

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)	
MICHIGAN GAS UTILITIES CORPORATION)	Case No. U-15040-R
for a gas cost recovery reconciliation proceeding)	
for the 12-month period ended March 31, 2008.)	
_____)	

At the August 11, 2009 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. Orjiakor N. Isiogu, Chairman
Hon. Monica Martinez, Commissioner
Hon. Steven A. Transeth, Commissioner

ORDER APPROVING SETTLEMENT AGREEMENT

On June 30, 2008, Michigan Gas Utilities Corporation (MGUC) filed an application, with supporting testimony and exhibits, seeking reconciliation of its gas cost recovery (GCR) revenues and expenses for the 12-month period ended March 31, 2008, as provided under 1982 PA 304, MCL 460.6h *et seq.* On October 9, 2008, MGUC filed supplemental testimony and revised exhibits.

A prehearing conference was held on September 4, 2008, before Administrative Law Judge Sharon L. Feldman. MGUC, Attorney General Michael A. Cox, the Residential Ratepayer Consortium, and the Commission Staff participated in the proceedings.

On July 15, 2009, the parties filed a settlement agreement resolving all issues in the case. According to the terms of the settlement agreement, attached as Exhibit A, the parties agreed that during the 12-month GCR period ended March 31, 2008, MGUC underrecovered a net amount of

\$13,704,868 from its gas customers; a sum which includes the roll-in of a net overrecovered amount of \$1,357,667 from MGUC's previous GCR reconciliation. The parties further agree that, with interest of (\$112,903) calculated through March 31, 2008, a \$13,817,771 net underrecovery will be rolled into MGUC's 2008-2009 GCR gas expense and reconciliation in accordance with Commission-approved refund procedures.

THEREFORE, IT IS ORDERED that:

- A. The settlement agreement, attached as Exhibit A, is approved.
- B. Michigan Gas Utilities Corporation is authorized to roll into its 2008-2009 gas cost recovery plan the net underrecovery of \$13,817,771 from the gas cost recovery plan reconciliation for the 12-month period ended March 31, 2008.

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, under MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

Orjiakor N. Isiogu, Chairman

Monica Martinez, Commissioner

Steven A. Transeth, Commissioner

By its action of August 11, 2009.

Mary Jo Kunkle, Executive Secretary

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In the matter of the application of)
MICHIGAN GAS UTILITIES CORPORATION)
for a gas cost recovery reconciliation proceeding) Case No. U-15040-R
for the 12-month period ending March 31, 2008.)

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 the “Commission”), Michigan Gas Utilities Corporation (“MGUC” or the “Company”), the MPSC Staff (“Staff”), Attorney General Michael A. Cox (“Attorney General”), and the Residential Ratepayer Consortium (“RRC”) agree as follows:

1. On June 30, 2008, MGUC 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, 2008. On October 9, 2008, MGUC filed supplemental testimony and revised exhibits.
2. On August 13, 2008, the Commission issued its Notice of Hearing scheduling a prehearing conference for September 4, 2008, before the Honorable Sharon L. Feldman.
3. In accordance with the Commission’s Notice of Hearing, MGUC provided notice throughout its service territory. MGUC’s proof of mailing and affidavits of publication were electronically filed on September 3, 2008.

4. At the September 4, 2008 prehearing conference, the Company and Staff participated in the conference, and the AG and RRC were granted intervenor status.

5. On February 10, 2009, the RRC and AG each respectively filed direct cases.

6. On March 10, 2009, the Company filed its rebuttal testimony.

7. On April 20, 2009, the parties engaged in settlement discussions. As part of the understandings reached, it was agreed that MGUC would engage PricewaterHouseCoopers (“PWC”) to conduct an audit of the GCR 2007-08 period pursuant to specified terms.

8. On June 3, 2009, MGUC provided copies of PCW’s audit report, and this report is attached as Attachment A.

9. As a result of PWC’s audit and settlement discussions, MGUC, Staff, the AG and RRC agree that:

a. Proceedings in this GCR reconciliation were conducted in accordance with Act 304. The revised expenditures reported by MGUC for the cost of gas supply during the 12-month period ending March 31, 2008, were reasonably and prudently incurred.

b. During the 12-month GCR period ended March 31, 2008, MGUC underrecovered a net amount of \$13,704,868 from its gas customers which includes the roll-in of a net overrecovered amount of \$1,357,667 from MGUC’s previous GCR reconciliation. As set forth in Attachment B, interest calculated in accordance with Act 304, amounts to \$ (112,903), and when added to the net under recovered amount results in an underrecovery totaling \$13,817,771 through March 31, 2008. In accordance with the standard roll-in refund procedures, the parties propose that MGUC roll-in the total underrecovery of \$13,817,771 into the Company’s 2008-09 GCR expenses and reconciliation.

c. As of the date of this Settlement Agreement, MGUC agrees to charge and adjust billed GCR factors within the allowed maximums during the applicable GCR plan year to minimize the total, actual, year-end over or under recovery to the extent MGUC determines that such action can be reasonably and prudently implemented.

