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

REPLY BRIEF

OF THE RESIDENTIAL RATEPAYER CONSORTIUM

March 9, 2001

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<u>**SUMMARY OF CONTENTS**</u>

INTRODUCTION

The Residential Ratepayer Consortium (RRC) generally agrees with the positions advocated by the Association of Businesses Advocating Tariff Equity (ABATE) and the Attorney General in their initial briefs. The RRC agrees with the MPSC Staff's position that MichCon should guarantee that its customers pay no more than $2.95 per Mcf for the gas they consume in April-December 2001. However, the RRC shares ABATE's view that the Staff's proposal appears to be overly complicated and the same result could be accomplished if the Commission simply were to reject MichCon's Application.

The balance of this brief presents the RRC's reply to the arguments made by Michigan Consolidated Gas Company (MichCon or the Company) and Energy America in their initial briefs.

NOTE: In the RRC's initial brief, all of the transcript citations began with the numeral and letters "2 TR". That was an error. All the transcript citations should have begun "3 TR".

I. REPLY TO MICHCON'S BRIEF

A. MichCon Failed To Provide Any Justification For Its Position That The MPSC May Waive The Statutory Requirement That A GCR Plan Cover a 12-Month Period.

MichCon's December 15, 2000 Application in this case seeks the Commission's approval of a one-time, nine-month GCR plan period starting April 1, 2001[1] despite the plain requirement

[1] *See* Paragraph 7. on pages 3-4 of the Application and Paragraph C. on page 6 of the Application.

in MCL 460.6h(3) that a gas cost recovery (GCR) plan cover a future 12-month period.

The January 10, 2001 testimony and exhibits that MichCon filed in support of its Application do not explain the Company's position that the MPSC may waive the requirement in MCL 460.6h(3) that a GCR plan cover a 12-month period. Nor does MichCon's initial brief.

MichCon knew that the Commission's authority to approve a 9-month GCR plan period was an issue in controversy in this case. It was the subject of the RRC's Motion to Dismiss which was heard on February 27, 2001, the merits of which the administrative law judge deferred to the Commission's decision in this proceeding. Knowing this, MichCon provided no legal analysis in its initial brief to justify its proposal that the MPSC waive the requirement of MCL 460.6h(3) that a GCR plan cover a future 12-month period. Consequently, the RRC and the other parties are disadvantaged by their inability to reply to any arguments on this issue made by MichCon for the first time in its reply brief.

If MichCon addresses this issue in its reply brief, the RRC relies on the arguments set forth on pages 1-10 of its initial brief in support of its recommendation that the Commission reject MichCon's request for a one-time, 9-month GCR plan period.

B. MichCon's Characterization of the Gas Customer Choice Program Is Incomplete and Inaccurate.

At pages 2-4 of its initial brief, MichCon presents its perspective on its gas customer choice (GCC) program experience to date.

At page 2, MichCon describes suspension of MichCon's GCR Clause as one of the "key features" of its gas customer choice (GCC) program. The Company says:

> "Customers could also choose to retain MichCon as their natural gas supplier. Those that did choose MichCon paid a fixed natural gas commodity rate of $2.95 per Mcf."

However, MichCon fails to acknowledge that a salient feature of its GCC program was a guarantee to those customers who chose MichCon as their natural gas supplier that the $2.95 per Mcf fixed price would be provided for a full three-year period. This was an integral part of MichCon's application in Case No. U-11682 and the Commission's Order approving the Company's proposed GCC program. (*See* the RRC's Initial Brief, pages 10-16.)

On page 3, MichCon states that enrollment in its GCC program peaked during the first year of its program, but dropped off in the second year due to increases in natural gas prices that prevented marketers from competing with MichCon's $2.95 per Mcf gas commodity charge. MichCon goes on to say that it projects "a significant decline" in GCC program participation by customers, citing a lack of customer enrollments in year three. There is no basis for this conclusion in the record of this case. Currently, there are 44,000-45,000 customers in the Company's service territory who are enrolled in the GCC program. 3 TR 57-58. Those customers exercised choice by selecting an alternative gas supplier and securing contracts at prices between $2.65 and $2.80 per Mcf. 3 TR 57. There is no reason for those customers to leave the GCC program because they are buying gas at a price *lower than* the $2.95 per Mcf fixed price offered by MichCon. The record evidence suggests that GCC customer enrollment in year three will remain stable.

