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December 14, 2000

Dorothy Wideman
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
Lansing, Michigan 48911

HAND DELIVERY

Re: SEMCO Energy Gas Company
MPSC Case No. U-12760 (e-file)

Dear Ms. Wideman:

Enclosed for filing are an original and four (4) copies of Application. This document has also been electronically filed.

Very truly yours,

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

Sherri A. Wellman

Sherri A. Wellman

SAW/kkf
Enclosure
cc: Joel Sharkey
Michael Kidd
Rob Ozar
John R. Alger
David Tyler

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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of **SEMCO ENERGY GAS COMPANY**, a division of SEMCO Energy, Inc., for ex parte approval of revisions to its gas transportation tariff.	))))))	Case No. U-12760 **(E-file)**

APPLICATION

SEMCO Energy Gas Company ("SEMCO Gas" or the "Company"), a division of SEMCO Energy, Inc., respectfully requests that the Michigan Public Service Commission ("Commission" or "MPSC") approve proposed revisions to the Imbalance Penalty provision in the Company's transportation tariff as set forth in this Application, and in support thereof, SEMCO Gas represents as follows:

1. SEMCO Gas is a division of SEMCO Energy, Inc., with its principal offices located at 405 Water Street, Port Huron, Michigan, and is a public utility engaged in the purchase, sale, transmission and transportation of natural gas to the public in its various service areas in the state of Michigan.

2. SEMCO Gas's retail natural gas sales business and its retail gas transportation business are subject to the jurisdiction of the Commission pursuant to various provisions of 1909 PA 300, as amended, MCL 462.2 et seq., MSA 22.21 et seq.; 1919 PA 419, as amended, MCL 460.54 et seq., MSA 22.4 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq., MSA 22.13(1) et seq., including 1982 PA 304, MCL 460.6h, MSA 22.13 (6h); 1969 PA 306, as amended, and MCL 24.201 et seq., MSA 3.560 (101) et seq.

3. SEMCO Gas provides gas transportation services pursuant to a Commission approved tariff.

4. SEMCO Gas's transportation tariff includes an Imbalance Penalty. The purpose of the Imbalance Penalty is to discourage unauthorized use of sales supply gas by transportation customers. SEMCO Gas's current approved Imbalance Penalty, as set forth in Original Sheet No. F-22.00, is $10.00 per Dth.

5. The cost of natural gas in the marketplace has increased significantly during the year 2000, increasing to unprecedented levels. The recent cost of gas on the New York Mercantile Exchange is approaching $10.00 per Dth, not including costs of transporting gas to Michigan. Further, the cost of gas has become much more volatile. It is possible that the cost of gas at certain points in time during coming months could rise significantly higher than it is currently.

6. It is in the public interest for gas transportation customers and their suppliers to be discouraged from the unauthorized use of system supply gas as backup. Unauthorized use could occur through transportation customers or their suppliers diverting gas from transportation customers to other markets or failing to deliver sufficient gas for the transportation customers.

7. The increased cost of gas and market volatility create a situation in which the currently existing Imbalance Penalty provision may be inadequate to discourage failure to deliver gas to transportation customers. The increased cost of gas and market volatility also create a situation in which the currently existing Imbalance Penalty provision may be inadequate to discourage (i) diversion of gas from transportation customers in SEMCO Gas's service area to markets in which gas can be sold at a higher price, or (ii) diversion

to another market in order to avoid penalties imposed in another jurisdiction which exceed the cost of failing to deliver gas in Michigan. Thus, the goal of discouraging unauthorized use may be circumvented.

8. Transportation customers account for approximately twenty eight (28) percent of city gate deliveries on SEMCO Gas's system. The failure of transportation customers to meet their daily delivery requirements could result in a situation in which the Company's ability to deliver gas may become inadequate to support continuous service to its sales customers on its system or in which the Company is required to purchase higher priced gas on the spot market to replace supply gas used by transportation customers.

