

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of	)	
<b>AQUILA NETWORKS-MGU, f/k/a MICHIGAN</b>	)	
<b>GAS UTILITIES</b> , for authority to implement a	)	Case No. U-13550
gas cost recovery plan and factor for calendar	)	
year 2003.	)	
_____	)	

At the October 29, 2003 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. J. Peter Lark, Chair  
Hon. Robert B. Nelson, Commissioner  
Hon. Laura Chappelle, Commissioner

**OPINION AND ORDER**

**I.**

**HISTORY OF PROCEEDINGS**

On September 30, 2002, Aquila Networks-MGU, f/k/a Michigan Gas Utilities, (Aquila) filed an application, with supporting testimony and exhibits, requesting approval of its gas cost recovery (GCR) plan, pursuant to 1982 PA 304 (Act 304), MCL 460.6h et seq., for the 12-month period ending December 2003. In addition to seeking approval of its proposed GCR plan, Aquila requested approval of a GCR factor of \$4.70 per thousand cubic feet (Mcf) beginning in January 2003.

Pursuant to due notice, a prehearing conference was held on November 12, 2002 before Administrative Law Judge Daniel E. Nickerson, Jr., (ALJ), who established a case schedule.

Attorney General Jennifer M. Granholm<sup>1</sup> (Attorney General), the Residential Ratepayer Consortium (RRC), and the Commission Staff (Staff) participated in the proceedings. On February 7, 2003, the Attorney General, the RRC, and the Staff filed testimony and exhibits.

On March 27, 2003, the parties submitted an interim settlement agreement, which the ALJ forwarded to the Commission for its consideration; the Attorney General and the RRC filed statements of non-objection to the interim settlement agreement. Subsequently on June 27, 2003, the Commission authorized Aquila to implement a temporary GCR factor of up to \$6.08 per Mcf.

In the period between the signing of the interim settlement agreement and Commission approval of the temporary GCR factor, there was a sharp increase in natural gas prices. On April 30, 2003, Aquila filed supplemental testimony of its expert witness, Harry F. Ono, requesting a revised GCR factor of \$6.8567 per Mcf, which included gas cost projections of \$5.78 per Mcf, with an increment of \$1.0767 per Mcf (to recover the actual underrecovered cost of gas for January 2003 through March 2003, and the projected underrecovered cost of gas for April and May 2003). Aquila stated that its revised proposed GCR factor was based on information that became evident to Aquila subsequent to the filing of rebuttal testimony on March 31, 2003.

On May 9, 2003, the Attorney General filed a motion to adjourn the May 12, 2003 hearing or extend the schedule or strike Aquila's supplemental testimony. Aquila filed its opposition to the Attorney General's motion on May 10, 2003. On May 12, 2003, after lengthy discussions off the record regarding Aquila's supplemental testimony, the parties and the ALJ agreed that the Attorney General, the RRC, and the Staff could file responsive testimony on or before May 23, 2003. The evidentiary hearing was adjourned until May 27, 2003.

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<sup>1</sup>On January 1, 2003, Michael A. Cox replaced Ms. Granholm as Attorney General.

On May 23, 2003, the Attorney General and the RRC, respectively, filed the responsive testimony of Ralph E. Miller and Frank J. Hollewa, and Aquila filed a motion to strike the Attorney General's responsive testimony of Mr. Miller. Aquila's motion was granted, in part, and denied, in part, on May 27, 2003.

On May 27 and 28, 2003, the ALJ conducted an evidentiary hearing in this matter. The record consists of four volumes of transcripts, 481 pages, and 22 exhibits. Proposed Exhibit A-23, regarding the fixed price purchasing strategy guidelines, was not admitted.

On June 19, 2003 and July 3, 2003, the parties submitted briefs and reply briefs in this matter. The ALJ did not issue a Proposal for Decision because the Commission had indicated that it would read the record.

## II.

### DISCUSSION

#### GCR Factor

Aquila urges the Commission to adopt a GCR factor for the remainder of the plan year of \$7.37 per Mcf as proposed by the Staff, or, in the alternative, approve a factor of at least \$6.8567 per Mcf. Either figure includes the updated annual weighted average cost of gas and includes known and projected underrecoveries from the beginning of the GCR 2003 plan year. Aquila requests that it be allowed to continue to roll in underrecoveries into its GCR factor calculations, and urges the Commission not to return to the historical refund method (HRM) as advocated by the Attorney General and the RRC.

