

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)
SEMCO ENERGY GAS COMPANY for authority to)
implement a gas cost recovery plan and factors for)
the 12-month period April 2003 through March 2004.)
_____)

Case No. U-13622

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 December 23, 2002, SEMCO Energy Gas Company (SEMCO) filed an application, including testimony and exhibits, pursuant to Section 6h of 1982 PA 304, as amended, MCL 460.6h, for approval of a gas cost recovery (GCR) plan and recovery of monthly GCR factors for the period from April 2003 through March 2004. SEMCO requested approval of a GCR factor of \$5.1805 per thousand cubic feet (Mcf).

At a prehearing conference on February 11, 2003, Administrative Law Judge Barbara A. Stump (ALJ) granted leave to intervene to the Residential Ratepayer Consortium (RRC), Michigan Technological University (MTU), and Attorney General Michael A. Cox (Attorney General), and

approved a procedural schedule. The Commission Staff (Staff) also participated in the proceedings.

On March 14, 2003, SEMCO filed an amended application, with supplemental testimony and exhibits, requesting approval of an amended GCR factor of \$6.8141 per Mcf. The amended factor reflected increased gas costs and the roll-in of the estimated underrecovery from the 2002-03 GCR period.

On March 21, 2003, SEMCO and the Staff filed a joint motion for a temporary order approving a GCR factor of \$6.0350 per Mcf and for immediate consideration. The RRC, MTU, and the Attorney General filed statements of non-objection.

On April 29, 2003, the RRC, the Attorney General, and the Staff filed testimony and exhibits of their witnesses.

On May 30, 2003, SEMCO and the Staff filed rebuttal testimony.

An evidentiary hearing was held on June 24, 2003. At the beginning of the hearing, the ALJ granted SEMCO's motion to strike a portion of the testimony of Frank J. Hollewa. The record consists of two volumes totaling 407 pages and 34 exhibits that were admitted into evidence.

On June 27, 2003, the Commission issued a temporary order approving a GCR factor, authorizing SEMCO to charge a temporary GCR factor of \$6.0350 per Mcf.

On July 11 and 21, 2003, respectively, SEMCO, the RRC, the Attorney General, and the Staff filed briefs and reply briefs. MTU did not file a brief or reply brief.

On August 13, 2003, the ALJ issued a Proposal for Decision (PFD) in this matter.

On August 27, 2003, the Attorney General and the RRC filed exceptions to the PFD.

On September 8, 2003, SEMCO and the Staff filed replies to the exceptions.

II.

DISCUSSION

There are six issues in dispute in this case. Those issues relate to SEMCO's peak day demand forecast, the purchase of 30,000 dekatherms (Dth) of storage from American Natural Resources Pipeline Company (ANR), its fixed-price purchasing plan, the implementation of the New York Mercantile Exchange (NYMEX) contingency factor on a monthly basis, its refund methodology, and the appropriate GCR factor for the 2003-04 plan year.

Peak Day Demand Forecast

SEMCO forecasts a peak day GCR demand of 390,568 Mcf. SEMCO's methodology used in reaching this figure was to plot the total actual GCR and customer choice (Choice) sales for the period from May 1, 1999 through October 1, 2002 from each of SEMCO's operating districts, against the corresponding actual daily average temperature, resulting in a specific data curve for each district. The peak day GCR and Choice demand was then estimated by means of applying the approximated average line-end slope of each data trend, extended to the 30-year lowest daily average temperature on record by the National Oceanographic and Atmospheric Administration for each district.¹

The RRC recommends that the Commission recognize 370,000 Mcf as the appropriate peak design day estimate for the 2003-04 GCR plan year and authorize 377,000 Mcf² of supply as the

¹Using this methodology, SEMCO originally projected a peak day demand of 352,857 Mcf. However, after submitting this testimony, SEMCO experienced a throughput and GCR demand of 363,065 Mcf on January 22, 2003, which was a new record high. Subsequently, SEMCO updated the database to include actual data through February 15, 2003 and increased customer load numbers, thereby resulting in the revised peak day demand factor of 390,568 Mcf.

