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OF COUNSEL

August 16, 1999

Via Hand Deliverv

Dorothy Wideman
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
P.O. Box 31221
Lansing, MI 48909-7504

U-12081

~~U-12079~~

Re: SEMCO Energy Gas Company
Application for Approval of Special Contract
MPSC Case No. U-______

Dear Ms. Wideman:

Enclosed is an original and fifteen (15) copies of the Application for approval of a gas transportation agreement. If you have any questions, please call me.

Very truly yours,

LOOMIS, EWERT, PARSLEY,
DAVIS & GOTTING, P.C.

Ronald W. Bloomberg

Ronald W. Bloomberg

RWB:blp
enclosure

cc w/enc: John Kosht

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of **SEMCO Energy Gas Company** for approval of a special natural gas transportation contract with the The Detroit Edision Company.	))))))	Case No. U-U-12081

APPLICATION

SEMCO Energy Gas Company ("SEMCO Gas"), pursuant to R 460.203 1, hereby requests the Michigan Public Service Commission ("Commission") to approve a special natural gas transportation contract between SEMCO Gas and The Detroit Edision Company ("Detroit Edision"), and in support thereof, represents as follows:

1. SEMCO Gas is a Michigan corporation with its principal office located at 405 Water Street, Port Huron, Michigan, and is engaged as a public utility in the business of supplying natural gas to the public in its various service areas in the state of Michigan.

2. On October 29, 1997, the Commission issued its Opinion and Order in MPSC Case No. U-l 1220, wherein the Commission, among other things, approved tariffs for the transportation of natural gas by SEMCO Gas, effective for service on October 30, 1997.

3. On August 9, 1999, SEMCO Gas entered into an agreement with Great Lakes Gas Transmission Limited Partnership ("Great Lakes") to purchase Great Lakes' existing lateral pipeline which interconnects with a line tap located at Great Lakes' interstate transmission line and extends approximately 1.6 miles to an interconnection with a meter station immediately adjacent to a

location within The Detroit Edison Company's ("Detroit Edison") Belle River site, where Detroit Edison has three gas-fired 72 megawatt generating units and related facilities. Simultaneously herewith, SEMCO Gas has filed an Application with the Commission pursuant to 1929 PA 9 for authority to own and operate such natural gas transmission pipeline.

4. SEMCO Gas has entered into a Gas Transportation Agreement ("Agreement") with Detroit Edison to transport natural gas through the lateral pipeline described above to the location of the three gas-fired generating units at Detroit Edison's Belle River Generating Units Property. A copy of the Agreement is attached as Exhibit A. The rates and charges under the Agreement are different than the rates and charges under SEMCO Gas's approved tariff.

5. Rule 31 of Filing Procedures for Electric, Water, Steam, and Gas Utilities, R 460.2031 requires a utility to obtain Commission approval to provide services pursuant to an agreement "in manner or at a rate not specifically covered by its filed rules and rate schedules."

6. The Agreement is the product of good faith negotiations and compromise between the parties, in light of the gas supply alternatives which might be available to Detroit Edison. The proximity of these Detroit Edison facilities to the Great Lakes interstate pipeline and that Detroit Edison is currently receiving transportation services from Great Lakes indicate that the facilities are very attractive to Great Lakes and other competing natural gas transportation service providers.

7. SEMCO Gas possesses the system and administrative resources necessary to provide the transportation services required under the Agreement. None of the terms or conditions of service under the Agreement will cause SEMCO Gas to change the general operations of its natural gas systems as those systems are currently utilized by other customers.

8. SEMCO Gas believes that Detroit Edison and, in turn, its customers will benefit under the terms of the Agreement. SEMCO Gas will serve Detroit Edison at rates above its variable cost. SEMCO Gas and its other customers will benefit because the load served under the Agreement will contribute to the SEMCO Gas system's fixed costs. The rates and other terms and conditions specified in the Agreement are reasonable and in the public interest.