At page 3, MichCon states:

> "The inability of marketers to compete for customers based on price frustrates customer choice and thus undermines a central objective of the GCC program."

MichCon's conclusion is wrong. It suggests that "customer choice" will be frustrated when MichCon can beat its competitors on price, i.e., the price MichCon offers must always be higher than what marketers can offer to achieve the "central objective of the GCC program". Making MichCon's customers pay for "customer choice" by increasing their natural gas costs is not an objective of the GCC program.

Finally, at page 4 the Company states:

> "The lack of competition in MichCon's GCC program also frustrates the Commission's stated goals."

MichCon never identifies those "stated goals". It does cite the Commission's Order in Case No. U-12550 and the Company's filing in Case No. U-12761 as reasons for "early termination of its GCR clause suspension and return to the GCR process effective April 1, 2001." The Commission's Order in Case No. U-12550 does not state that uniform terms and conditions for gas customer choice must or should be implemented by MichCon on April 1, 2001. Nor does that Order state that MichCon's GCR Clause should be reinstated early because the $2.95 gas commodity charge is too low. As for MichCon's application in Case No. U-12761, the relief it seeks depends on the Commission's decision in this case.

The worse case scenario for MichCon's GCC program is that the uniform terms and conditions it proposes in Case No. U-12761 will be delayed until 2002. A nine month delay will not frustrate gas customer choice for MichCon's customers, especially when the $2.95 per Mcf fixed price is an unbeatable choice for them. Such a delay is inconsequential for a program that will take years to develop.

C. MichCon's Description of Its GCC Program Pricing Proposal Is Incomplete and Inaccurate.

At pages 4-7 of its initial brief, MichCon describes its proposal to end the $2.95 per Mcf fixed gas commodity charge and replace it with a GCR factor, contract cash-out credits, gross margin refunds and gas storage decrements.

The Company starts this discussion with the observation that, "The mechanics of MichCon's proposal are straightforward." While the "mechanics" may be straightforward, the ramifications of the proposal for customers is less than clear. The $5.17 per Mcf GCR factor that MichCon proposes in Case No. U-12766 is subject to adjustment of up to $2.00 above that price level.[2] The size of the contract cashout credit is dependent on numerous variables and cannot be predicted with any degree of accuracy. The gross margin refunds MichCon proposes will not be available for distribution to customers until March or April 2002. If the Company pursues its proposal to decrement storage, that could jeopardize the integrity of MichCon's system supply. (All of these factors are discussed in detail on pages 20-23 of the RRC's Initial Brief). On the basis of the record evidence in this case, there is no way to make a reasonable assessment of how MichCon's customers will be affected by the Company's GCC program pricing proposal.

MichCon goes on to cite certain "benefits" of its proposal. One "benefit" is a "market-

[2] *See* Paragraph 3 of MichCon's December 21, 2000 Application and Pre-filed Testimony Of Jennifer C. Schmidt, Page JCD-3, Lines 21-22 in Case No. U-12766.

oriented GCR factor" that will allow marketers "to compete with MichCon for retail customers based on price". While this may be a benefit to the marketers, MichCon's customers derive more economic benefit from the $2.95 per Mcf fixed price in the April-December 2001 period.

Another alleged "benefit" is that increasing customers' gas costs starting April 1, 2001 will "have a smoothing effect on natural gas prices between heating seasons". MichCon's customers would rather continue paying the $2.95 per Mcf fixed commodity price through December 2001. Compared to MichCon's GCC pricing proposal, the $2.95 per Mcf fixed gas commodity charge is a better choice because it is a sure thing. Based on what MichCon has filed to support its Application in this case, there is no way to tell with any degree of accuracy the net amount that customers will pay for their natural gas in April-December 2001 and when all the proposed credits and refunds will flow back to them. When MichCon's experimental GCC program expires, customers will have received the full benefit of the $2.95 per Mcf price guarantee and will be in a position to evaluate whether the GCR rate offered by MichCon for 2002 is competitive with the prices offered by alternative gas suppliers.[3]

MichCon closes this section of its brief with a number of conclusions that will be answered below:

- "Based on MichCon's estimates, the net effect of its cash-out and gross margin refund proposals will in all likelihood result in customers paying no more than the fixed $2.95 per Mcf rate ***during the period*** April through December 2001. (TR 52, Exh. A-3)". (Emphasis added).