²Using its proposed methodology, the RRC projected 370,000 Mcf as the peak day forecast, which it "adjusted upward for safety and reliability".

appropriate peak day demand forecast. The RRC maintains that SEMCO's approach overstated the demand and advocates an "average use factor per degree day method" to calculate peak day demand. A base load is developed by the average daily send-out in the months of July and August. The use factor can then be developed for each month by subtracting the base load times number of days in the month from the monthly estimated send-out and then dividing by the normal monthly degree days. However, the monthly distribution is not completely objective and some subjectivity becomes necessary to "smooth" the monthly estimates.

The Attorney General recommends 380,000 Mcf (which includes an additional 10,000 Mcf for safety and reliability) as the appropriate peak day design estimate, although there are no exhibits in the record to support this calculation. According to the Attorney General, SEMCO's model fails to take into account the effect of load growth on the loads experienced at any given temperature and overstates the relationship of loads to weather.

Further, the Attorney General opines that SEMCO's peak day demand forecast must be flawed because it revised its design day forecast of 352,857 Mcf in its direct testimony to 390,568 Mcf in its supplemental testimony.

SEMCO maintains that its original model yielded incorrect results because the three winters included in the original analysis were relatively warm and there were not enough cold days to predict the design day load correctly. SEMCO's initial calculations included data from May 1, 1999 through October 1, 2002 (the most recent data available at the time its exhibit was prepared). The revised calculations considered customer growth and added 107 additional data points for the recent winter from November 1, 2002 through February 15, 2003, which included extended cold periods and a new record high peak day demand on January 22, 2003.

The Attorney General believes that SEMCO's explanation for the change in its peak day demand forecast is illogical and mathematically impossible. However, as the ALJ noted, SEMCO's revised forecast does not demonstrate that the forecasting methodology is flawed, but merely demonstrates that when the methodology is applied to different data, it produces different results.

The Staff reviewed the information underlying SEMCO's revised forecast and confirmed that the forecast was reasonable. The Staff points out that even the forecasts proposed by the Attorney General and the RRC are very close in magnitude to the company's forecast and most likely within the confidence interval of any reasonable forecasting method. The Staff maintains that customer growth contributed to the increase in peak day load and when load growth was taken into account, SEMCO's revised forecast was reasonable.

When SEMCO calculated the peak day load requirements using the RRC's and Attorney General's methodologies, including consideration of customer growth, the ALJ notes that the revised figures were within 3% of SEMCO's projected peak day forecast. As the ALJ further points out, the purpose of the design day forecast is to predict, as closely as possible, the peak day supply for design day loads, thereby allowing the company to accurately plan the gas supply requirements for the upcoming GCR plan year.

Mindful that the peak day demand forecast is only an estimate, the Commission finds that all of the proposed methods have produced figures that are relatively close. The Attorney General and the RRC have failed to demonstrate that SEMCO's peak day demand forecast is flawed. Therefore, the Commission finds that SEMCO's forecast is a reasonable estimate of what's likely to occur in the future and approves SEMCO's peak day demand forecast of 390,568 Mcf.

ANR Storage Agreement

SEMCO plans to provide for the increase in peak day demand with a combination of firm pipeline transportation, storage deliveries, and supply purchases. SEMCO has chosen to contract with ANR for three years, for 30,000 Dth/day of unratcheted³ storage service, at an annual cost of \$1,997,000.⁴ Not only will this meet SEMCO's design day requirements, but it also will provide an additional 1.5 billion cubic feet (Bcf) of supply to displace daily spot purchases during the winter. SEMCO requests approval of the three-year contract, to purchase 50 days of 30,000 Dth/day of additional unratcheted storage service from ANR.

The Staff believes the purchase of additional storage is prudent to displace the need for daily spot purchases. The Staff's recommendation is based upon the fact that daily spot purchases had significantly contributed to the 2002-03 underrecovery. The Staff further believes that unratcheted storage service would better meet the company's late winter peak day deliverability needs.