Although Aquila's application initially requested a GCR factor of \$4.70 per Mcf, several events occurred during the settlement process, which made all parties aware that the initial requested GCR factor of \$4.70 per Mcf was inadequate. Specifically, Aquila notes that during the

early winter months of 2003, Michigan and the rest of the country: (1) saw almost unprecedented gas supply price spikes; (2) experienced a significantly colder-than-normal (CTN) winter that severely strained storage inventories and resulted in historically low inventory levels; (3) anticipated new power generation loads to be supplied by natural gas; (4) noted that analyst projections of weekly injections would not reach minimum target levels by the end of the injection period; (5) heard Federal Reserve Board Chairman Alan Greenspan announce that domestic natural gas production was declining and below projected demand increases; and (6) observed significant pressures on gas supply price because of supply shortfalls coinciding with demand increases.

Although starting calendar year 2003 with an overrecovery of over \$6 million due to recent settlements in past GCR cases, Aquila states that the sudden and dramatic gas supply cost increases quickly turned an overrecovery into an over \$10 million underrecovery by April 30, 2003. According to Aquila, if the original requested GCR factor of \$4.70 per Mcf had not been changed by the interim settlement agreement, Aquila's underrecovery would have undoubtedly surpassed \$20 million by the end of 2003.

Historically, the parties to this proceeding have often resolved these matters through settlement agreements, and, in fact, a fully executed interim settlement agreement was reached in March with a revised GCR factor of \$6.08 per Mcf. However, before the Commission could approve this settlement agreement in June, first quarter figures became available, which reflected that even the revised interim GCR factor of \$6.08 per Mcf would be too low. After the signing of the settlement agreement, Aquila submitted additional testimony regarding the price spikes and the case proceeded to a two-day contested hearing in late May.

At the hearing, Aquila introduced Exhibit A-13, which calculated an updated 2003 GCR factor of \$5.78 per Mcf based upon New York Mercantile Exchange (NYMEX) prices on April 28, 2003.

It further recommended an additional \$1.0767 per Mcf increment for actual underrecoveries calculated for January through March 2003 and for projected underrecoveries for April and May. Aquila, therefore, requested a total GCR factor of \$6.8567. Aquila points out that these figures are based upon actual, known underrecoveries at the beginning of the GCR plan year.

However, on cross-examination, the Staff introduced Exhibit S-14, which is essentially the same document as Exhibit A-13, but with calculations based upon updated NYMEX prices on May 21, 2003. Using these updated figures, the GCR factor would be \$6.17 per Mcf plus an increment of \$1.20 per Mcf for a total GCR factor of \$7.37 per Mcf. Aquila urges the Commission to approve this factor because it is based upon the most up-to-date information in the record before the close of proofs. In the alternative, it urges the approval of the \$6.8567 per Mcf factor. Aquila notes that if prices fall, it can always reduce the charged factor to avoid paying interest to customers for any overrecoveries. Aquila further requests that it be allowed to assess a \$1.20 per Mcf surcharge to customers who migrate to the customer choice program (Choice).

The Staff recommends (1) \$1.20 per Mcf as the most up-to-date calculation of the under-recovery increment plus (2) \$6.17 per Mcf to reflect the updated annual weighted average cost of gas, for a total GCR price ceiling of \$7.37 per Mcf, using May 21, 2003 NYMEX figures. In the alternative, the Staff recommends a GCR factor of at least \$6.17 per Mcf, regardless of whether an incremental factor for underrecoveries is considered. According to the Staff, any factor less than \$6.17 per Mcf would, from the date of the order, likely result in underrecoveries. Because customers pay Aquila interest on underrecoveries, the Staff asserts that setting the factor too low will cost customers at reconciliation. The Staff contends that it is in the public interest to set a factor that is based on the most current information available before the close of the record.

Further, the Staff recommends that the GCR factor should include the current plan year projections, including the anticipated underrecoveries. The Staff calculates that, for January through April 2003, Aquila reported an actual underrecovered cost of gas of \$10,436,992. Aquila's projected underrecovered cost of gas for May 2003, based upon a revised GCR factor of \$5.78, would be \$1,074,276. The sum of the underrecovered cost of gas and the projected May underrecovery is \$11,511,198. The projected sales volumes for June through December 2003 are 9,620,900 Mcf. The total underrecovered cost divided by the remaining GCR volumes yields a unit increment of \$1.20 per Mcf. The underrecovery increment of \$1.08<sup>2</sup>, as presented by Aquila at the hearing, was calculated on April 28, 2003 and did not reflect the actual underrecovery through April 2003. Therefore, the Staff maintains that the \$1.20 per Mcf is the most up-to-date underrecovery increment factor.