9. SEMCO Gas is seeking authority to supplement its Imbalance Penalty of $10.00 by adding a charge which will be the "highest price reported for MichCon, Michigan Consumers Energy and Chicago LDCs, during the applicable period, as reported by Gas Daily or, in the event that Gas Daily discontinues its reporting of such prices, any comparable reporting service". Attached as Attachment A is tariff Sheet No. F-22.00 setting forth the proposed revisions.

10. The potential harm which could occur if transportation customers do not meet monthly delivery requirements is particularly significant during the winter season.

11. The Company's transportation tariffs currently require daily balancing of gas taken by a transportation customer and cumulative volumes delivered to the Company on behalf of the customer. The Imbalance Penalty contained in the transportation tariff is a charge which is only imposed on customers if, for a given day, gas taken by the customer is in excess of the tolerance level established in the transportation tariffs. It is a provision intended to deter customers from violating other tariff requirements. Customers

in compliance with these tariff requirements will never pay this charge. Thus, the approval of the relief requested in this Application will not result in an increase in the cost of service to SEMCO Gas's customers. SEMCO Gas respectfully requests that the Commission approve the revisions sought by SEMCO Gas on an ex parte basis, without the time and expense of a public hearing.

12. Finally, SEMCO Gas represents that similar relief was granted by the Commission to Consumers Energy Company pursuant to an ex parte Order Approving Application issued in Case No. U-12729 on December 11, 2000.

WHEREFORE, SEMCO Energy Gas Company respectfully requests that the Commission:

A) Approve the revisions to the Imbalance Penalty in the manner described in this Application and Attachment A;

B) Determine that the relief requested herein should be granted without the time and expense of a public hearing;

C) Grant SEMCO Energy Gas Company such other and further relief as is lawful and appropriate.

Respectfully submitted,

SEMCO Energy Gas Company

Dated: December 14, 2000

By: Sherri A. Wellman
One of its Attorneys

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ATTACHMENT A

Continued From Sheet No. F-21.00

Balancing Charges

Firm Balancing Charge

All Shippers, for whom the Company has an available FBT, shall pay **$** 0.03440 per Dth of Gas delivered by the Company to the Shipper during the month.

Interruptible Balancing Charge

Shippers shall pay an Interruptible Balancing Charge of **$** 0.1000 per Dth of Daily Imbalance Gas that is greater than the FBT but within the DBT.

Excess Balancing Charge

For each Day of the Month that Shipper's imbalance exceeds the DBT, Positive or Negative and is not subject to an IBR Notice, Shipper shall pay the Excess Balancing Charge on all Dth which exceed the DBT but are less than twenty percent (20%) of the contract MDQ. No Excess Balancing is available, and consequently no Excess Balancing charges are applicable, during the period an IBR Notice is in effect in the direction restricted.

Positive Imbalance: .... **$** 0.4691 per Dth

Negative Imbalance: .... **$** 1.0000 per Dth

Imbalance Penalty

All Dths which exceed twenty percent (20%) of contract MDQ are subject to an Imbalance Penalty of $10.00 per Dth of imbalance ***plus the highest price reported for Mich Con, Michigan Consumers Energy and Chicago LDCs, during the applicable period, as reported by Gas Daily or, in the event that Gas Daily discontinues its reporting of such prices, any comparable reporting service.***

During periods when the DBT is reduced (in one direction) by an IBR Notice, all Dths which exceed the DBT (in that direction) are subject to an Imbalance Penalty of $10.00 per Dth of imbalance, ***plus the highest price reported for Mich Con, Michigan Consumers Energy and Chicago LDCs, during the applicable period, as reported by Gas Daily or, in the event that Gas Daily discontinues its reporting of such prices, any comparable reporting service.***

Surcharges and Credits

Gas service under this rate may be subject to surcharges and/or credits as shown on Sheet No. F-1.00

Continued On Sheet No. F-23.00