9. SEMCO Gas does not seek rate making treatment in connection with this request. SEMCO Gas reserves the right to seek, in the future, appropriate rate making treatment which may include a request to recover the revenue effect of providing service at the rates set forth in the Agreement. SEMCO Gas understands, based upon general principles that the Commission has set forth in other cases (e.g., the July 16, 1999 Order in Re Michigan Consolidated Gas Company, MPSC Case No. U-l 1998 and the October 25, 1995 Order in Re The Detroit Edison Company, MPSC Case No. U-10961) that, in making such a request, it would: (i) bear the burden of demonstrating, among other things, either that (a) the contract terms and prices are justified on the basis of cost of service, or (b) it is more beneficial to other (non-participating) customers for SEMCO Gas to attract Detroit Edision as a customer under the terms of the Agreement; (ii) be required to account for the Agreement as a separate rate class in future cost of service studies; and (iii) be required to report the revenue and volumes associated with the Agreement separately in its annual reports to the Commission.

10. Ex parte approval of the Agreement is appropriate because such approval will not increase the cost of service to any existing customer.

11. Both parties have negotiated the terms of the Agreement under the belief that the Commission would continue its practice (e.g., July 16, 1999 Order in Re Michigan Consolidated Gas

Company, MPSC Case No. U-l 1998) of expeditiously handling requests for approval of such contracts. SEMCO Gas therefore respectfully requests the Commission to expeditiously approve the attached Agreement.

WHEREFORE, SEMCO Energy Gas Company requests the Commission to issue an ex parte order:

A. Approving the Gas Transportation Agreement attached hereto as Exhibit A, as a special contract; and

B. Granting such other and further relief as may be lawful and equitable.

Respectfully submitted,

SEMCO ENERGY GAS COMPANY

Dated: August 16, 1999

BY: Ronald W. Bloomberg

One of Its Attorneys
Harvey J. Messing (P23309)
Ronald W. Bloomberg (P30011)
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DAVIS & GOTTING, P.C.
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Lansing, MI 48933
(5 17) 482-2400

Attorneys for SEMCO ENERGY GAS COMPANY

TRANSPORTATION SERVICE AGREEMENT

This Transportation Service Agreement (Agreement) is entered into by SEMCO ENERGY GAS COMPANY (Transporter) and THE DETROIT EDISON COMPANY (Shipper),

WHEREAS, Shipper has requested Transporter to transport gas on its behalf and Transporter represents that it is willing to transport gas under the terms and conditions of this Agreement.

NOW, THEREFORE, Transporter and Shipper agree that the terms below constitute the transportation service to be provided and the rights and obligations of Shipper and Transporter.

1. SHIPPER TYPE: End User

2. STATE/PROVINCE OF INCORPORATION: Michigan

3. TERM: Transportation Service under this Agreement shall commence on the date Great Lakes Gas Transmission Limited Partnership receives authorization from the Federal Energy Regulatory Commission for the abandonment and transfer of the "Detroit Edison Lateral" to Transporter, and SEMCO receives all appropriate approvals from the Michigan Public Service Commission. This Agreement shall continue in full force and effect from the commencement date of service for a term of twenty (20) years.

4. RATES AND CHARGES: The applicable rates are fixed for the first ten (10) years of the Agreement at thirty-thousand dollars (US.) ($30,000 U.S.) per month and for years eleven (11) through twenty (20) of the Agreement at ten cents ($.10) per Dth for all Dth metered not to exceed thirty-thousand dollars ($30,000) per month, irrespective of volumes transported.

   Shipper agrees to pay Transporter cost plus 15% for any new construction to Transporter's Transmission Line, "Cost" means the final bid price for construction that Detroit Edison requires. Bills for transportation service under this Agreement shall be rendered monthly by Transporter and shall be due and payable within thirty (30) days from the date of invoice receipt. A late payment charge of two percent (2%) of any delinquent balance outstanding shall be applied to any bill which is not paid on or before the due date.

   Transporter and Shipper agree that neither of them will evoke the jurisdiction of the Michigan Public Service Commission (MPSC) seeking any alteration in the rates and charges during the term of this Agreement; and both will reasonably oppose any action by a third-party seeking alteration of the rates and charges.

   The Lateral and meter station acquired by Transporter from Great Lakes Gas Transmission System Limited Partnership, shall be used exclusively by Detroit Edison for its existing and any new contemplated gas-fired peak load electric generating units at Belle River Generating Units Property located in St. Clair County, Michigan.

5. POINTS OF RECEIPT AND DELIVERY: The primary receipt and delivery points are set forth on Appendix A.

6. JURISDICTION: This Agreement shall incorporate and in all respects be subject to the approval and continuing jurisdiction of the MPSC.