The Staff recommends an increase in the GCR factor to collect the current underrecovered cost of gas in the current plan year. The increase in the GCR factor proposed by the Staff would allow Aquila to spread the underrecovered cost of gas over the remaining year volumes. Citing, Attorney General v Public Service Comm, 215 Mich App 356; 546 NW2d 266 (1996), and Attorney General v Public Service Comm, 235 Mich App 308; 597 NW2d 264 (1999), the Staff recommends that the current underrecovered cost of gas (intra-period underrecoveries) should also be collected using a roll-in process. Specifically, the Staff recommends that the Commission authorize Aquila to roll into its current plan year an underrecovered cost of \$11,511,198, with an increase in the GCR factor of \$1.20 per Mcf. The updated annual weighted average cost of gas of \$6.17 per Mcf, plus the underrecovery roll-in of \$1.20 per Mcf, yields a total recommended GCR price ceiling of \$7.37 Mcf.

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<sup>2</sup>At the hearing, Aquila proposed an increment of \$1.0767.

The Staff recommends that the Commission reject the Attorney General's and the RRC's proposal to return to the HRM in calculating the current year underrecovered cost of gas because it does not address the core issue of underrecovered gas costs that occur during the rate setting proceedings, before a final plan order is issued.

The Staff points out that the wholesale natural gas markets have changed significantly since the Commission's implementation and administration of Act 304, when the HRM was first utilized. The change from a regulated natural gas wholesale market at the time Act 304 was enacted to a competitive national market is at the root of the rate setting issue. This has resulted in large underrecoveries before the Commission can issue a final plan order. The plan order that sets GCR price ceilings is usually issued after the majority of the plan period has already expired.

The Attorney General recommends a GCR factor of \$5.78 per Mcf based upon the NYMEX prices on April 28, 2003, with no roll-in of current plan underrecoveries. The Attorney General urges the Commission to abandon the roll-in method and return to the HRM.

The Attorney General recognizes that the original factor of \$4.70 per Mcf is stale because of changes in the wholesale price of natural gas after Aquila filed its application in this case. At the hearing, Aquila introduced Exhibit A-13, which projects a GCR factor of \$5.78 per Mcf, whereas the Staff introduced Exhibit S-14, which projects a GCR factor of \$6.17 per Mcf. The Attorney General says that the difference between these projections is the date on which NYMEX prices were selected. Without some rationale and foundation for the forecasting method, the Attorney General argues that forecast results can be skewed. The Attorney General contends that \$5.78 per Mcf is the most reasonable hypothesis presented in the record. The Attorney General also argues that current year underrecoveries should not be included in the GCR factor and advocates a return to the HRM.

The Attorney General points out that a utility cannot recover any underrecovery or return any overrecovery via GCR factors unless the GCR factor is raised or lowered above or below the current market price for natural gas currently being delivered. If the prices charged are above the current market price, the Attorney General argues, it undermines a utility's ability to retain customers who can choose to migrate under Choice. If the price charged is below the current market price, he argues, it undermines an alternative gas supplier's ability to compete.

The Attorney General argues that the roll-in of underrecoveries is anticompetitive, because it gives a signal to customers to migrate to other suppliers, whereas the HRM is pro-competitive because it assesses the actual cost to those customers who have actually used the gas. He argues that including year-to-date underrecoveries in GCR factors in the remaining months shifts the cost of gas in early 2003 to the later part of the year, regardless of whether these customers actually used gas at the beginning of the year.

The Attorney General further opines that the Commission lacks the statutory power to increase GCR factors to reflect any underrecoveries or overrecoveries from the earlier months of the same GCR plan year. The Attorney General cites Act 304, which only discusses recoveries or refunds in Subsections (12) through (15) of MCL 460.6h in the context of reconciliation proceedings. Payment of underrecoveries is not discussed in Subsection (6), where the GCR plan approval procedure is authorized. However, Subsection (10) does allow for the utility to ask that a plan request be reopened before a final determination has been made. It is through this mechanism, the Attorney General argues, that any adjustments can be made to the GCR plan.