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[3] Concerns about the transition from the $2.95/Mcf fixed price to the higher 2002 GCR Factor can be addressed by early customer education about the price change and the availability of the equal monthly billing plan, conservation measures, energy assistance programs, alternative gas suppliers and other vehicles for mitigating the effects of this change.

RESPONSE: At 3 TR 112, RRC Witness Hollewa testified that, based on MichCon's data about average customer consumption, the proposed GCR factor of $5.17 per Mcf and the projected amount of available contract cashout credits, the average GCR Customer would pay "$83.32 or 41% more than the consumer would pay if the $2.95 were continued through December 2001". This calculation measures customer costs "during" the April-December 2001 period.

Any attempt to measure net costs over time is subject to a number of variables, all of which make projections unreliable.[4] Perhaps the best evidence for this proposition is MichCon's refusal to guarantee that its customers will pay no more than $2.95/Mcf for the gas they consumed during this period. *See* 3 TR 71 and page 10 of MichCon's Initial Brief which states that requiring it to do so amounts to a "penalty".

- "The Commission has expressed its desire for more uniformity among and between the GCC programs sponsored by natural gas utilities in Michigan. MichCon's proposal in this case accommodates that objective. Approval of MichCon's application will put MichCon's GCC program on the same timeline as the GCC program sponsored by Consumers." MichCon Initial Brief, page 7.

RESPONSE: Nothing in the Commission's Order No. U-12550 suggests that, for the sake of "uniformity": (1) MichCon's experimental GCC program should terminate in 2001 at the same time Consumers Energy Company's GCC program ends, and (2) MichCon's customers should lose the benefit of the $2.95 per Mcf price guarantee through December 2001 that was promised to them in MichCon's Application in Case No. U-11682 and the Commission's Order in that case. Uniformity can be achieved in 2002 without sacrificing these benefits to MichCon's customers.

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[4] *See* pages 20-23 of the RRC's Initial Brief.

"…. simultaneous implementation of the MichCon and Consumers GCC programs should be attractive to marketers. Terminating MichCon's $2.95 per Mcf fixed commodity rate will allow marketers to profitably compete for customers based on price. It will also eliminate the need for marketers to incur additional advertising, marketing, consumer education and customer service costs." MichCon Initial Brief, page 7.

RESPONSE: The benefit MichCon proposes for the marketers will come at the direct expense of the Company's customers. The Company's customers should not be made to suffer economic losses to create an opportunity for marketers to compete.

- "Most importantly, customers will obtain the immediate advantage of lower prices resulting from increased competition." MichCon Initial Brief, page 7.

RESPONSE: There is no evidence on the record of this case to support a conclusion that ending the $2.95 per Mcf fixed price will result in prices from marketers that yield a net cost savings to participants[5] in the new GCC program. The only witness who testified for a marketer, Energy America's Al McDonald, was asked:

"Q. …. what is the competitive price that marketers are currently in the position to offer?

A. I'm not in a position to answer that." 3 TR 90-91.

MichCon's proposal does ***not*** lower prices. It increases them for all customers. No Marketer can offer a better value in April - December 2001 than the $2.95 per Mcf fixed price for MichCon's sales customers and the prices current GCC enrollees secured with marketers at $2.65-$2.80 per Mcf. The economic value of these prices should not be upset for the sake of fostering "competition".

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[5] Figuring in the value of the contract cash out credits and gross margin refunds.

D. Making MichCon Live Up To Its Promises Is Not A "Penalty".

Starting at page 9 of its initial brief, MichCon argues that the Company is being punished for offering customers a choice.

