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 (efile)

MICHIGAN PUBLIC SERVICE COMMISSION STAFF'S REPLY BRIEF

I. Reply to MichCon

MichCon claims at pages 9-10 of its Brief that the AG and Staff are asking the Commission to penalize MichCon for "offering customers a choice" (Brief, p.9). MichCon is referring to the AG and Staff's recommendation that if MichCon's proposal is adopted, MichCon must guarantee that GCR and GCC customers pay no more than $2.95 per Mcf for gas purchases during the last nine months of 2001. MichCon states that such a price guarantee would be "patently unfair and wholly unjustified" (Brief, p.10). To support this dubious claim, MichCon states that:

1) Customers have saved significant amounts on their gas purchases during MichCon's current gas customer choice program.
2) MichCon's proposal promotes competition by terminating the suspension of its GCR clause, since current market prices for gas are much higher than MichCon's fixed $2.95 per Mcf price.
3) MichCon has two refund proposals, the "cashout" refund and the "gross margin" refund. These refunds, along with the "storage decrement" credit, "...will <u>in all likelihood</u> eliminate the prospect that customers will pay more than $2.95 per Mcf during the last nine months of 2001." (MichCon Brief, p.10, emphasis added).
4) The AG's and Staff's price guarantee proposal ignores a feature of the GCC program, the income sharing mechanism. This mechanism required MichCon to share a

portion of its income over a 13.5% return on equity with its customers. Even though MichCon did not have to refund anything under this income sharing mechanism, MichCon is prepared to refund all of its gross margin from GCC program gas sales, if necessary, to mitigate the higher gas costs that would otherwise be incurred by customers.

In reply, Staff agrees that MichCon's proposal promotes competition by allowing marketers to compete with GCR factors that are based on current market prices. Staff also agrees that customers have saved significant amounts of money as a result of the GCC program, although these savings were more a fortuitous consequence of unanticipated price increases and MichCon's attempt to lock in profits during the three year price freeze, rather than an expected result of the three-year price freeze. However, Staff disagrees that the price guarantee recommended by the AG and Staff is a penalty imposed on MichCon for offering customers a choice. Rather, it is MichCon that is attempting to penalize customers by suggesting that they pay more than the currently guaranteed $2.95 per Mcf price, if they want access to a choice of suppliers. 3 Tr 201-203, 3 Tr 154. Staff stated at 3 Tr 202-203 that:

> "Customers now have [a price] guarantee with the current three-year customer choice program. Why should they have to risk higher gas prices with the new program? Moreover, absent a price guarantee, MichCon could still profit from its participation in the current three-year customer choice program, without any downside risk since the worst that MichCon could do would be to break even. A price guarantee would balance MichCon's profit potential with a counterbalancing loss potential, supplying a symmetry of risk and reward that would provide MichCon with incentives to keep gas costs as low as possible."

Staff's assertion is uncontested in the record, and is not even disputed in MichCon's Brief. MichCon has not supported its claim of a "penalty" in Staff's and the AG's proposals, since it has not established how these proposals would harm MichCon in comparison to its current $2.95

per Mcf price guarantee. MichCon's claim that it is being "penalized for offering customers a choice" is unsupported and should be rejected by the Commission.

MichCon's claim that it is "committed to minimizing any negative financial impact on customers that may flow from an early return to the GCR process" (MichCon Brief, p.10) is false. The minimum negative financial impact to customers would be zero[1], which is the impact recommended by the AG and Staff. If MichCon were truly interested in "minimizing any negative financial impact on customers", it would simply guarantee that customers would not be required to pay more than $2.95 per Mcf for gas purchased through December 2001. MichCon claims that "in all likelihood", its cashout and gross margin refunds would eliminate the prospect that customers would pay more than $2.95 per Mcf. If this is true, then the AG's and Staff's proposals place only a minimal risk on MichCon incurring any losses. Regardless of the true risk to MichCon of losses due to a price guarantee, it is a risk now borne by MichCon under its current GCC program, and should not be shifted to customers under the guise of promoting customer choice.[2]

MichCon's suggestion that the AG's and Staff's $2.95 per Mcf price guarantee proposal "ignores a salient feature of the GCC program, the income sharing mechanism" is irrelevant to the issue at hand. As previously explained, the $2.95 per Mcf price guarantee simply preserves the current price guarantee that was approved in the original GCC program Order in Case No. U-11682. The Order in Case No. U-11682 also approved the income sharing mechanism.

