

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)	
MICHIGAN CONSOLIDATED GAS COMPANY)	
for approval of a gas cost recovery plan, 5-year)	Case No. U-15701
forecast, and monthly GCR factors for the 12-month)	
period ending March 31, 2010.)	
_____)	

At the April 30, 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

On December 29, 2008, Michigan Consolidated Gas Company (Mich Con) filed an application with supporting testimony and exhibits requesting approval of its gas cost recovery (GCR) plan, 5-year forecast, and monthly GCR factors for the 12-month period from April 1, 2009 through March 31, 2010. The application was filed pursuant to 1939 PA 3, MCL 460.6h *et seq.*

A prehearing conference was held February 5, 2009 before Administrative Law Judge Barbara A. Stump. Mich Con, Attorney General Michael A. Cox, the Michigan Community Action Agency Association, the Residential Ratepayer Consortium, and the Commission Staff participated in the proceedings. Subsequently, the parties filed a partial settlement agreement resolving one of the issues in the case.

According to the terms of the settlement agreement, attached as Exhibit A, the parties agree that the Commission should approve, on an interim basis, Mich Con's use of the fixed price purchasing practices set forth in Attachment 1 to the settlement agreement. The parties maintain that the adoption of these fixed price purchasing practices at this time is a reasonable and prudent response to current market conditions and that it is reasonable for Mich Con to follow these practices until the Commission issues its final order in this case. The settlement agreement does not resolve any other issue in this case.

The Commission finds that granting the relief recommended in the partial settlement agreement is in the public interest, and that the partial settlement agreement is reasonable and should be approved.

THEREFORE, IT IS ORDERED that:

- A. The partial settlement agreement, attached as Exhibit A, is approved.
- B. Michigan Consolidated Gas Company is authorized to adopt the fixed price purchasing practices set forth in Attachment 1 to the partial settlement agreement, on an interim basis, subject to issuance of a final order in this case.
- C. This case shall proceed to final conclusion following the previously established schedule.

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

Orjiakor N. Isiogu, Chairman

Monica Martinez, Commissioner

Steven A. Transeth, Commissioner

By its action of April 30, 2009.

Mary Jo Kunkle, Executive Secretary

3. On February 5, 2009, a prehearing conference was held. Administrative Law Judge Sharon A. Feldman presided over the proceeding. MichCon, Staff, AG, RRC, and MCAAA participated in the proceeding. The AG, the RRC and MCAAA were admitted as parties to the proceeding.

4. Subsequent to the prehearing conference, the Parties engaged in settlement discussions. As a result of these settlement discussions, the Parties have reached agreement that MichCon should immediately implement one of its proposals in the above captioned case.

5. MichCon witness George H. Chapel discusses proposed changes to MichCon's fixed price purchase guidelines in the above captioned case. The changes adopted by the parties for purposes of this settlement are contained in Exhibit A-8 of Mr. Chapel's Direct Testimony, a copy of which is Attachment 1 to this Partial Settlement Agreement.

6. The Parties agree that the Commission should approve the changes to MichCon's fixed price purchasing practices contained in Exhibit A-8 on an interim basis. If the Commission approves this partial settlement, MichCon shall use the fixed price purchase guidelines in Exhibit A-8 until the Commission issues a final order in this case. The parties agree that any gas purchases made by MichCon in accordance with the fixed price purchase guidelines in Exhibit A-8 until the Commission issues a final order in this case shall be considered reasonable and prudent notwithstanding any changes that may be adopted prospectively in a final order.

7. The parties agree that this Partial Settlement Agreement is intended to provide an interim response to current market conditions. Any arguments that parties wish to make regarding the fixed price purchasing guidelines in Case No. U-15701 applicable on a prospective basis following a final order are unaffected by this Partial Settlement Agreement.

