

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)	
MICHIGAN CONSOLIDATED GAS COMPANY)	
for authority to implement a gas cost recovery)	Case No. U-13549
plan and factors for calendar year 2003.)	
_____)	

At the June 27, 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 GAS COST RECOVERY FACTOR

On September 27, 2002, Michigan Consolidated Gas Company (Mich Con) filed an application for approval of its gas cost recovery (GCR) plan and factors for 2003, with prefiled testimony and exhibits, supporting a factor of up to \$4.14 per thousand cubic feet (Mcf).

At a prehearing conference on November 25, 2002, Administrative Law Judge James N. Rigas (ALJ) granted leave to intervene to Attorney General Michael A. Cox (Attorney General) and the Residential Ratepayer Consortium (RRC), and approved a procedural schedule. The Commission Staff (Staff) also participated.

By early January 2003, New York Mercantile Exchange (NYMEX) futures market prices for natural gas had increased significantly. On January 21, 2003, following a joint motion requesting the approval of a revised maximum GCR factor, the Commission approved a maximum GCR factor of \$4.575 per Mcf for the remainder of 2003.

On March 21, 2003, the parties submitted an interim settlement agreement that provides for a temporary GCR factor of up to \$4.97 per Mcf. Mich Con and the Staff supported the interim settlement agreement. The Attorney General and RRC filed statements of non-objection.

The interim settlement agreement provides that it would be reasonable and appropriate for the Commission to issue a temporary order authorizing Mich Con to charge a temporary GCR factor up to \$4.97 per Mcf until the Commission issues a final order in this docket. The parties reserve the right to support or challenge the reasonableness and prudence of Mich Con's actual 2003 gas supply costs in future proceedings in this case or in Mich Con's 2003 GCR reconciliation case. The interim settlement agreement further provides that if Mich Con believes that its current GCR underrecovery status has been sufficiently mitigated, it will prospectively reduce its GCR factor at its first reasonable opportunity to do so.

The GCR process was created by the Legislature over 20 years ago to protect ratepayers from automatic adjustment clauses and to enable utilities to recover their gas costs, albeit without a markup or a profit of any kind. The Commission is required to annually review a utility's GCR plan and to conduct a second review after conclusion of each plan year to verify the utility's entitlement to recovery of such costs. In so doing, the burden is on the utility to demonstrate that its GCR costs are attributable to reasonable and prudent management decisions. The Commission has, on many occasions, disallowed the recovery of costs that were not so attributed.

Based on the interim settlement agreement, the Commission concludes, pursuant to MCL 460.6h(8), that it would be appropriate to authorize Mich Con to charge a temporary GCR factor up to \$4.97 per Mcf until the Commission issues a final order in this docket. Moreover, because all issues concerning the reasonableness and prudence of Mich Con's 2003 GCR plan and the utility's gas acquisition policy will remain subject to review in this proceeding, the Commis-

sion is persuaded that granting the relief recommended in the interim settlement is in the public interest. Today's action will mean that the monthly bills of a typical residential customer using 1,200 hundred cubic feet (ccf) of gas will increase by an average of \$1.51 per month during the summer and by an average of \$6.48 per month during the winter.

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, 1999 AC, R 460.17101 et seq.
- b. The interim settlement agreement, attached as Exhibit A, is approved.
- c. Mich Con should be authorized to implement a temporary GCR factor of up to \$4.97 per Mcf until the Commission issues a final order in this docket.

THEREFORE, IT IS ORDERED that:

- A. The interim settlement agreement, attached as Exhibit A, is approved.
- B. Michigan Consolidated Gas Company is authorized to implement a temporary GCR factor of up to \$4.97 per thousand cubic feet until the Commission issues a final order in this docket.
- C. Michigan Consolidated Gas Company shall file, within 30 days, tariff sheets consistent with this order.

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

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 June 27, 2003.

/s/ Robert W. Kehres
Its Acting Executive Secretary

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

MICHIGAN PUBLIC SERVICE COMMISSION

Chairman

Commissioner

Commissioner

By its action of June 27, 2003.

Its Acting Executive Secretary

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Application of)
 Michigan Consolidated Gas Company)
 For approval of Gas Cost Recovery Plan,)
 5-Year Forecast and Monthly GCR Factor)
for Calendar Year 2003)

Case No. U-13549

**JOINT MOTION FOR TEMPORARY ORDER
APPROVING A GCR FACTOR**

Michigan Consolidated Gas Company (MichCon) and the Staff of the Michigan Public Service Commission (Staff) (collectively referred to as the Joint Movants), and the Residential Ratepayer Consortium (RRC) and Michigan Attorney General Michael A. Cox (AG) (collectively referred to as Non-Objecting Parties), pursuant to Sections 6h(8) and 6h(9) of 1939 PA 3, as amended, MCL 460.6h(8) and (9) and Rule 335 of the Rules of Practice and Procedure Before the Michigan Public Service Commission, present this motion to the Michigan Public Service Commission (Commission) for a temporary order in this matter approving a 2003 GCR factor for MichCon that is different from the GCR factor requested by the Joint Movants in their January 16, 2003, Joint Motion for Temporary Order Approving A GCR Factor and authorized by the Commission in its January 21, 2003, order. In support of their request the Joint Movants state as follows:

