

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of
MICHIGAN CONSOLIDATED GAS COMPANY
to terminate the suspension of its Case No. U-12762
gas cost recovery clause and
establish a cashout mechanism

_____ /

Proceedings had in the above-entitled
matter before Barbara A. Stump, J.D., Administrative Law
Judge, at the Michigan Public Service Commission, 6545
Mercantile Way, Lansing, Michigan.

SESSION OF FRIDAY, FEBRUARY 23, 2001

VOLUME 3

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1 MR. GADALETO: Dave Gadaletto on behalf of
2 the staff of the Michigan Public Service Commission.

3 JUDGE STUMP: Thank you.

4 The first thing we'll take up are any
5 Rule 207 statements. That, of course, deals with our
6 participation without intervention.

7 The first statement is one that has been
8 submitted by Blue Circle, Inc., and signed by Larry
9 Ladomer, L-a-d-o-m-e-r, who is the plant operations
10 manager for that company.

11 I have received a letter from Robert
12 Strong, the attorney for Blue Circle, in which he
13 indicates that all of the parties have stipulated that
14 this statement may be bound into the record so that Mr.
15 Ladomer does not personally have to appear.

16 So in light of the parties' stipulation,
17 the Rule 207 statement of Blue Circle, Inc. will be bound
18 into the record.

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Stanczak - Direct - Champion

1 JUDGE STUMP: Is there anyone present who
2 wishes to make an oral statement pursuant to Rule 207?
3 Apparently there is no one. So we'll proceed with
4 presentation of the evidence.

5 Mr. Champion.

6 MR. CHAMPION: Thank you, your Honor.

7 The company calls Don M. Stanczak to the
8 stand, please.

9 (Documents were marked Exhibit A-1, A-2
10 and A-3 by the reporter.)

11 - - -

12 D O N M. S T A N C Z A K

13 was called as a witness on behalf of Michigan Consolidated
14 Gas Company and, being first duly sworn by the
15 Reporter/Notary Public, testified as follows:

16 DIRECT EXAMINATION

17 BY MR. CHAMPION:

18 Q Would you state your name and business address for the
19 record, please.

20 A My name is Don M. Stanczak. My business address is 500
21 Griswold, Detroit, Michigan 48226.

22 Q Mr. Stanczak, by whom are you employed and in what
23 capacity?

24 A Michigan Consolidated Gas Company as Executive Director of
25 Rates and Regulatory Affairs.

Stanczak - Direct - Champion

1 Q Mr. Stanczak, do you have before you a document styled
2 "Testimony of Don M. Stanczak" in Case No. U-12762,
3 consisting of 15 pages of typed questions and answers?

4 A Yes, I do.

5 Q Is that your prepared direct testimony in this case?

6 A Yes, it is.

7 Q Do you adopt it as your sworn testimony today?

8 A Yes, I do.

9 Q Do you have any additions or corrections to it?

10 A I have two corrections.

11 Q Would you identify those corrections for the record,
12 please.

13 A On page 10, line 13, the number "\$181 million," should be
14 "\$183 million."

15 In addition, on page 12, line 22, the
16 amount "\$181 million" should be "\$183 million."

17 Q Is that the extent of your corrections to your sworn
18 testimony?

19 A Those are all the corrections.

20 Q Thank you, Mr. Stanczak.

21 Do you also have before you a series of
22 documents I have had premarked for identification as
23 proposed exhibits A-1, A-2 and A-3?

24 A Yes, I do.

25 Q And do those correspond to your proposed Exhibits DMS-1,

Stanczak - Direct - Champion

1 DMS-2 and DMS-3?

2 A Yes, they do.

3 Q Were those exhibits prepared by you or under your
4 direction and supervision?

5 A Yes, they were.

6 Q And do you sponsor those exhibits in the manner and form
7 indicated in your testimony?

8 A Yes, I do.

9 Q Thank you, Mr. Stanczak.

10 MR. CHAMPION: Your Honor, I would move
11 that Mr. Stanczak's testimony be bound into the record,
12 please.

13 JUDGE STUMP: All right. The testimony
14 will be bound into the record.

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1 MR. CHAMPION: Thank you, your Honor. I
2 also move admission of proposed Exhibits A-1 through A-3,
3 subject to cross-examination, and I tender the witness for
4 that purpose.

5 JUDGE STUMP: All right, thank you.

6 Ms. Soneral, would you like to go first?

7 MS. SONERAL: I have no cross-examination.

8 JUDGE STUMP: All right. Mr. Gadaletto?

9 MR. GADALETO: No cross for Mr. Stanczak.

10 JUDGE STUMP: Mr. Shaltz?

11 MR. SHALTZ: Thank you, your Honor.

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13 CROSS-EXAMINATION

14 BY MR. SHALTZ:

15 Q Good morning, Mr. Stanczak.

16 A Good morning.

17 Q I'd like to start with your testimony at pages 4 and 5,
18 starting at the bottom of page 4. There you talk about
19 the savings that have occurred due to the frozen \$2.95
20 rate and you indicate that the calculation of these
21 numbers is on your Exhibit A-1; is that correct?

22 A That's correct.

23 Q Now, the numbers that appear on Exhibit A-1 for the period
24 1999, 2000 and 2001 are the market price for natural gas;
25 is that correct?

1 A Can you be more specific, please?

2 Q For example, if we look at the numbers on Exhibit A-1
3 under column (A) for the months of January through
4 December, do those numbers reflect what the market price
5 for natural gas was in that period?

6 A Column (A), lines 1 through 12, reflect NYMEX prices for
7 1999.

8 Q O.K. And would the same be true for columns (B) and (C),
9 are they NYMEX-based numbers?

10 A The difference with column (C), those were forward prices,
11 where in column 1 and 2 they were the three-day average
12 prices.

13 Q O.K. During the period 1999 did MichCon buy gas at that
14 price?

15 A I'm not certain.

16 Q And would the same be true with the year 2000?

17 A We bought some gas at market prices in 2000.

18 Q Is it accurate to say, though, that the annual average
19 cost of gas for Michigan Consolidated Gas Company was less
20 than \$2.95 in 1999?

21 A Yes, that's correct.

22 Q And would the same be true for the year 2000?

23 A Yes.

24 Q So MichCon's actual experience in terms of the cost of gas
25 that it was able to achieve was lower than the numbers,

1 for example, in column (B); is that correct?

2 A That's correct.

3 Q I'd like to shift gears and just ask a few questions about
4 the first two years of the gas customer choice program.
5 During that period of time do you have a sense of what the
6 prices were that customers were offered by MichCon's
7 competitors?

8 A Yes, I do, and I believe we answered a discovery, so if
9 you'd bear with me, I'll try and locate that.

10 Q I believe you can refer to your response to RRC Question
11 4.

12 A Thank you.

13 As indicated on this response RRC Request
14 No. 1, Question 4, most customers were -- residential
15 customers were offered a fixed rate of \$2.80 per Mcf, or
16 really between \$2.65 and \$2.80 per Mcf. Commercial
17 customers were in many cases offered a somewhat lower
18 price down to as low as \$2.35 per Mcf.

19 Q Now, in this period of time were most of these customers
20 offered multi-year contracts?

21 A I'm aware that some of them were. I can't tell you
22 specifically what percentage.

23 Q Do you know how many customers in MichCon's service
24 territory are currently enrolled in the gas customer
25 choice program?

1 A Approximately 44, 45 thousand customers.

2 Q And based on that, would you assume that those customers
3 are receiving gas at less than \$2.95 right now?

4 A Some are and some are not.

5 Q Do you know if these contracts allow a person to -- well,
6 let me restate the question.

7 For the customers that would be receiving
8 gas at higher than \$2.95, why would those customers not
9 opt to come back to MichCon as a sales customer?

10 A I have no idea.

11 Q Do you know if any of these customers would have signed up
12 for gas at a price higher than \$2.95?

13 A Based on what I know what some of the prices are, it's my
14 assumption that some of the contracts allow the marketers
15 to charge market-based prices or prices tied to something.

16 Q So it's not a fixed price, it's a variable price; is that
17 correct?

18 A Based on what they're charging, that's what it appears.
19 But I don't have any specific knowledge.

20 Q If MichCon's GCR clause suspension is terminated, do you
21 have any knowledge about the length of the term of
22 contracts that marketers will be offering customers
23 between April 1 and December 31, 2001?

24 A No.

25 Q Do you have any knowledge of what any marketer will be

1 offering any MichCon customer in this period?

2 A No.

3 Q Do you have any knowledge of how many marketers will
4 participate in MichCon's gas customer choice program if
5 the termination of the GCR suspension ends on April 1st
6 versus December 31, 2001?

7 A No.

8 Q Now, going to the company's core proposal to end the
9 suspension of its GCR clause, I want to understand a
10 little bit about what the proposal will mean. Is the
11 company proposing that for the first three months of 2001
12 where the suspension was in place, that that period will
13 not be subject to any kind of GCR plan or reconciliation
14 review?

