

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)	
CONSUMERS ENERGY COMPANY for approval)	
of a gas cost recovery plan and authorization of)	Case No. U-13570
gas cost recovery factors for the 12-month period)	
April 2003 through March 2004.)	
_____)	

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

TEMPORARY ORDER APPROVING A GAS COST RECOVERY FACTOR

On December 27, 2002, Consumer Energy Company (Consumers) filed an application, with supporting testimony and exhibits, requesting approval of its gas cost recovery (GCR) plan and factors for the 12-month period ending March 31, 2004.

Pursuant to due notice, a prehearing conference was held February 10, 2003 before Administrative Law Judge James N. Rigas. Consumers, the Commission Staff (Staff), Attorney General Michael A. Cox (Attorney General), and the Residential Ratepayer Consortium (RRC) participated in the proceedings.

On February 18, 2003, Consumers filed revisions to portions of the prefiled exhibits to reflect changes in market conditions that occurred after the original filing was made.

On March 7, 2003, Consumers, the Staff, the Attorney General, and the RRC filed a joint motion pursuant to MCL 460.6h(8) requesting that the Commission issue a temporary order that authorizes Consumers to incorporate into its rates (i) a GCR factor of up to \$4.8500 per thousand cubic feet (Mcf) for the month of April 2003, and (ii) a GCR factor for the months of May 2003 through March 2004 that is the sum of \$4.8500 per Mcf plus an adjustment calculated using the GCR Factor Ceiling Price Adjustment methodology described in paragraph 8 of the joint motion.

The GCR Factor Ceiling Price Adjustment methodology described in the joint motion is comprised of several steps. The first step involves a determination of the five-day average of the NYMEX settlement prices for natural gas as of April 7 through 11 for the period of May through March of the GCR year. Next, this five-day average price is compared to a base NYMEX price of \$4.8500 per million British thermal units (MMBtu). If the five-day average NYMEX price is greater than \$4.8500 per MMBtu, then the GCR factor ceiling price can be adjusted upward by 70% of the difference between the calculated five-day average NYMEX price and \$4.8500 per MMBtu. Consumers would be allowed to adjust the GCR factor charged monthly provided the factor remains at or below the GCR factor ceiling price.

At the time it filed its original application in this case, Consumers proposed to implement a GCR factor based on an average cost of gas of \$4.5328 per Mcf. According to the joint motion, recent and unanticipated increases in market prices for natural gas have placed Consumers at risk of experiencing a GCR underrecovery. NYMEX prices have increased significantly above the NYMEX prices that were used in the calculation of the \$4.5328 per Mcf cost of gas.

The joint motion asserts that delaying recovery of increased gas costs would burden Consumers' customers by delaying the recovery of these additional costs, plus interest at Consumers' short-term debt rate, until later in the plan year. In addition, the motion points out that if no

adjustment is made to the GCR factor, not only would Consumers' sales customers see dramatic increases in the GCR factor later in the plan year, but in addition Consumers' gas rates for the 2003-2004 year would not reflect contemporaneous price levels occurring 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 magnitude of an underrecovery, and related interest costs, can be reduced if the Commission issues a temporary order authorizing Consumers to implement GCR factors for the months of April 2003 through March 2004 as described in the joint motion. The joint motion states that prompt approval is necessary so that the temporary factor will be effective at the beginning of the April 2003 billing cycle. The parties state that issuance of a temporary order will not constitute a final resolution of the review of Consumers' GCR plan for the 2003-2004 plan year and will not preclude parties from raising any issues in this proceeding that they could have raised in the absence of a temporary order. Finally, to expedite the issuance of a temporary order, the parties waive their rights to the full and complete hearing contemplated 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 Consumers' 2003-2004 GCR factor and the importance of averting a substantial underrecovery. Moreover, because all issues concerning the reasonableness and prudence of Consumers' 2003-2004 GCR plan and the utility's gas acquisition policy will remain subject to review in this proceeding, 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 24.201 et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1992 AACS, R 460.17101 et seq.
- b. The relief requested in the joint motion should be granted.

THEREFORE, IT IS ORDERED that Consumers Energy Company is authorized to incorporate into its rates (i) a temporary gas cost recovery factor of up to \$4.8500 per thousand cubic feet for the month of April 2003, and (ii) temporary gas cost recovery factors for the months of May 2003 through March 2004 that are no more than the sum of \$4.8500 per thousand cubic feet plus an adjustment calculated using the GCR Factor Ceiling Price Adjustment methodology as set forth in paragraph 8 of the joint motion.

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

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Suggested Minute:

“Adopt and issue order dated March 12, 2003 authorizing Consumers Energy Company to implement temporary gas cost recovery factors for the year ending March 31, 2004, as set forth in the order.”