8. This Settlement Agreement is entered into for the sole and express purpose of reaching a compromise among the parties. All offers of settlement and discussions relating to this settlement are considered privileged under MRE 408. If the Commission approves this Settlement Agreement without modification, neither the parties to the settlement nor the Commission shall make any reference to, or use this Partial Settlement Agreement or the order approving it, as a reason, authority, rationale or example for taking any action or position or making any subsequent decision in any other case or proceeding; provided however, such references may be made to enforce or implement the provisions of this Settlement Agreement and the order approving it.

9. This Partial Settlement Agreement is based on the facts and circumstances of this case. If the Commission approves this Partial Settlement Agreement without modification, the undersigned parties agree not to appeal, challenge, or otherwise contest the Commission order approving this Partial Settlement Agreement. Except as otherwise stated in this Partial Settlement Agreement, the parties agree and understand that, this Partial Settlement Agreement does not limit any party's right to take new or different positions on similar issues in other administrative proceedings, or appeals.

10. This Partial Settlement Agreement is not severable. Each provision of this Partial Settlement Agreement is dependent upon all other provisions of this Partial Settlement Agreement. Failure to comply with any provision of this Partial Settlement Agreement constitutes failure to comply with the entire Partial Settlement Agreement. If the Commission rejects or modifies this Partial Settlement Agreement or any provision of this Partial Settlement Agreement, this Partial Settlement Agreement shall be deemed to be withdrawn, shall not

constitute any part of the record in this proceeding or be used for any other purpose, and shall not operate to prejudice the pre-negotiation positions of any party.

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

12. This Partial Settlement Agreement may be executed in multiple counterparts.

WHEREFORE, the undersigned Parties respectfully request that the Commission approve this Settlement Agreement without modification, and make it effective, in accordance with its terms, by final order.

**MICHIGAN PUBLIC SERVICE
COMMISSION STAFF**

By: Michael J. Orris
Michael J. Orris (P51232)
Assistant Attorney General
Public Service Division
6545 Mercantile Way Suite 15
Lansing, Michigan 48911

Dated: _____, 2009

MICHIGAN ATTORNEY GENERAL

By: _____
Michael E. Moody (P51985)
Assistant Attorney General
P. O. Box 30212
Lansing, MI 48909

Dated: _____, 2009

**MICHIGAN CONSOLIDATED GAS
COMPANY**

By: Richard P. Middleton
Its Attorney
Richard P. Middleton (P41278)
2000 2nd Avenue WCB 688
Detroit, Michigan 48226

Digitally signed by Richard P. Middleton
DN: cn=Richard P. Middleton, o=DTE
Energy, ou=Legal - Regulatory Affairs,
email=rmiddleton@dteenergy.com, c=US
Date: 2009.04.07 10:30:07 -0400

Dated: _____ April 7 _____, 2009

**MICHIGAN COMMUNITY ACTION
AGENCY ASSOCIATION (MCAAA)**

By: _____
Don L. Keskey (P23063)
Clark Hill PLC
212 E. Grand River Avenue
Lansing, MI 48906

Dated: _____, 2009

constitute any part of the record in this proceeding or be used for any other purpose, and shall not operate to prejudice the pre-negotiation positions of any party.

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

12. This Partial Settlement Agreement may be executed in multiple counterparts.

WHEREFORE, the undersigned Parties respectfully request that the Commission approve this Settlement Agreement without modification, and make it effective, in accordance with its terms, by final order.