15 A Yes.

16 Q So that period would go unaudited in a GCR plan or
17 reconciliation case; is that correct?

18 A That's correct.

19 Q Currently MichCon's GCR clause has a plan cycle on a
20 calendar-year basis; is that correct?

21 A That's correct.

22 Q And is one of the reasons for having a calendar-year basis
23 to accurately account for MichCon's gas in storage?

24 A Certainly in light of our LIFO accounting that we use for
25 inventory, it's my view that a calendar-year GCR makes

1 dealing with LIFO in a reconciliation in determining gas
2 costs, makes it easier than using some other fiscal year.

3 Q Does it make it more accurate?

4 A Not necessarily.

5 Q Another thing I need to understand about your proposal is
6 this: You've just testified that you think there are
7 approximately 40,000 customers right now in the gas
8 customer choice program. Is that correct?

9 A I believe I said 44 to 45 thousand, but somewhere in the
10 40 thousands.

11 Q O.K., thank you. Is it MichCon's proposal in this case
12 that those customers also will receive the credits from
13 the cashout of the gas purchase contracts in the refund of
14 gross margins that the company has received?

15 A Yes.

16 Q Let me give you a scenario where I am a gas customer
17 choice currently paying \$2.80 per Mcf for my gas from a
18 marketer. Are you with me so far?

19 A Yes.

20 Q I believe in your discovery responses you had done an
21 estimate of what the average size of the credit would be
22 for the cashouts to be approximately one dollar per Mcf.
23 Is that correct?

24 A That's correct.

25 Q So if I am a customer in the gas customer choice program

1 and I consume 10 units of gas, I will pay \$2.80 per unit
2 on that gas plus I'll receive a \$10 refund; is that
3 correct?

4 A Assuming you use the 10 Mcf and assuming the credit
5 ultimately is a dollar, that's correct.

6 Q Would you explain why MichCon thinks it's appropriate to
7 give relief to those customers who will still have the
8 ability to pay less than \$2.95 per Mcf?

9 A Ideally those customers would not get the credit.
10 However, if customers participating in choice are denied
11 the credit, it's my belief that customers will not sign up
12 for choice going forward in the last nine months or for
13 the period that the credit is in place.

14 In addition, customers who are aware of
15 this may try and come back. Customers that are on choice
16 that are aware of the credit may try and come back to
17 MichCon sales service.

18 Both of those, in my view, would frustrate
19 choice, and that's why we've proposed that all customers
20 on sales rate schedule are eligible for the credits.

21 Q I'm not sure I understand your answer.

22 If I'm a customer that has a contract
23 that goes through December 31st of 2001 or later that
24 guarantees me a fixed price of \$2.80, what possible reason
25 would I have to migrate back to MichCon's sales service?

1 A Well, again, if you assume that they cannot make their way
2 back -- and the way our current program and proposed is
3 designed, it's fairly easily for customers to come back to
4 MichCon's sales service.

5 In addition, if our proposed choice
6 program is approved, all customers automatically come back
7 to MichCon's sales service.

8 So I think it's likely that if they want
9 to come back, either by virtue of implementation of a new
10 program or by virtue of them canceling with their
11 marketer, they could come back.

12 Q Let me make sure I understand something you just said.

13 If I'm currently in a gas customer choice
14 program with a contract with a marketer that says I'm
15 entitled to receive gas at \$2.80 through December 31st of
16 2001, are you saying that if your proposal is approved by
17 the Commission, my contract with that marketer will end on
18 April 1st?

19 A No. I'm saying that if our choice modification
20 application in Case U-12761 is approved, the way our
21 tariff would work is that all customers would be returned
22 to MichCon.

23 JUDGE STUMP: I don't understand that
24 either because it sounds exactly like what Mr. Shaltz was
25 suggesting in his question.

Stanczak - Cross - Shaltz

1 THE WITNESS: Let me try and clarify.

2 JUDGE STUMP: O.K.

3 THE WITNESS: Our tariff does not address
4 the relationship between the marketer and the customer.
5 So our tariff I don't believe can cancel the contract.
6 But our tariff requires that all customers be returned
7 back to MichCon if the marketer has a valid contract and
8 re-enrolls that customer.

9 That's fine. But by virtue of the way
10 the new program is designed, they would automatically come
11 back if the marketer had a valid contract and chose to
12 re-enroll that customer, they could.

13 Q (By Mr. Shaltz) So I take it from what you're saying that
14 if I have a contract with a marketer that goes through
15 December 31st of 2001, what will happen to me on April 1
16 is I will return to regular sales service and whether the
17 marketer chooses to re-enroll me at that \$2.80 price will
18 be up to the marketer, is that correct?

19 A That's a relationship between the marketer and the
20 customer.

21 Q But what you are saying is that the term of my account
22 with the marketer, going through December 31st of 2001, is
23 going to be nullified by me being returned to regular
24 sales services, is that correct?

25 A Again, I'm telling you how our proposed tariff would work.

1 I'm not a lawyer, but I don't believe that that has
2 necessarily any impact on the contractual relationship
3 between the marketer and the customer.

4 Q O.K. If I still have a contract with the marketer to
5 deliver gas to me at \$2.80 and I'm returned to general
6 sales, what is MichCon going to charge me on top of the
7 2.80 that I pay the marketer?

8 I'll have a customer charge, is that
9 correct?

10 A I'm sorry. If you return to sales, you won't pay the
11 marketer anything.

12 Q Well, I guess that answers my question. Basically, my
13 contract with the marketer that had a term through
14 December 31st of 2001 is ended on April 1st, is that
15 correct?

16 A Again, I don't think it necessarily does.

17 JUDGE STUMP: But isn't that the effect
18 of it?

19 THE WITNESS: I believe it would be
20 incumbent upon the customer to pursue the marketer to
21 fulfill, if you will, the marketer's obligation under its
22 contract at that point.

23 Q (By Mr. Shaltz) And at that point what charges will
24 MichCon flow through to me? Am I going to be charged the
25 \$5.17 GCR factor starting April 1st?

1 A Yes.

2 Q So I could have a \$2.80 charge to my marketer, a \$5.17 GCR
3 factor plus a volumetric distribution charge and a
4 customer charge and then a credit and a potential refund?

5 A No.

6 Q O.K. Explain to me what happens to me on April 1st if I
7 have a \$2.80 contract with the marketer?

8 A You will be returned to MichCon. If the marketer does not
9 initiate a re-enrollment, we will not bill anything for
10 the marketer. The \$2.80 will go away.

11 Q So the marketer has to re-enroll me, is that correct?

12 A That's correct.

13 Q So I am dis-enrolled as of April 1st?

14 A That's correct.

15 Q Thank you.

16 I'd like you to turn to your response to
17 your Discovery Question 20 in the first set of discovery
18 questions we sent you.

19 A I'm there.

20 Q Could you read the question and the response.

21 A "If the GCR process had remained in effect for the
22 27-month period, wouldn't MichCon's recovery from its GCR
23 customers be limited to the company's actual cost of gas
24 for this period? If the answer is no, please explain why
25 not."

1 And my response was "yes."

2 Q O.K. Also we covered this in discovery, but I wanted to
3 ask you Mr. Stanczak, does MichCon view itself as a
4 competitor in the gas customer choice program?

5 A Yes, we do.

6 Q And as a competitor, what is its goal in terms of securing
7 customers?

8 A To the extent we're back in a GCR situation, in many
9 respects we're neutral. We really don't care if customers
10 participate in choice or not.

11 Q If it's a neutral situation, what is the point of
12 competing for customers?

13 A I indicated that we're a competitor. I didn't indicate
14 that we actively compete.

15 Q Well, could you explain the difference?

16 A I don't envision, and we haven't really in the past
17 advertised, promoted, tried to entice customers away from
18 any of the marketers.

19 Q Does that mean that MichCon really, if it's neutral and is
20 not actively competing, has no incentive to minimize the
21 cost of gas for its GCR customers?

22 A Absolutely not.

23 Q What's your incentive for minimizing the cost of gas to
24 your GCR customers?

25 A Oh, there's a number of reasons. One, low price gas, I

1 think, is good for the natural gas business in general.
2 It promotes the use of natural gas which I think in the
3 long run is good for MichCon.

4 In addition, higher gas prices present
5 certain challenges for some of our customers relative to
6 paying their bills. And that in turn can create
7 difficulties for us in terms of uncollectibles.

8 So I think we have a number of incentives
9 relative to minimizing the cost of gas.

10 Q And is that the extent of your answer to my question?

11 A Yes.

12 Q If the company's proposal is adopted in this case, how
13 many customers does MichCon project will go to gas
14 customer choice through December 31st of 2001?

15 A I believe it's in excess of 200,000 customers.

16 Q And how many customers will MichCon retain during that
17 period?

18 A We would keep close to a million.

19 Q I also wanted to understand a little bit about your
20 proposals for the cashout credit and the gross margin
21 refund.

22 Is it accurate to say that the earliest
23 that the gross margin refunds could get back to customers
24 would be after April 2002?

25 A No.

1 Q Could you explain how that could happen earlier than that?

2 A Depending on sendout between April 2001 and the first
3 quarter of 2002, the cashout credit associated with the
4 low-priced purchase contracts could be used up. And it's
5 conceivable that to the extent there was a gross margin
6 refund, it could start earlier than April of 2002.

