



State of Michigan
John Engler, Governor

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Public Service Commission

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Honorable Governor John Engler
Governor of Michigan

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Increasing customer choice for Michigan's natural gas, electric and telephone customers was the focus of the Michigan Public Service Commission in 1998. The Commission took several major steps to advance competition and encourage an open, expanded market for electric, natural gas and telephone services. We are pleased to provide you with this copy of the Michigan Public Service Commission's 1998 Annual Report, which highlights these activities.

Natural Gas

Following Commission approval in December 1997, Consumers Energy Company launched an experimental three year natural gas customer choice program, allowing up to 100,000 of its natural gas sales customers to select a natural gas supplier of choice in 1998. Customers responded enthusiastically, with 100,000 customers exercising their right to select an alternate supplier by October. Fourteen suppliers now offer Consumers Energy residential and/or business customers a choice for their natural gas supplies. The experimental program extends over a three year period, eventually allowing 300,000 Consumers Energy customers to choose their natural gas supplier.

Eager to expand customer choice for Michigan's other natural gas customers, the Commission approved three year experimental natural gas customer choice programs for Michigan Consolidated Gas Company and SEMCO Energy Gas Company in April and September 1998 respectively. Under these programs, 75,000 MichCon and 7,000 SEMCO sales customers will be permitted to select an alternate natural gas supplier in 1999. Eventually, 225,000 MichCon and 21,000 SEMCO customers will have the opportunity to participate in the programs. Consumers Energy's, MichCon's and SEMCO's experimental programs will provide valuable information to assist the Commission in future decisions on permanently extending or approving customer choice programs for small commercial and residential customers.

Electricity

On January 14, the Commission adopted a phase-in schedule that would allow 2½ percent of Consumers Energy's and Detroit Edison Company's electric customers to select an electric supplier of choice as early as March 31, assuming federal regulatory approval. The order granted customer choice in four additional 2½ percent blocks for each of the utility company customers through 2001. In 2002, all remaining customers would be able to select an alternate supplier. Implementation of these schedules has been delayed, pending federal regulatory approval. In December, the Commission directed Detroit Edison and Consumers Energy to file reports on the status of Federal Energy Regulatory proceedings regarding implementation of customer choice.

Electric utility restructuring bills were introduced in the Michigan Legislature, the subject of intense debate by a multitude of parties. The legislature adjourned with only the Senate passing the restructuring bills.

Telecommunications

In July, the city of Coldwater became the first Michigan municipality to receive a license to provide basic local telephone service to its residents. Additionally, the Commission supported competition in the local telephone market by granting competing licenses and /or approving expansion of local telephone licenses for 20 companies. These companies join a rapidly growing number of competitive local telephone service providers licensed by the Commission. Through 1998, the Commission has licensed fifty one competitive local telephone service providers, amended licenses of 14 competitive local telephone service providers and amended licenses of 4 incumbent local service providers.

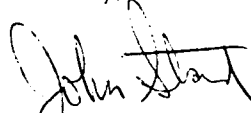
In the fall, the legislature passed and the Governor signed Public Acts 259 and 260 of 1998. The Acts provided the Commission with jurisdiction against telephone slammers. The Commission took action to protect Michigan consumers against telephone slamming by issuing an order on September 23, 1998, which approved procedures to protect customers against slamming, including a provision of up to \$50,000 for violation of the procedures. Slamming, the unauthorized switching of a telephone customer's service to another telephone service provider, constituted the greatest number of complaints to the Telecommunications Service Quality staff this year.

The MPSC on the World Wide Web

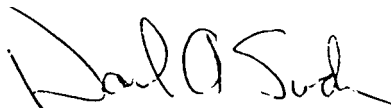
The scope of information on the MPSC web site and the usage of the site continues to expand rapidly, with nearly 120,000 e-mail messages automatically sent to subscribers of Commission schedules, agendas, press releases, and meeting minutes. This offers the media, legislative officials, legal professionals, and interested parties immediate access to a wealth of information at the Commission. Additionally, the Commission staff worked with utility companies to link company tariffs with the Commission web site, providing utility company information on rates and service offerings.

The Commission appreciates the cooperation of the Governor and the Legislature and looks forward to continued support on matters of vital interest to Michigan's utility ratepayers.

Sincerely,



, John G. Strand, Chairman



David A. Svanda, Commissioner