**MICHIGAN PUBLIC SERVICE
COMMISSION STAFF**

By: _____
Michael J. Orris (P51232)
Assistant Attorney General
Public Service Division
6545 Mercantile Way Suite 15
Lansing, Michigan 48911

Dated: _____, 2009

**MICHIGAN CONSOLIDATED GAS
COMPANY**

Richard P.
By: Middleton _____
Its Attorney
Richard P. Middleton (P41278)
2000 2nd Avenue WCB 688
Detroit, Michigan 48226

Digitally signed by Richard P. Middleton
DN: cn=Richard P. Middleton, o=DTE
Energy, ou=Legal - Regulatory Affairs,
email=middletonr@dreenergy.com, c=US
Date: 2009.04.07 10:30:07 -04'00'

Dated: _____ April 7, 2009

MICHIGAN ATTORNEY GENERAL

Michael Moody
By: _____
Michael E. Moody (P51985)
Assistant Attorney General
P. O. Box 30212
Lansing, MI 48909

Dated: _____, 2009

**MICHIGAN COMMUNITY ACTION
AGENCY ASSOCIATION (MCAAA)**

By: _____
Don L. Keskey (P23063)
Clark Hill PLC
212 E. Grand River Avenue
Lansing, MI 48906

Dated: _____, 2009

constitute any part of the record in this proceeding or be used for any other purpose, and shall not operate to prejudice the pre-negotiation positions of any party.

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

12. This Partial Settlement Agreement may be executed in multiple counterparts.

WHEREFORE, the undersigned Parties respectfully request that the Commission approve this Settlement Agreement without modification, and make it effective, in accordance with its terms, by final order.

**MICHIGAN PUBLIC SERVICE
COMMISSION STAFF**

By: _____
Michael J. Orris (P51232)
Assistant Attorney General
Public Service Division
6545 Mercantile Way Suite 15
Lansing, Michigan 48911

Dated: _____, 2009

MICHIGAN ATTORNEY GENERAL

By: _____
Michael E. Moody (P51985)
Assistant Attorney General
P. O. Box 30212
Lansing, MI 48909

Dated: _____, 2009

**MICHIGAN CONSOLIDATED GAS
COMPANY**

Richard P.
By: Middleton
Its Attorney
Richard P. Middleton (P41278)
2000 2nd Avenue WCB 688
Detroit, Michigan 48226

Digitally signed by Richard P. Middleton
DN: cn=Richard P. Middleton, o=DTE
Energy, ou=Legal - Regulatory Affairs,
email=middleton@dteenergy.com, c=US
Date: 2009.04.07 10:30:07 -04'00'

Dated: _____ April 7, 2009

**MICHIGAN COMMUNITY ACTION
AGENCY ASSOCIATION (MCAAA)**

Digitally signed by Don L. Keskey
By: _____
Don L. Keskey (P23063)
Clark Hill PLC
212 E. Grand River Avenue
Lansing, MI 48906

Dated: _____, 2009

**THE RESIDENTIAL RATEPAYER
CONSORTIUM (RRC)**

David L.
Shaltz

Digitally signed by David L. Shaltz
DN: cn=David L. Shaltz, c=US,
email=dshaltz@sbcglobal.net
Date: 2009.04.08 11:01:25 -0400'

By: _____

David L. Shaltz (P29330)
2270 Jolly Oak Road, Suite 2A
Okemos, MI 48864

Dated: _____, 2009

Case No.: U-15701
 Exhibit No.: A-8
 Witness: G. H. Chapel
 Page No.: 1 of 9

Fixed Price Purchase Guidelines

Percent of Purchase Volume	Fixed Price Portfolio Targets for Case No. U-15701 Maximum Fixed Price Quantity Priced Below Historical Median			
100%	25% Spot/Basis/Index for Weather and Other Variable			
75%	Variable Percent Fixed Based on QIM, Milestones, Benchmark Pricing and 21-DMA up to a maximum of 75%			
60%		3530% @ 12-Mth QIM NYMEX		
4030%		2520% @ 24-Mth QIM NYMEX		
4510%		4510% @ 36-Mth QIM NYMEX		
	Current Year 2008-2009	Year 1 2009-2010	Year 2 2010-2011	Year 3 2011-2012

1. Objective

1.1. To create a purchasing strategy that effectively manages the impact of natural gas market volatility while emphasizing the purchase of fixed-price forward contracts having prices in the range of historically low prices levels.

