STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of CONSUMERS ENERGY COMPANY for Approval of a Gas Cost Recovery Plan and Authorization of Gas Cost Recovery Factors for the 12-Month Period April 2001 – March 2002	)))))))	Case No. U-12752

SETTLEMENT AGREEMENT

On December 15, 2000 Consumers Energy Company ("Consumers Energy" or the "Company") filed an application with the Michigan Public Service Commission ("MPSC" or "Commission") in the above captioned case seeking approval of a gas cost recovery ("GCR") plan for the 12-month period April 2001-March 2002 (the "2001-2002 GCR Year") and authorization of GCR factors for the 2001-2002 GCR Year. The Company filed testimony and exhibits in support of its positions concurrently with its application.

The initial prehearing conference in this case was held January 23, 2001 before Administrative Law Judge James N. Rigas. The parties to the case are Consumers Energy, the Commission Staff, Attorney General Jennifer M. Granholm, the Association of Businesses Advocating Tariff Equity ("ABATE") and the Residential Ratepayer Consortium ("RRC").

On April 9, 2001 the Staff, the Attorney General, ABATE and the RRC filed testimony. Consumers Energy filed rebuttal testimony and supplemental testimony on April 30, 2001. Consumers Energy filed additional supplemental testimony on June 13, 2001.

Presented at hearing 7/26/01.

For purposes of settling the issues in Case No. U-12752, and subject to the acceptance and approval of the Commission without modification, the undersigned parties agree and stipulate as follows:

1. Consumers Energy requested the Commission approve a GCR factor of $5.6862 per Mcf. Subject to the quarterly ceiling adjustment set forth below, the undersigned parties stipulate and agree that Consumers Energy should be authorized to charge GCR factors of up to $4.8700 per Mcf for the months of April and May 2001 and GCR factors of up to $4.6862 for the months of June 2001 through March 2002.

2. Attached as Exhibit 1 to the Settlement Agreement are "Consumers Energy Gas Purchasing Strategy Guidelines." The undersigned parties stipulate and agree that it is reasonable and prudent for Consumers Energy to follow the Guidelines set forth on Exhibit 1 for the 2001-2002 GCR Plan Year. The parties stipulate and agree that the gas acquisition plan in EXHIBIT 1 as implemented by Consumers Energy for the 2001-2002 GCR Year prior to the execution of this settlement should be deemed reasonable and prudent.

3. Attached as Exhibit 2 to the Settlement Agreement is a methodology to adjust the GCR factor on a quarterly basis to reflect market increases. Pages 1 and 2 describe the methodology. Page 3 provides an illustration. (The numbers on page 3 are for illustration purposes and do not necessarily reflect actual numbers.) The parties stipulate and agree that the methodology for a quarterly adjustment of the GCR factor set forth on Exhibit 2 is reasonable and should be approved.

4. This Settlement Agreement is entered into for the sole and express purpose of reaching a compromise among the positions of the parties. All offers of settlement and discussions relating to this settlement are, and shall be considered, privileged under MRE 408. If

the Commission approves this Settlement Agreement without modification, neither the parties to this Settlement Agreement nor the Commission shall make any reference to, or use, this 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.

5. This Settlement Agreement is based on the facts and circumstances of this case and is intended for final disposition of Case No. U-12752. So long as the Commission approves this Settlement Agreement without any modification, the parties agree not to appeal, challenge, or otherwise contest the Commission order approving this Settlement Agreement. Except as otherwise set forth herein, the parties agree and understand that this Settlement Agreement does not limit any party's right to take new and/or different positions on similar issues in other administrative proceedings, or appeals related thereto.

6. This Settlement Agreement is not severable. Each provision of this Settlement Agreement is dependent upon all other provisions of this Settlement Agreement. Failure to comply with any provision of this Settlement Agreement constitutes failure to comply with the entire Settlement Agreement. If the Commission rejects or modifies this Settlement Agreement or any provision of this Settlement Agreement, this 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 be without prejudice to the pre-negotiation positions of the parties.

7. The Staff certifies this Agreement is reasonable and in the public interest.

8. 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 Settlement Agreement without modification.

WHEREFORE, the parties hereto respectfully request the Commission approve this Settlement Agreement and make it effective in accordance with its terms by final order.