[1] In addition to guarantying 2.95 per Mcf, MichCon could agree to share all the profits over the three-year period, and thus, truly minimize the negative impact.

[2] The purpose or goal of implementing the gas customer choice program is to lower prices, increase service options and reliability by promoting competition in the merchant function. Although raising its price from $2.95 to $5.17 per Mcf will allow other marketers to offer gas at the higher price, this does little to benefit the customer since this raising of prices is contrary to the overall and long-term objective of the customer choice program. From MichCon's perspective, increasing the customers' choice of marketers, regardless of the amount of a price increase, is a worthy end in itself. From the customers' perspective, choice is simply the means by which lower prices can be obtained. As reflected by Residential Ratepayers Consortium's position, customers don't want choice at the expense of higher prices. When one is being price gouged, there is little satisfaction in being able to choose who does the gouging.

MichCon does not (and indeed cannot) explain why the income sharing mechanism, which coexisted with a $2.95 per Mcf price guarantee in the original GCC program, would now make a $2.95 per Mcf price guarantee unreasonable or unfair, *especially since MichCon has requested in Case No. U-12761 that the income sharing mechanism be abolished, effective on December 31, 2000.* Neither this argument nor any other argument advanced by MichCon supports the claim that the AG's and Staff's price guarantee proposals penalize MichCon for offering customers a choice. MichCon's claim of a penalty is totally unfounded and should be rejected by the Commission.

Respectfully Submitted,

MICHIGAN PUBLIC SERVICE COMMISSION STAFF

David M. Gadaleto (P30163)
Assistant Attorney General
Public Service Division
6545 Mercantile Way, Suite 15
Lansing, MI 48911
Telephone: (517) 241-6680

DATED: March 9, 2001

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 (efile)

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss
COUNTY OF INGHAM)

Mishelle R. Pagels, being first duly sworn, deposes and says that on March 9, 2001, she served a copy of Michigan Public Service Commission Staff's Reply Brief upon the following parties via email and by depositing the same in a United States postal depository enclosed in an envelope bearing postage fully prepaid, plainly addressed as follows:

David C. Champion
Richard P. Middleton
Attorney for Michigan Consolidate Gas Co.
500 Griswold, 9th Floor
Detroit, MI 48226

Robert A.W. Strong
Attorney for the Association of Businesses Advocating Tariff Equity
255 South Old Woodward Avenue, Third Floor
Birmingham, MI 48009

Orjiakor N. Isiogu
Assistant Attorney General
Special Litigation Division
6520 Mercantile Way, Suite 2
Lansing, MI 48911

Eric J. Schneidewind
Attorney for The New Power Company
The Victor Center, Suite 810
201 N. Washington Square
Lansing, MI 48933

David L. Shaltz
Attorney for Residential Ratepayer Consortium
3303 West Saginaw, Suite C-1
Lansing, MI 48917

Albert Ernst
Christine Mason Soneral
Attorneys for Energy America, LLC
800 Michigan National Tower
Lansing, MI 48933-1707

Thomas E. Maier
Attorney for Blue Circle, Inc.
2455 Woodlake Circle
Okemos, MI 48864-5941

Mishelle R. Pagels

Mishelle R. Pagels

Subscribed and sworn to before me
this 9th day of March, 2001.

Carol Ann Dane

Carol Ann Dane, Notary Public
Eaton County, Michigan
My Commission Expires: 07/23/2004