10. The parties agree that this settlement agreement is reasonable, prudent and will aid in the expeditious conclusion of this case.

11. This Settlement Agreement has been made for the sole express purpose of reaching compromise among the positions of the parties. 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.

12. 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.

13. 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 in this proceeding or be used for any other purpose.

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

MICHIGAN GAS UTILITIES CORPORATION

Dated: July 1, 2009

By: _____
One of its Attorneys
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MICHIGAN PUBLIC SERVICE COMMISSION STAFF

Dated: July 1, 2009

By: _____
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RESIDENTIAL RATEPAYER CONSORTIUM

Dated: July 1, 2009

By: _____
Its Attorney
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ATTORNEY GENERAL MICHAEL A. COX

Dated: July 1, 2009

By: _____
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LALIB:179876.1\129584-00015

Michigan Gas Utilities Corporation
2008-09 Reconciliation
MPSC Case No. U-15040-R

Settlement Agreement
Attachment A

Michigan Gas Utilities Corporation

2007/2008 Gas Cost Recovery Reconciliation Review

May 2009

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Our Services were performed and this Report was developed in accordance with our statement of work dated April 24, 2009 and are subject to the terms and conditions included therein. Our Services were performed in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants ("AICPA"). Accordingly, we are providing no opinion, attestation or other form of assurance with respect to our work and other than procedures described in this report. Our work was limited to the specific procedures and analysis described herein and was based only on the information made available through May 22, 2009. Accordingly, changes in circumstances after this date could affect the findings outlined in this Report. This information has been prepared solely for the use of Integrys Energy Group. PwC disclaims any contractual or other responsibility to others based on its use and, accordingly, this information may not be relied upon by anyone other than Integrys Energy Group.

This information has been prepared solely for the use and benefit of Integrys and is not intended for reliance by any other person.

Background

The Michigan Gas Utilities Corporation (MGUC) operates as one of Integrys Energy Group's natural gas utilities. MGUC began operations upon acquisition of their natural gas distribution operations in Michigan from Aquila, Inc. (Aquila) in April 2006. MGUC presently serves over 165,000 customers in southern Michigan.

As MGUC is domiciled in Michigan, it is subject to regulation by the Michigan Public Service Commission (MPSC) and must seek formal approval from the MPSC to recover costs associated with operating its business. The gas cost recovery (GCR) rate is a charge applied to a customer's bill and allows MGUC to pass through the gas commodity cost back to its customers. The MPSC approves gas cost recovery rates on an annual basis.

On June 30, 2008, MGUC filed an application requesting approval of its GCR Reconciliation with the MPSC for the 12-month period ending March 31, 2008. Discrepancies were identified and self reported through a revised application submitted by MGUC on October 9, 2008. Another discrepancy was identified by the Company in providing responses to discovery submitted by the Residential Ratepayer Consortium. To provide greater comfort over accuracy of the revised filings, Integrys Energy Group (Integrys) asked PricewaterhouseCoopers (PwC) to conduct a review of the processes, controls, and supporting documentation in place related to the gas cost recovery reconciliation of MGUC for the 2007/2008 GCR filing period.

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Objective, Scope and Approach

The objective of this project was to assess supporting documentation of MGUC's 2007/2008 gas cost recovery reconciliation filing.

Our scope and approach included interviewing key management in Gas Supply, Gas Control, Billing, Fuel & Supply Accounting, MGUC Accounting, and Regulatory Affairs to update our understanding of the processes in place for preparing the GCR reconciliation, including the methodologies and inputs used to calculate unaccounted for gas, over/underrecovery of gas costs and unbilled revenue calculations. Testing was performed on a sample basis to evaluate whether amounts were supported. Testing results are included below within the following Testing and Results report section.

Testing and Results

1. Testing: Interviewed key management personnel to update understanding of the processes, information flows and controls in place for preparing the GCR reconciliations and to confirm understanding of the methodologies and inputs used to calculate unaccounted for gas, over/underrecovery of gas costs and unbilled revenue calculations. Also considered reasonableness of accounting estimates used in the calculations. See Appendix A for the interview list.

