

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 approval)
of its gas cost recovery reconciliation for the period)
of April 2002 through March 2003.)
_____)

Case No. U-13223-R

At the March 29, 2004 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

ORDER APPROVING SETTLEMENT AGREEMENT

On June 30, 2003, SEMCO Energy Gas Company (SEMCO) filed an application, with supporting testimony and exhibits, seeking a reconciliation of its gas cost recovery (GCR) revenues and expenses for the 12-month period ended March 31, 2003.

Pursuant to due notice, a prehearing conference was held on September 10, 2003 before Administrative Law Judge Barbara A. Stump. SEMCO, Attorney General Michael A. Cox, the Residential Ratepayer Consortium, and the Commission Staff participated in the proceedings.

Subsequently, the parties submitted a settlement agreement resolving all issues in this case. According to the terms of the settlement agreement, attached as Exhibit A, the parties

agree to settle all issues in the 2002-2003 GCR reconciliation case for a \$500,000 adjustment that decreases the net underrecovery to \$9,773,998. The underrecovery will be rolled into SEMCO's current GCR plan pursuant to its standard refund procedures.

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, attached as Exhibit A, is reasonable and in the public interest, and should be approved.

THEREFORE, IT IS ORDERED that:

- A. The settlement agreement, attached as Exhibit A, is approved.
- B. SEMCO Energy Gas Company is authorized to roll into its 2003-2004 gas cost recovery plan an underrecovery of \$9,773,998.

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 March 29, 2004.

/s/ Mary Jo Kunkle
Its 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

Chair

Commissioner

Commissioner

By its action of March 29, 2004.

Its Executive Secretary

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)	
SEMCO ENERGY GAS COMPANY)	
for approval of gas cost recovery)	Case No. U-13223-R
reconciliation for the period of April 2002)	
through March 2003)	
_____)	

SETTLEMENT AGREEMENT

Pursuant to MCL 24.278 and Rule 333 of the Rules of Practice and Procedure before the Michigan Public Service Commission ("MPSC" or "Commission"), SEMCO Energy Gas Company ("SEMCO Gas" or the "Company"), the MPSC Staff ("Staff"), Michigan Attorney General Michael A. Cox ("Attorney General"), and the Residential Ratepayer Consortium ("RRC") agree as follows:

1. On June 30, 2003, SEMCO Gas filed its Application along with supporting testimony and exhibits with the Commission requesting approval of the reconciliation of its revenues with amounts expensed and included in the cost of gas sold by the Company during the 12-month Gas Cost Recovery ("GCR") plan year ending March 31, 2003 ("02-03 GCR Reconciliation").
2. On August 15, 2003, the Commission issued its Notice of Hearing scheduling prehearing conference for September 10, 2003, before the Honorable Barbara A. Stump.
3. In accordance with the Commission's Notice of Hearing, SEMCO Gas provided notice throughout its service territory. SEMCO Gas's proof of mailing and affidavits of publication were electronically filed.
4. At the September 10, 2003 prehearing conference Staff participated in the conference, and the AG and RRC were granted intervenor status.

5. On December 22, 2003, the Staff, AG and RRC filed their direct cases in this matter.

6. The parties have engaged in extensive negotiations which have lead to the agreements incorporated in this Settlement Agreement.

7. By this Settlement Agreement, SEMCO Gas, Staff, the AG and RRC agree to settle all issues in the 02-03 GCR Reconciliation case for a \$500,000 adjustment of SEMCO Gas's underrecovered amount. Specifically, the underrecovered amount of \$10,273,998 (as calculated in Revised Exhibit A-__ (JES-3) attached hereto as Exhibit 1) will be decreased by \$500,000 resulting in a net underrecovered amount of \$9,773,998. SEMCO Gas will roll the net underrecovered amount of \$9,773,998 into its current 03-04 GCR Plan gas costs pursuant to Commission approved standard refund procedures. The \$500,000 adjustment represents a total adjustment for the 02-03 GCR Reconciliation without specific reference or attribution to particular issues in this case.

8. By entering into this settlement, SEMCO Gas does not admit or agree that any of its actions were unreasonable or imprudent.