1. MichCon is a subsidiary of DTE Energy Company, a Michigan corporation with its principle offices located at 2000 Second Avenue, Detroit, Michigan 48226. MichCon is a public utility subject to the jurisdiction of the Commission and is engaged in the acquisition, storage, transportation, distribution, and sale of natural gas

and other related services to approximately 1.2 million residential, commercial and industrial customers within the State of Michigan.

2. On September 27, 2002, MichCon filed its Gas Cost Recovery (GCR) Plan and proposed GCR factor for the twelve months ended December 2003. In its filing, MichCon proposed to bill its customers a maximum GCR factor of \$4.14 per Mcf for 2003.

3. On November 25, 2002, a prehearing conference was held. The AG and RRC petitions for intervention were granted and a contested case schedule was set with a hearing scheduled for March 19, 2003.

4. On January 31, 2003, the RRC and AG filed direct testimony. On February 21, 2003, MichCon filed Rebuttal testimony. Cross-examination was scheduled for March 19, 2003, but was postponed in light of progress made during settlement discussions. A final Commission decision on this matter is not expected until later in 2003.

5. As part of its proposed 2003 GCR plan, MichCon projected purchases of about 157 Bcf for its GCR sales customers. MichCon has already fixed the price of approximately 65 %, or 97 Bcf, of this projected GCR gas supply requirement pursuant to its 2003 GCR Plan. Pursuant to MichCon's 2003 GCR Plan, the remaining 35 %, or approximately 60 Bcf, will be purchased at prices indexed to future 2003 NYMEX gas prices or indexed to the price of gas on the spot market. MichCon asserts that using the best information available at the time it filed its original application in this case, MichCon projected that its weighted average cost of gas for 2003 would require a maximum 2003 GCR factor of \$4.14 per Mcf. MichCon also proposed the

implementation of a contingency factor methodology that would provide MichCon with a mechanism that would adjust MichCon's maximum GCR factor during the 2003 plan year if NYMEX prices increased significantly.

6. By early January 2003, circumstances had changed since the filing of MichCon's 2003 GCR Plan. NYMEX futures market prices had increased significantly above the NYMEX prices that supported the \$4.14 per Mcf maximum GCR factor requested in MichCon's original application. As a result, MichCon projected that it would experience a gas cost underrecovery of approximately \$60 million if it charged \$4.14 per Mcf for the entire year.

7. In response to the projected impacts on MichCon's GCR customers resulting from the increasing NYMEX futures market prices, the Joint Movants filed a Joint Motion on January 16, 2003, requesting a the Commission approve a revised maximum GCR factor of \$4.575 per Mcf for the remainder of 2003, beginning with the February billing cycle. The Commission approved the Joint Movants' request on January 21, 2003.

8. From the date the Commission issued its order approving a revised maximum GCR factor, NYMEX futures market prices have continued to increase. By the beginning of March, NYMEX futures market prices for the remainder of 2003 had, on average, increased by \$1.05 per Mcf over the NYMEX prices used to determine the revised maximum factor of \$4.575 per thousand cubic feet. In addition, cold weather has resulted in the need to purchase incremental volumes of gas above that projected for a normal weather year. These additional volumes will be subject to market prices higher than those used to calculate both MichCon's original \$4.14 per Mcf maximum GCR and

the revised maximum GCR factor of \$4.575 per Mcf. As a result of these circumstances, if MichCon were to charge its maximum factor of \$4.575 per Mcf for the remainder of the year, it projects it would experience a gas cost underrecovery exceeding \$40 million.

9. Delaying recovery of these increases in gas costs would economically burden MichCon's customers by moving these additional costs, plus interest at MichCon's short-term debt rate, into 2004.

10. The magnitude of the underrecovery carried into 2004, and the related interest costs, can be reduced and may be largely avoided if MichCon is authorized to implement a maximum GCR factor of \$4.97 per Mcf beginning with the first billing cycle in April 2003 and continuing for the remaining months of the 2003 GCR Plan or until the Commission issues its final Order in this proceeding pursuant to the contested case schedule that has been set.

11. Implementation of the requested new maximum GCR factor of \$4.97 per Mcf in April 2003 is necessary because 50 % of MichCon's annual sales will have already occurred during the first three months of each year.