2. Contents

Long-Term Methods:

- Section 3: Quartile Index Method (QIM)
- Section 4: Milestone Default Method
- Section 5: Fixed Price Plans to Cap Upward Market Movement

Short-Term Methods:

- Section 6: Benchmark Price Method
- Section 7: 21-Day Moving Average Method (21-DMA)
- Section 8: Milestone Default Method

General Applicability:

1 Section 9. General

2 LONG-TERM METHODS:

3 3. Quartile Index Method (QIM) For Long-Term Fixed Price Signals

4 3.1. QIM – a procedure that incorporates into contract purchase decision
5 making, the potential risk associated with entering into fixed-price
6 contracts for future GCR periods. Price risk is reduced by creating a
7 nexus between purchase quantities and a comparison of contract prices
8 in relation to a ranking of historical NYMEX 12-month strips. Specifically,
9 upon settlement on the last trading day for each monthly NYMEX natural
10 gas contract, MichCon will determine the average of the settlement prices
11 for the NYMEX contract that has settled for the current month plus the
12 next consecutive eleven monthly settled NYMEX contracts. This 12
13 month average strip price will be summarized along with the comparable
14 12 month average strip prices for the previous 35 months. For quartile
15 ranges under the rolling 36-month NYMEX data period, all 36 prices will
16 be sorted from lowest to highest and grouped into four quartiles. The 9
17 lowest prices represent the First Quartile; the next 9 prices are the
18 Second Quartile and so on. For quartile ranges under the rolling 24-
19 month NYMEX data period, the most recent 24 prices will be sorted from
20 lowest to highest and grouped into four quartiles. For quartile ranges
21 under the rolling 12-month NYMEX data period, the most recent 12 prices
22 will be sorted from lowest to highest and grouped into four quartiles. If
23 the current market price of gas falls into (i) the Second Quartile, (ii) the
24 First Quartile, or (iii) below the First Quartile, MichCon would then
25 implement measures to lock-in fixed prices on a portion of its supply
26 requirement as indicated below.

27 3.2. A rolling 12-month NYMEX data period will be used to determine the
28 quartile ranges and percent of total purchases applied to Year 1 of the
29 GCR Period, as follows:

- 30 a. ~~15~~10% of Year 1 volume at 2nd Quartile price level
31 b. 10% of Year 1 volume at 1st Quartile price level, ~~or \$0.30 less than~~
32 ~~the actual price locked-in under 3.2.a above.~~
33 c. 10% of Year 1 volume below 1st Quartile price level, ~~or \$0.30 less~~
34 ~~than the actual price locked-in under 3.2.b above.~~

35 3.3. A rolling 24-month NYMEX data period will be used to determine the
36 quartile ranges and percent of total purchases applied collectively for
37 Year 1 through 2, as follows:

- 38 a. ~~10~~7% of Year 1 through 2 volume at 2nd Quartile price level

- 1 | b. ~~407%~~ of Year 1 through 2 volume at 1st Quartile price level, ~~or \$0.50~~
2 | ~~less than the actual price locked-in under 3.3.a above.~~
3 | c. ~~56%~~ of Year 1 through 2 volume below 1st Quartile price level, ~~or~~
4 | ~~\$0.50 less than the actual price locked-in under 3.3.b above.~~
- 5 | 3.4. A rolling 36-month NYMEX data period will be used to determine the
6 | quartile ranges and percent of total purchases applied collectively for
7 | Year 1 through 3, as follows:
- 8 | a. ~~53%~~ of Year 1 through 3 volume at 2nd Quartile price level
9 | b. ~~53%~~ of Year 1 through 3 volume at 1st Quartile price level, ~~or \$0.70~~
10 | ~~less than the actual price locked-in under 3.4.a above.~~
11 | c. ~~54%~~ of Year 1 through 3 volume below 1st Quartile price level, ~~or~~
12 | ~~\$0.70 less than the actual price locked-in under 3.4.b above.~~
- 13 | 3.5. These historical rankings incorporate an arithmetic average of the 12-
14 | month NYMEX future strip on the date of the monthly contract settlement.
15 | The 0th percentile (lowest price), the 25th percentile (first quartile), and
16 | the 50th percentile (second quartile) are identified as key price indices.
17 | Only prices at or below the second quartile invoke a “buy” signal. The
18 | Second Quartile Range is defined to be the interval between the 50th and
19 | 25th percentile, inclusive of the median. The First Quartile Range is
20 | defined to be the interval between the 25th percentile and the 0th
21 | percentile, inclusive of the 25th percentile data-point.
- 22 | 3.6. If a “buy” signal occurs with the Quartile Indices method, and the quantity
23 | to be locked-in would cause the total quantity under fixed price contracts
24 | to exceed the maximum for any given year per the above chart, then fixed
25 | prices may be locked-in for a truncated term that excludes that year(s).
26 | For example, if 75% of gas supply in Year 1 is under fixed price contracts,
27 | then any “buy” signal would result in a truncated purchase period that
28 | excludes Year 1, and may only cover Years 2 through 3. All truncated
29 | purchases must be at or below the Quartile price level. For example, if
30 | the two year (24 month) first quartile price level is reached and 70% of
31 | year 1 supply is currently fixed, the 10% purchase volume requirement
32 | (Section 3.3.b) would be truncated to 5% for year 1. If the first quartile
33 | price level was \$10 and the two year strip (average price of months 1-24)
34 | price was trading at or below \$10, then MichCon would lock in 5% of the
35 | volumes for year 1 (months 1-12) and year 2 (months 13-24). MichCon
36 | would only lock in the remaining 5% of year 2 volumes once the second
37 | year strip (average price of months 13-24) price was at or below \$10.
- 38 | 3.7. New (or increased) purchase volumes may, but are not required, to be
39 | executed immediately upon a drop in futures prices into each Quartile
40 | Range. In all cases, however, the Company shall schedule the

1 acquisition of fixed-price gas supply contracts in a prudent manner, taking
2 into account the rate of change in market prices, price trends, or any
3 other factors that in its discretion are deemed appropriate. It is anticipated
4 that Quartile Indices targets may not be fully achieved due to
5 unanticipated gas market volatility.

6 3.8. NYMEX futures prices below the 0th percentile allow, but do not require,
7 the Company to exceed the overall target-limit for each year.

8 3.9. On the first day after the close of the April NYMEX contract each year, the
9 future GCR annual period that was designated the "Year 1" now becomes
10 the "Current GCR Period," and what was formerly designated the "Year 2"
11 now becomes the "Year 1" and continuing in the same manner through
12 "Year 4" that becomes "Year 3".

13 3.10. Quartile Index purchases for the Year 1 GCR period cease on the last
14 trading day of the April NYMEX contract.

15 4. Long-Term Milestone Default Method

16 4.1. Long-Term Milestones (Long Term) - MichCon will have volume target
17 levels for the Prompt GCR period (April – March) flowing supply locked in
18 at fixed prices by certain milestone dates. If the QIM fails to achieve
19 these volume target levels prior to the specified dates, then MichCon will
20 implement Dollar Cost Averaging ("DCA") as more fully described in detail
21 below. The target volumes and milestone dates are as follows:

22 a. 5% by September 1

23 a-b. 10% by October 1

24 c. 15% by November 1

25 a-d. 20% by December 1

26 b-e. 30% by April 1

27 4.2. MichCon will have 20% of its flowing Prompt Apr-Mar supply under fixed
28 prices by December 1. Further, MichCon will have 30% of its flowing
29 Prompt Apr-Mar supply under fixed prices by April 1. All of this supply will
30 be acquired in 5% increments.