CONSUMERS ENERGY COMPANY

Dated: June 26, 2001 By: Richard Chambers

H. Richard Chambers
Attorney for Consumers Energy Company

MICHIGAN PUBLIC SERVICE COMMISSION STAFF

Dated: 6/26/2001 By DM Gadaleto

David M. Gadaleto
Assistant Attorney General for the Staff

ATTORNEY GENERAL JENNIFER M. GRANHOLM

Dated: June 26, 2001 By Donald E. Erickson

Donald E. Erickson
Assistant Attorney General

ASSOCIATION OF BUSINESSES ADVOCATING TARIFF EQUITY

Dated: 6/26/01 By Thomas E. Maier

Thomas E. Maier
Clark Hill, PLC
Attorney for the Association of Businesses Advocating Tariff Equity

RESIDENTIAL RATEPAYER CONSORTIUM

Dated: 6/26/01 By Diane R. Royal

Diane R. Royal
Shaltz & Royal, P.C.
Attorney for the Residential Ratepayer Consortium

Exhibit 1

CONSUMERS ENERGY
GAS PURCHASING STRATEGY GUIDELINES

The Gas Supply Department is responsible for securing adequate gas supplies to meet the needs of the Company's customers. It is responsible for securing such supplies in a manner that not only meets the operational and obligation to serve requirements, but at a prudent and reasonable price. This strategy establishes the guidelines which will govern the gas purchasing strategy.

The underlying strategy is a tiered approach of buying fixed price gas within an expected range of prices. This range is based on both historic price distributions and current price trends. This strategy establishes fixed price contract target levels of commitment. These targets and time frames arise from the Company's obligation to serve, physical limitation on our system and the delivering pipeline systems and the time period remaining to fill storage. The table below illustrates these minimum target guidelines for percentage of fixed price contract coverage for each GCR period as of specific dates:

GCR Period	12/1	4/1	7/1	10/1	12/1
Apr - Mar	20%-25%	30%-35%	45%-50%	65%-70%	75%-80%

The above percentage coverage targets would be based on the current forecast of sales load for each GCR respective period, assuming normal weather and adjusted for the sales associated with the Gas Customer Choice Program.

The percentage coverage target is approximate and as long as the level of coverage is within the target range, further action is not required. A decision as to whether or not such target has been achieved will be the judgement of the Executive Director of Gas Management Services. As an example, a contract level of coverage of 48% on July 1 would meet the target. A level of 40%, however, would not meet the target unless efforts were currently underway to raise that level to the required level.

Each month, as all factors are incorporated into the gas balance and cost of gas program (actual sales, actual purchases, forward commitments, storage status, sales forecast updates, Gas Customer Choice supplier volumes and NYMEX price forecasts), gas purchases will be evaluated. As a result of this evaluation, the Gas Supply Department will implement a buying action plan that moves coverage to the next level required by the policy.

For each GCR fiscal period April through March:
If after April 1 such evaluation results in a GCR factor exceeding the filed factor within 30 days, the coverage level shall be moved up to the July 1 guideline. If after July 1 such evaluation results in a GCR factor exceeding the filed factor within 30 days, the coverage level shall be moved up to the October 1 guideline If after October 1 such evaluation results in a GCR factor exceeding the filed factor within 30 days, the coverage level shall be moved up to the December 1 guideline.

If after April 1 such evaluation contains a NYMEX price forecast for the remaining months in the GCR period that is lower than the corresponding price used in the GCR Plan Case by $.50 per MMBtu or more, within 30 days, the coverage level shall be moved up to the July 1 guideline. If after July 1 such evaluation contains a NYMEX price forecast for the remaining months in the GCR period that is lower than the corresponding price used in the GCR Plan Case by $.50 per MMBtu or more, within 30 days, the coverage level shall be moved up to the October 1 guideline. If after October 1 such evaluation contains a NYMEX price forecast for the remaining months in the GCR period that is lower than the corresponding price used in the GCR Plan Case by $.50 per MMBtu or more, within 30 days, the coverage level shall be moved up to the December 1 guideline.

Notwithstanding the above, if after April 1 such evaluation contains a NYMEX price forecast for the remaining months in the GCR period that is lower than the corresponding price used in the GCR Plan Case by $1.00 per MMBtu or more, within 30 days, the coverage level will be moved up to the December 1 guideline.

It is the responsibility of the Executive Director of Gas Management Services to exercise discretion in administering these guidelines.

Exhibit 2

GCR FACTOR
Proposed Methodology for Quarterly Ceiling Adjustment
To Reflect Market Increases

FACTOR DEVELOPMENT:

1. The Company shall establish a GCR Factor to be implemented in the upcoming GCR Year.

2. The factor shall be established using existing contracts and price estimates for indexed contracts and requirements not under contract.

3. The price estimates shall be made using a NYMEX price close for the months of the GCR year, April through March.

ADJUSTMENT DEVELOPMENT: (to determine the relationship between NYMEX and the GCR factor)

4. The NYMEX price used in the development of the GCR Factor shall be increased by $0.10 per MMBtu.

5. The new incremental prices shall be processed through the Cost of Gas using the same requirements and supplies as in the factor development.