9. This Settlement Agreement has been made for the sole express purpose of reaching compromise among the positions of the signatory parties without prejudice to their rights to take new and/or different positions in other proceedings. All offers of settlement and discussions relating to this Settlement Agreement shall be considered privileged as provided in MRE 408. If the Commission approves this Settlement Agreement without modification, neither the parties to this Settlement Agreement nor the Commission shall use it as a reason, authority, rationale or example for taking any action or position or making any subsequent decision in any other cases or proceeding; provided, however, such reference or use may be made to enforce the Settlement Agreement and Order.

10. The parties understand and agree that no specific finding of fact, conclusion of law, or other precedent is or will be established by this Settlement Agreement. If the MPSC approves this Settlement Agreement without modification, the parties agree to support this Settlement Agreement before the MPSC or elsewhere, but support of the agreement shall not require any party to appear to intervene in any proceeding in which that party is not otherwise involved.

11. The parties agree to waive Section 81 of the Administrative Procedures Act of 1969, MCL 24.281, as it applies to this proceeding, if the Commission approves this Settlement Agreement without modification.

12. This Settlement Agreement is not severable. Each provision of the Settlement Agreement is dependent upon all other provisions of the Settlement Agreement. Failure to comply with any provision of the Settlement Agreement constitutes failure to comply with the entire Settlement Agreement. If the Commission rejects or modifies this Settlement Agreement or any provision of the Settlement Agreement, the Settlement Agreement shall be withdrawn and shall not constitute any part of the record of this proceeding or be used for any other purpose.

13. Each party agrees not to appeal or otherwise contest any Commission order accepting and approving this Settlement Agreement without modification.

SEMCO ENERGY GAS COMPANY

Dated: 3/1, 2004

By: Sherr A. Wellman

One of its Attorneys
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**MICHIGAN PUBLIC SERVICE COMMISSION
STAFF**

Dated: 3/1, 2004

By: Patricia S. Barone

Its Attorney
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RESIDENTIAL RATEPAYER CONSORTIUM

Dated: 3/1, 2004

By: David L. Shaltz

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ATTORNEY GENERAL MICHAEL A. COX

Dated: 3-5, 2004

By: Michael E. Moody

His Attorney
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SEMCO ENERGY GAS COMPANY
12 MONTHS ENDED MARCH 31, 2003
ALLOCATION OF OVER(UNDER) RECOVERY AND INTEREST

LINE	MONTH	BEGINNING BALANCE OVER(UNDER) RECOVERY	CURRENT OVER(UNDER) RECOVERY	CURRENT MONTH AVERAGE	CURRENT MONTH INTEREST ACCURAL	INTEREST RATE	MONTHLY INTEREST
1	BEGINNING BALANCE		971,523				
2	APRIL 02	971,523	(714,038)	(357,019)	614,504	10.75%	5,430
3	MAY	257,485	(166,326)	(83,163)	174,322	10.75%	1,592
4	JUNE	91,159	(836,791)	(418,396)	(327,237)	2.82%	(758)
5	JULY	(745,632)	(641,495)	(320,748)	(1,066,380)	3.04%	(2,753)
6	AUGUST	(1,387,127)	(719,301)	(359,651)	(1,746,778)	3.09%	(4,584)
7	SEPTEMBER	(2,106,428)	(710,086)	(355,043)	(2,461,471)	2.98%	(6,029)
8	OCTOBER	(2,816,514)	494,553	247,277	(2,569,238)	2.91%	(6,350)
9	NOVEMBER	(2,321,961)	(1,040,715)	(520,358)	(2,842,319)	2.94%	(6,868)
10	DECEMBER	(3,362,676)	3,705,644	1,852,822	(1,509,854)	2.91%	(3,732)
11	JANUARY 03	342,968	1,345,273	672,637	1,015,605	10.75%	9,273
12	FEBRUARY	1,688,241	269,011	134,506	1,822,747	10.75%	15,031
13	MARCH	1,957,252	(12,316,638)	(6,158,319)	(4,201,067)	2.71%	(9,669)
14	TOTAL		<u>(10,359,386)</u>				(9,419)
15						Interest on Pipeline Refunds	
16						(pre 4/1/02 & penalty int)	94,807
17							<u>85,388</u>