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 Gas Cost Recovery Clause and establish a cashout mechanism.	Case No. U-12762

STATEMENT OF BLUE CIRCLE, INC. PURSUANT TO RULE 207

Blue Circle, Inc. operates a cement plant in the city of Detroit which employs 99 men and women. This plant also produces slag which is used in cement and building materials. Blue Circle's plant can produce 1.9 million tons of cement and slag per year which makes it one of the largest producers in Michigan. Blue Circle, Inc. opposes the early termination of the GCR freeze and urges the Michigan Public Service Commission to reject MichCon's Application.

Blue Circle, Inc. purchases tariff gas from MichCon to operate its cement and slag producing facilities at the Detroit plant. Blue Circle, Inc.'s projected gas bill for 2001 is $279,962, however, during Blue Circle, Inc.'s busy summer/fall period, the highest monthly gas bill is projected to be $34,821.

The cement and slag businesses are very competitive margins are very narrow and companies are required to develop precise budgets so that they can price their products for the next calendar year. Blue Circle, Inc. very carefully prepared its budget for 2001 and set its prices accordingly. All of Blue Circle, Inc.'s production for 2001 has been bought out by customers for delivery throughout the year so any change in Blue Circle, Inc.'s cost structure will eat into profits. The only variable cost at the plant is labor so a large increase in costs could force a loss of jobs.

Blue Circle, Inc. will have to honor its contracts with its buyers at the stated prices regardless of any adverse changes in Blue Circle, Inc.'s cost structure. We believe that MichCon likewise should honor its contract with its customers to have its GCR factor frozen at $2.95 per Mcf through the end of 2001. I am sure that Blue Circle, Inc. is not the only MichCon customer that established its budget for 2001 based upon the frozen GCR factor of $2.95 per Mcf. MichCon voluntarily requested this freeze and picked the period of the freeze. Moreover, MichCon was in a position to manage its price risk throughout the freeze period. Accordingly, MichCon should be held to the deal it made with the Commission and MichCon's customers.

I submit that the reasons for lifting the freeze advanced by MichCon are not compelling and do not justify an early termination of the freeze. It is ludicrous to even suggest that it is in the best interests of customers to eliminate the freeze so that customers will have more "competition." What customers would rather have is the fixed price per Mcf promised by MichCon.

I thank you for this opportunity to present the views of Blue Circle, Inc.

Respectfully submitted,

Larry Ladomer
Plant Operations Manager
Blue Circle, Inc.

Dated: February 14, 2001

TESTIMONY OF

DON M. STANCZAK

CASE NO. U-12762

Q. Please state your name, business address and by whom you are employed.

A. My name is Don M. Stanczak. My business address is 500 Griswold, Detroit, Michigan 48226. I am employed by Michigan Consolidated Gas Company (MichCon) as Executive Director, Rates and Regulatory Affairs.

Q. Please outline your education and business experience.

A. I received a Bachelor of Science Degree in Business Administration, with a major in Finance, from Central Michigan University in 1982. In addition, I received a Master of Business Administration Degree, with a major in Accounting from Wayne State University in 1988. I joined MichCon in 1983 and through 1994 had several assignments of increasing responsibility in a number of areas within MichCon including Financial Services, Regulatory Affairs, Corporate Planning and Gas Supply. In 1994, I was promoted to Director, Market Planning. In 1999, I was promoted to Executive Director, Gas Transmission and Resource Planning and in 2000, I assumed my present position.

Q. Please outline your current duties and responsibilities with MichCon.

A. My responsibilities include the management of activities relative to MichCon's regulatory initiatives.

Q. Have you previously sponsored testimony before the Michigan Public Service Commission (MPSC or Commission)?

A. Yes. I sponsored testimony in prior MichCon gas cost recovery (GCR) plan cases (U-11145, U-10640). In addition, I filed testimony in several facility applications

(U-10544, U-10547) as well as in MichCon's last conservation case (U-10744).

