STATE OF MICHIGAN
DEPARTMENT OF ATTORNEY GENERAL

WILLIAM J. RICHARDS
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P.O. BOX 30218
LANSING, MICHIGAN 48909

JENNIFER MULHERN GRANHOLM
ATTORNEY GENERAL

May 31, 2001

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

RE: Michigan Consolidated Gas Company, MPSC Case No. U-12893

Dear Ms. Wideman:

Enclosed for filing in the above matter is the original and four copies of the **Attorney General's Response to Michigan Consolidated Gas Company's Income Sharing Calculation,** together with Proof of Service.

Very truly yours,

Orjiakor N. Isiogu
Assistant Attorney General
Special Litigation Division
6520 Mercantile Way, Suite 2
Lansing, MI 48911
(517) 373-1123

ONI:leg
Encs.
c: David C. Champion
MPSC U-12893 Cover Letter

PROOF OF SERVICE

Michigan Consolidated Gas Company
MPSC Case No. U-12893

The undersigned certifies that a copy of the **Attorney General's Response to Michigan Consolidated Gas Company's Income Sharing Calculation** was served upon the parties listed below by mailing the same to them at their respective addresses with first class postage fully prepaid thereon, or by State Interdepartmental mail as indicated, on the 31st day of May, 2001.

Lois E. Gruesbeck

Lois E. Gruesbeck

Michigan Consolidated Gas Company
Mr. David C. Champion
Michigan Consolidated Gas Company
500 Griswold Street
Detroit, MI 48226

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the filing by
MICHIGAN CONSOLIDATED GAS
COMPANY of its 2000 Income
Sharing Calculation
_______________________________________/

Case No. U-12893 (e-file)

ATTORNEY GENERAL'S RESPONSE TO MICHIGAN CONSOLIDATED GAS COMPANY'S INCOME SHARING CALCULATION

JENNIFER M. GRANHOLM
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May 31, 2001

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the filing by MICHIGAN CONSOLIDATED GAS COMPANY of its 2000 Income Sharing Calculation ______________________________/	Case No. U-12893 (e-file)

ATTORNEY GENERAL'S RESPONSE TO MICHIGAN
CONSOLIDATED GAS COMPANY'S INCOME SHARING CALCULATION

Attorney General Jennifer M. Granholm hereby submits the following response to the 2000 Income Sharing Calculation filed by Michigan Consolidated Gas Company ("MichCon" or "the Company"). In support of her response, the Attorney General states as follows:

1. On April 28, 1998, the Michigan Public Service Commission ("MPSC' or "the Commission") issued an Opinion and Order in Case No. U-11682 in which it granted MichCon's request to implement a Gas Customer Choice Program ("Program").

2. The MPSC-approved Program included an income sharing mechanism under which a portion of MichCon's earnings were to be shared with the Company's customers if MichCon's actual return on common equity exceeded 13.50% during any Program year.

3. On March 30, 2001, MichCon filed its income sharing calculation for the year ended December 31, 2000. In support of its filing MichCon submitted the Affidavit of Mr. Robert Kaslik, attesting to the calculation and performance standards.

4. At paragraph 5 of its filing, MichCon states that its "return on common equity for the 2000 Program year is less than the minimum return on common equity necessary for income sharing to occur." The Attorney General disagrees with MichCon's assertion. Indeed, contrary to MichCon's assertions, the Attorney General submits that MichCon's actual return on common equity for the 2000 Program year clearly exceeds the 13.50% return on common equity necessary for income sharing to occur. In support of her position, the Attorney General submits the Affidavit of Mr. William A. Peloquin (attached) attesting that MichCon's accurate actual return on common equity for utility operations during the year 2000 should be 14.20%.

5. In its Exhibit 1 which accompanied its filing in this case, MichCon liberally referred to its MPSC Form P-522. It is noteworthy that MichCon's MPSC Form P-522 was filed on April 30, 2001 (i.e., 31 days after MichCon's filing in this case). The Attorney General obtained a copy of MichCon's Form P-522 sometime in early May. In the absence of Form P-522 the Attorney General was unable to ascertain the appropriateness or lack thereof of MichCon's income sharing calculations. As soon as the pertinent and crucial Form P-522 was available to the Attorney General she promptly examined MichCon's filing.

6. Based on the Attorney General's review of MichCon's filing and relevant documentation, it is apparent that MichCon's accurate actual return on common equity is 14.20% rather

than 13.36% claimed by MichCon. Accordingly, the Attorney General respectfully requests that MichCon be ordered to share the appropriate income with its customers consistent with the MPSC-approved sharing mechanism.

Respectfully submitted,

JENNIFER M. GRANHOLM
Attorney General

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Assistant in Charge
Special Litigation Division

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May 31, 2001
MPSC U-12893 AG Resp to MichCon Income Sharing

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the filing by MICHIGAN CONSOLIDATED GAS COMPANY of its 2000 Income Sharing Calculation __________________________________/	Case No. U-12893 (e-file)

AFFIDAVIT OF WILLIAM A. PELOQUIN

STATE OF MICHIGAN)
) ss
COUNTY OF INGHAM)

I, William A. Peloquin, depose and say as follows:

1. I have reviewed Exhibit 1 attached to the Affidavit of Robert Kaslik, which was filed on or about March 30, 2001 in Case No. U-12893.