7 JUDGE STUMP: Excuse me a minute. Could
8 you explain exactly what gross margin refunds are. You of
9 course, refer to it in your testimony but there really is
10 no explanation of it. And I realize everyone is familiar
11 with it, but I'm not yet familiar with that concept.

12 THE WITNESS: Yes. During the period
13 1999/2000, the first quarter of 2001 when the GCR was
14 frozen at 2.95, we had the opportunity to realize gross
15 margin, the difference between the revenue we receive on
16 the 2.95 and our average cost of gas for those periods.

17 What we have proposed is under certain
18 circumstances to refund up to all that gross margin that
19 we recognized during that period.

20 JUDGE STUMP: So it's the difference
21 between what you collected and the actual costs that you
22 paid for the gas?

23 THE WITNESS: Yes.

24 JUDGE STUMP: Thank you.

25 Q (By Mr. Shaltz) With respect to the cashout credits, you

1 had indicated that at some point in time there would be a
2 reconciliation of the amounts distributed to customers and
3 the amounts of credits available, is that correct, Mr.
4 Stanczak?

5 A Yes.

6 Q When do you anticipate that occurring?

7 A Sometime after the credit is eliminated.

8 Q If the credit was not fully used up, when would it occur?

9 A We would continue to provide the credit until it was used
10 up.

11 Q And what would be the nature of the reconciliation
12 proceeding that you would anticipate for that?

13 A I would anticipate that we would file perhaps an
14 application with the pertinent data, and interested
15 parties could evaluate the data.

16 Q That would happen sometime in 2002 though, is that
17 correct?

18 A That would be my expectation.

19 Q I did have one question about your proposed Exhibit A-3.

20 Is it accurate to say that the numbers
21 you're presenting on this exhibit are not meant to
22 actually represent some kind of projection by MichCon, but
23 this is simply an illustration of some scenarios that
24 could occur?

25 A That's correct.

Stanczak - Cross - Shaltz

1 MR. SHALTZ: Just one moment, your Honor,
2 and I think I can wrap up.

3 (There was a pause in the proceedings.)

4 Q (By Mr. Shaltz) Just one final question, Mr. Stanczak.

5 In response to discovery, you had
6 provided us copies of your testimony in Case Nos.
7 U-11145 and U-11640. Do you recall that?

8 A Yes.

9 Q Those are prior GCR plan proceedings of the company, is
10 that correct?

11 A That's correct.

12 Q In those cases, the scope of your testimony was
13 presentation of the company's sales forecasts, is that
14 correct?

15 A That's correct.

16 Q Have you testified anywhere else in any other kind of
17 proceeding on gas choice customer programs for the
18 company?

19 A No, I have not.

20 MR. SHALTZ: Those are all my questions.
21 Thank you.

22 JUDGE STUMP: Thank you.

23 Mr. Isiogu.

24 MR. ISIOGU: Thank you, your Honor.

25 - - -

Stanczak - Cross - Isioгу

1 CROSS-EXAMINATION

2 BY MR. ISIOGU:

3 Q Good morning Mr. Stanczak.

4 A Good morning.

5 Q Is it the company's position that under your proposal the
6 customers will be guaranteed not to pay more than 2.95 per
7 Mcf after all the cashouts and gross margin refunds are
8 taken into account?

9 A No.

10 Q Thank you, Mr. Stanczak.

11 MR. ISIOGU: I have no further questions,
12 your Honor.

13 JUDGE STUMP: All right. Any redirect?

14 MR. CHAMPION: May I have a few moments
15 with the witness?

16 JUDGE STUMP: Sure.

17 MR. CHAMPION: Thank you.

18 (A recess was taken.)

19 - - -

20 JUDGE STUMP: Any redirect?

21 MR. CHAMPION: No questions, your Honor.

22 JUDGE STUMP: I have one question.

23 Actually it's an area I want clarified.

24 During the cross-examination by Mr. Shaltz
25 he was asking you some questions about competition and

1 competitors and I thought that you testified that MichCon
2 doesn't really care if customers go to the choice program.
3 That's what you testified to?

4 A Particularly if we're in a GCR situation.

5 JUDGE STUMP: O.K. But in your testimony
6 on page 3 you indicate that "absent the proposed" -- this
7 is at the top of the page starting at line 3 -- line 4,
8 rather -- "absent the proposed re-establishment of
9 MichCon's GCR concurrent with the modifications to
10 MichCon's GCC program, it is unlikely that the proposed
11 changes to MichCon's GCC program will have any meaningful
12 effect on customer choice in MichCon's service territory."

13 How do you reconcile that testimony? If
14 the company doesn't care about choice, I thought that was
15 the entire basis for your application: that it was needed
16 to promote choice and essentially make the program better.

17 A I think these are two different issues. I believe
18 customer choice is a good thing because it promotes
19 competition which over the long term has downward pressure
20 on prices, gives customers additional opportunities for
21 services. That's different than our profit motive in
22 trying to steal customers away from alternative marketers.

23 JUDGE STUMP: O.K. Thank you.

24 THE WITNESS: Thank you.

25 JUDGE STUMP: Did that precipitate

Stanczak

1 anything?

2 MR. CHAMPION: I have no further
3 questions, your Honor.

4 JUDGE STUMP: O.K.

5 Thank you, you may step down.

6 THE WITNESS: Thank you.

7 (The witness was excused.)

8 JUDGE STUMP: Ms. Soneral?

9 MS. SONERAL: I need a moment to locate my
10 witness.

11 JUDGE STUMP: O.K., go ahead. Three-
12 minute break.

13 (A brief recess was taken.)

14 - - -

15 (A document was marked Exhibit A-4 by the
16 reporter.)

17 JUDGE STUMP: All right, we'll go back on
18 the record, and we need to address Exhibits A-1, -2 and
19 -3. Were there any objections to those exhibits?

20 All right. Exhibits A-1, A-2 and A-3 will
21 be admitted into evidence.

22 Ms. Soneral?

23 MS. SONERAL: Yes, your Honor.

24 - - -

25

McDonald - Direct - Soneral

1 A L V I N K E R R M c D O N A L D

2 was called as a witness on behalf of Energy America and,
3 being first duly sworn by the Reporter/Notary Public,
4 testified as follows:

5 DIRECT EXAMINATION

6 BY MS. SONERAL:

7 Q Good morning. Could you please state your name.

8 A My name is Alvin Kerr McDonald.

9 Q And what is your business address?

10 A Suite 1400, 25 Sheppard Avenue West, North York, Ontario.

11 Q And by whom are you employed?

12 A I am a consultant to Energy America.

13 Q Did you prepare or cause to be prepared prefiled direct
14 testimony in this matter?

15 A Yes, I did.

16 Q Does it consist of five pages of questions and answers?

17 A Yes, it does.

18 Q And is it entitled "Prefiled Direct Testimony of Al
19 McDonald on Behalf of Energy America"?

20 A Yes, it is.

21 Q If you were asked the same questions today, would your
22 responses be the same?

23 A Absolutely.

24 Q Do you have any additions or corrections that need to be
25 made?

1 A No, I don't.

2 Q And are you sponsoring any exhibits today?

3 A No, I'm not.

4 MS. SONERAL: Your Honor, I tender the
5 witness for cross-examination and I request that his
6 testimony be bound into the record.

7 JUDGE STUMP: All right. The testimony
8 will be bound into the record.

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McDonald - Cross - Champion

1 JUDGE STUMP: Mr. Champion?

2 MR. CHAMPION: Thank you, your Honor.

3 - - -

4 CROSS-EXAMINATION

5 BY MR. CHAMPION:

6 Q Good morning, Mr. McDonald.

7 MR. CHAMPION: Your Honor, may I approach
8 the witness?

9 JUDGE STUMP: Yes.

10 MR. CHAMPION: Thank you.

11 Q (By Mr. Champion) Mr. McDonald, I've handed you what I
12 have had previously marked for identification in this
13 proceeding as proposed Exhibit A-4, and I would represent
14 to you that it's a series of five pages representing your
15 discovery responses to questions asked of you on discovery
16 by the Residential Ratepayer Consortium in this case. Do
17 you recognize the document that I've handed you?

18 A Yes, I do.

19 Q Are those your discovery responses?

20 A Yes, they are.

21 Q Do you adopt them as your own for purposes of this
22 proceeding?

23 A Yes, I do.

24 Q Were they prepared by you?

25 A Yes, they were.

McDonald - Cross - Champion

1 Q Have your answers to any of the questions changed as of
2 today?

3 A No, they haven't.

4 MR. CHAMPION: Thank you, Mr. McDonald.

5 Your Honor, I have no further questions of
6 the witness.

7 MR. ISIOGU: Your Honor, may I --

8 JUDGE STUMP: Are you moving for the
9 admission of A-4?

10 MR. CHAMPION: I will, your Honor.

11 MR. SHALTZ: Your Honor, before you
12 entertain that, we'd like to do some cross-examination of
13 this witness.

14 JUDGE STUMP: All right.

15 MR. ISIOGU: Your Honor, before we do
16 that, I'd like just a clarifying question. Is A-4 the
17 entire package of discovery responses or just excerpts of
18 the --

19 MR. CHAMPION: No. It is Mr. McDonald's
20 responses to RRC Questions 12, 13, 14 and 15.

21 MR. ISIOGU: Thank you, Mr. Champion.

22 JUDGE STUMP: All right. I'll reserve
23 ruling on the exhibit until cross is done.

24 Mr. Gadaletto, any questions?

25 MR. GADALETO: No questions for Mr.

McDonald - Cross - Champion

1 McDonald.

2 JUDGE STUMP: Mr. Shaltz?

3 MR. SHALTZ: Yes.

4 - - -

5 CROSS-EXAMINATION

6 BY MR. SHALTZ:

7 Q Good morning, Mr. McDonald.

8 A Good morning, Mr. Shaltz.

9 Q Actually I'd like you to refer to proposed Exhibit A-4 if
10 you would. Do you have one of those in front of you?

11 A My five pages?

12 Q Yes.

13 A Absolutely, yes.

14 Q I'd like you to first look at the first page of that
15 exhibit which at the top is marked RCEA012. Do you see
16 that?