Q. What is the purpose of your testimony in this proceeding?

A. My testimony discusses MichCon's proposal to return to a GCR effective April 2001, nine months earlier than initially contemplated. In addition, I describe MichCon's proposal to cash-out certain relatively low priced purchase contracts that are in place for the last nine months of 2001 and the mechanism for distributing the value of the cash-outs to MichCon's customers. Finally, I explain the proposed refund mechanism applicable to the gross margin MichCon realized for the 27-month period that MichCon's fixed $2.95 per Mcf rate was in place.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring Exhibits A-_1_(DMS-1) through A-_3_(DMS-3), which have been prepared under my supervision and direction.

Q. Why is it appropriate for MichCon to return to a GCR nine months earlier than originally planned?

A. On August 4, 2000, the Commission, in Case No. U-12550, initiated a proceeding to establish uniform terms and conditions for the provision of voluntary gas customer choice (GCC) programs in the State of Michigan. In that order, the Commission recognized that it is now time to take the next step relative to gas customer choice in the State of Michigan. In addition, in the final order in Case No. U-12550, dated October 13, 2000, the Commission acknowledged MichCon's desire to end its experimental GCC program in conjunction with the termination of Consumers Energy's experimental GCC program. The Commission further stated that if MichCon intended to pursue early termination of its experimental GCC program that MichCon should file an application for that purpose.

Q. Did MichCon file such an application?

A. Yes. In Case No. U-12761, MichCon proposed to end its experimental GCC program effective April 2001 and to replace that program with one that reflects the intent of the Commission's order in Case No. U-12550. However, as explained later in my testimony, absent the proposed re-establishment of MichCon's GCR concurrent with the modifications to MichCon's GCC program, it is unlikely that the proposed changes to MichCon's GCC program will have any meaningful effect on customer choice in MichCon's service territory.

Q. How will customers benefit from the proposals contained in this application as well as those proposed in Case No. U-12761?

A. As more fully explained later in my testimony, MichCon's customers will experience a number of benefits including: 1) implementation of an enhance and expanded customer choice program contemporaneous with Consumers Energy, 2) MichCon's choice program will remain viable due to the migration to market pricing, 3) the staged move to market pricing will moderate an expected price spike in January of 2002, and 4) MichCon's proposed cash-out and refund mechanisms should ensure that customers do not experience any negative financial impacted during 2001.

GAS CUSTOMER CHOICE BACKGROUND

Q. Please briefly describe MichCon's recent experience with gas customer choice.

A. In its order issued April 28, 1998, in Case No. U-11682, the Commission approved a comprehensive, three-year experimental GCC program intended to examine the benefits of making natural gas transportation service available to all customers within MichCon's service territory. MichCon implemented its three-year experimental GCC program in April 1999. On August 17, 1999, in Case No. U-12050, the Commission approved modifications to MichCon's experimental

GCC program improving the customer solicitation and enrollment processes. minimizing customer confusion and ensuring that adequate residential customer protections were in place. The modifications approved in Case No. U-12050 were effective for year two of MichCon's experimental GCC program. which began April 2000.

Q. Please describe the key features of MichCon's current experimental GCC program resulting from the two Commission orders discussed above.

A. Key features of MichCon's current experimental GCC program include: 1) fixed solicitation period, 2) fixed commodity rate of $2.95 per Mcf rate for customers that do not choose an alternative supplier, 3) annual participation caps, and 4) marketer management of gas deliveries, storage accounts and customer uncollectibles.

Q. Have MichCon's customers benefited from MichCon's experimental GCC program?

A. Yes. Not only have customers been afforded the opportunity to choose an alternative supplier, customers have also realized significant cost savings due to MichCon's fixed $2.95 per Mcf rate and the competitive rates offered by alternative suppliers.

Q. Please explain how MichCon's customers have realized cost savings.

A. On Exhibit A-__1__(DMS-1), I have estimated MichCon's GCR cost of gas for 1999 and 2000 assuming MichCon had been buying gas at market prices for that period. While it is impossible to precisely determine what the GCR cost of gas would have been for 1999 and 2000 if the GCR had not been suspended, Exhibit A-__1__(DMS-1) estimates that customers have saved in excess of $200 million during that period. Projected 2001 customer savings, based on current market prices, are also set forth on this exhibit. These savings are estimated to be almost $500 million. These projections are consistent with the Commission's press release dated December 21, 2000, which estimated savings associated with MichCon's fixed $2.95 per Mcf rate to be in excess of $600 million.