31 a. If MichCon does not have 5% of its flowing April One Year supply
32 under fixed price contracts before the last 5 trading days of the Sep
33 NYMEX contract, then MichCon will, during the last 5 trading days of
34 the Sep NYMEX contract, lock-in fixed prices on 5% of its flowing
35 April One Year supply, bringing the total fixed price flowing supply to
36 5%.

Formatted: Bullets and Numbering

- 1 b. Further, if MichCon does not have 10% of its flowing April One Year
2 supply under fixed price contracts before the last 5 trading days of the
3 Oct NYMEX contract, then MichCon will, during the last 5 trading
4 days of the Oct NYMEX contract, lock-in fixed prices on 5% of its
5 flowing April One Year supply, bringing the total fixed price flowing
6 supply to 10%.
- 7 c. Further, if MichCon does not have 15% of its flowing April One Year
8 supply under fixed price contracts before the last 5 trading days of the
9 Nov NYMEX contract, then MichCon will, during the last 5 trading
10 days of the Nov NYMEX contract, lock-in fixed prices on 5% of its
11 flowing April One Year supply, bringing the total fixed price flowing
12 supply to 15%.
- 13 d. Further still, if MichCon does not have 20% of its flowing April One
14 Year supply under fixed price contracts before the last 5 trading days
15 of the Dec NYMEX contract, then MichCon will, during the last 5
16 trading days of the Dec NYMEX contract, lock-in fixed prices on 5%
17 of its flowing April One Year supply, bringing the total fixed price
18 flowing supply to 20%.
- 19 e. Following this process will assure that 20% of the flowing supply for
20 the prompt April through March period will be under fixed price by
21 December 1.
- 22 4.3. The 30% fixed price by April 1 target will be met in a similar fashion.
23 MichCon will continue to fix prices for Prompt April forward under its
24 currently utilized Quartile Index Method QIM.
- 25 a. If MichCon does not have 25% of its flowing April One Year supply
26 under fixed price contracts before the last 5 trading days of the Mar
27 NYMEX contract, then MichCon will, during the last 5 trading days of
28 the Mar NYMEX contract, lock-in fixed prices on 5% of its flowing
29 April One Year supply, bringing the total fixed price flowing supply to
30 25%.
- 31 b. Further, if MichCon does not have 30% of its flowing April One Year
32 supply under fixed price contracts before the last 5 trading days of the
33 Apr NYMEX contract, then MichCon will, during the last 5 trading
34 days of the Apr NYMEX contract, lock-in fixed prices on 5% of its
35 flowing April One Year supply, bringing the total fixed price flowing
36 supply to 30%.
- 37 c. Following this process will assure that 30% of the flowing supply for
38 the prompt April through March period will be under fixed prices.

1 5. Fixed Price Plans to Cap Upward Market Movement

2 5.1. Fixed price plans to cap upward market movements are still to be
3 determined.

4 SHORT-TERM METHODS:

5 6. Benchmark Price Method for Short-Term Fixed Price Signals

6 6.1. Definition and Declaration of Benchmark Price: At the close of the last
7 trading day for the March NYMEX contract, the simple average of the
8 NYMEX monthly closing prices will be calculated for the immediately
9 preceding 12-month GCR period ending March. MichCon will file this
10 price with the MPSC for approval as the "Benchmark Price." MichCon will
11 submit this price and the request for approval within 5 work days after the
12 close of the last trading day for the March NYMEX contract. If no
13 objections are filed with the MPSC by the close of the last trading day of
14 the April NYMEX contract, then the filed price shall become the
15 "Benchmark Price." If any objections are filed before the close of the last
16 trading day of the April NYMEX contract, then MichCon may not
17 implement the Benchmark Price Method until the MPSC issues an order
18 declaring the appropriate "Benchmark Price."