17 A Yes, I do.

18 Q Now, in your answer you give some specific page references
19 to both the August 4 and October 13 orders; is that
20 correct?

21 A Yes, I do.

22 Q You also indicate that you are relying on the, quote,
23 general tone of the Order. Is that correct?

24 A Absolutely.

25 Q That's your personal interpretation of the tone of the

1 order; is that correct?

2 A Absolutely.

3 Q Do you have any expertise in interpreting Public Service
4 Commission orders or training in that respect?

5 A Twenty years' worth.

6 Q Well, is there anything in your training that gives you
7 special expertise about discerning the tone of an order?

8 A Yes, I believe it does. I've been working with national
9 governments, provincial governments, state authorities on
10 customer choice programs for 20 years, sir.

11 Q Let me ask you this: Do you think that what the
12 Commission said on the cited portions of these orders
13 speaks for itself?

14 A I believe so when you consider the fact that I've been
15 participating not only in these collaboratives with
16 commissions but in collaborative processes both in Canada
17 and the U.S. for the last 20 years.

18 Q I think you might have misunderstood my question. Let's
19 first go to -- we're speaking of page 4 to 5 and 7 of the
20 August 4, 2000 order.

21 A Yes.

22 Q Is it your position that what is said on those pages
23 requires further interpretation by anybody, or does that
24 order speak for itself?

25 A I believe in the lines that I cited in my response, that

1 for the purpose of developing uniform terms and conditions
2 it not only speaks for itself but if you were part of the
3 collaborative, set the tone, yes.

4 Q So is it your testimony that the information you're
5 presenting in your testimony includes your interpretation
6 of the Commission's statements in those portions of those
7 orders; is that correct?

8 MS. SONERAL: I'm going to object. I
9 don't think that was necessarily his testimony.

10 Q (By Mr. Shaltz) Well, I'll reframe this this way: If
11 your answer had simply been to cite these page without the
12 phrase "as well as the general tone of the Order," would
13 your testimony have been any different? Are you relying
14 on the general tone of the order to support your proposal
15 in this case?

16 MS. SONERAL: I would object to this
17 question. I believe it's been asked and answered. He
18 indicated that he's relying on the language of the order
19 as well as his experience in the collaborative process.

20 JUDGE STUMP: I think he's answered the
21 question.

22 MR. SHALTZ: I guess I need a
23 clarification then, your Honor. I don't know if he said
24 that he's relied on his interpretation or if he's simply
25 relying on the language of the order. That's all I need

1 to know.

2 JUDGE STUMP: Can you answer that? Is it
3 a combination that you're relying on?

4 I thought he testified that he's relying
5 on his experience.

6 MR. SHALTZ: His experience as what?

7 JUDGE STUMP: Twenty years.

8 MS. SONERAL: I believe he specifically
9 answered that he was relying on the order as well as his
10 participation in the collaborative process. I believe
11 he's answered it.

12 JUDGE STUMP: I'm going to sustain the
13 objection. I think he's answered it adequately.

14 MR. SHALTZ: O.K.

15 Q (By Mr. Shaltz) Going on to the next questions and
16 answers, now, when you refer in subsection a of your
17 answer to your service center, are you speaking
18 specifically of your Michigan service center or service
19 centers in other places in the country or in Canada?

20 JUDGE STUMP: What are you looking at?

21 MR. SHALTZ: His answer that's presented
22 on the third page under sub a.

23 JUDGE STUMP: O.K.

24 THE WITNESS: That would be RCEA013,
25 Question a: "Please explain why a MichCon customer would

1 be confused if the marketing for Consumers Energy's
2 customer choice program clearly indicates that it is
3 available in Consumers Energy's service territory only"?

4 Q (By Mr. Shaltz) Right.

5 A And then my response?

6 Q And in your response you make a reference to a service
7 center. Where is that located?

8 A Our North American service center is located in North
9 York, Ontario.

10 Q Is it your testimony that if the Commission adopts
11 MichCon's proposal to lift the suspension of the GCR
12 clause and start customer choice on April 1st, that the
13 gas customer choice that's offered to Consumers' customers
14 and MichCon's customers will be uniform in all respects?

15 A That was the idea when my kin and the Commission put
16 together the collaborative, which we were in support of.

17 Q O.K. As a marketer for Energy America are you testifying
18 that what you will offer to MichCon customers and to
19 Consumers' customers will be identical?

20 A Will be similar.

21 Q Will they be identical?

22 A They'll be similar.

23 Q Will they be the same price?

24 A I can't answer that because the MichCon program hasn't
25 been approved yet.

1 Q Well, if it were approved, would it be the same price as
2 what is offered to Consumers' customers?

3 A I can't answer that.

4 Q O.K. Would the length of contracts that are offered to
5 MichCon customers versus Consumers' contracts be
6 identical?

7 A To the best of my knowledge yes, they would be.

8 Q But you're not sure about price?

9 A No, I'm not sure about price. We had a ruling on
10 Consumers prior to which allowed us, based on our
11 experience, to anticipate what the participation would be
12 in the Consumers territory and therefore allowed us to go
13 to the market at a specific time to hedge against what we
14 believe will be the success of our customers.

15 Q So is it your testimony that Energy America intends to
16 market in the Consumers territory starting April 1st?

17 A Yes and no. There's two answer to that question.

18 First of all, you have to understand --

19 Q That's fine. That's all I need.

20 Now, at the bottom of page 3 of your
21 prefiled testimony there you make reference on the very
22 last line to "the marketers." Is it accurate to say, Mr.
23 McDonald, that you can't identify any particular marketers
24 to whom you refer there?

25 MS. SONERAL: If I may help the witness,

1 he's looking at your prefiled testimony, the five-page.

2 He's moved away from the discovery answers.

3 THE WITNESS: I apologize.

4 JUDGE STUMP: That's all right.

5 THE WITNESS: I don't know if I have a
6 copy of that or not, Christine.

7 MS. SONERAL: Do you mind if I get him a
8 copy?

9 MR. SHALTZ: Sure.

10 (Document handed to the witness by Ms.
11 Soneral.)

12 A "Please describe what benefits, if any, MichCon's proposal
13 will provide to customer choice"?

14 Q (By Mr. Shaltz) Right. On the very last line you make
15 reference to "the marketers," and my specific question is,
16 can you identify specifically who "the marketers" are by
17 name?

18 A Other than Energy America, no.

19 Q O.K. Now, on that last line you indicate that "Both
20 MichCon and the marketers are currently in a position to
21 offer competitive prices." Do you see that?

22 A Yes, I do.

23 Q Could you quantify what currently MichCon is in a position
24 to offer as a competitive price?

25 A I think in the course of the hearings that I was invited

1 to by the chairman of the Energy Committee he asked the
2 same question, and I think I referred to at the time Ohio
3 as an example on --

4 Q Excuse me, Mr. McDonald. I don't think you understand my
5 question.

6 You simply have stated here that MichCon
7 is currently in a position to offer competitive prices.

8 A Yes.

9 Q And what I wanted to know is, can you quantify what that
10 competitive price is today?

11 MS. SONERAL: Your Honor, and I would say
12 that Mr. McDonald was in the process of answering that
13 question when he was interrupted. Perhaps we should wait
14 for him to answer the question.

15 JUDGE STUMP: Well, now that he's restated
16 the question, let's go from that.

17 MS. SONERAL: O.K.

18 Q (By Mr. Shaltz) Can you quantify that competitive price?

19 A Yes.

20 Q What is that price?

21 A MichCon's proposed price was \$5.17.

22 Q So is that what you mean by the competitive price that
23 MichCon is currently in a position to offer?

24 A Yes.

25 Q O.K. Now, what is the competitive price that marketers

1 are currently in the position to offer?

2 A I'm not able to answer that.

3 Q O.K. Going on to the next page, you indicate that both
4 MichCon and the marketers are in a position to lock in
5 those low prices. Can you quantify that low price that
6 MichCon is right now in a position to lock in?

7 A To the best of my knowledge, it's \$5.17.

8 Q And what is the price at which marketers can lock in those
9 low prices right now?

10 A I'm not in a position to answer that.

11 Q O.K.

12 A You have to understand you need to know what the terms of
13 the agreement are in the program in order to lock in those
14 prices. If you want to compare it, our current price in
15 Ohio today is \$9.48. That's what East Ohio is charging as
16 the GCR, and I believe we are offering \$8.17.