Q. Have other significant events involving gas customer choice occurred since the establishment of MichCon's current experimental GCC program?

A. Yes. As noted above, in August of 2000 the Commission initiated Case No. U-12550 inviting gas utilities, gas marketers and other interested parties to work with the Commission Staff to develop uniform terms and conditions for the provision of gas customer choice to all customers in the State of Michigan. This collaborative process resulted in the issuance of a Commission Staff Report containing Staff's recommendations. Based on the Staff's report and this process, the Commission issued an order, dated October 13, 2000, addressing the various terms and conditions the Commission found appropriate to use in expanding and making gas customer choice permanently available within the State of Michigan.

Q. Has MichCon implemented the changes reflected in the Commission's order in Case No. U-12550?

A. Yes. As stated at the outset of my testimony, MichCon's application in Case No. U-12761 proposes to implement the changes reflected in the Commission order in Case No. U-12550.

<u>GCR SUSPENSION</u>

Q. What gas purchasing strategy did MichCon employ during the GCR suspension period?

A. Based on the expectation that customer participation in choice during MichCon's three-year experimental GCC program would approach the participation caps, MichCon entered into fixed price gas purchase contracts that approximated anticipated sales volumes under warmer than normal conditions for the customers purchasing their gas commodity from MichCon.

Q. Why did MichCon assume that customer participation in choice would equal or approximate the participation caps?

A. The participation caps in MichCon's experimental GCC program are relatively modest, 75,000 customers per year with a cap of 10 Bcf per year on non-residential load. Furthermore, at the time MichCon prepared its estimate of future migration, existing and future NYMEX gas prices indicated a relatively stable market. As a result of these two factors, it seemed reasonable to assume that participation would approach or equal the caps.

Q. Please summarize customer participation in MichCon's experimental GCC program to date.

A. During year one of the experimental GCC program, April 1999 through March 2000, customer participation essentially reached the first year cap of 75,000 total customers. In addition, the commercial volumetric cap of 10 Bcf was reached at the close of the enrollment period. For year two of the experimental GCC program, April 2000 through March 2001, the participation cap increased to 150,000 customers and 20 Bcf of non-residential load. However, the number of customers currently participating in the program declined to less than 50,000 and about 8.2 Bcf of non-residential load.

Q. Why did customer participation in year two of MichCon's experimental GCC program decline?

A. During the enrollment period for year two, which ran from late 1999 through early 2000, prices had risen to a level that left marketers unable to profitably offer a price competitive with MichCon's $2.95 per Mcf rate. Marketers solicited very few new customers and attrition due to customer movement and customer termination for non-payment steadily reduced the number of participants throughout year one. In addition, several marketers dropped out of the program during year two, which resulted in additional customers returning to MichCon's sales service.

Q. What level of customer participation do you anticipate for year three of MichCon's experimental GCC program?

A. In light of the high forward prices for natural gas relative to MichCon's fixed $2.95 per Mcf rate, I do not anticipate additional customer or marketer participation. I believe most customers and marketers will drop out of the experimental GCC program effective April 2001.

Q. Why do you anticipate additional customers will exit the experimental GCC program effective April 1, 2001?

A. Since November 1, 2000, the date the solicitation period for year three of MichCon's experimental GCC program began, MichCon has not received any new customer enrollments from marketers. Moreover, a number of marketers have indicated that given MichCon's fixed $2.95 per Mcf rate they would be unwilling to solicit customers for year three of MichCon's experimental GCC program. Therefore, I anticipate that, absent a change to MichCon's experimental GCC program for year three, customer participation will decline significantly from the current level of about 50,000 customers.

Q. Please describe the impact this lack of customer participation has had on MichCon's gas purchasing activities.

A. Since MichCon contracted for gas volumes based on the assumption that customer participation would equal or approach the cap for each program year. MichCon has significantly less gas under contract than it anticipated needing to serve its GCR customers during 2001.