The RRC recommends 15,000 Dth/day of ratcheted service, based on its lower peak day forecast of 377,000 Mcf. However, the RRC's expert did not explain how he arrived at this figure. Further, the RRC fails to justify its recommendation that SEMCO secure ratcheted storage service rather than unratcheted service as recommended by the Staff, other than the ratcheted service is somewhat cheaper. The Staff expert testified that with ratcheted service, in late winter SEMCO would not be able to draw sufficient supply to meet customer demand or 20% of the contracted maximum storage quantity would go to waste in order to protect against withdrawal ratchets. The assurance of an uninterrupted, continuous 30,000 Dth/day supply provided by unratcheted storage

³Unratcheted storage service provides for full daily deliverability of 30,000 Dth/day regardless of total remaining inventory. With ratcheted storage service, daily deliverability is reduced after the inventory drops to 20% of the maximum capacity. Transcript, pp. 9-10.

⁴This amount was not included in the revised GCR factor calculated in the company's supplemental testimony.

service will continue to meet customer needs in late winter and far outweighs the \$214,197 cost associated with the unratcheted service. The Staff believes a ratcheted supply would result in decreased deliveries, insufficient to meet customer needs in late winter.

None of the parties dispute that additional storage is required to meet an increase in peak day load and to displace the need for daily spot purchases. The ALJ recommends that the Commission approve SEMCO's increased ANR storage plan.

The Commission finds no support in the record for the RRC's storage plan. The RRC has not shown how it arrived at the 15,000 Dth/day calculations nor has it convinced the Commission that the decreased ratcheted supply in late winter would meet customer demand. Therefore, the Commission finds SEMCO's proposal, as supported by the Staff, to be reasonable and prudent to meet customer demand and to eliminate the need for daily spot purchases during cold weather. Therefore, the Commission finds that SEMCO's contract with ANR for 30,000 Dth/day of unratcheted storage service is reasonable and prudent and should be approved.

Quartile Fixed Price Purchase Plan

SEMCO intends to make dollar cost averaging (DCA) purchases throughout the summer of the 2003-04 GCR period, resulting in total fixed-price purchases of 11,275,106 Dth, or 41% of the company's winter demand, and will continue to consider fixed price contracts for future periods. SEMCO also continues to consider other supply alternatives, including multi-year firm supply agreements, upgrades to company-owned storage facilities, and/or incremental storage services.

Neither the RRC nor the Attorney General opposes SEMCO's DCA purchasing methodology. However, the Attorney General proposes that SEMCO initiate a quartile fixed-price purchasing plan, similar to the plan approved today for Aquila Networks—MGU, f/k/a Michigan Gas

Utilities, (Aquila) in Case No. U-13550.⁵ The Attorney General has offered no detail as to how the quartile fixed-price purchase plan is to be implemented.

SEMCO objects to the implementation of the proposed quartile fixed-price methodology because it could result in excess supply and because gas marketers are requiring it to 100% prepay for multi-month fixed-price contract supplies. Therefore, it would have to prepay millions of dollars for gas contracts, which could conceivably last beyond the 2003-04 plan period. SEMCO's Director of Treasury Operations and Investor Relations testified that SEMCO's financial arrangements do not afford it the funds needed to make such prepaid purchases. SEMCO would have to secure loans or letters of credit to finance these purchases and would require base rate relief to make the prepayments necessary for quartile purchases.

SEMCO points out that there is no evidence in the record to support the Attorney General's contention that during a buyers' market, gas commodity sellers will not require letters of credit or prepayment. SEMCO also fears that long-term contracts purchased using the quartile method could result in excess supply due to customer migration or warmer than normal weather. Conversely, SEMCO maintains, that in light of recent gas industry events, there is always a chance that the gas marketers will not be there to make the deliveries SEMCO has paid for, thereby leaving it with a supply deficiency. The Attorney General counters that if these long-term, quartile purchases result in more supply than is needed, it could be sold at a loss, the cost of which would be passed on to SEMCO's customers.

⁵The Commission notes that in the Aquila case both the Attorney General and the RRC are urging the Commission not to approve the quartile fixed-price purchasing methodology for Aquila, because they have not had time to review an exhibit prepared by the Staff and presented during cross-examination, which replaced a similar pre-filed exhibit regarding the implementation of the quartile method.

