

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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

At the July 23, 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

OPINION AND ORDER

On September 27, 2002, Michigan Consolidated Gas Company (Mich Con) filed an application, together with the supporting testimony and exhibits, requesting approval of 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). Mich Con, the Residential Ratepayer Consortium, Attorney General Michael A. Cox, and the Commission Staff participated in the proceedings.

On January 21, 2003, the Commission issued an order approving a temporary factor of \$4.575 per thousand cubic feet (Mcf) for February 2003. On June 27, 2003, the Commission

issued an order approving a new temporary factor of \$4.97 per Mcf effective with the first billing cycle of July 2003.

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

According to the terms of the settlement agreement, attached as Appendix A, the parties agree that Mich Con should be authorized to implement a uniform GCR factor of up to \$5.75 per Mcf for the billing months of August 2003 through December 2003. Recent and unanticipated increases in market prices for natural gas have caused New York Mercantile Exchange futures market prices to remain significantly higher than forecasted by Mich Con.¹

The parties also agree that Mich Con should be authorized to implement a contingent GCR factor adjustment for the 2003 GCR plan year as set forth in Exhibit 1 attached to the settlement agreement. In addition, the parties agree that Mich Con should be authorized to recover \$441,111 related to new short-term transportation contracts that provide additional volumes to the expanding natural gas markets in Grand Rapids, and that Mich Con agrees to fix the price of a portion of its supply requirements prior to November 1, 2003.

As part of the settlement, Mich Con has also agreed to request Commission approval in its 2004 GCR plan case application of an April 1 to March 31 GCR period and a gas supply strategy that reflects the understanding the parties reached during settlement discussions in this case.

The Commission is persuaded that granting the relief recommended in the settlement agreement is in the public interest. Based on current prices, the Commission estimates that

¹ Indeed, in an order issued on June 27, 2003 in Case No. U-13816, the Commission commenced a proceeding to increase the public's awareness of recent increases in natural gas prices. The Commission's public hearing, conducted on July 22, 2003, drew attention to significant natural gas price increases that are expected next winter, provided a forum for comments from interested persons regarding the best methods for informing the public of the problems associated with higher gas prices, and discussed potential load management solutions, such as conservation, weatherization, and insulation activities.

implementation of the new GCR factor 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 \$3.90 per month during the summer and by an average of \$13.26 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 settlement agreement is reasonable and in the public interest, and should be approved.

THEREFORE, IT IS ORDERED that:

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

B. Michigan Consolidated Gas Company is authorized to incorporate into its rates a uniform gas cost recovery factor of up to \$5.75 per thousand cubic feet beginning with billing month of August 2003, which shall be subject to the contingent factor adjustment mechanism as set forth in Exhibit 1 attached to the settlement agreement.

C. Michigan Consolidated Gas Company shall request Commission approval in its 2004 gas cost recovery plan of an April 1 to March 31 gas cost recovery period and shall propose a gas supply purchasing strategy consistent with settlement discussions in this case.

D. Michigan Consolidated Gas Company shall file, within 30 days, tariff sheets consistent with Exhibit 1 and the other terms of the settlement agreement.

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 July 23, 2003.

/s/ Robert W. Kehres
Its Acting Executive Secretary

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

Chairman

Commissioner

Commissioner

By its action of July 23, 2003.

Its Acting Executive Secretary

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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

JUL 18 2003

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
 (e-file)

MICHIGAN PUBLIC
 SERVICE COMMISSION

SETTLEMENT AGREEMENT

As provided in Section 78 of the Administrative Procedures Act of 1969 ("APA"), as amended, MCL 24.278, and Rule 333 of the Commission's Rules of Practice and Procedure, 2000 AC, R 460.17333, and supported by the Commission's own policy towards settlement of contested issues, Michigan Consolidated Gas Company ("MichCon"), Michigan Attorney General Michael A. Cox ("AG"), the Residential Ratepayer Consortium ("RRC"), and the Michigan Public Service Commission Staff ("Staff") (hereafter, collectively referred to as the "Parties") have resolved through settlement discussions all issues before the Commission in this case and agree as follows:

1. As required by MCL 460.6h et. seq. ("Act 304"), on September 27, 2002, MichCon filed its Application, together with the supporting testimony and exhibits of Victor E. Borra, Cornelia Butler, George H. Chapel, W. Bernard Kramer, and Jennifer C. Schmidt, seeking approval of a Gas Cost Recovery ("GCR") plan and factors for the twelve months ending December 31, 2003.

2. On October 24, 2002, the Commission's Executive Secretary issued a notice of hearing directing MichCon to mail a copy of the notice to all cities, incorporated villages, townships and counties in its gas service territory. Further, MichCon was

directed to publish the substance of the notice of hearing in daily newspapers of general circulation throughout MichCon's gas service territory. Complying with these directives, MichCon filed the required affidavits of mailing and proofs of publication with the Commission on November 25, 2002.

3. On November 25, 2002, a prehearing conference was held. Administrative Law Judge Daniel E. Nickerson, Jr. presided over the proceeding. MichCon and Staff participated in the proceeding along with the AG and RRC whose petitions to intervene were granted. On January 31, 2003, the AG filed the testimony and supporting exhibits of Ralph E. Miller and the RRC filed the testimony of Frank J. Hollewa.