Therefore, the Attorney General argues that the Commission cannot increase GCR factors to reflect underrecoveries from the earlier months of the same GCR plan year. The Attorney General maintains that Act 304 authorizes the Commission to conduct three types of cases: clause cases,

plan cases, and reconciliations cases. Subsections (13) and (14) of the statute allow overcollections or underrecoveries for a prior GCR period to be considered, but limits the collection of underrecoveries or refund of overrecoveries to the reconciliation cases. Therefore, the Attorney General maintains, any consideration of the January through May 2003 underrecovery, which is at dispute in this case, cannot be considered until Aquila files its 2003 GCR reconciliation case.

In support of this position, the Attorney General cites the July 3, 1984 order in Case No. U-7785, wherein the Commission found that a utility could not self-implement a higher factor for the first two quarters of its 1984 plan to recover alleged underrecoveries or to supplement a factor to recover increased power supply costs. The Commission indicated that a utility may not adjust, without Commission approval, its filed factors to offset an estimated underrecovery of power supply costs experienced in the elapsed portion of the year. The Commission found that such underrecoveries were properly considered in a reconciliation case. Although Case No. U-7785 involved an electric utility, the Attorney General argues that Act 304 applies equally to gas utilities and should be given the same interpretation.

Further, the Attorney General argues that if the Commission allows Aquila to include underrecoveries from earlier in the current GCR year in later GCR factors, the Commission should also require Aquila to use a modified HRM. Because the circumstances that led to the Commission's adoption of the roll-in method have changed, the Attorney General maintains that subsequent to the adoption of the roll-in method for Aquila in 1995, Choice, which would allow customers to migrate to other companies to avoid paying their share of any underrecoveries, has been implemented. Also, according to the Attorney General, wholesale gas price volatility has reached a crisis level. For these reasons, the Attorney General recommends that the Commission return to a modified HRM procedure whenever an underrecovery or overrecovery would increase or decrease

a GCR factor by at least 10¢ per Mcf. Because Aquila's current underrecovered posture will increase the GCR factor by more than 10¢ per Mcf, the Attorney General urges the Commission to exclude any underrecovery from Aquila's GCR factor for 2003 and to adopt a \$5.78 per Mcf GCR factor, without the inclusion of current year underrecoveries.

The Attorney General argues that the rationale for switching to the roll-in method was that the cost of the HRM outweighed its benefits. Overrecoveries and underrecoveries were becoming too small to warrant the administrative costs of historical rebilling. The Attorney General argues that Aquila's current underrecovery of over \$10 million is large enough to warrant historical treatment. According to the Attorney General, maintaining the roll-in method will impair competition between Aquila and alternative gas suppliers in its Choice program and will encourage GCR customers to migrate to Choice to avoid paying their share of the underrecovery. Including overrecoveries in GCR factors biases a GCR factor in favor of alternative suppliers and sends erroneous price signals. However, a return to a HRM will not shift costs from the customer who received the gas and will not send inaccurate price signals about the expected future costs.

The RRC recommends a GCR factor of \$5.78 per Mcf and further recommends that Aquila suspend Choice, or spread the roll-in through March 2004, or have any underrecoveries addressed in the reconciliation process (a return to the HRM). The RRC further argues that if the Commission does approve a roll-in underrecovery factor, that it be limited to \$1.0767 Mcf, as initially calculated by Aquila based upon April 28, 2003 NYMEX costs.

The Commission declines to return to the HRM in reconciliation cases, as proposed by the Attorney General and the RRC. However, it also declines to include current year underrecoveries in Aquila's 2003 GCR plan factor. As suggested by the Attorney General, any requests for an increased factor during the current plan year are more appropriately handled through a

subsection (10) revised GCR plan filing. It is through this mechanism that adjustments can be made to the GCR plan after the application has been filed.

The Commission's determination that it is reasonable and prudent to consider previous plan year overrecoveries and underrecoveries when setting a utility's GCR factor for a current plan year has been approved by the courts. See, Attorney General v Public Service Comm, 215 Mich App 356; 546 NW2d 266 (1996), and Attorney General v Public Service Comm, 235 Mich App 308 (1999). However, the Commission has never endorsed the concept of including current plan known and projected underrecoveries in the current plan year factor. Further, the Commission finds it is in the best interest of the utility and the ratepayers that it set the GCR factor at a level that is most reflective of the actual cost of gas, without inclusion of beginning of the year underrecoveries. An inflated GCR factor would send an inaccurate price signal to customers regarding Aquila's higher cost of gas, and could impede a utility's ability to compete with another supplier having lower rates that reflect the actual market price.