Result: No exceptions noted.

2. Testing: Assessed the adequacy of any changes related to core processes.

Result: No exceptions noted.

3. Testing: Assessed the mathematical accuracy of formulas used within the annual GCR schedules for all 12 months of the filing and tied out totals within each schedule to supporting documentation. The schedules reviewed are listed below in Appendix B.

Result: No exceptions noted that impact the amount being sought for recovery.

4. Testing: Obtained the monthly balancing schedule supporting the 2007/2008 GCR reconciliation and performed the following:

- Performed a detailed walkthrough of the 2007/2008 balancing scheduling with Fuel & Supply Accounting to validate our understanding of each line item on the report, supporting documentation available to substantiate the amounts reported, and individuals responsible for providing the supporting documents. See Appendix C for list of source documents reviewed.

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Testing and Results

- Agreed three months (May 2007, December 2007, March 2008) of balancing schedule line items for gas volumes and dollars to supporting invoices, reports, and calculations. See Appendix C for list of source documents reviewed
- Re-performed calculations for volumes converted from DTH to MCF for three months.
- Verified mathematical accuracy of formulas and links used within the balancing schedule for all 12 months.

Result: No exceptions noted that impact the amount being sought for recovery.

5. Testing: Obtained the monthly storage spreadsheets for three months (May 2007, December 2007, March 2008) during the 2007/2008 reconciliation period.

- Validated that injections or withdrawals from storage facilities were accurately accounted for by agreeing spreadsheets to storage inventory reports and through verifying that differences were appropriately resolved.

Result: Exception noted. Calculation errors related to prior period adjustments required to convert volumes from MCF's to DTHs were identified in the gas storage reports for MGUC and Consumers Energy. The errors resulted in an understatement of gas inventory of 6284 DTHs for MGUC and an overstatement of gas inventory of 4701 DTHs for Consumers Energy for the 2007/2008 GCR reconciliation period. The process to identify the prior period adjustments was corrected in the 2008/2009 GCR reconciliation period. Additionally, the gas storage volume balance at March, 2009 was reviewed. By the end of the 2008/2009 period, the volume of gas storage was corrected for the prior period adjustment error.

6. Testing: Verified that the 2007/2008 GCR filing was reviewed by management.

Result: No exceptions noted.

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Appendix A

Interview List

- Chuck Hauska - Vice President, MGU Operations
- Dave Tyler - Manager, Regulatory Affairs
- Denean Smith - Manager, Fuel & Supply Accounting
- Don Tepsa - Accountant, Fuel & Supply Accounting
- Gary Simons - MGU Director of Accounting Operations
- John Guntlisbergen - Manager, Electric Fuel Cost Recovery
- Kent Huzzey - Manager, Gas Supply
- Kristy Weingeld - Manager, Gas Control
- Linda Kallas - Vice President, Finance & Accounting Services
- Nicole Hallet - Accountant, Fuel & Supply Accounting
- Tom Smith - Supervisor, Market Strategy and Middle Office

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Appendix B

Schedules Reviewed

<u>Exhibit No.</u>	<u>Page No.(s)</u>	<u>Description</u>
2 nd Revised A-3	1 to 13	Monthly Summary of Differences between Plan and Actual Supply
2 nd Revised A-4	1	GCR Reconciliation Report - Monthly Over/(Under) Recovery
	2	GCR Reconciliation Report - Sources of Gas Supply (Mcf @ 14.65 psia Dry)
	3	GCR Reconciliation Report - Cost of Purchased Gas
	4	GCR Reconciliation Report - Monthly Sales, Number of Customers by Revenue Class, and Billed and Unbilled Revenues
	5	GCR Reconciliation Report – Dekatherms / Volumes Reported By the Pipeline
	6	GCR Reconciliation Report – Computation of Lost and Unaccounted for Volumes
2 nd Revised A-5	1	Reconciliation of Exhibit A-3, Page 1 to Exhibit A-4, Pages 2 and 6
Revised A-6	1	Calculation of Roll-In Adjustment Amount
A-7	1	MGU Term and Daily Spot Purchases
A-8	1	GCR Peak Day Supply - 2007/2008 GCR Plan versus 2008/2009 GCR Plan, GCR Peak Day Sendout - 2007/2008 GCR Load
A-9	1	Detail of Cashouts
	2	Detail of Overrun Charges
	3	Detail of Scheduling Fees
	4	Detail of Capacity Release Credits
A-10	1	2007/2008 Storage Utilization
A-11	1	Non-Core Market Sales
A-12	1	Capacity Utilization
A-13	1	Market Prices