The Staff feels SEMCO should not be burdened with additional purchasing guidelines at this time. The ALJ recommends that the Commission reject the quartile fixed-price purchasing methodology, because such arrangements would be costly and require base rate relief. Further, there is no evidence in the record to support the Attorney General's proposition that prepayment of these contracts is not necessary in a buyer's market.

The Commission finds the arguments made by SEMCO and the Staff to be compelling and, therefore, declines to require that SEMCO adopt a quartile fixed-price methodology at this time. The Commission does not find that the added costs for loans or letters of credit, needed to secure long-term contracts which could extend beyond the current plan year, are reasonable and prudent or in the best interest of SEMCO's customers, who would be required to incur additional costs to finance this methodology. However, the Commission is convinced that the quartile fixed-price purchasing methodology, as approved for Aquila today in Case No. U-13550, has merit. Therefore, the Commission authorizes SEMCO's utilization of the quartile methodology as an alternative to the DCA in appropriate situations to the extent its financial condition allows.

NYMEX Contingency Mechanism

In Case No. U-13223, the Commission approved a quarterly NYMEX contingency mechanism for SEMCO, whereby the GCR factor could be adjusted at the beginning of each quarter to reflect NYMEX fluctuations. SEMCO and the Staff are urging the Commission to approve a monthly contingency mechanism, whereby an adjustment will be made to the GCR factor based on NYMEX prices for the last three trading days of the month.

SEMCO and Staff experts testified that the monthly NYMEX contingency mechanism would significantly reduce underrecoveries in the future and send appropriate price signals to customers considering Choice. SEMCO points out that providing customers with appropriate price signals

has merit regardless of whether there are currently other marketers in SEMCO's service area. The Staff believes that most of the 2002-2003 underrecovery could have been avoided had a monthly contingency mechanism been in place, because the unexpected rise in gas prices occurred mostly in the last quarter of the plan year.

The RRC claims that approval of the monthly NYMEX contingency mechanism will violate SEMCO's GCR clause. SEMCO argues that because a change in the contingency mechanism will require a change in tariff language is not a reason to reject the proposal. SEMCO notes that such tariff changes are not unusual, and the Commission has consistently directed utilities in past orders to file tariff sheets consistent with the rulings in the order. Further, SEMCO's notice of hearing specifically stated that the contingency mechanism was at issue and that the GCR factor proposed in the notice might be approved, rejected, or amended by the Commission.

The RRC further argues that fixed and low income customers will not be able to afford the frequent increases in their monthly bills and that the monthly GCR factor will not influence customer consumption or Choice. Finally, the RRC argues that SEMCO could artificially influence Choice by manipulating the monthly mechanism to keep prices high or low.

The Attorney General further argues that the Staff has abandoned its support of the monthly contingency mechanism. However, the Staff expert, Robert G. Ozar, clearly stated on cross-examination that, "Staff does have a position. We would support a monthly adjustment in the NYMEX." Further, Mr. Ozar testified that the Staff "believe[s] that the Commission needs to take some creative and innovative approaches to dealing with the underrecovery problems that we're having which are really reaching a crisis situation." See, 2 Transcript, pp. 368-369.

The Commission finds no evidence in the record to support the RRC and Attorney General's arguments. Indeed, SEMCO must pay interest on any overrecoveries and is, therefore, motivated

to keep the GCR factor as close to the actual cost of gas as possible, to avoid interest penalties at reconciliation. However, there is ample evidence in the record to support that monthly adjustments to the GCR factor will send appropriate pricing signals to customers and limit under-recoveries or overrecoveries in the current plan period. The Commission, therefore, authorizes SEMCO to implement a monthly contingency mechanism whereby an adjustment will be made to the GCR factor based on NYMEX prices for the last three trading days of the month.