Q. Please summarize MichCon's proposal to re-instate its GCR in April of 2001, nine months earlier that originally proposed.

A. Certain aspects of MichCon's current three-year experimental GCC program have been extremely successful. However, the recent spike in the price of natural gas has highlighted a significant defect in the experimental GCC program -- a fixed gas commodity price is ineffective in promoting competition during periods of price volatility. Since the wholesale price of natural gas has increased significantly beyond any reasonable expectations, marketers have been unable to compete with MichCon's fixed $2.95 per Mcf price. In fact, this price volatility has prompted several marketers to prematurely drop out of MichCon's experimental GCC program during year two. Therefore, MichCon is proposing to return to a GCR, which reflects market prices, effective April 2001. A return to the GCR will both promote customer choice and discourage marketers and customers from taking advantage of short-term fluctuations in the market price for natural gas.

GAS PURCHASE CONTRACT CASH-OUTS

Q. How much gas does MichCon have under contract for delivery during the last nine months of 2001?

A. As shown on Exhibit A-2 (DMS-2), MichCon has approximately 76.5 MMDth of gas under contract for delivery during the last nine months of 2001. This gas is priced significantly below current market prices.

Q. Does MichCon plan to purchase all this gas based on the current contracts that are in place?

A. No. MichCon is proposing to cash-out all of its gas purchase contracts with scheduled delivery dates in the last nine months of 2001. Cashing-out these contracts will extract the economic value from these relatively low priced contracts.

Q. Why is MichCon proposing to cash-out these low priced contracts rather than including them in the GCR?

A. MichCon is proposing to re-instate its GCR in April of 2001 with rates that reflect market prices. Given current market conditions, if these relatively low priced contracts are included in the GCR, the GCR factor will be significantly lower than market prices and marketers will be unable to compete for retail customers. As discussed earlier, lower than market prices frustrate customer choice, thus defeating MichCon's and the Commission's goal in these proposals.

Q. How does MichCon intend to cash-out these relatively low priced gas purchase contracts?

A. MichCon will contact the suppliers with whom it has fixed price contracts and indicate its desire to sell, or cash-out, its contracts. MichCon and the supplier will then negotiate a basis price and add that basis to the current NYMEX price. This becomes a new contract that the parties have with each other. The supplier will bill MichCon as usual each month for the original fixed price contract. MichCon will issue an invoice each month to the supplier for the new contract price. The difference between the two invoices is MichCon's net gain.

Q. Please provide an example of this kind of transaction.

A. Assume MichCon has a contract to buy 10,000 Dth per day from ABC Company for the month of July 2001 at the MichCon city gate for a price of $2.30 per Dth.

MichCon contacts ABC Company in February 2001 and indicates that it would like to sell that gas back into the market. If the July NYMEX forward price is trading at $4.00 per Dth in February and the MichCon basis for July is $0.23 per Dth, MichCon and ABC agree to a cash-out price of $4.20 per Dth, which reflects a $0.03 per Dth transaction discount. During July, no gas will flow pursuant to this contract since it has been cashed-out. In August, ABC will invoice MichCon for $713,000, 10,000 Dth times 31 days times $2.30 per Dth. MichCon will invoice ABC for $1,302,000, 10,000 Dth times 31 days times $4.20 per Dth. MichCon's net gain from this transaction would be $589,000.

Q. Is there an estimated market value for contracts MichCon proposes to cash-out?

A. Yes. As shown in Column D of Exhibit A-__2__(DMS-2), the market value of these contracts, based on the NYMEX estimates reflected in MichCon's 2001 GCR plan Case No. U-12766, is approximately ~~$181~~ 183 million.

Q. When do you anticipate that MichCon will cash-out these gas purchase contracts?

A. MichCon would not anticipate arranging for cash-outs of these contracts until a Commission order approving MichCon's application is issued in this proceeding. However, the actual dollar transactions related to extracting the value from these cash-outs will not occur until the effective date of the contracts.