4. Subsequent to the prehearing conference and the filing of testimony by the intervenors, the parties engaged in settlement discussions and have supported or not objected to two joint motions that have set the current maximum GCR factor for 2003 at \$4.97 per Mcf. As a result of subsequent settlement discussions, the Parties have agreed as follows:

- a. The parties agree and stipulate that it is reasonable and prudent based on recent market price increases for natural gas for MichCon to, contemporaneous with Commission approval of this settlement agreement, implement a maximum uniform GCR factor of \$5.75 per Mcf for the remaining months of 2003. The parties reserve the right to support or challenge the reasonableness and prudence of MichCon's actual 2003 gas supply costs in MichCon's 2003 gas cost reconciliation.

- b. The GCR factor shall be subject to the Quarterly GCR Ceiling Price Adjustment Mechanism set forth on Sheet E-3.01 that is attached as Exhibit 1.
- c. The undersigned parties agree and stipulate that it is reasonable for MichCon to recover as GCR booked cost of gas for 2003 \$441,111 related to two new short term transportation contracts with ANR pipeline that provide for the delivery of additional volumes of natural gas to MichCon's Grand Rapids market area during January and February of 2003.
- d. MichCon will file with its 2004 GCR plan case a request to change its GCR period from a calendar year period to an April 1 through March 31 period.
- e. MichCon's five-year plan is reasonable and prudent and in compliance with Act 304 subject to the modifications discussed in this settlement agreement and should be approved.
- f. MichCon will file with its 2004 GCR plan case, a revised gas purchasing strategy that reflects the settlement discussions between the Parties.
- g. MichCon agrees to fix the price of 40-50% of its 11/03-3/04 purchase requirements (approximately 25-30 Bcf). Approximately 8-10 Bcf

will be purchased in each of the months of August, September and October 2003 or, at MichCon's discretion, any time prior to 11-01/03.

- h. The parties reserve the right to support or challenge the reasonableness and prudence of MichCon's actual 2003 gas supply costs in MichCon's 2003 gas cost reconciliation.

5. The parties believe that this settlement agreement will promote the public interest and will aid in the expeditious conclusion of this case.

6. This Settlement Agreement is entered into for the sole and express purpose of reaching a compromise among the parties. All offers of settlement and discussions relating to this settlement are considered privileged under MRE 408. If the Commission approves this Settlement Agreement without modification, neither the parties to the settlement nor the Commission shall make any reference to, or use this Settlement Agreement or 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 may be made to enforce or implement the provisions of this Settlement agreement and the order approving it.

7. This settlement agreement is based on the facts and circumstances of this case and is intended as the final disposition of Case No. U-13459. If the Commission approves this Settlement agreement without modification the undersigned parties agree not to appeal, challenge, or otherwise contest the Commission order approving this Settlement Agreement. Except as otherwise stated in this Agreement, the parties agree and understand that this Settlement Agreement does not limit any party's right to take

new or different positions on similar issues in other administrative proceedings, or appeals.

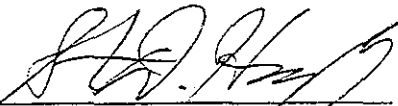
8. This Settlement agreement is not severable. Each provision of this settlement Agreement is dependent upon all other provisions of this settlement Agreement. Failure to comply with any provision of this settlement Agreement constitutes failure to comply with the entire Settlement Agreement. If the Commission rejects or modifies this Settlement Agreement or any provision of this Settlement Agreement, this Settlement Agreement shall be deemed to be withdrawn, shall not constitute any part of the record in this proceeding or be used for any other purpose, and shall not operate to prejudice the pre-negotiation positions of any party.

9. The Staff certifies this Settlement Agreement is reasonable and in the public interest.

10. The parties agree to waive Section 81 of the Administrative procedures Act of 1969 (MCL 24.281), as it applies to the issues in this proceeding, if the Commission approves this Settlement without modification.


WHEREFORE, the undersigned parties respectfully request that the Commission approve this Settlement Agreement without modification, and make it effective, in accordance with its terms, by final order.

**MICHIGAN PUBLIC SERVICE
COMMISSION STAFF**

By: 
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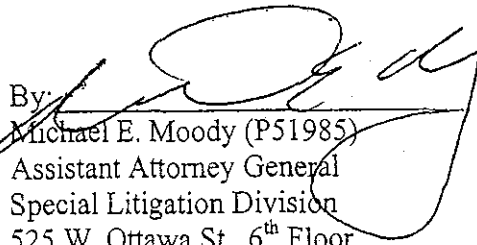
Dated: July 17, 2003

MICHIGAN CONSOLIDATED GAS CO.

By: 
Its Attorney
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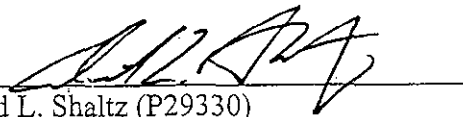
Dated: July 16, 2003

**MICHIGAN ATTORNEY
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Dated: 7-17-03, 2003

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Dated: July 16, 2003