Refund Methodology

The Attorney General and the RRC are urging the Commission to abandon its current roll-in refund methodology and return to the historical refund method (HRM).⁶ Specifically, the Attorney General has advocated that the Commission return to the HRM and require refunds or surcharges to be paid to or collected from each customer when there is an overrecovery or underrecovery that results in a more than 10¢ per Mcf decrease or increase in a GCR factor. The Attorney General proposes that SEMCO directly bill customers for the underrecoveries, regardless of whether they remain a GCR customer or migrate to Choice. The RRC recommends creating a prior period gas cost charge for billing to any customer who migrates to Choice.

The ALJ recommends that the Commission not return to the HRM, citing the June 30, 1994 order in Case No. U-10385. In Case No. U-10385, the Commission allowed Michigan Consolidated Gas Company (Mich Con) to change from the HRM to a roll-in method, whereby any overrecovery or underrecovery from a previous year could be considered in setting the GCR factor in the current plan year. After many of Mich Con's large-volume commercial customers had become transportation customers, the benefits associated with the HRM had been reduced, while the cost to administer the HRM remained substantial. Because Mich Con's gas customers had

⁶The Attorney General has characterized its proposal as a "modified roll-in" approach.

become a homogenous group with the advent of transportation, the Commission found that the benefits of the HRM had been greatly reduced in recent years and ordered Mich Con to implement the roll-in methodology.

Since the Commission approved the roll-in methodology for Mich Con, it has approved the roll-in method for other gas suppliers in Michigan, including SEMCO.⁷ The Court of Appeals in Attorney General v Public Service Comm, 215 Mich App 356; 546 NW 2d 266 (1996), and Attorney General v Public Service Comm, 235 Mich App 308; 597 NW2d 264 (1999), affirmed the Commission's adoption of the roll-in methodology. The ALJ recommends that the Commission continue the roll-in methodology for SEMCO and not revert to the HRM.

The Staff opposes any change to the current roll-in methodology. The Staff argues that returning to the HRM would impose additional auditing and financial burdens on the company, as well as additional administrative and auditing functions for the Staff. The Staff notes that in the Mich Con case, its costs for administering the HRM were \$600,000 per year with a system that was already in place. The Staff also notes that SEMCO is much smaller than Mich Con, so the per customer costs, costs which undoubtedly have risen in the last decade, would be greater. With a return to the HRM, SEMCO would have to design and maintain a system to administer a program, which may only be needed on an intermittent basis, depending on whether or not the under-recovery or overrecovery increased the GCR factor by 10¢ per Mcf.

The Staff also concludes that the recovery methods proposed by the Attorney General and the RRC would amount to an exit fee or cost for leaving the GCR system, and, therefore, would undermine Choice. Because there are currently no alternative gas suppliers in SEMCO's service area, under the Attorney General and RRC's methodology, SEMCO would have the added costs

⁷See, Order in Case No. U-10735, dated April 27, 1995.

for a system to be used at some indeterminate point in the future, for hypothetical Choice customers who may choose to buy gas from non-existent third party vendors.

SEMCO further points out that the Attorney General offers no evidence to support the hypothesis that when the 10¢ per Mcf threshold is reached, the benefits of the HRM will now outweigh its costs and should be implemented. The Attorney General offers no cost/benefit analysis as to what cost savings would accrue to SEMCO's customers if the HRM were reinstated. Likewise, the Attorney General has offered no insight as to how the 10¢ per Mcf was calculated and it appears to be an arbitrary number.

The Attorney General and the RRC argue that with the advent of Choice, SEMCO's customers will no longer be a homogenous group. SEMCO points out that this argument is without merit because, even if current GCR customers move to Choice, the remaining GCR customers are still residential or small and mid-size commercial customers that made up the homogeneous mix in the Mich Con case. SEMCO points out that the Attorney General and the RRC's concerns regarding customers migrating to Choice to avoid paying their share of the current underrecovery is not based in fact. There are currently no other marketers in its service territory, therefore, there are no GCR customers migrating to Choice. Therefore, the argument, that migrating customers will leave behind GCR customers who must pay for gas the Choice customers have consumed, is without merit. Further, SEMCO points out that with a monthly NYMEX contingency mechanism in place, future underrecoveries should be greatly reduced.