Q. What does MichCon propose to do with the proceeds from the cashed-out contracts?

A. MichCon proposes to distribute the proceeds from the cashed-out purchase contracts to all of its sales rate schedule customers regardless of whether they are purchasing their gas from MichCon or not. In other words, both traditional sales customers and customers participating in GCC would benefit. The value of these contracts would not be distributed to MichCon's large end-use transportation customers taking service under ST and LT rate schedules because the GCC program and the fixed $2.95 per Mcf rate were designed for small customers taking service under MichCon's sales rates schedules.

Q. Why is MichCon proposing to distribute the value of the cashed-out contracts to all of its sales rate schedule customers?

A. If MichCon only distributed the value of the contracts to its customers purchasing GCR gas from MichCon, it is likely that most customers would remain on MichCon sales service in order to receive the value of the cashed-out contracts. This would defeat the purpose of going back to the GCR which is to expand competition by offering a commodity price marketers can reasonably compete with.

Q. How does MichCon propose to distribute the value of the cashed-out contracts to its sales rate schedule customers?

A. MichCon proposes to implement a temporary volumetric credit for sales rate schedule customers. The credit will be designed to distribute the value of the cashed-out contracts over the 12-month period from April 2001 through March 2002. However, the actual period that this temporary credit will be in effect may be slightly longer or shorter than 12 months depending on actual throughput.

Q. Why do you propose to distribute the value of the cashed-out contracts over the April 2001 through March 2002 period?

A. Distributing the value of the cashed-out contracts over that period will mitigate any potential increase in gas costs for the entire 2001-2002 heating season. Establishing a credit that would distribute this value over a nine-month period, from April through December 2001, would most likely result in a significant net increase in costs effective January 1, 2002. Spreading this credit over the 12 month period will moderate gas cost increases over the entire 2001-2002 heating season; a benefit customers would not experience under the experimental GCC program.

GROSS MARGIN REFUND MECHANISM

Q. Will customers, net of the credit you just described, ultimately pay more or less than the current fixed $2.95 per Mcf price during the last nine months of 2001?

A. The rates that customers will pay from April 2001 through December 2001 will depend on a number of variables including, among others, forward prices at the time the purchase contracts are cashed-out, actual gas purchase costs incurred during 2001 and the number of customers participating in choice during 2001.

Q. If customers ultimately pay more than the current $2.95 per Mcf rate for gas during the last nine months of 2001, net of the temporary credit, is MichCon proposing any other credit or refund to mitigate this increase?

A. Yes. If customers pay more than the current $2.95 per Mcf rate, net of the credit associated with the cashed-out purchase contracts, MichCon is proposing that it refund an additional amount equal to the lesser of: 1) the aggregate amount of the increased costs, or 2) the gross margin MichCon realized during the period that the fixed $2.95 per Mcf rate was in effect. Column A of Exhibit A-3 (DMS-3) reflects the proposed gross margin refund mechanism based on cost of gas and throughput estimates included in MichCon's 2001 GCR plan Case No. U-12766. As indicated on Line 11, under the Base Case scenario, MichCon would refund an additional $1 million above the cash-out amount of $~~181~~ 103 million shown on Line 8.

Q. When would this refund be determined?

A. This refund would be determined as part of MichCon's 2001 GCR reconciliation case since the calculation of the refund described above is dependent on the actual results of MichCon's proposed April through December 2001 GCR plan.

Q. When and how would any such refund actually be distributed to MichCon's customers?

A. In order to distribute this refund to its customers, MichCon would continue the volumetric credit associated with its cashed-out contracts until both the proceeds from the cashed-out purchase contracts and this additional refund are distributed to customers. Therefore, this additional refund would begin approximately April of 2002 and continue until the entire refund was distributed.

Q. Net of the proposed cash-out process and gross margin refund mechanism, do you anticipate that customers will pay more than the current $2.95 per Mcf rate during the last nine months of 2001?

A. I believe that there is a high probability that customers will not pay more than the $2.95 per Mcf rate.

Q. Why do you believe that there is a high probability that customers will not pay more than $2.95 per Mcf during the last nine months of 2001?

