

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)	
MICHIGAN CONSOLIDATED GAS COMPANY)	
for <i>ex parte</i> approval of special fuel rates for)	Case No. U-15971
shippers transporting gas to Dawn Gateway)	
Pipeline, LLC.)	
_____)	

At the July 16, 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 May 11, 2009, Michigan Consolidated Gas Company (Mich Con) filed an application for *ex parte* approval of four special gas transportation agreements between Mich Con and various customers. On May 27, 2009, Mich Con supplemented its application with a fuel study and affidavit attesting to the accuracy of the methods and results of the study.

In its application, Mich Con states that the company currently owns and operates the Belle River – St. Clair pipeline, a three mile pipeline interconnecting with Union Gas Limited (Union Gas) at the border between the United States and Canada.¹ Mich Con further states that since operation of the pipeline began, robust regional and national gas trading platforms have developed and new interstate pipeline capacities have significantly increased the availability of supplies to

¹The Belle River – St. Clair pipeline was approved in the November 10, 1988 order in Case No. U-9138.

satisfy utility gas sales. Mich Con asserts that capacity on the Belle River – St. Clair pipeline is constrained because this path is used primarily for Union Gas’s storage operations and to serve Union Gas’s local market. In addition, Mich Con maintains that its use of a system-wide fuel rate has led to increased transportation fuel costs, making the cost to transport on this path prohibitive and not accurately reflective of the true cost of moving gas to the Belle River – St. Clair pipeline, resulting in significant under utilization of the pipeline since 2004.

Mich Con states that the Dawn Gateway Project (DGPL), a joint venture between DTE Pipeline Company (DTE) and Spectra Energy, Inc. (parent company of Union Gas Ltd.), has proposed a new pipeline between Belle River, Michigan and Dawn, Ontario that would involve leasing the Belle River – St. Clair pipeline from Mich Con, which would increase utilization of the pipeline.

To address the high system-wide fuel rate, Mich Con’s application provides the results from a study analyzing the company’s system-wide transportation fuel rate. Mich Con asserts that the study shows that the incremental fuel used in transporting the additional gas that is expected to flow to the proposed DGPL will be 0.39%, and the associated incremental lost and unaccounted for gas (LAUF) will be equal to be 0.32%. Once the LAUF gas and transportation percentages were identified, Mich Con conducted an open season by email to over 300 industry contacts directly, as well as through a notice published in Gas Daily. As a result of the interest expressed during the open season, Mich Con entered into four special gas transportation agreements for which it now seeks Commission approval.

In each of the agreements, Mich Con seeks approval of a fuel rate of 1.00%, which the company maintains reflects recovery of the cost of fuel and LAUF associated with the specific services offered to these parties that desire transportation across Mich Con’s system to DGPL.

The agreements with three of the users are for a five-year term beginning on November 1, 2010, and the agreement with the fourth user is for a seven-year term also beginning on November 1, 2010. The agreements require a total of 180,000 dekatherms per day (Dth/d) of capacity on Mich Con's system for delivery to the DGPL project. According to Mich Con, except for the fuel and LAUF rate of 1.00%, the rates, terms, and conditions of the intrastate off-system transportation service provided under each of the agreements are consistent with the rates, terms, and conditions of service authorized under Mich Con's Commission approved Transportation Off-System Firm Service MPSC Tariff No. 5 E-16.

Mich Con states that the special gas transportation agreements are the product of good faith negotiations between Mich Con and the four counterparty transportation customers. In addition, Mich Con believes that it has demonstrated in its application that the lower fuel rate more than adequately recovers the incremental cost of fuel and LAUF associated with the delivery of transportation service to DGPL. Thus, when the fuel rates are combined with the transportation rates, there are no rate discounts for which Mich Con needs to seek cost recovery from other ratepayers.

Mich Con asserts that Commission approval of the long term off-system transportation contracts will provide incremental revenue over their terms and represent new markets for Mich Con's mid-stream business that will help mitigate other increases in the overall costs of the company's regulated services. Mich Con maintains that other customers will benefit from this transaction through recovery of the remaining book value of the Belle River – St. Clair pipeline; overrecovery of fuel costs as a result of the assessment of 1.00% transportation fuel; increased transportation and storage revenues from shippers using the enhanced pathway to Dawn; and increased interest and value in third-party gas storage contracts at Mich Con's facilities.

Mich Con also maintains that system reliability will not be affected by the additional volumes transported on Mich Con's system to the DGPL interconnection point. According to the company, providing a 360,000 Dth/d transportation pathway, including moving gas to and from Mich Con storage, has no material effect on the gas flow necessary to meet expected gas supply demands in southeast Michigan markets, including Detroit, in both summer and winter.

Discussion

The Commission concludes that the proposed contracts are reasonable, in the public interest, and should be approved. In reaching this conclusion, the Commission finds that the parties to the contracts protected their own interests and reached a mutually beneficial bargain. The Commission also finds that the contract provisions do not violate any statutes, rules, or Commission orders, nor would they violate clearly established Commission policies or harm other ratepayers.

The Commission recognizes that under the terms of the agreements, Mich Con is assuming new performance obligations that could adversely affect its non-participating customers if the utility's gas system is not carefully managed, both operationally and financially. Approval of these contracts is conditioned on Mich Con meeting its obligations under the agreements and taking actions necessary to avoid any adverse effect on its non-participating customers.

The Commission finds that approval of the agreements will not now nor in the future increase any customer's rates and that other customers and the public interest are adequately protected without the need for a hearing as provided in MCL 460.6a(1). In its previous orders, the Commission has said that it would not make a definitive ruling on the future ratemaking effects of special contracts and has discussed the general principles that would guide future action when ratemaking effects are properly before Commission. In this case, because Mich Con has not asked

for any ratemaking treatment, the Commission need not address the applicable ratemaking principles in this order. The Commission adds that Mich Con bears the risks associated with any future ratemaking treatment afforded these contracts in a future rate proceeding.

THEREFORE, IT IS ORDERED that the special gas transportation and storage agreements between Michigan Consolidated Gas Company and four transportation customers are approved, subject to the conditions set forth in 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 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 July 16, 2009.

Mary Jo Kunkle, Executive Secretary