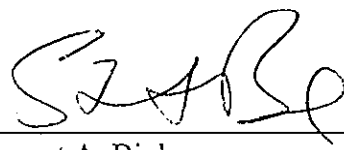
Dated: 2/14/03

Dated: February 21, 2003

MICHIGAN PUBLIC SERVICE
COMMISSION STAFF

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Dated: 2/14/03

ASSOCIATION OF BUSINESS
ADVOCATING TARIFF EQUITY

Only as to non-objection to Settlement
Agreement

By: _____

Michael P. Calabreze for Michael P. Calabreze

Michael P. Calabreze
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Dated: _____

2/14/03

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