The Commission finds no evidence in the record that the HRM (or modified roll-in) is less costly or more efficient. Further, because it has approved a monthly contingency mechanism in this docket which will greatly reduce or eliminate future underrecoveries or overrecoveries, and considering that there are currently no Choice suppliers in SEMCO's service area, the Commission

finds that it should not abandon SEMCO's current roll-in methodology in this case. The Commission finds no evidence in the record to support a postponement of the collection of the previous underrecovery. However, a delay in the collection could compound a customer's financial burden in the future if prices continue to rise in the current, volatile wholesale natural gas market. Therefore, SEMCO is authorized to continue to roll overrecoveries and underrecoveries into its GCR factor calculations. However, the Commission may reconsider a return to the HRM in a future docket when there are sufficient numbers of Choice customers in SEMCO's service territory.

2003-2004 GCR Factor

SEMCO requests approval of a GCR factor of \$6.8141 per Mcf, which includes a balancing recovery cost factor of \$0.2500 per Mcf, a capacity demand factor of \$0.2802 per Mcf, and a gas commodity charge of \$6.2839 per Mcf.

SEMCO's Director of Regulatory Affairs testified that the balancing recovery cost factor of \$0.2500 per Mcf was approved by the Commission in Cases Nos. U-11220, U-11776, and U-13223. The capacity demand cost factor represents the fixed demand costs associated with SEMCO's up-stream pipelines, storage contracts, and peaking services, and was approved by the Commission in Cases Nos. U-12550 and U-13223. The balancing recovery cost factor and demand cost factor are applied to all sales and Choice consumption volumes. Revenues collected from future Choice customers are to be credited to the cost of gas.

SEMCO's Rate Analyst included an estimated GCR underrecovery of \$13,000,000 for the 2002-2003 GCR plan year, which amounts to \$0.3477 per Mcf on an annualized basis. Therefore, the commodity gas cost of \$6.2839 per Mcf in the amended application is comprised of the currently estimated commodity gas cost of \$5.9362 per Mcf plus \$0.3477 per Mcf for the

estimated underrecovery from the 2002-03 plan year. SEMCO expects its total gas volume for the 2003-04 plan year to be 37,386,136 Mcf, with an estimated \$245,364,629 in gas costs.

SEMCO proposes a 2003-04 GCR factor of \$6.8141 per Mcf, which includes a roll-in of a projected underrecovery of \$13,000,000 from the 2002-03 plan year. After the close of the record but prior to the issuance of the PFD, SEMCO filed its 2002-03 reconciliation case where the underrecovery was determined to be \$10,225,804. Therefore, the RRC has requested that the GCR factor be adjusted to \$6.7399 per Mcf⁸ to reflect the actual underrecovered amount rather than the original projected amount. SEMCO points out that the \$10 million figure has not been scrutinized in a reconciliation proceeding. The ALJ recommends that the Commission not approve the RRC's revised factor because it made a mathematical error in its original calculation. She opines that because this figure was not subject to scrutiny at the hearing, even the RRC's factor, as revised by SEMCO, could be flawed.

The Commission agrees with the RRC that the GCR factor should be based upon the most up-to-date information available. Therefore, because the projected underrecovery from the 2002-03 plan year is lower than originally projected, the GCR factor should be revised to mirror, as closely as possible, the actual underrecovery from the 2002-03 plan year. The Commission finds that the appropriate underrecovered amount to be included in the GCR factor is \$10,225,804.⁹ However, because the Commission has also approved in this docket SEMCO's ANR storage agreement at an annual cost of \$1,997,000, the revised factor includes this amount in the calculations, as well.

⁸The RRC's reply brief requested a revised factor of \$6.7302 per Mcf. SEMCO, however, pointed out a mathematical error in the RRC's calculation and that, had the RRC calculated correctly, the RRC's recommended factor would have been \$6.7399. The RRC agreed with this corrected GCR factor.

⁹The Commission recognizes that this figure could change during the reconciliation process.

Therefore, the Commission authorizes SEMCO to charge a GCR factor up to \$6.7933 per Mcf for the remaining billing months of the 2003-04 plan year. See, Exhibit A, attached to this order.