17 Q So is it your testimony that you would offer \$8.17 in
18 MichCon's service territory?

19 A No, it's not, sir. I used that as an example to try and
20 explain how competitive and low prices are related.

21 Q At the top of page 4 you use the term "extended term."
22 What is the length that you're referring to there, length
23 of time? In terms of locking in a low price for an
24 extended term, what is the length of time that that kind
25 of lock would cover?

1 A It would depend whether we would offer a one-year, two-
2 year, three-year or five-year program, and then we would
3 hedge our gas against that program and then that's the
4 program that we would offer.

5 Q So are you saying that marketers would try to lock in
6 prices for a five-year term under any circumstance right
7 now?

8 A Again, depending on the terms that we were offering, yes,
9 because it's been our experience that the longer the term
10 that we can offer the customer, the better the value is
11 that we can offer the customer, which has been
12 demonstrated throughout the U.S., especially given these
13 high gas prices. We have customers in Ohio that are on
14 choice currently that are paying \$3.90 compared to the GCR
15 in Columbia Gas, which I believe is \$10.42.

16 Q Does Energy America have customers in MichCon's service
17 territory who are paying less than \$2.95 right now?

18 A Yes, we do.

19 Q And what rate are they paying at?

20 A \$2.80. \$2.80 or \$2.83.

21 Q If MichCon's proposal is adopted by this Commission, do
22 you expect to continue offering those customers with whom
23 you have contracts gas at \$2.83 starting April 1st?

24 A That would be a decision that I wouldn't be making.

25 Q Who would be making that?

1 A Probably the CEO of the company.

2 Q If MichCon's application in this case is rejected by the
3 PSC, does Energy America intend to market to MichCon's
4 customers starting January 1st of 2001?

5 A That would be a decision that would be made at the time.

6 Q So is your answer you don't know right now?

7 A That would be it.

8 MR. SHALTZ: Just one moment, your Honor.

9 (There was a pause in the proceedings.)

10 MR. SHALTZ: I have no further questions.

11 Thank you.

12 JUDGE STUMP: Thank you, Mr. Shaltz.

13 Mr. Isiogu.

14 MR. ISIOGU: Thank you.

15 - - -

16 CROSS-EXAMINATION

17 BY MR. ISIOGU:

18 Q Good morning, Mr. McDonald.

19 A How are you, sir?

20 Q Are you an economist?

21 A No, I'm not, sir.

22 Q I understand that you have been involved in the industry
23 for about at least 20 years, is that correct?

24 A Yes, sir.

25 Q Do you have a working definition of the concept of

1 competition?

2 A Absolutely, sir.

3 Q What's that definition?

4 A To simplify, sir, without competition, I wouldn't be
5 sitting here.

6 Q How do you define competition?

7 A How do I define competition?

8 Q Yes.

9 A I define competition as any time more than one individual
10 or one entity has the opportunity to offer the same
11 product or service to a customer.

12 And competition comes in many forms. It
13 comes in the forms of low prices, enhanced service.
14 There's a number of things.

15 Customers throughout our history have
16 always benefited from competition. Although I respect the
17 monopoly that has brought us to this point from all
18 utilities' aspect, and we should always be very careful to
19 protect, in my opinion, the fundamental side of monopoly
20 utilities such as transportation and distribution, being
21 that you don't want Beavis and Butthead's gas company
22 running garden hose under the street.

23 I do believe that from the commodity side
24 that choice benefits everybody, regardless of the utility.

25 So one side of me respects the hundred-year history and

1 supports the monopoly utilities. The other side of me
2 says that the commodity portion is a competitive product
3 and that when choice is offered to customers, customers
4 benefit in the long run.

5 And I think Ohio is a classic example of
6 that. Michigan is a better -- we sent out \$5 million
7 worth of checks in the last month to residents of
8 Michigan, thanks to choice.

9 Q Thank you, Mr. McDonald.

10 So would you agree then that one of the
11 benefits of -- in fact, I think you did testify a minute
12 ago one of the benefits of competition is lower prices, is
13 that correct?

14 A One of the benefits of competition can be lower prices.
15 It can be enhanced services. It can be a variety of
16 services.

17 I don't mean to make light of it, but
18 every drug that you have on the market today wasn't
19 brought about by somebody wanting to do good for people.
20 It was brought about by the need to compete and the need
21 to make money.

22 So low prices are not necessarily what
23 competition is about. It's customer service, enhanced
24 service, new products, new technology.

25 That's what competition does. Otherwise

1 we would all be driving black Ford Model T's.

2 Q Thank you, Mr. McDonald.

3 MR. ISIOGU: I have no further questions,
4 your Honor.

5 JUDGE STUMP: Thank you.

6 Any redirect?

7 MS. SONERAL: No, your Honor.

8 JUDGE STUMP: Are there any objections to
9 Exhibit A-4? All right. Exhibit A-4 will be admitted
10 into evidence.

11 You may step down.

12 JUDGE STUMP: Mr. Shaltz.

13 MR. SHALTZ: Thank you, your Honor.

14 Your Honor, the RRC calls its witness
15 Frank J. Hollewa to the stand.

16 - - -

17 F R A N K J. H O L L E W A

18 was called as a witness on behalf of The Residential
19 Ratepayer Consortium and, being first duly sworn by the
20 Reporter/Notary Public, testified as follows:

21 JUDGE STUMP: The witness has been
22 sworn.

23 - - -

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1 DIRECT EXAMINATION

2 BY MR. SHALTZ:

3 Q Good morning, Mr. Hollewa.

4 A Good morning.

5 Q Would you please state your name and address for the
6 record, please.

7 A My name is Frank J. Hollewa. My office address is 6182
8 Grovedale Court, Suite 100, Alexandria, Virginia.

9 Q Mr. Hollewa, did you in connection with this proceeding
10 prepare a document consisting of a cover page and 21 pages
11 of questions and answers entitled Testimony of Frank J.
12 Hollewa on behalf of the Residential Ratepayer Consortium?

13 A Yes, I did.

14 Q Mr. Hollewa, do you have any corrections to that
15 testimony?

16 A Yes, I do.

17 Q I'd like you first to turn to page 8, line 8. Is that
18 where the first correction appears?

19 A Yes, it is. And the question, the second word "you"
20 should be stricken so that it now states: "Please
21 summarize your conclusions ..." et cetera.

22 Q Next I'd like you to turn to page 13, line 7, of your
23 testimony. Do you have a correction there, sir?

24 A Yes, I do. The first number on line 7, following the word
25 "approximately," should be "12" instead of the "23" that

1 is there now.

2 Q And could you turn to page 18, line 19, of your testimony.

3 Do you have a correction there?

4 A Yes, I do.

5 Q Could you state that.

6 A On line 19, the words "before MichCon's GCR clause was
7 suspended," should be stricken. And capitalize the "t" in
8 "the." So that what remains will be a sentence: The
9 total storage decrement ..." et cetera.

10 Q Does this complete the corrections to your testimony?

11 A Yes, it does.

12 MR. SHALTZ: Your Honor, these
13 corrections have been marked on the copy of the testimony
14 that's been provided to the court reporter this morning.

15 Q (By Mr. Shaltz) With those corrections, Mr. Hollewa, do
16 you adopt this testimony as your testimony in this
17 proceeding?

18 A Yes, I do.

19 Q If I were to ask you the same questions presented in the
20 testimony today, would your answers be the same?

21 A Yes, they would.

22 MR. SHALTZ: Your Honor, I move for
23 admission of the testimony of Frank J. Hollewa in this
24 proceeding and tender him for cross-examination.

25 JUDGE STUMP: All right. The testimony

1 will be bound into the record.

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Hollewa

1 JUDGE STUMP: Mr. Isiogu.

2 MR. ISIOGU: No questions, your Honor.

3 JUDGE STUMP: Mr. Gadaletto.

4 MR. GADALETO: No questions for Mr.
5 Hollewa.

6 JUDGE STUMP: Where is Ms. Soneral? I'd
7 like her to go next if she does have any questions.

8 MR. CHAMPION: While we are waiting for
9 her, your Honor, can I mark some exhibits?

10 JUDGE STUMP: Go ahead.

11 MR. CHAMPION: If it's all right with
12 your Honor, rather than mark two separate exhibits, I'll
13 just staple them together and we'll make it one.

14 JUDGE STUMP: O.K.

15 MR. CHAMPION: They will be Frank's
16 responses to our Questions 1 and 2.

17 JUDGE STUMP: Do you have any cross, Ms.
18 Soneral.

19 MS. SONERAL: I don't have any.

20 JUDGE STUMP: Thank you.

21 Now, Mr. Champion.

22 MR. CHAMPION: If we could take a
23 moment to mark a couple of exhibits, please.

24 (A document was marked Exhibit No. A-5 by
25 the reporter.)