First, the Company claims that the GCC program saved customers "some $200 million in gas costs...". For the reasons explained in pages 16-17 of the RRC's Initial Brief and later in this Reply Brief, that claim is wrong.

Next MichCon states:

> "A demonstrable defect in MichCon's GCC program is its fixed gas cost pricing component. Fixed pricing frustrates competition in periods of rising prices..... MichCon's proposal to promote price competition by terminating its GCR suspension represents an affirmative and timely response to this unfortunate circumstance."

When it proposed its three-year gas customer choice program, MichCon knew or should have known that if market prices for natural gas increased above the $2.95 per Mcf fixed gas commodity charge, that would frustrate the ability of marketers to compete the Company for customers. Despite the Company's repeated acknowledgments in its Application in Case No. U-11682 that natural gas prices were volatile, MichCon made no provision in its proposal for unfreezing the gas commodity rate and/or reinstating its GCR clause if gas prices rose above certain thresholds that made it uneconomic for alternative gas suppliers to compete with the utility's $2.95/Mcf factor. Nor did it describe any other conditions under which the three-year term of the experiment could be curtailed. Instead, the Company said:

> "25. As discussed earlier, by proposing a fixed gas commodity rate that is among the lowest in the Midwest Region (Ohio, Michigan, Indiana, Illinois, Wisconsin, and Minnesota), MichCon will be exposed to considerable risks previously mitigated by the GCR process. Specifically, a fixed gas commodity rate of $2.95 per Mcf shifts the risk of volatile natural gas prices from its sales customers to MichCon. ***The Company will not increase charges for gas even if the natural gas marketplace supports significantly higher gas prices. Accordingly, it is appropriate that MichCon bear the risk of its gas procurement strategies and be directly affected by the benefit/shortfall attributable to the sale of gas at the proposed fixed rate.***" Pages 16-17. (Emphasis added).

MichCon describes the fixed $2.95 per Mcf price as an "unfortunate circumstance". In April - December 2001, that price is a blessing for MichCon's customers.

Next, MichCon states:

> "Apparently dissatisfied with the significant customer savings achieved under MichCon's GCC program, and in complete disregards of the benefits of competitive pricing, the AG and the Staff ask the Commission to penalize MichCon." MichCon Initial Brief, page 9.

With respect to "significant customer savings achieved", pages 16-17 of the RRC's initial brief shows that the only party that realized any savings from the GCC program during the first two years was MichCon. Now that the customers are experiencing real savings from the $2.95 per Mcf fixed price, MichCon seeks to terminate it. With respect to "the benefits of competitive pricing" there is no evidence on the record of this case that shows that sales customers or existing GCC customers will pay less for their gas costs in April through December 2001 if MichCon's Application is approved. Finally, the Staff and AG proposals to make MichCon guarantee that its customers pay no more than $2.95 per Mcf in April through December 2001 are nothing more than efforts to enforce the unambiguous promises MichCon made in its Application in Case No.

U-11682 to secure its *ex parte* approval by the Commission. It is most peculiar to suggest that making the Company live up to its commitment to its customers is a "penalty".

Finally, MichCon argues that it is "committed to minimizing any negative financial impact on customers that may flow from an early return to the GCR process". MichCon Initial Brief, page 10. The Company once again cites its proposed contract cashout mechanism and its gross margin refund proposal as the vehicles for accomplishing this and as evidence of "MichCon's commitment to its customers' financial well being." The Company is not, however, willing to make its customers whole, i.e., to guarantee that they pay no more than $2.95 per Mcf for the gas they consume in April - December 2001. Mich Con states: "Imposition of a guaranty requirement as a condition of approving MichCon's application amounts to nothing more than a penalty for offering customers a choice." As noted in the preceding paragraph, the idea that it is a penalty to make the Company honor its commitments is a most peculiar notion.