The Commission finds that a GCR factor of \$6.17 per Mcf (without an increment for underrecoveries from the beginning of the plan year) based upon NYMEX prices on May 21, 2003, is prudent and reasonable, and is based upon the most current figures available before the close of the record. The Commission also finds that the argument of the Attorney General and the RRC that customers will be encouraged to migrate to Choice if the roll-in methodology is adopted is without merit. There are currently no alternative gas suppliers serving Aquila's Michigan territory. However, the Commission may reconsider a return to HRM in a future docket when there are sufficient numbers of Choice customers in Aquila's service area.

## 2003 GCR Plan

Aquila has agreed that it will do all of the following as part of its 2003 GCR plan: increase its contracted storage levels; file a tariff amendment to limit its transportation customers utilization of authorized tolerance levels (ATLs); change its GCR calendar year to an April through March year; implement a GCR ceiling price adjustment contingency mechanism to adjust its GCR factor quarterly; provide a more complete discussion of the status of its Federal Energy Regulatory Commission filings; report ATLs separately in future GCR plan and reconciliation filings; apply an appropriate percentage of incremental change in NYMEX to its GCR ceiling price adjustment mechanism; provide a description of pipeline rates used; describe how fixed price supplies will be purchased; reduce the storage reserved for transportation customers; implement a CTN winter storage plan; reference dekatherms and Mcf consistently in future filings; and maintain a daily operational log. The Commission approves all of these provisions of Aquila's 2003 GCR plan.

There are, however, three other areas of the 2003 GCR plan that remain in dispute. Specifically, (1) the RRC challenges the date Aquila used to calculate its GCR factor; (2) the RRC also suggests that Aquila implement a daily purchasing methodology; and finally, (3) both the Attorney General and the RRC object to the implementation guidelines for the quartile fixed-price purchasing methodology, as set out in Exhibit A-23 which was excluded by the ALJ.

Initially, the RRC argues that Aquila has been arbitrary in its selection of a date upon which to base its GCR factor calculations. The RRC urges Aquila to base its calculations on the average NYMEX figures for the last five days of the month. It argues that Aquila can skew its GCR factor when it chooses a random date like April 28, 2003, upon which to base its GCR factors.

The Staff rejects any arguments that Aquila has chosen a random date in order to manipulate its GCR factor calculations and does not believe any changes in the GCR factor being proposed in

this docket are warranted based on this argument. However, the Staff does agree that, in future filings, Aquila should use as the basis of its calculations the average NYMEX figures for the last three trading days of the month.

The Commission finds no persuasive evidence to suggest that Aquila's choice of the April 28, 2003 NYMEX prices was an attempt to artificially inflate its GCR factor. However, the Commission agrees with the RCC and the Staff's concerns about the potential for abuse, and directs Aquila to use cost averaging of the NYMEX figures for the last three trading days of the month for all future GCR plan filings.

Secondly, the RRC has recommended that Aquila implement a daily purchasing methodology. Aquila has rejected this suggestion as being too restrictive and amounting to micro-management of its daily operations. The Commission agrees with Aquila's argument and will not require it to be "pecked to death" by requiring it to implement a daily purchasing methodology.

The final issue to be resolved is whether Aquila should implement a quartile fixed-price purchasing strategy methodology as set forth in Exhibit A-23, as recommended by the Staff. Aquila is agreeable to implementing the quartile methodology if the Commission approves the strategy. The Staff expert, Robert G. Ozar, presented in-depth testimony detailing the specific problems with Aquila's current fixed-price guidelines and explained why the Staff's proposed framework corrected such problems. The objective of the Staff's recommendation is to move Aquila away from its current focus of fixing gas supply prices based on short-term price movements and move Aquila toward emphasizing broad price levels over the longer term.

Currently, Aquila is purchasing gas in small increments through short-term contracts, lasting only a few months. The new, proposed methodology would use the historical quartile price criteria to lock in prices for large blocks of supply up to a year in advance. This will allow Aquila

to purchase fixed-price contracts less frequently but in larger blocks, possibly having all or most fixed-price supply in place by the time the plan is filed. If the current price is a good price in relationship to historical prices over the past three years, then it is reasonable and prudent to purchase gas at the current time, regardless of what happens to the price in the future. If current prices are high, dollar cost averaging (DCA) takes care of the fixed price supply requirements.