Hollewa - Cross - Champion

1 JUDGE STUMP: Mr. Champion.

2 MR. CHAMPION: Thank you, your Honor.

3 - - -

4 CROSS-EXAMINATION

5 BY MR. CHAMPION:

6 Q Good morning, Mr. Hollewa.

7 A Good morning.

8 Q You have 33 years' worth of experience in the utility
9 business?

10 A Yes, sir.

11 Q And for the last five years, you have testified as a
12 consultant, is that correct?

13 A Yes, I have.

14 Q Have you testified on behalf of utilities since you began
15 your consulting business?

16 A No, sir, I haven't.

17 Q Thanks. Mr. Hollewa, you have before you what I have
18 previously marked for identification in this proceeding
19 as proposed Exhibit A-5.

20 A Yes, I do.

21 Q Do you recognize that two-page exhibit as your responses
22 to MichCon's first discovery request to you in this case?

23 A Yes, I do.

24 Q Did you prepare those responses?

25 A Yes, sir.

1 Q Have the answers changed in any way since you prepared
2 them?

3 A Have you corrected the two typos in Question 2 in the ones
4 that you distributed?

5 Q I have not, no, sir.

6 Do you have corrections to make to page 2
7 of the exhibit?

8 A Yeah. The answer eight lines from the bottom has "22.78."
9 It should be "22.7."

10 And the third line from the bottom where
11 it says "Exhibit DMS," that should say "AMS."

12 Other than that, the answers would be the
13 same.

14 Q Thank you, sir.

15 And that reminds me I need to ask you --
16 with respect to that portion of your testimony on page 3
17 that identifies the documents you reviewed in your
18 analysis and evaluation, based on the correction you just
19 made to page 2 of proposed Exhibit A-5 with respect to an
20 exhibit reference from U-12766, should we also add to the
21 list of documents you reviewed and analyzed MichCon's GCR
22 filing Case No. 12766?

23 A Yes, sir. You are correct.

24 Q Thank you. Could we turn to page 20 of your testimony,
25 Mr. Hollewa.

1 At lines 13 and 14 on that page you say
2 that "... it is virtually impossible to decrement storage
3 absent termination of the GCR suspension," is that
4 correct?

5 A Yes, sir.

6 Q And if I may have a moment. I lost my reference.

7 On the preceding page, page 19, lines 10
8 and 11, of your testimony, you say that "... it is
9 impossible to decrement stronger below 55 Bcf without
10 jeopardizing the system integrity for Design Day
11 purposes," do you not?

12 A Yes.

13 Q For your Honor's benefit, Design Day is a sendout
14 condition representing the flowing volume of gas required
15 to meet maximum market requirements of customers under an
16 extreme weather condition.

17 Would that be a fair statement?

18 A Yes, sir. It's usually the coldest day experienced in the
19 last 25 years. Most companies use that. And currently
20 most companies would use January 19, 1994 because that was
21 for most the coldest day that was experienced.

22 And under those set of weather
23 conditions, with the assumption that they would reoccur on
24 a given day, you calculate an estimated sendout to meet
25 those conditions and then you provide the sources of gas

1 to meet that calculated sendout.

2 Q Thank you, sir.

3 Where did the 55 Bcf number that's
4 referenced at line 11 of your testimony come from?

5 A It was the starting point for what would have to be
6 achieved in order to have a storage decrement. A response
7 from the company with regard to the storage balance as of
8 December 31, 2000 was 55.1 Bcf.

9 Therefore, in order to have a decrement
10 in the year 2001, you would have to be below 55.1 Bcf.

11 Q With respect to the statement about jeopardizing system
12 integrity as it relates to that 55 Bcf, would it be fair
13 to say that that statement is made in the context of the
14 company's proposal in this case, your analysis of that
15 proposal and the assumptions that underlie it?

16 A I think it is as I have stated in these two questions that
17 you put in on Exhibit A-5. And in those two questions I
18 relate exactly how I did come to make those statements.

19 So since you have these in as exhibits
20 and I prepared them and I don't have any changes to them
21 other than noted, I would submit that these are the
22 answers to your question.

23 Q Perhaps I can shortcut this.

24 A O.K.

25 Q You're not saying, are you, that it is physically

Hollewa - Cross - Champion

1 impossible for the company to take its storage balance
2 below 55 Bcf, irrespective of its proposal in this case,
3 are you?

4 A I'm saying that in the event that the company was below 55
5 on December 31st and in order to maintain a balance for a
6 mid January Design Day, as I understand their criteria to
7 be for a Design Day, the information I looked at in the
8 Exhibit AMS-5 showed that you needed 52 Bcf on a mid
9 January day in order in order to provide the
10 deliverability to meet the Design Day.

11 So consequently, if you ended the year
12 with 55, and that were in combination with the
13 company-owned GCR storage plus the GCC storage, then that
14 means you could only withdraw 3 Bcf between December 31st
15 and January 15th.

16 I simply relied on the normal schedule of
17 withdrawals for January which indicated 20.9 Bcf for the
18 month. Half of that is approximately 10.4.

19 Certainly, you could take drastic steps
20 such as the purchase of considerably more flowing gas and
21 to reduce the amount of storage withdrawals during the
22 first 15 days in order to reserve that capability, if you
23 were so low below the withdrawal curve.

24 Q Thank you. You have just answered my question. Thank you
25 very much, sir.

Hollewa - Cross - Champion

1 A There are options.

2 MR. CHAMPION: I have no further
3 questions of the witness.

4 JUDGE STUMP: Thank you.
5 Any redirect?

6 MR. SHALTZ: No, your Honor.

7 JUDGE STUMP: Any objections to Exhibit
8 A-5? All right. A-5 is admitted into evidence.

9 Thank you.

10 Would you like to take a break or do you
11 just want to continue?

12 MR. ISIOGU: A break would be useful.

13 MR. CHAMPION: It would be, your Honor.

14 I can't speak for the other parties, but
15 if I can follow the same procedure with respect to certain
16 discovery responses from Mr. Miller, we can be done by
17 noon.

18 JUDGE STUMP: Great. I like that
19 procedure, by the way.

20 Judge Rigas has told me about that
21 procedure. He likes it too.

22 MR. CHAMPION: We're happy to help.

23 (A recess was taken.)

24 - - -

25 (Documents were marked Exhibits I-6

Miller - Direct - Isiogu

1 through I-8 and A-9 by the reporter.)

2 JUDGE STUMP: Back on the record.

3 Mr. Isiogu.

4 MR. ISIOGU: The Attorney General calls
5 Mr. Miller letter to the stand.

6 - - -

7 R A L P H E. M I L L E R

8 was called as a witness on behalf of Attorney General
9 Jennifer M. Granholm and, being first duly sworn by the
10 Reporter/Notary Public, testified as follows:

11 DIRECT EXAMINATION

12 BY MR. ISIOGU:

13 Q Sir, would you please state your name and business address
14 for the record.

15 A My name is Ralph E. Miller. My business address is 5502
16 Western Avenue in Chevy Chase, Maryland.

17 Q And are you appearing as a witness in this case on behalf
18 of the Michigan Attorney General?

19 A Yes, I am.

20 Q In connection with your appearance today did you cause to
21 be filed a document entitled "Testimony and Exhibits of
22 Ralph E. Miller on Behalf of the Michigan Attorney
23 General" consisting of a cover page and 52 pages of
24 typewritten questions and answers?

25 A Yes.

1 Q Do you have any changes, additions, or modifications to
2 your testimony at this time, to your prefiled testimony?

3 A No, I'm not aware of any corrections that need to be made.

4 Q In addition to your prefiled direct testimony, did you
5 also cause to be filed three exhibits?

6 A Yes.

7 Q Which I have marked today for identification as Exhibits
8 -- REM-1 has been marked for identification as Exhibit I-
9 6, REM-2 has been marked as Exhibit I-7, and REM-3 has
10 been marked today for identification as Exhibit I-8; is
11 that correct?

12 A Yes.

13 Q Do you have any changes you wish to make to your prefiled
14 exhibits?

15 A No, I do not.

16 Q If I were to ask you the same questions contained in your
17 prefiled direct testimony now that you are under oath,
18 would your answers in substance be the same?

19 A Yes, they would.

20 Q Do you now adopt that prefiled testimony as your testimony
21 in this case?

22 A Yes, I do.

23 MR. ISIUGU: Your Honor, at this juncture
24 I move for the binding in of Mr. Miller's prefiled direct
25 testimony, and at the close of cross-examination I move

Miller - Direct - Isiogu

1 for the admission of his proposed exhibits and I tender
2 the witness for cross-examination.

3 JUDGE STUMP: All right, thank you. The
4 testimony will be bound into the record.

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Miller - Cross - Champion

1 JUDGE STUMP: Any questions, Mr. Shaltz?

2 MR. SHALTZ: No, your Honor.

3 JUDGE STUMP: Ms. Soneral?

4 MS. SONERAL: No, your Honor.

5 JUDGE STUMP: Mr. Gadaletto?

6 MR. GADALETO: None, your Honor.

7 JUDGE STUMP: Mr. Champion.

8 MR. CHAMPION: Yes, your Honor. Thank

9 you.

10 May I approach the witness, please?

11 JUDGE STUMP: Yes.

12 - - -

13 CROSS-EXAMINATION

14 BY MR. CHAMPION:

15 Q Good morning, Mr. Miller.

16 A Good morning.

17 Q Mr. Miller, I have handed you a document I've had
18 previously marked for identification in this proceeding as
19 Exhibit A-9, and I'd represent to you that it is a
20 compilation of your discovery responses to MichCon
21 Discovery Questions 4 through 8 to the Attorney General.
22 Would you review that document for me, please.