19 6.2. Benchmark Price Method (Short Term) – If less than 75% of the Prompt
20 GCR period is locked in at fixed prices at the close of the last trading day
21 of the April NYMEX contract, then MichCon may implement the
22 Benchmark Price Method. This is a procedure that identifies price signals
23 that invoke a "buy" signal during the Current GCR Period. If at any time
24 after the last trading day of the April NYMEX contract, either: (a) the 12-
25 month average NYMEX price for the Current GCR Period inclusive of
26 settled prices to date and futures prices for the Balance of Period, or (b)
27 the average NYMEX price for the Balance of Period for the Current GCR
28 Period, are below the Benchmark Price, then fixed prices may be locked-
29 in as follows:

- 30 a. 2.5% of total winter average daily purchase volumes may be locked-
31 in at fixed prices for the Balance of Period at prices below the
32 Benchmark Price.
- 33 b. 2.5% of total winter average daily purchase volumes may be locked
34 in at fixed prices for the Balance of Period for each incremental \$0.20
35 below the Benchmark Price.
- 36 c. The maximum volume locked-in under the Benchmark Price Method
37 is limited to the lesser of: (a) 25%, or (b) the difference between 75%
38 and the percentage of winter average daily purchase volumes locked
39 in at fixed prices under the long-term methods at the beginning of the

- 1 Current GCR Period. To this extent, no more than 75% of all winter
2 volumes will be locked-in at fixed prices under all of the combined
3 fixed price methods.
- 4 d. Any prices locked-in under the Benchmark Price Method to meet
5 these targets for winter flowing supply will encompass all months
6 remaining in the balance of the GCR period.
- 7 7. 21-Day Moving Average Method (21-DMA) for Short-Term Fixed Price
8 Signals
- 9 7.1. 21-DMA – If less than 50% of the Prompt Winter GCR period (November
10 – March) is locked in at fixed prices on April 1, MichCon may then
11 implement the 21-DMA method in order to achieve the 50% level. This is
12 a procedure that identifies price signals that invoke a “buy” signal during
13 the Current GCR Period. At the close of each NYMEX trading day, the
14 average of all the NYMEX natural gas contract settlement prices from the
15 prompt month through March (Balance of Period Strip) will be calculated.
16 The average of this Balance of Period Strip over the most recent 21
17 trading days will be used to determine the 21-Day Moving Average. A
18 “buy” signal occurs when current market prices are below the 21-Day
19 Moving Average.
- 20 7.2. To the extent that the sum of Quartile Index purchases for the current
21 GCR period fall short of 50% for the November through March period,
22 then the 21-Day Moving Average purchases for the Balance of Period
23 Strip will be used to make up the shortfall (i.e. “Planned 21-DMA Fixed
24 Price Volume”). If this method does not achieve the fixed price volumes
25 required by the threshold dates identified in Addendum #1 Section 8,
26 Short-Term Milestone Default Method, the Company will follow the
27 procedures identified in Addendum #1- Section 8 with the intent to
28 achieve a minimum of 50% under fixed price contracts.
- 29 7.3. 21-Day Moving Average purchases may begin on the day following the
30 last trading day for the April NYMEX Natural Gas Contract.
- 31 7.4. The quantity of gas locked-in at fixed prices under each 21-Day Moving
32 Average “buy” signal are capped at 1/14 of the Balance of Period Planned
33 21-DMA Fixed Price Volume calculated pursuant to paragraph 7 above.
34 No more than 1/14 of the Balance of Period planned fixed price volume
35 may be locked-in at fixed prices under the 21-Day Moving Average
36 method during **and** any one calendar week, subject to the following
37 conditions.
- 38 7.5. Notwithstanding the foregoing, if the price to be locked-in under the 21-
39 DMA method is below the Benchmark Price, then 2/14 of the Balance of