The proposed fixed-price purchasing guidelines are structured around two fundamental methods of managing future price risk: the DCA method and the historical quartile price criteria method. DCA is a portfolio method of uniformly dividing purchases over a given time frame, regardless of price movements. The DCA method relies on the concept of moving toward the mean cost of gas to diminish price risk. In contrast, the quartile method ties fixed-price quantities directly to historical price distributions. This method is implemented by locking in forward prices when such prices are low by historical standards, e.g., when fixed prices are in the first and second quartile. If futures prices are above the mean historical price, then the DCA guideline takes care of fixed-price supply requirements necessary to provide GCR price stability and does so at a lower risk. The historical quartile price method expressly creates a nexus between target quantities and price levels. It operates by requiring the locking in of prices, through conversions to fixed-price contracts, on the basis of NYMEX natural gas futures prices, as opposed to historical quartile thresholds. The quartiles are recalculated every month on the basis of a 36-month ranking of the latest Henry Hub NYMEX 12-month strips, on the date of the monthly contract closing.

The Staff's original filing included proposed Exhibit RGO-1 that contained an example guideline drawn from the concepts laid out in Mr. Ozar's testimony. This exhibit was a detailed approach of how to implement the quartile methodology. Through discussions with Aquila and the intervenors during the settlement process, the Staff recognized that the details of the initial

proposal would be better implemented by a different specific recommendation. For that reason Exhibit RGO-1 was withdrawn. The Staff had developed a new detailed implementation scheme and prepared a new exhibit to be entered into the record (Exhibit A-23). The Attorney General and the RRC objected to the admission of this substituted document and the ALJ excluded the exhibit. Aquila and the Staff urge the Commission to overrule the ALJ and allow the admission of Exhibit A-23.

The Commission agrees, based upon the testimony in the record, that Aquila should adopt the quartile fixed-price purchasing methodology as explained by Mr. Ozar. Therefore, it will overrule the ALJ and allow the admission of Exhibit A-23 as an example of a way to implement the quartile purchasing methodology. The substance of Exhibit A-23 was fully discussed in Mr. Ozar's testimony and the parties had ample opportunity to test the methodology when he was cross-examined. Exhibit A-23 is merely an example of a way to implement the quartile methodology. Further, the record does not reflect that the Attorney General or the RRC objected in principle to the quartile methodology per se, but only objected to the substituted exhibit because of the timing. The Commission further notes that the RRC and the Attorney General advocated that SEMCO Energy Gas Company adopt the quartile methodology in its 2003-2004 GCR plan.<sup>3</sup> Therefore, the Commission directs Aquila to implement a fixed-price quartile purchasing strategy methodology (to be used as an alternative to the DCA methodology when the historical data indicates it is appropriate), as recommended by the Staff. It may implement this strategy consistent with the testimony in the record and may follow the specific implementation guidelines found in Exhibit A-23.

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<sup>3</sup>See, the order in Case No. U-13622, dated October 29, 2003.

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. Aquila's 2003 GCR plan, as amended by this order, is reasonable and in the public interest, and should be approved.

THEREFORE, IT IS ORDERED that:

A. Aquila Networks-MGU, f/k/a Michigan Gas Utilities' 2003 gas cost recovery plan, as amended by this order, is approved.

B. Aquila Networks-MGU, f/k/a Michigan Gas Utilities, is authorized to charge a gas cost recovery factor of up to \$6.17 per thousand cubic feet for the remainder of its 2003 monthly billings.

C. Aquila Networks-MGU, f/k/a Michigan Gas Utilities, shall file tariff sheets within 30 days of the date of this order.

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/ J. Peter Lark  
Chair

( S E A L )

/s/ Robert B. Nelson  
Commissioner

/s/ Laura Chappelle  
Commissioner

By its action of October 29, 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

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Chair

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Commissioner

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Commissioner

By its action of October 29, 2003.

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Its Acting Executive Secretary

In the matter of the application of )  
**AQUILA NETWORKS-MGU, f/k/a MICHIGAN** )  
**GAS UTILITIES**, for authority to implement a )  
gas cost recovery plan and factor for calendar )  
year 2003. )  
\_\_\_\_\_ )

Case No. U-13550

Suggested Minute:

“Adopt and issue order dated October 29, 2003 approving a gas cost recovery plan and factors for Aquila Networks-MGU, f/k/a Michigan Gas Utilities, for calendar year 2003, as set forth in the order.”