23 A (After reviewing exhibit) I've completed reviewing it.

24 Q Do you recognize it as your responses to our discovery
25 requests in this case?

1 A The substance, yes. I mean I did not prepare it in this
2 form, but the answers are the answers that I prepared to
3 the questions that were written by MichCon and that I
4 obtained, I guess, off the Web site where they were posted
5 or in any event in electronic form.

6 Q And you adopt them as your answers to our discovery
7 questions for purposes of this case?

8 A Yes.

9 Q Any changes to the answers as of today?

10 A I'm not aware of any reason any of them should be changed.

11 Q On page 3 of the exhibit, Question No. 6, you were
12 referred to page 33, lines 7 through 13 of your prefiled
13 testimony and asked to provide analysis and workpapers
14 supporting your statement that Mr. Stanczak's Exhibit
15 DMS-1, which has been marked and admitted in this
16 proceeding as Exhibit A-1, is a gross overstatement. Do
17 you see that?

18 A I'm not sure we've got the right pages. I think I
19 remember a question about that, but I don't see the "gross
20 overstatement" language on the page 3 of this exhibit. I
21 remember writing -- it's in my testimony.

22 JUDGE STUMP: Yes, it's in your testimony.

23 You've got to go back to your testimony.

24 A O.K., hang on. Let me make sure I understand exactly what
25 the question was. Maybe you could go through it step by

1 step, then.

2 Q (By Mr. Champion) We asked you whether or not you had
3 prepared any analysis or workpapers to support the
4 statement you make at lines 7 through 13. Let's focus
5 just on lines 7 and 8 --

6 A Oh, O.K.

7 Q -- of Mr. Stanczak's Exhibit A-1, DMS-1, as a gross
8 overstatement of the possible benefits from the \$2.95
9 price. Do you see that?

10 A Yes.

11 Q And your response is "See the response to the two
12 preceding questions," and you go on from there. Is it
13 fair to say that you have not prepared any analysis or
14 workpapers that would correct, for lack of a better word,
15 what you perceive to be a gross overstatement in Mr.
16 Stanczak's exhibit?

17 A The one thing that I would add, and I'm not sure why it's
18 not here or whether it's elsewhere, is simply to point out
19 that the question beginning on page 33 at line 15 and the
20 answer to it which runs for a page and a half through the
21 end of page 34 basically is an answer to the question
22 you've just asked, namely, have I done an analysis to
23 explain why I think Mr. Stanczak's estimate is a gross
24 overstatement.

25 Q With that clarification, do you have any exhibit,

1 workpaper or other documentation that corrects what you
2 perceive to be a gross overstatement?

3 A No, no. Beyond that I have nothing. As I said, the
4 testimony contains the only quantitative analysis I did
5 providing a specific calculation.

6 Q Thank you, Mr. Miller.

7 It would be fair to say, would it not,
8 that to the extent Mr. Stanczak asserts that customers
9 have saved money under MichCon's gas customer choice
10 program, you perceive that statement to be in error?

11 A I think with regard to 1999 and 2000, I think it's
12 probably in error, yes.

13 Q All right. With respect to 2001 to date is it in error?

14 A I haven't seen a final report of where we are through 2001
15 to date. The real problem is that the longer we get into
16 this three-year period, the more difficult and speculative
17 it is to determine what MichCon would have done with
18 regard to how much gas it would have purchased and when it
19 would have purchased it and at what price. I think the
20 company took the same position in its discovery responses
21 when Mr. Stanczak was asked similar questions about what
22 the GCR factor would have been during this three-year
23 period, and it's very difficult to with hindsight say in
24 particular what fixed price contracts MichCon would have
25 entered into and when and in what quantities and at what

1 price levels. That's what would have determined what
2 customers would have been paying now under the GCR plan.

3 And I agree, it's very difficult and we
4 can argue forever about what those numbers would have
5 been. Clearly if Mr. Stanczak's position is that MichCon
6 will have significant gross margins accumulated during the
7 period through March 2001 to help protect customers the
8 \$2.95 level promised for the rest of the year, then it's
9 clearly MichCon's position that with the particular gas
10 purchasing strategy they did use, they could have bought
11 and did buy gas at less than \$2.95 and customers therefore
12 would have paid less than \$2.95 in the period through
13 March 2001.

14 Now, whether that's what MichCon would
15 actually have done if the GCR had been in effect is very
16 difficult to determine. I will clearly admit that other
17 purchasing strategies would have yielded costs much higher
18 than \$2.95.

19 Q With respect to the present, now, you would agree, would
20 you not, that the \$2.95 being charged by Michigan
21 Consolidated Gas Company is substantially below the market
22 price for natural gas, today's market price for natural
23 gas?

24 A Yes.

25 Q Your testimony in several places says that MichCon's

1 customers have suffered, does it not?

2 A Yes.

3 Q With respect to the contrary assertion that customers have
4 in fact saved, it's my understanding that you disagree?

5 A That's correct.

6 Q Would it make any difference whether or not it was Mr.
7 Stanczak saying customers had saved versus somebody else?
8 Would you still say customers had suffered?

9 A I think so. If what we're talking about is whether the
10 decision to institute the freeze was or was not beneficial
11 to customers, I don't think it would have made a
12 difference who said so. My view is that at least with
13 regard to what happened during 1999 and the year 2000, the
14 customers would have been better off if the GCR -- if the
15 price had not been frozen at the \$2.95 level and instead
16 the GCR had remained in effect, customers would have ended
17 up paying less.

18 MR. CHAMPION: Thank you, Mr. Miller.

19 Your Honor, I have no further questions of
20 the witness. We'd move for the admission of proposed
21 Exhibit A-9.

22 JUDGE STUMP: Any redirect?

23 MR. ISIUGU: Could I have a minute with
24 the witness, your Honor?

25 JUDGE STUMP: Sure.

Aldrich - Direct - Gadaletto

1 (Mr. Isiogu and the witness conferred off
2 the record.)

3 JUDGE STUMP: We're back on the record.

4 MR. ISIOGU: No redirect, your Honor.

5 JUDGE STUMP: All right, thank you.

6 Are there any objections to Exhibits I-6,
7 -7, -8, or Exhibit A-9?

8 There being no objections, those exhibits
9 will be admitted into evidence.

10 Mr. Gadaletto?

11 You may step down. I'm sorry.

12 (The witness was excused.)

13 MR. GADALETO: Your Honor, staff would
14 call William Aldrich to the stand.

15 (A document was marked Exhibit S-10 by the
16 reporter.)

17 - - -

18 W I L L I A M G. A L D R I C H

19 was called as a witness on behalf of the Commission staff
20 and, being first duly sworn by the Reporter/Notary Public,
21 testified as follows:

22 DIRECT EXAMINATION

23 BY MR. GADALETO:

24 Q Would you state your name and business address for the
25 record, please.

Aldrich - Direct - Gadaletto

1 A Yes. My name is William G. Aldrich. My business address
2 is 6545 Mercantile Way, Lansing, Michigan.

3 Q And how are you employed, Mr. Aldrich?

4 A I'm employed as an auditor and a tariff analyst in the
5 Auditing and Tariff Section of the Gas Division of the
6 Michigan Public Service Commission.

7 Q And did you cause testimony to be filed in this matter?

8 A Yes.

9 Q And that testimony consists of two parts; is that correct?

10 A That is correct.

11 Q I believe it's two pages of qualifications in Part I and
12 then I believe seven pages of the substance of your
13 testimony in this matter?

14 A Five pages.

15 Q Five pages? I notice that the numbering on Part II is
16 incorrect. Could we change that at this time? The first
17 page on Part II would be page number what in your
18 testimony?

19 A Well, I'm flexible on that. We could either call that
20 page 1 or page 3.

21 Q Well, let's back up even further.

22 A O.K.

23 Q Why don't we call Part I where it says Part I at the top
24 following the cover page, we make that page 1.

25 A O.K.

1 MR. GADALETO: And we'd ask all the
2 parties here to the proceeding to mark theirs accordingly.

3 Q (By Mr. Gadaletto) And then the second page in Part II
4 would be page 2?

5 A In Part I.

6 Q Correct.

7 A Page 2.

8 Q And then we might then what, delete the number 4 up in the
9 upper right-hand corner of that page?

10 A Yes.

11 Q And then the next page, which commences Part II or the
12 substance of your testimony, would be marked as page 3?

13 A O.K.

14 Q The next page would be 4 and we would delete page 6 in the
15 upper right-hand corner?

16 A Yes.

17 Q The next page would be 5, deleting page 7 in the upper
18 right-hand corner?

19 A Yes.

20 Q And the next page would be page 6, deleting page 8 in the
21 upper right-hand corner, with the last page being marked
22 as page 7, deleting page 9 in the upper right-hand corner.

23 Are there any other additions, corrections
24 or modifications that need to be made at this time?

25 A The only other change I would make at this time would be

Aldrich - Direct - Gadaleta

1 where there are references to my exhibit in my testimony,
2 that that reference be to Exhibit S-10.