A. In addition to showing the base case gross margin refund calculation that reflects the assumptions inherent in MichCon's GCR plan filing, Exhibit A-3 (DMS-3) also shows two alternative scenarios. Sensitivity 1 from Column B of the Exhibit indicates that even if the GCR cost of gas increased to $5.71 per Mcf for the last nine months of 2001, the gross margin refund would be adequate to insure that customers did not pay more than the $2.95 per Mcf rate. That is, as indicated on Line 11 of Column B, MichCon would refund an additional $45 million above the value of the cash-outs shown on Line 8. Thus offsetting the increase to the cost of gas from Column A to Column B shown on

Line 1. It is important to note that the scenario shown in this Sensitivity would require a gross margin refund only if market prices increase after MichCon cashed-out the fixed price gas purchase contracts.

Q. Why would a gross margin refund only be required if market prices increased after the cash-outs occur?

A. If NYMEX prices at the time the purchase contracts are cashed-out are higher than the prices reflected in MichCon's GCR plan, then the value of the cash-outs will be greater than the current estimate of SET ~~$1~~81 million. This increase in the value of the cash-outs will moderate any required increase in MichCon's GCR cost of gas due to increased market prices.

Q. Please describe Sensitivity 2 from Exhibit A-_3_(DMS-3) Column C.

A. Column C of the Exhibit indicates that throughput for the April through December 2001 period could increase significantly, to over 100 Bcf, and the gross margin refund would again be adequate to insure that customers do not pay more than the $2.95 per Mcf rate.

Q. What is the basis for the estimated $45 million gross margin amount found on Line 10 of Exhibit A-_3_(DMS-3)?

A. The $45 million is the approximate amount of the gross margin MichCon realized for 1999 relative to its fixed $2.95 per Mcf rate. The gross margin amounts for 2000 and the first quarter of 2001 are currently not known, therefore, I have not included any amount for those periods.

Q. If both gas prices and throughput increase during the last nine months of 2001 are there any other steps MichCon plans to take to insure customers do not pay more than the $2.95 per Mcf rate?

A. MichCon is committed to minimizing any negative financial impact on its customers relative to returning to a GCR nine months early and expanding customer choice. Therefore, should gas prices and/or throughput increase to the point that the gross margin refund would not mitigate such an increase, MichCon plans to rely on relatively low priced gas currently stored in inventory to mitigate any such increase. In other words, MichCon anticipates decrementing storage more than what is reflected in its GCR plan case if, after the gross margin refund is returned, customers had still paid more than the fixed $2.95 per Mcf rate. A larger decrement would have significant downward pressure on MichCon's GCR cost of gas for the last nine months of 2001 and, therefore, would mitigate increased gas costs.

Q. Why would a larger decrement have downward pressure on MichCon's GCR cost of gas?

A. MichCon uses the last in first out (LIFO) methodology to account for gas in storage. MichCon's existing LIFO layers are priced significantly below current market prices for natural gas. In fact, the existing LIFO layers are generally priced at less than $0.40 per Mcf. Therefore, relying on storage gas priced below $0.40 per Mcf rather than purchasing significantly more expensive gas at market prices will reduce MichCon's overall average cost of gas for 2001.

Q. Does this conclude your testimony?

A. Yes, it does.

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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of Michigan Consolidated Gas Company to terminate the suspension of its Gas Cost Recovery Clause and establish a cash out mechanism.	)	Case No. U-12762

PREFILED DIRECT TESTIMONY
OF
AL MCDONALD
ON BEHALF OF
ENERGY AMERICA

Q_1 **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A_1 My name is Al McDonald. My business address is 25 Sheppard Avenue West, Suite 1400, North York, Ontario M2N 6S6.

Q_2 **BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A_2 I am employed as a consultant by Centrica plc, Energy America LLC, and Direct Energy Marketing Limited (collectively, *"Energy America"*).

Q_3 **PLEASE SUMMARIZE YOUR BACKGROUND.**

A_3 I have been involved in the customer service industry and door-to-door marketing for approximately twenty (20) years. With respect to the natural gas, electric, and telephone industries, I have participated in de-regulation since 1986 and I have been active in residential customer choice programs since 1991.

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Q_4 PLEASE DESCRIBE ENERGY AMERICA.