7. MISCELLANEOUS: No waiver by either party to this Agreement of any one or more defaults by the other in the performance of this Agreement shall operate or be construed as a waiver of any continuing or future default(s), whether of a like or a different character.

Any controversy between the parties arising under this Agreement and not resolved by the parties shall be determined in accordance with the laws of the State of Michigan.

8. OBLIGATIONS AND RISK OF LOSS: As between the parties hereto, SEMCO GAS shall have no obligations or liabilities whatsoever with respect to the gas to be transported by it hereunder until such gas is received into its facilities, and such obligations and liabilities shall terminate at the Point of Delivery at Shipper's facilities. Further, it is recognized that this Agreement is not for the benefit of and shall not confer any rights upon third-parties or other shippers, suppliers or transporters.

Each party shall be responsible for its own property, plant and equipment and each agrees to indemnify and save harmless the other from any and all actions, suits, claims and proceedings, liability, loss, cost, damage or expenses (including reasonable attorney fees, costs and expenses) to it or the other party resulting from the use or condition of its own property, plant and equipment, and from liability to third parties for injuries or damage arising out of or attributable to the use or condition of its own property, plant or equipment, except to the extent due to the other par&y's negligence or misconduct.

Each party shall be solely responsible for its actions and those of its employees and designated agents and shall indemnify, save harmless and exonerate the other party from any and all actions, suits, claims, liability, loss, cost, damage or expense (including reasonable attorneys' fees, costs and expenses), howsoever arising, for bodily injury to or death of its own employees, or designated agents arising out of the course of their employment, except only to the extent where such injury or death shall be caused by the negligence or from willful misconduct of the other party's employees or designated agents hereto; and each of the parties shall assume full responsibility for the proper conduct of its designated agents and employees while in, on or about the facilities, plant or premises of the other party, and agree to hold harmless and indemnify the other party against any and all liability, loss, cost, damage or expense (including reasonable attorney fees, costs and expenses) caused by the negligent misconduct of its designated agents or employees while in, on or about the facilities, plant or premises of the other party.

9. ASSIGNMENTS: Any company that shall succeed by purchase or by merger or by consolidation to the properties, substantially in entirety, of either Transporter or Shipper, as the case may be, shall be entitled to the rights and subject to the obligations; of its predecessor in title under this Transportation Service Agreement.

10. OTHER PROVISIONS: Transporter will be responsible for the operation including maintenance of the pipeline and related equipment between the Points of Receipt and Delivery described in Appendix A of this Agreement.

Upon termination of this Agreement, Shipper's and Transporter's obligations to each other arising under this Agreement, prior to the date of termination, remain in effect and are not being terminated by any provision of this Agreement.
The rates and charges specified in this Agreement are applicable only 10 the path(s) described by the primary receipt and delivery points contained in Appendix A to this Agreement.

All gas delivered to Shipper under this Agreement shall be incremental to existing volumes taken by Shipper under other Agreements.

Definition of terms in this Agreement are contained in Transporter's Rules and Regulations for Transportation Service.

11. NOTICES AND COMMUNICATIONS: All notices and communications with respect to this Agreement shall be in writing and sent to the addresses stated below or at any other such address (es) as may be designated in writing:

ADMINISTRATIVE MATTERS:

SEMCO ENERGY GAS COMPANY
405 Water Street
Port Huron, MI 48060
Attention: Gas Supply Department

The Detroit Edison Company
2000 Second Avenue
Detroit, MI 48226
Attention: Manager, Fuel Supply

AGREED TO BY:

SEMCO ENERGY GAS COMPANY

By: Carl W. Porter

Name/Title: Carl W. Porter
Senior Vice President
and COO

THE DETROIT EDISON COMPANY

By: Gary E. Lapplander

Name/Title: GARY E. LAPPLANDER
Manager, Fuel Supply

APPENDIX A

SHIPPER: The Detroit Edison Company

POINT(S) OF RECEIPT	POINT(S) OF DELIVERY	MAXIMUM ALLOWABLE OPERATING PRESSURE (MAOP)
Great Lakes Gas Transmission Company China Township Delivery Point	Detroit Edison Property Near the Belle River Generating Units St. Clair County, Michigan	974