III.

2003-04 GCR PLAN

SEMCO projects a one-day total company firm peak day GCR demand of 390,568 Mcf. For supply requirements with terms of more than three days, SEMCO will request proposals from five or more suppliers. SEMCO currently has an asset management relationship with British Petroleum Energy Company (BP), which supplies all of SEMCO's requirements with terms of three days or less. Three small Michigan producers currently have gas sales agreements with BP and provide gas for SEMCO. BP is under contract to provide up to 2,800 Dth/day. SEMCO also plans to meet its gas demand with supplies from its on-system and off-system storage assets, term supply agreements, and monthly spot purchases in accordance with available transportation, inventory of leased storage, and inventory of on-system storage.

SEMCO plans to provide the increase in peak day demand with a combination of firm pipeline transport, storage deliveries, and supply purchases. SEMCO has chosen to contract with ANR for 30,000 Dth/day of unratcheted storage service for 50 days for three years at an annual cost of \$1,997,000. Not only will this meet its design day requirements, but it also will provide an additional 1.5 Bcf of supply to displace daily spot purchases during the winter.

SEMCO has adopted the Staff's recommendations regarding the fixed price purchasing plan for the 2003-04 plan year, by making DCA purchases of 11,275,106 Dth, which is 41% of the company's flowing pipeline supply during the November through March winter period, and will continue to consider additional fixed-price contracts using the quartile methodology to the extent its financial condition allows.

SEMCO will continue to roll in prior year underrecoveries or overrecoveries into its GCR factor calculations in future plan cases. However, SEMCO will adjust its factor on a monthly basis using the NYMEX figures from the last three trading days of the month to minimize any underrecoveries or overrecoveries in the current plan year.

SEMCO is authorized to charge a GCR factor of up to \$6.7933 per Mcf for the remaining billing months of the 2003-04 plan year.

SEMCO also filed a five-year forecast of its customers' gas requirements, anticipated sources of supply, and gas cost projections. All known major contracts for the five-year period were discussed as well as the projected costs for the 2003-08 forecast period.

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.; 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. SEMCO's 2003-04 GCR plan is reasonable and in the public interest, and should be approved.

THEREFORE, IT IS ORDERED that:

A. SEMCO Energy Gas Company's 2003-2004 gas cost recovery plan, as amended by this order, is approved.

B. SEMCO Energy Gas Company is authorized to charge a gas cost recovery factor of up to \$6.7933 per thousand cubic feet for the remainder of its 2003-2004 monthly billings.

C. SEMCO Energy Gas Company shall file within 30 days tariff sheets consistent with 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 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

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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

Chair

Commissioner

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By its action of October 29, 2003.

Its Acting Executive Secretary

In the matter of the application of)
SEMCO ENERGY GAS COMPANY for authority to)
implement a gas cost recovery plan and factors for)
the 12-month period April 2003 through March 2004.)
_____)

Case No. U-13622

Suggested Minute:

“Adopt and issue order dated October 29, 2003 approving the gas cost recovery plan for SEMCO Energy Gas Company and authorizing it to implement its plan and factors for April 2003 through March 2004, as set forth in the order.”

U-13622 SEMCO GCR FACTOR

SEMCO Commodity (A-26)	\$6.2839
Less:	
Est. Prior Underrecovery (A-26)	\$13,000,000
SEMCO Est. Annual Sales (A-26)	37,383,136
	<u>\$0.3478</u>

SEMCO Commodity	\$5.9361
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SEMCO U-13223-R Underrecovery (filed)	\$10,225,804
SEMCO Est. Annual Sales (A-26)	37,383,136
Underrecovery Roll-in Charge	<u>\$0.2735</u>

ANR Storage (Fitzgerald: Rebuttal)	\$1,997,000
SEMCO Est. Annual Sales (A-26)	37,383,136
ANR Storage Charge	<u>\$0.0534</u>

Balancing Recovery Charge (A-26)	\$0.2500
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Demand Capacity Charge (A-26)	\$0.2802
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Commission Order GCR Factor	\$6.7933
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