F. MichCon's GCC Program Produced No Customer Savings in 1999-2000.

On page 11of its initial brief, MichCon again argues that its GCC program saved customers in excess of $200 million in the first two years. As explained on pages 16-17 of the RRC's initial brief, that claim is based on a flawed comparison. In fact, MichCon's GCC program ***cost*** its GCR customers $70 million in this period. To the extent the Commission relied on a simple comparison of the $2.95 fixed commodity charge to NYMEX prices in 1999 and 2000, its analysis is likewise flawed because it fails to account for the opportunities available to MichCon during this period to lock in prices and use its storage to minimize the cost of gas. As the record of this case shows, MichCon protected itself during the first two years of the program by entering into fixed-price contracts which resulted in gas sales margins of $70 million resulting from the difference between the $2.95 per Mcf charged to customers and the lower, actual price at which MichCon purchased gas for this period. 3 TR 108. There is no reason to believe that MichCon could not have done the same for its GCR customers if the Company's GCR Clause had been operative during this period.

MichCon next states that:

- customers have not "suffered" under the GCC program,
- that customers have "saved significant sums",
- that ***if*** MichCon returns its gross sales margin to its customers, the Company will be in the same position as it would have been had its GCR clause remained in effect, and
- that it is the customers who have been "financially advantaged" by the GCC program.

Contrary to the Company's assertions, MichCon's customers ***did*** suffer the first two years of the program. They were denied $70 million in cost savings that would normally flow to them through the GCR process. Returning the gross sales margin to MichCon's customers puts them and the Company in the same position they would have been if the GCR process had remained in place. Customers are ***not*** financially advantaged as MichCon claims.

Customers are disadvantaged by the early termination of MichCon's GCR Clause suspension because the market price of gas in April through December 2001 will exceed the $2.95 per Mcf fixed commodity price. MichCon is advantaged by that proposal because it enables the

Company to avoid the losses associated with the spread between the $2.95 per Mcf commodity charge and the market price for natural gas.

MichCon repeats its claim that rejection of its Application in this case amounts to penalizing the Company for its GCC program. That claim is inaccurate and self-serving. MichCon devised its GCC program. MichCon made certain promises about its GCC program to the public and the Commission in its Application in Case No. U-11682. The Commission relied on those representations in approving the program. Enforcing the Company's promise to hold its customers harmless from natural gas price increases during the three-year term of the GCC program is not a penalty.

F. "Competitive" Pricing *Should* Be Precluded In This Case.

At pages 11-12 of MichCon's initial brief, the Company argues that requiring the continuation of its fixed $2.95 per Mcf price through December 2001 "will have a detrimental effect on competition" because marketers will be unable to compete with MichCon on price and will not participate in the GCC program. This thwarts "the Commission's efforts to extend the benefits of gas customer choice to Michigan consumers."

In the period April 1-December 31, 2001 "competition", i.e., the marketers, cannot provide customers with anything that approximates the economic value of the fixed $2.95 per Mcf gas commodity charge. Under these circumstances, there is no reason for the Commission to disturb the status quo because customers are experiencing real cost savings that cannot be matched by MichCon's proposal. Once MichCon's GCC program expires on its own accord, "competition" and gas customer choice may offer a benefit to the Company's customers. Until then, they do not.

G. MichCon's Customers Will Not Be Reliably Served Under The Company's Proposal

At pages 12-13 of its Initial Brief, MichCon takes issue with RRC witness Hollewa's claim that it is "impossible" to decrement storage as the Company proposes without jeopardizing system integrity for design day purposes. MichCon claims that this conclusion is unfounded because Mr. Hollewa "acknowledged" on cross-examination that a storage decrement would have no operational consequence if MichCon increased flowing supplies to offset storage withdrawals.

What Mr. Hollewa actually said was:

> "Certainly, you could take ***drastic steps*** such as the purchase of considerably more flowing gas and to reduce the amount of storage withdrawals during the first 15 days in order to reserve that capability, if you were so low below the withdrawal curve." 3 TR 127. (Emphasis added).

MichCon's argument fails to convey the enormous risk of relying on flowing supply purchased on the spot market to meet system supply needs under the circumstances described in Mr. Hollewa's testimony.