1 Period planned fixed price volume may be locked-in at fixed prices during
2 the week instead of 1/14.

3 8. Short-Term Milestone Default Method

4 8.1. Short-Term Milestone Default Method: MichCon will have volume target
5 levels for the Prompt Winter period (November – March) flowing supply
6 locked in at fixed prices by certain milestone dates. If the QIM plus the
7 21-DMA collectively fail to achieve these volume target levels prior to the
8 specified dates, then MichCon will implement Dollar Cost Averaging
9 (“DCA”) as more fully described in detail below. The target volumes and
10 milestone dates are as follows:

11 a. 35% by June 1

12 a-b. ~~35~~-40% by July 1

13 b-c. 50% by October 15

14 8.2. MichCon will have ~~35~~-40% of its flowing Prompt Winter period supply
15 under fixed prices by July 1. Further, MichCon will have 50% of its
16 flowing Prompt Winter period supply under fixed prices by October 15.

17 a. Should the 21-Day Moving Average fall short of achieving 35% under
18 fixed prices for the November through March period before the last 5
19 trading days of the June NYMEX contract, then MichCon will, during
20 the last 5 trading days of the June NYMEX contract, lock-in fixed
21 prices on the Balance of Period volume sufficient to achieve 35% of
22 its flowing November through March supply under fixed prices.

23 b. Further, should the 21-Day Moving Average fall short of achieving
24 40% under fixed prices for the November through March period
25 before the last 5 trading days of the July NYMEX contract, then
26 MichCon will, during the last 5 trading days of the July NYMEX
27 contract, lock-in fixed prices on the Balance of Period volume
28 sufficient to achieve 40% of its flowing November through March
29 supply under fixed prices.

30 c. Further, should the 21-Day Moving Average fall short of achieving
31 50% under fixed prices for the November through March period
32 before October 1st, then MichCon will, during the first 15 calendar
33 days of October, lock-in fixed prices on the November through March
34 supply sufficient to achieve 50% under fixed prices.

35 d. Any price locks to meet these targets for winter flowing supply will
36 encompass all months remaining in the balance of the GCR period.

Formatted: Bullets and Numbering

1 GENERAL APPLICABILITY:

2 9. General

3 9.1. Intra-year fixed-price contracts may be entered into during the current
4 GCR period up to a limit of 75% of the Balance of Period purchase
5 volumes.

6 9.2. Fixed prices under these guidelines may be achieved through fixed-price
7 physical contracts, NYMEX futures contracts, swaps, or call options at the
8 Company's discretion.

9 9.3. Percentage targets are based upon normalized purchase requirements
10 projected in the Five-Year Forecast of the latest GCR Plan, and
11 contracted volumes may be adjusted to comport with standardized
12 contract increments and rounded to the nearest 1,000 Dth/Day at
13 MichCon's discretion.

14 9.4. Purchase volume targets for any given period or fraction of that period
15 may be adjusted to take into account forecasted changes in GCR load or
16 GCR supply, including but not limited to, changes resulting from customer
17 migration to or from the Company's Customer Choice Program, GCR
18 supply that may be higher or lower during any given period due to
19 operational planning or any other reasonable factor. These adjustments
20 may occur before or after fixed prices purchases are executed and may
21 result in the amendment of fixed price contracts to change the delivery
22 period to another month with an associated price change to account for
23 the difference in prices between different delivery months.

24 9.5. Notwithstanding the foregoing, any purchases under these guidelines
25 may be suspended or modified at the Company's discretion if at any time
26 unusual, unforeseen, or extreme market conditions occur. Such
27 conditions shall include, but are not limited to, events of force majeure,
28 hurricanes, national or natural disasters, extensive national pipeline
29 disruptions, unprecedented or extreme price levels or price movements,
30 etc. Such suspensions or modifications to these fixed price guidelines
31 may include, but are not limited to, the deferral of locking-in winter fixed
32 prices until November of the current GCR Period or the early start of the
33 21-Day Moving Average method into the immediately preceding January,
34 February, or March.

35 9.6. Any modifications made by the Company under these guidelines are
36 subject to GCR reconciliation.