A_4 Energy America is a Delaware limited liability company engaged in the business of marketing natural gas to approximately 200,000 retail and commercial customers in the State of Michigan. As recently as January 22, 2001, Centrica plc *("Centrica")* assumed full ownership and management control of Energy America. Centrica was formed in February 1997 from the demerged British Gas plc. The group trades as British Gas in England and Wales, Scottish Gas in Scotland, the Automobile Association and Goldfish. The acquisition of Energy America gives Centrica a platform for development into the US market. Energy America has been an active participant in Michigan Consolidated Gas Company's *("MichCon")* and Consumers Energy Company's *("Consumers")* Gas Customer Choice Programs.

Q_5 WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A_5 On December 15, 2000, MichCon filed an application to terminate the suspension of its Gas Cost Recovery *("GCR")* Clause and establish a cash-out mechanism. My testimony discusses the benefits of MichCon's proposal.

Q_6 PLEASE SUMMARIZE ENERGY AMERICA'S POSITION IN THIS PROCEEDING.

A_6 I believe that MichCon's proposal is reasonable. I also believe that Michcon's proposal would substantially benefit Michigan's gas customer choice program.

Q_7 **WILL MICHCON'S PROPOSAL HELP THE COMMISSION ACHIEVE ANY OF ITS ARTICULATED GOALS?**

A_7 Yes. In its August 4, 2000 and October 13, 2000 Orders, the Commission indicated that it desired to achieve greater program uniformity with respect to Michigan's gas customer choice program. As the Commission is aware, the the fixed natural gas pricing feature of Consumers Energy Company's ("*Consumers*") experimental customer choice program will terminate on March 31, 2001. If MichCon is permitted to eliminate the fixed $2.95 per Mcf gas commodity component from its base rates and lift the GCR Clause suspension, both MichCon's and Consumer's programs will be able to move forward at the same time and under the same terms. This will help the Commission realize its goal of program uniformity.

Q_8 **PLEASE DESCRIBE WHAT BENEFITS, IF ANY, MICHCON'S PROPOSAL WILL PROVIDE TO CHOICE CUSTOMERS.**

A_8 Customers will benefit from MichCon's proposal in several ways. First, customer confusion will be substantially reduced if both MichCon's and Consumer's programs are permitted to proceed at the same time and under substantially the same terms. Second, the timing of MichCon's proposal will benefit customers. If MichCon's application is granted, the program will terminate in a low consumption month rather than in a peak consumption month (*i.e.*: April as opposed to January.) Moreover, both MichCon and the marketers are currently in a position to offer competitive prices, and in some cases, lock in those low prices for an extended term. Given the current volatile market conditions, these same low prices may not be available at the end of December, 2001 when the suspension on MichCon's GCR Clause is scheduled to be lifted. Finally, MichCon proposes to refund a portion of the gas sales margin that it realized during the 27-month period January 1999 to March 2001. This proposal will have the effect of softening the transition from protected rates to market rates for consumers. Unfortunately, if the fixed $2.95 rate is not eliminated and the GCR Clause suspension is not lifted in April as MichCon proposes, customers will be forced to enter a market of high prices with no transition period.

Q_9 **WILL MICHCON'S PROPOSAL BENEFIT THE MARKETERS?**

A_9 Yes. Gas prices have increased significantly in the past few years. In fact, prices increased so dramatically that most marketers could not even begin to compete with MichCon's $2.95 per Mcf rate. Consequently, many marketers dropped out of the gas customer choice pilot programs. Terminating MichCon's $2.95 per Mcf rate should make Michigan an attractive market for the marketers again and stimulate competition. Furthermore, if MichCon's application is not granted and its program proceeds along a different timeline than the Consumer's program, marketers will be forced to incur additional advertising, marketing, consumer education, and customer service costs. Because of these increased costs, many marketers have indicated that they will not solicit customers in Michigan until MichCon is operating under the same terms as Consumers.

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This would obviously have an adverse affect on the competition in the Consumer's service territory and the success of choice program.

Q_{10} DOES THIS CONCLUDE YOUR TESTIMONY?

A_{10} Yes.

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