3 Q O.K.

4 A And then there are also references on page 4 of my
5 testimony to Mr. Stanczak's Exhibit DMS-3, as indicated in
6 my testimony. That would be Exhibit A-3.

7 Q O.K. And you have, what, one proposed exhibit in this
8 matter or two?

9 A One proposed exhibit.

10 Q And that has been premarked S-10 in this matter?

11 A That's correct.

12 Q All right. And your S-10 consists of two pages?

13 A No, one page.

14 Q Then on page 3, line 21, where there's a blank, that
15 should be referred to as S-10?

16 A That's correct.

17 Q On page 4, the three references to DMS-3 --

18 A And there's actually four references.

19 Q Excuse me, four references would be referred to as --

20 A Exhibit A-3.

21 Q A-3. And then on page 7 there's a final reference at line
22 9 to your Exhibit S-10?

23 A Yes.

24 Q And does that conclude any additions or changes?

25 A Yes, it does.

Aldrich - Direct - Gadaletto

1 Q And if I were to ask you these same questions, would your
2 answers be the same?

3 A Yes.

4 MR. GADALETO: At this time, your Honor,
5 I'd move that the testimony of Mr. Aldrich be bound into
6 the record and that the proposed Exhibit S-10 be admitted
7 into evidence.

8 JUDGE STUMP: The testimony will be bound
9 into the record.

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Aldrich - Cross - Shaltz

1 JUDGE STUMP: Ms. Soneral?

2 MS. SONERAL: No cross, your Honor.

3 JUDGE STUMP: Mr. Shaltz?

4 MR. SHALTZ: Thank you, your Honor.

5 - - -

6 CROSS-EXAMINATION

7 BY MR. SHALTZ:

8 Q Good morning, Mr. Aldrich.

9 A Good morning, Mr. Shaltz.

10 Q I'd like you to turn to your new page 6, and going down to
11 lines 16 and 17, where you talk about "adjusted for
12 credits received during April 2001 through March 2002."
13 Do you see that?

14 A Yes.

15 Q Under your proposal are you saying that if MichCon needs
16 to go into its gross margin and refund part of that, that
17 should also be done before the end of March 2002?

18 A I did not address that in my testimony.

19 Q O.K.

20 A I believe the refund should be made as early as practical
21 to do so.

22 Q O.K. Higher up on the page where you're talking about
23 your proposal, one of the things that is a contingency
24 that you're addressing is whether MichCon has
25 overestimated the number of customers that will switch to

1 alternative suppliers in April through December. Do you
2 see that?

3 A Yes.

4 Q Do you have a personal opinion as to whether MichCon's
5 projection of 200,000 customers switching is reasonable?

6 A Yes, I do.

7 Q What is your opinion about that?

8 A Based on what I've seen in the past, I would think that
9 that number is pretty high; that I wouldn't expect that
10 many customers to switch.

11 Q If you were going to make a projection based on what
12 you've seen in the past, what do you think is a more
13 reasonable projection?

14 A It's my personal opinion -- and I don't have any concrete
15 studies to rely on to support that -- but I would think
16 something in the neighborhood of a hundred thousand might
17 be more achievable.

18 Q As I understand it, really what you're recommending to the
19 Commission here is that the current GCR customers get a
20 price guarantee of \$2.95. Is that correct?

21 A Yes; and also that the gas customer choice customers would
22 also get the same price guarantee.

23 Q And when you refer to them, are you talking about the ones
24 that are currently enrolled in the program?

25 A Yes, and also those that would prospectively be involved

1 in the program.

2 Q If, because of what happens with the cost of gas, the size
3 of the credits in the gross margin refund was insufficient
4 to yield the \$2.95 price guarantee, would you support
5 MichCon's proposal to dip further into its storage to be
6 able to guarantee that?

7 A Well, I'm not opposed to that type of a solution if it's
8 practical to do that and still assure that customers are
9 protected for the peak days in January, February and March
10 of 2002.

11 Q Would you agree that if MichCon did that, GCR customers in
12 future years would lose the cost benefits of that lower-
13 price gas that was in storage and was withdrawn to
14 guarantee the \$2.95 price?

15 A Yes.

16 MR. SHALTZ: No other questions. Thank
17 you, Mr. Aldrich.

18 JUDGE STUMP: Thank you.

19 Mr. Isiogu?

20 - - -

21 CROSS-EXAMINATION

22 BY MR. ISIOGU:

23 Q Good morning, Mr. Aldrich.

24 A Good morning.

25 Q If I could refer you to page 3 of your prefiled testimony,

Aldrich - Cross - Isiogu

1 lines 16 through 18. Do you see that?

2 A Yes.

3 Q In light of that testimony, that reference there, will you
4 agree that if the GCR customers were to end up paying more
5 than the \$2.95 per Mcf promised under the freeze program,
6 that would result in an adverse impact on the customers?

7 A Yes. And that really is the adverse impact I was
8 referring to.

9 MR. ISIOGU: Thank you, Mr. Aldrich.

10 I have no further questions, your Honor.

11 JUDGE STUMP: Thank you.

12 Mr. Champion?

13 MR. CHAMPION: Thank you, your Honor. If
14 I may have just a moment.

15 (There was a brief pause.)

16 MR. CHAMPION: Thank you, your Honor.

17 - - -

18 CROSS-EXAMINATION

19 BY MR. CHAMPION:

20 Q Good morning, Mr. Aldrich.

21 A Good morning.

22 Q It's clear from your testimony that you have not only
23 scrutinized but analyzed and addressed Mr. Stanczak's
24 testimony in this case. I would ask whether or not you've
25 had an opportunity to review the testimony of the

Aldrich - Cross - Champion

1 intervenors in this case?

2 A Yes.

3 Q Are you familiar with testimony offered by the Attorney
4 General's witness that alleges that MichCon customers have
5 suffered under MichCon's gas customer choice program?

6 A Yes.

7 Q To your knowledge, Mr. Aldrich, has the Commission made
8 any statements about how customers have fared or will fare
9 under MichCon's gas customer choice program?

10 A Yes.

11 Q To what statement do you refer?

12 A I refer to a press release that was issued by the
13 Commission on December 21, 2000, and in that press release
14 the relevant portion I could read to you if you would
15 like.

16 Q If you would, please. It will save making it an exhibit
17 in the case.

18 A "Consumers Energy's choice program approved in 1997 is
19 projected to save its customers about \$440 million in 2001
20 based on current natural gas prices on the natural gas
21 futures market. MichCon's and SEMCo's programs, approved
22 in 1998, are projected to save their natural gas customers
23 about 614,000,000 and 112,000,000 respectively during the
24 same period.

25 "The total natural gas bills may

Aldrich - Cross - Champion

1 fluctuate over those of previous winters based on severity
2 of the winter."

3 Q Thank you, Mr. Aldrich.

4 MR. CHAMPION: Your Honor, I have no
5 further questions of the witness.

6 JUDGE STUMP: Any redirect?

7 MR. GADALETO: One moment, your Honor.

8 No redirect, your Honor. Thank you.

9 JUDGE STUMP: Thank you.

10 Any objections to Exhibit S-10? All
11 right. Exhibit S-10 will be admitted into evidence.

12 You may step down.

13 THE WITNESS: Thank you.

14 (The witness was excused.)

15 JUDGE STUMP: I assume that concludes the
16 evidentiary phase?

17 MR. CHAMPION: The presentation of the
18 witness' case is complete, your Honor.

19 JUDGE STUMP: By the way, I have an
20 appearance here from Beverly Haladay.

21 Is that you, ma'am?

22 MS. HALADAY: Yes.

23 JUDGE STUMP: You submitted an
24 appearance, but you didn't want to participate in any of
25 the --

1 MS. HALADAY: Right.

2 JUDGE STUMP: I should have asked you
3 that in the beginning of the hearing. But I guess I
4 assumed that since you weren't sitting up here --

5 MS. HALADAY: That's correct.

6 JUDGE STUMP: -- you were not
7 participating. You just wanted to enter the appearance?

8 MS. HALADAY: That's correct.

9 JUDGE STUMP: All right. Thank you.

10 The next step in this proceeding is that
11 briefs will be due March 2nd. Reply briefs are due March
12 9th.

13 And hopefully the Commission intends to
14 read the record and issue an order by April 1st. So I
15 will transmit this matter to the Commission for its
16 consideration.

17 Anything further today?

18 MR. ISIOGU: Nothing further.

19 MR. CHAMPION: Nothing further, your
20 Honor.

21 JUDGE STUMP: All right. Thank you.

22 MR. CHAMPION: Thank you.

23 (At 11:30 A.M., the hearing was
24 concluded and the record was closed.

25 - - -

C E R T I F I C A T E

We, the undersigned, do hereby certify that we reported stenographically the foregoing proceedings had in the within-entitled matter, being Case No. U-12762, before Barbara A. Stump, J.D., Administrative Law Judge, at the Mercantile Building, Lansing, Michigan, on February 23, 2001, and that the foregoing transcript, exclusive of the prepared direct testimony, constitutes a full, true and correct transcript of our said stenographic notes.

Dated: February 23, 2001

(248) 353-9595 MERRILL & ASSOCIATES, INC. (517) 887-1708