

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)	
MICHIGAN CONSOLIDATED GAS COMPANY)	
for approval of a gas cost recovery plan, 5-year)	Case No. U-13549
forecast, and monthly GCR factor for calendar)	
year 2003.)	
_____)	

At the January 21, 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

**TEMPORARY ORDER APPROVING A
REVISED GAS COST RECOVERY FACTOR**

On September 27, 2002, Michigan Consolidated Gas Company (Mich Con) filed an application, testimony, and exhibits requesting authority to implement a gas cost recovery (GCR) plan and factors for the 12-month period ending December 31, 2003.

Pursuant to due notice, a prehearing conference was held on November 25, 2002 before Administrative Law Judge James N. Rigas (ALJ). At the prehearing conference, the ALJ granted petitions to intervene filed by Attorney General Jennifer Granholm¹ (Attorney General) and the Residential Ratepayer Consortium (RRC). The Commission Staff (Staff) also participated in the proceedings.

¹ Michael A. Cox became Attorney General on January 1, 2003.

On January 16, 2003, Mich Con, the Attorney General, the RRC, and the Staff filed a joint motion, pursuant to MCL 460.6h(8) and (9), requesting that the Commission issue a temporary order approving a revised maximum 2003 GCR factor for Mich Con.

As part of its proposed 2003 GCR plan, Mich Con projected purchases of about 157 billion cubic feet for its GCR sales customers. According to Mich Con's plan, it had already fixed the price of approximately 65%, or 97 billion cubic feet, of its projected gas supply requirement. Mich Con anticipated that the remaining 35%, or approximately 60 billion cubic feet, would be purchased at prices indexed to future NYMEX gas prices or indexed to the price of gas on the spot market. At the time it filed its original application in this case, its projected weighted average cost of gas for 2003 would require a maximum 2003 GCR factor of \$4.14 per thousand cubic feet (Mcf).

According to the joint motion, recent and unanticipated increases in market prices for natural gas have placed Mich Con at risk to experience a GCR underrecovery for 2003. NYMEX futures market prices have increased significantly above the NYMEX prices that supported the \$4.14 per Mcf maximum factor requested in Mich Con's original application. As shown in Attachment A to the motion, the average NYMEX gas price for 2003 of \$3.819 per Mcf that supported Mich Con's proposed \$4.14 per Mcf factor, has risen to \$4.907 per Mcf. As a result, even if Mich Con's proposed \$4.14 per Mcf factor were approved by the Commission and charged for the remainder of the 2003 GCR year, Mich Con projects that it would experience a gas cost underrecovery of approximately \$60 million.

The joint motion asserts that delaying recovery of these increases in gas costs would burden Mich Con's customers by moving these additional costs, plus interest at Mich Con's short-term debt rate, into 2004. In addition, the motion points out that if no adjustment is made to Mich

Con's 2003 GCR factor, not only would Mich Con's GCR sales customers see dramatic increases in the GCR rate beginning in 2004, but Mich Con's GCR rates for both 2003 and 2004 would not reflect the then-current prices in the overall gas supply market. The joint motion maintains that such pricing would send conflicting and confusing signals to the competitive gas customer choice market in Michigan.

The joint motion concludes that the underrecovery carried into 2004, and the related interest costs, can be reduced and may be largely avoided if Mich Con is authorized to implement a maximum GCR factor of \$4.575 per Mcf beginning with the first billing cycle in February 2003 and continuing for the remaining months of the 2003 GCR plan or until the Commission issues its final order in this proceeding. Further, the joint motion says that prompt approval of the requested increase is necessary because 50% of Mich Con's annual cost of gas is recovered during the first three months of each year.

The joint motion therefore requests that the Commission issue a temporary order approving a new maximum 2003 GCR factor, subject to full review of the reasonableness and prudence of Mich Con's actions during 2003 in the 2003 GCR plan case and the 2003 GCR reconciliation case. Finally, to expedite issuance of the temporary order, the parties waive their rights to the full and complete hearing required by MCL 460.6h(8).

The Commission finds that the relief requested in the joint motion should be granted. The motion indicates a consensus among the parties about Mich Con's 2003 GCR factor and the importance of averting a substantial GCR underrecovery. Moreover, because all issues concerning the reasonableness and prudence of Mich Con's 2003 GCR plan and the utility's actual gas acquisition policies remain subject to further review, the Commission is persuaded that granting the relief requested in the joint motion is in the public interest.

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 24201 et. seq.; and the Commission's Rules of Practice and Procedure, 1992 AACS R 460.17101 et. seq.

B. The relief requested in the joint motion should be granted.

THEREFORE, IT IS ORDERED that Michigan Consolidated Gas Company is authorized to charge a monthly gas cost recovery factor of up to \$4.575 per thousand cubic feet for the billing months February through December 2003.

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 E A L)

/s/ Laura Chappelle
Chairman

By its action of January 21, 2003.

/s/ David A. Svanda
Commissioner

/s/ Dorothy Wideman
Its Executive Secretary

/s/ Robert B. Nelson
Commissioner

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B. The relief requested in the joint motion should be granted.

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Suggested Minute:

“Adopt and issue order dated January 21, 2003 approving a revised gas cost recovery factor for Michigan Consolidated Gas Company as requested by the joint motion of the parties, as set forth in the order.”