Exhibit A-5 sets forth the basis of Mr. Hollewa's conclusion that decrementing storage below 55 Bcf jeopardizes MichCon's system integrity for Design Day purposes. Mr. Hollewa assumed that "... the Company fills storage to a level of approximately 87 Bcf because it needs access to this quantity in order to meet colder-than-normal weather and design day in January." The second page of the exhibit explains Mr. Hollewa's assumption that "To achieve an inventory balance below 55 Bcf, MichCon would have to limit its purchase of flowing gas to the 22.7 Bcf from fixed price contracts and withdraw the balance from storage." The exhibit shows this would create a storage balance of 54.5 Bcf, amounting to a storage decrement of only 0.6 Bcf. This would create a savings on gas costs of approximately $2.5 - $3.0 million, hardly enough to cover the operational and economic consequences of such action. The storage balance of 54.5 Bcf was then shown to be less than required for system integrity regarding design day occurring in mid-January under normal operating conditions.

On cross-examination Mr. Hollewa only acknowledged that increased flowing gas in January could be used to offset the storage requirements and thus make it "possible" to protect design day requirements. He did not state that there would be no operational or economic consequences of such an action. Under the scenario in Exhibit A-5, the flowing gas would have to be increased to approximately 800,000 Mcf /Day for at least the first half of January compared to the normal flowing gas of approximately 600,000 Mcf/Day -- an increase of 33%. Mr. Hollewa was not asked about the operational and economic advisability of attempting to obtain 200,000 Mcf/Day of capacity on the spot market in January during peak demand. There is nothing in MichCon's testimony and exhibits that show how the Company proposes to secure that much supply and at what price. When these risks and costs are recognized, i.e., the availability of this this large volume of gas in the market at a time of peak demand and very high prices, compared to a storage decrement of .6 Bcf in December, the answer is still "impossible" in the context of reasoned judgment and responsible supply planning.

The Company's reference in its brief to there being "a number of available options for ensuring reliable service to its customers" is not supported in the record of this case and its citation to TR 128 provides no such support.

H. Denial of MichCon's Application Will Not Doom Gas Customer Choice and Competition

At page 14 of its brief, MichCon suggests that the goal of gas customer choice "will never be achieved" if the Company's Application is denied. Moreover, the Company claims that denial of its Application will have "an adverse effect on competition and the success of gas customer choice". Finally, MichCon alleges that the only way the Commission can promote competition is to grant its Application.

These claims are exaggerated. Letting MichCon's experimental GCC program expire on its own accord does not sound the death knell for gas customer choice or competition in Michigan. It only delays it. The $2.95 per Mcf fixed price for sales customers and the low contract prices current GCC program enrollees were able to secure are a superior value for MichCon's customers in the balance of this limited period. There is nothing in MichCon's Application that offers comparable economic value to customers. It should, therefore, be rejected.

II. REPLY TO INITIAL BRIEF OF ENERGY AMERICA , LLC

The INTRODUCTION to Energy America's brief contains a number assertions that are restated in later portions of its brief. The RRC's responses to each are presented below.

- "Program uniformity will be increased if MichCon's and Consumer's programs move forward at the same time and under essentially the same terms." (This same argument is presented at pages 4-5 of Energy America's brief.)

RESPONSE: Energy America's "understanding" that the MPSC "desires to achieve greater uniformity with respect to Michigan's gas customer choice programs" is based on pages 4-5 and 7 of the Commission's August 4, 2000 Order in Case No. U-12550 and page 2 of the October 13, 2000 Order in that case. *See* Exhibit A-4, RCEA012. Nowhere in those parts of the Commission's Orders is there anything that says the MPSC views the early termination of MichCon's $2.95 per Mcf fixed price as a legitimate vehicle for achieving gas customer choice program uniformity. Certainly no economic benefit will accrue to MichCon's customers from ending the $2.95 per Mcf fixed price in April 2001. Uniformity for uniformity's sake is no virtue.

- "Customer confusion will be decreased if MichCon's program proceeds at the same time as Consumer's program."

RESPONSE: There is no evidence that MichCon's customers will be confused by the continuation of the $2.95/Mcf fixed price status quo. If anything, MichCon's customers are more likely to be confused by a GCR factor that is subject to periodic adjustments and offsets for contract cashout credits and gross margin refunds that occur at different times of the year and in varying amounts. Current GCC customers will be less confused by the continuation of their existing contracts with marketers than being disenrolled from the GCC, returned to MichCon sales service and having to make a new choice of natural gas supplier.