12. MCL 460.6h(8) in pertinent part authorizes the Commission, on its own motion or the motion of any party to make a temporary order:

“ . . . granting approval or partial approval of a gas cost recovery plan in a gas supply and cost recovery review, after first having given notice to the parties to the review, and after having afforded the parties to the review a reasonable opportunity for a full and complete hearing.”

13. Pursuant to MCL 460.6h(9), if the Commission has made a temporary order in a GCR Plan case:

“ . . . the utility may each month incorporate in its rates for the period covered by the order any amounts up to the gas cost recovery factors permitted in that order.”

* * * * *

“ . . . subject to prompt refund with interest to the extent that the total amounts collected exceed the totals amounts determined in the commission’s final order to be reasonable and prudent for the same period of time.”

14. Based on the forgoing, the Joint Movants state that good cause exists to grant this motion. Joint Movants agree that MichCon may need to charge a maximum GCR factor of up to \$4.97 per Mcf in each of the months April 2003 through December 2003 in order to fully recover its purchased gas costs on a current year basis. Accordingly, the Joint Movants respectfully request issuance of a temporary order pursuant to MCL 460.6h (9) authorizing MichCon to bill its GCR customers, in each of the remaining months of 2003 beginning with April, up to a maximum GCR factor of \$4.97 per Mcf.

15. Joint Movants represent that, under the circumstances, it is reasonable to grant the requested relief and allow MichCon to recover its projected gas supply costs on a current basis. The Joint Movants further represent that the granting of this motion is not intended to represent a final resolution of any of the issues that will be addressed in the review of MichCon’s 2003 GCR Plan case, the 5-Year Forecast or the final GCR Factor for Calendar Year 2003. The Joint Movants expressly request that the Commission decide all contested case issues including a final determination of MichCon’s maximum 2003 GCR factor in the normal course of this case.

16. Notwithstanding a temporary Commission order approving this motion, the Joint Movants expressly reserve their rights to challenge in the 2003 GCR Plan Case,

and the 2003 GCR reconciliation case, the reasonableness and prudence of MichCon's actions during 2003.

17. The Joint Movants represent that due to significant changes in fact that it is in the public interest to allow MichCon to modify the maximum GCR factor approved by the Commission in its January 21, 2003 order. The Joint Movants expressly waive the full and complete hearing required by MCL 460.6h(8) and request that the Commission act promptly to approve a revised maximum GCR factor of \$4.97 per Mcf to be implemented by MichCon in each of the months April 2003 through December 2003 subject to any findings in the Commission's final orders in this case and the 2003 reconciliation case. The Staff certifies that the requested action is reasonable and in the public interest.

18. The Joint Movants also agree that MichCon shall manage its GCR factors for any remaining months of 2003 to properly reflect the Commission's order in MichCon's 2002 GCR Plan case, any subsequent Commission orders in MichCon's 2002 GCR Plan and Reconciliation Cases, and the Commission's final Order in this case, to the extent those orders impact the recovery of MichCon's 2003 gas costs. Furthermore, MichCon states that it will prospectively reduce its GCR factor at its first reasonable opportunity if, during the 2003 GCR Plan year, natural gas prices decrease and, in MichCon's judgment, reducing the GCR factor will not cause an underrecovery of the Company's 2003 gas costs.

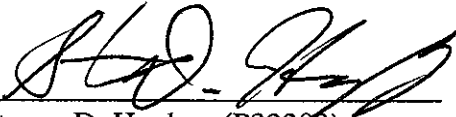
19. The Non-Objecting Parties affirmatively state that they have no objection to the entry of a temporary Commission order to approve a revised maximum GCR factor of \$4.97 per Mcf to be implemented by MichCon in each of the months April 2003

through December 2003 subject to any findings in the Commission's final orders in this case and the 2003 reconciliation case.

20. Jurisdiction in this matter is pursuant to 1939 PA 3, as amended, MCL 460.6h et. seq.; 1909 PA 300 as amended, MCLA 460.2 et. seq.; 1919 PA 419, as amended; 1969 PA 306, as amended, MCL 24.200 et. seq.; and the Commission's Rules of Practice and Procedure, 1979 Michigan Administrative Code, R460.17101 et. seq.

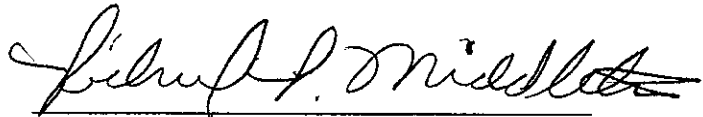
JOINT MOVANTS

**MICHIGAN PUBLIC SERVICE
COMMISSION STAFF**


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Dated: March 21, 2003

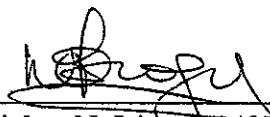
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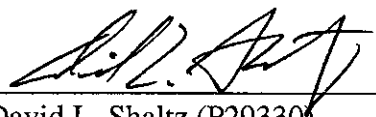
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