6. A revised factor shall be developed.

7. The original factor shall be subtracted from the revised factor to determine the incremental charge.

8. The incremental charge shall be divided by $0.10 per MMBtu to determine a percentage change.

CHANGE IMPLEMENTATION:

9. On or before March 15, a review of NYMEX prices for the period of April through March shall be made. If the average for this period is greater than the original filing, the ceiling price can be raised by the percent adjustment established in the original filing times such difference (i.e., for 2001/02, 50%).

10. On or before June 15, a review of NYMEX prices for the period of July through March shall be made. If the average for this period is greater than the original filing, the ceiling price can be raised by the percent adjustment established in the original filing times such difference (i.e., for 2001/02, 50%).

11. On or before September 15, a review of NYMEX prices for the period of October through March shall be made. If the average for this period is greater than the original filing, the ceiling price can be raised by the percent adjustment established in the original filing times such difference (i.e., for 2001/02, 50%).

12. On or before December 15, a review of NYMEX prices for the period of January through March shall be made. If the average for this period is greater than the original filing, the ceiling price can be raised by the percent adjustment established in the original filing times such difference (i.e., for 2001/02, 50%).

13. If the new average is lower than the original filing or the previous filing, no adjustment is necessary.

14. Once a new ceiling price has been implemented, it shall remain in effect until a new revision is made; however, the factor can be adjusted monthly provided it remains at or below the current ceiling.

PROPOSED GCR QUARTERLY ADJUSTMENT TO CEILING PRICE

	GCR Factor	Apr-01	May-01	Jun-01	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01	Jan-02	Feb-02	Mar-02	Average
Filed NYMEX Prices 12/4/01	$4.686	$5.705	$5.280	$5.210	$5.170	$5.125	$5.095	$5.070	$5.153	$5.235	$5.230	$4.995	$4.745	$5.168
Incremental Adjustment Development														
Increase to NYMEX		$0.100	$0.100	$0.100	$0.100	$0.100	$0.100	$0.100	$0.100	$0.100	$0.100	$0.100	$0.100	$0.100
Revised Factor & NYMEX	$4.756	$5.805	$5.380	$5.310	$5.270	$5.225	$5.195	$5.170	$5.253	$5.335	$5.330	$5.095	$4.845	$5.268
Factor Difference	$0.070	Percent Adjustment = $0.070 / $0.100 = 70.0 %												
Review for quarters 1, 2, 3 & 4 done on or before March 15														
Original Filing		$5.705	$5.280	$5.210	$5.170	$5.125	$5.095	$5.070	$5.153	$5.235	$5.230	$4.995	$4.745	$5.168
NYMEX 03/15/01		$4.927	$4.960	$5.000	$5.043	$5.088	$5.048	$5.058	$5.185	$5.305	$5.340	$5.145	$4.852	$5.079
Difference														-$0.088
Original Ceiling		$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	
Adjustment		$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	
Previous or Revised Ceiling		$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	
Review for quarters 2, 3 & 4 done on or before June 15														
Original Filing					$5.170	$5.125	$5.095	$5.070	$5.153	$5.235	$5.230	$4.995	$4.745	$5.091
NYMEX 06/15/01					$5.579	$5.534	$5.504	$5.479	$5.562	$5.644	$5.639	$5.404	$5.154	$5.500
Difference														$0.409
Original Ceiling					$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	
Adjustment					$0.286	$0.286	$0.286	$0.286	$0.286	$0.286	$0.286	$0.286	$0.286	
Previous or Revised Ceiling		$4.686	$4.686	$4.686	$4.972	$4.972	$4.972	$4.972	$4.972	$4.972	$4.972	$4.972	$4.972	
Review for quarter 3 & 4 done on or before September 15														
Original Filing								$5.070	$5.153	$5.235	$5.230	$4.995	$4.745	$5.071
NYMEX 09/15/01								$5.749	$5.832	$5.914	$5.909	$5.674	$5.424	$5.750
Difference														$0.679
Original Ceiling								$4.686	$4.686	$4.686	$4.686	$4.686	$4.686	
Adjustment								$0.475	$0.475	$0.475	$0.475	$0.475	$0.475	
Previous or Revised Ceiling		$4.686	$4.686	$4.686	$4.972	$4.972	$4.972	$5.161	$5.161	$5.161	$5.161	$5.161	$5.161	
Review for quarter 4 done on or before December 15														
Original Filing											$5.230	$4.995	$4.745	$4.990
NYMEX 09/15/01											$5.830	$5.595	$5.345	$5.590
Difference														$0.600
Original Ceiling											$4.686	$4.686	$4.686	
Adjustment											$0.420	$0.420	$0.420	
Previous or Revised Ceiling		$4.686	$4.686	$4.686	$4.972	$4.972	$4.972	$5.161	$5.161	$5.161	$5.161	$5.161	$5.161	

Note: Illustration uses 70% instead of 50%.