- "If MichCon's application is granted, its program will terminate in a low consumption month rather than in a peak consumption month (i.e., April as opposed to January) Consequently, the customer's transition from protected rates to market rates will be softened."

RESPONSE: For customers, there is no demonstrable economic value to losing the "protected rates" for April-December 2001. The transition to market rates in January 2002 should be "softened" by MichCon educating its customers about projected gas prices and options for addressing price increases, e.g. the equal monthly billing plan, energy conservation measures, energy assistance programs, etc. as well as the availability of alternative gas suppliers.

- "MichCon and marketers, such as Energy America, are currently in a position to offer competitive prices, and in some cases, lock in those prices for an extended term. This same opportunity may not exist in nine months."

RESPONSE: These assertions are based on the testimony of Energy America witness Al McDonald. 3 TR 78-79. On cross-examination, Mr. McDonald indicated the "competitive price" MichCon could offer was the $5.17 GCR factor proposed in its GCR plan in Case No. U-12766. He was unable to identify the "competitive price" Energy America or marketers could offer, nor could he identify the price at which marketers can lock in "competitive prices". 3 TR 90-91. How can one conclude that MichCon's $5.17 per Mcf GCR is "competitive" if one does not know the prices that the marketers could offer? Mr. McDonald was unable to substantiate his opinions in this regard and they should be given little weight by the Commission.

Marketers are not in a position to offer a price that competes with the $2.95 per Mcf fixed price, as Energy America readily admits on page 6 of its initial brief.. The real economic value of that "protected rate" for MichCon's customers is more important than resuscitating customer choice by ending prematurely the $2.95 per MCF fixed price.

- "Terminating MichCon's $2.95 per Mcf rate should attract marketers and stimulate competition".

RESPONSE: In April-December 2001, the economic value for MichCon's customers of the $2.95 per Mcf fixed rate is more important than attracting alternative gas suppliers who cannot offer gas prices that compete with that price.

- "If MichCon's Application is not granted and its program proceeds along a different timeline than the Consumer's program, marketers such as Energy America would be forced to incur additional advertising , marketing, consumer education, and customer service costs. Consequently, there is a risk that marketers will not solicit customers in Michigan until MichCon is operating under the same terms as Consumers."

RESPONSE: The economic value of the $2.95 per Mcf fixed price in April-December 2001 is more important to MichCon's customers than having access to alternative gas suppliers who can only offer only higher gas prices. Under these circumstances, MichCon's new GCC program should be delayed to 2002.

Energy America concludes its initial brief with the observation that granting MichCon's application "will enhance Michigan's gas customer choice environment and ensure that it remains a viable option in Michigan." Ending the $2.95 per Mcf fixed price early in no way enhances customer choice. Raising gas prices to MichCon's customers for the purpose of enabling marketers to compete only degrades the quality and value of the choice that is otherwise available to customers in April-December 2001. There is no evidence in the record of this case that allowing MichCon's GCC program to expire on its own terms on December 31, 2001 will prevent gas customer choice from being a viable option in Michigan in 2002.

III. RELIEF

For the reasons stated in the RRC's initial brief and in this reply brief, the RRC requests that the MPSC deny the relief MichCon seeks in this case.

THE RESIDENTIAL RATEPAYER CONSORTIUM

Dated: March 9, 2001 By: ______________________

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PROOF OF SERVICE

David L. Shaltz says that on March 9, 2001 he deposited in a U.S. Postal Service mail receptacle the Reply Brief of the Residential Ratepayer Consortium in the above captioned case, addressed to each of the parties on the attached service list, with first class postage thereon.

David L. Shaltz

State Of Michigan)
) ss
County of Ingham)

David L. Shaltz appeared before me on March 9, 2001 and certified that the statement above is true, accurate and correct.

Diane R. Royal, Notary Public
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My Commission Expires: 2/13/03

MPSC CASE NO. U-12762

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