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Appendix C

Source Documents Reviewed

- Balancing Schedules
- Transportation Gas Invoices
- Capacity Sales Invoices
- Pipeline Invoices
- Supplier Invoices
- Michigan Producers Invoices
- BTU Conversation Factors
- Aggregate Transport Reports
- Capacity Release Reports
- Company Use Reports
- Demand Reports
- Imbalance Reports
- MGU Throughput Reports
- Michigan Cashout Reports
- Michigan Choice Reports
- Michigan Pool Reports
- Michcon Imbalance Reports
- Non-core Sales Reports
- Purchase Summary Reports
- Purchasing Production Reports
- Storage Activity Reports
- Transportation Reports
- Billing System Revenue Reports
- General Ledger Revenue Reports
- Lost & Unaccounted For Gas analyses
- Tariffs

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MICHIGAN PUBLIC SERVICE COMMISSION
MICHIGAN GAS UTILITIES CORPORATION
2007/2008 GCR Reconciliation Report
Calculation of Roll-in Adjustment Amount

Attachment B

Line	DESCRIPTION (a)	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	12 MONTHS ENDED	Line
		(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(o)	
1	Total GCR Revenue	\$ 15,371,900	\$ 4,992,706	\$ 3,352,654	\$ 3,087,633	\$ 2,530,367	\$ 2,974,824	\$ 5,766,066	\$ 15,862,392	\$ 23,666,818	\$ 26,638,285	\$ 30,307,492	\$ 24,917,126	\$ 159,468,263	1
2	GCR Booked Cost of Gas Sold	13,302,319	5,951,298	4,097,499	3,617,853	2,881,056	3,075,162	6,359,838	18,420,226	27,761,554	29,328,964	31,498,967	26,878,395	173,173,131	2
3	Over/(Under)-Recovery	2,069,581	(958,592)	(744,845)	(530,220)	(350,689)	(100,338)	(593,772)	(2,557,834)	(4,094,736)	(2,690,679)	(1,191,475)	(1,961,269)	(13,704,868)	3
Interest Rates:															
4	Return on Equity	11.4000%	11.4000%	11.4000%	11.4000%	11.4000%	11.4000%	11.4000%	11.4000%	11.4000%	11.4000%	11.4000%	11.4000%		4
5	Short-term	5.3957%	5.3957%	5.3957%	5.3960%	5.4267%	5.5295%	5.5048%	5.3993%	5.2967%	4.5138%	3.7035%	3.5974%		5
6	Number of days in Month	30	31	30	31	31	30	31	30	31	31	29	31	366	6
7	2006/2007 Net Over-Recovery Balance	1,357,667													7
8	Current Month Over/(Under)-Recovery	711,914	(958,592)	(744,845)	(530,220)	(350,689)	(100,338)	(593,772)	(2,557,834)	(4,094,736)	(2,690,679)	(1,191,475)	(1,961,269)		8
9	Cumulative Over/(Under)-Recovery Balance	1,713,624	1,590,285	738,567	101,034	(339,421)	(564,934)	(911,989)	(2,487,792)	(5,814,077)	(9,206,785)	(11,147,862)	(12,724,234)		9
10	2006/2007 Over-Recovery Interest Rate	0.9344%													10
11	Current Month Cumulative Balance Interest Rate (Interest Rate x No. of Days ÷ 365)	0.9344%	0.9656%	0.9344%	0.9656%	0.4596%	0.4532%	0.4663%	0.4426%	0.4486%	0.3823%	0.2934%	0.3047%		11
12	Current Month Interest Expense/(Revenue)	3,326	15,355	6,901	976	(1,560)	(2,560)	(4,252)	(11,010)	(26,084)	(35,199)	(32,713)	(38,770)		12
13	2006/2007 GCR Over-Recovery Interest Expense	12,686													13
14	Total Current Month Interest Expense/(Revenue)	\$ 16,013	\$ 15,355	\$ 6,901	\$ 976	\$ (1,560)	\$ (2,560)	\$ (4,252)	\$ (11,010)	\$ (26,084)	\$ (35,199)	\$ (32,713)	\$ (38,770)	(112,903)	14
15	Under-Recovery Balance and Accrued Interest (Lines 3+14)													\$ (13,817,771)	15