2. The amount of $4,280,436 found on line 2 of Exhibit 1, page 1 ("Earnings of Non-Utility Subsidiary Companies") corresponds to the summation of the $261,663 loss applicable to MichCon Development Corporation and the $4,542,099 profit applicable to the MichCon Pipeline Company from year 2000 Form P-522, page 225, column (e). The amount of $4,280,436 does not include any amounts applicable to Blue Lake Holdings, Inc.

3. I have reiterated the amount of $728,726,184 found on line 7 of Exhibit 1, page 1 ("Common Equity Balance @ Beginning of Year"). The calculation begins with the Total Common Equity amount of $735,501,652 from year 2000 Form P-522, page 112, column (c),

line 14. Next, the “Equity in Earnings” amounts from lines 6, 13, and 20, column (d) of Form P-522, page 224, totaling $6,775,468, are subtracted leaving a residual amount of $728,726,184.

4. I have also reiterated the amount of $725,644,556 found on line 8 of Exhibit 1, page 1 (“Common Equity Balance @ End of Year”). The calculation begins with the Total Common Equity amount of $736,896,570 from year 2000 Form P-522, page 112, column (d), line 14. Next, the “Equity in Earnings” amounts from lines 6, 13, and 20, column (g), of Form P-522, page 225, totaling $11,252,014, are subtracted leaving a residual amount of $725,644,556.

5. Mr. Kaslik’s calculations of the “Common Equity Balance(s)” include two fundamental errors. First, Mr. Kaslik erroneously subtracted amounts applicable to Blue Lake Holdings, Inc., i.e., line 8 in columns (d) and (g) of 2000 Form P-522, pages 224-225.

6. Second, Mr. Kaslik inexplicably excluded only a small portion of MichCon’s common equity investments in its MichCon Development Corporation and MichCon Pipeline Company subsidiaries. MichCon removed <u>all</u> of the income applicable to its non-utility subsidiaries. Therefore, all of MichCon’s equity investment in these non-utility subsidiaries must be removed when measuring the actual return on its utility operations. Additionally, the fact that MichCon did not assign any interest expense to its non-utility subsidiaries adjustment is an implicit admission that these investments are supported solely by MichCon’s common equity.

7. MichCon's beginning common equity balance (that is, as of 12/31/99) should have excluded all of MichCon's beginning of year common equity investments in MichCon Development and MichCon Pipeline in the amount of $44,741,710. (See 2000 Form P-522, page 224, column (d), lines 7 and 21.) Mr. Kaslik's exclusion of only a portion of its non-utility common equity investment results in a $37,966,242 over-statement of MichCon's utility "Common Equity Balance @ Beginning of Year" on line 7 of Exhibit 1, page 1 ($44,741,710 minus $6,775,468).

8. Similarly, MichCon's ending common equity balance (that is, as of 12/31/00) should have excluded all of MichCon's end of year common equity investment in MichCon Development and MichCon Pipeline in the amount of $59,475,170. (See 2000 Form P-522, page 225, column (g), lines 7 and 21.) Mr. Kaslik's exclusion of only a portion of its non-utility common equity investment results in a $48,223,156 over-statement of MichCon's utility "Common Equity Balance @ End of Year" ($59,475,170 minus $11,252,014).

9. MichCon's <u>corrected</u> Average Common Equity for utility operations during the year 2000 should be $683,990,671. (See Exhibit A to Affidavit of William A. Peloquin.)

10. MichCon's <u>corrected</u> Return on Common Equity for utility operations during the year 2000 should be 14.20%. (See Exhibit A to Affidavit of William A. Peloquin.)

Further deponent sayeth not.

William A. Peloquin, CPA

Subscribed and sworn to before me
this 31st day of May, 2001.

Lois E. Gruesbeck

Lois E. Gruesbeck, Notary Public
Shiawassee County, Michigan
Acting in Ingham County
My Commission Expires: 5/27/04

Affidavit – Exhibit A

Michigan Consolidated Gas Company

Income Sharing Calculation
For the Year Ended December 31, 2000

Line No.	Description	Source	Per MichCon	Per AG
1	Net Income	P-522, page 117	$109,534,018	$109,534,)1018
	Adjust For:			
2	Earnings of Non-Utility Subsidiary Companies	P-522, page 225	(4,280,436)	(4,280,436)
3	50% of Net Cost of Gas Spread		(8,092,900)	(8,092,900)
4	Reserve for Customers' Share of Income		--	--
5	Total Adjustments		(12,373,336)	(12,373,336)
6	Adjusted Net Income		97,160,682	97,160,682
7	Common Equity at Beginning of Year			
7A	Total Common Equity	P-522, page 112, line 14	735,501,652	735,501,652
7B	Less: Undistributed Subsidiary Earnings	P-522, page 224, lines 6, 13 and 20	(6,775,467)	--
7C	Less: Common Equity Investment in Non-Utility Subsidiary Companies	P-522, page 224, lines 7 and 21	--	(44,941,710)
7D	Adjusted Common Equity at Beginning of Year		728,726,185	690,559,942
8	Common Equity at End of Year			
8A	Total Common Equity	P-522, page 112, line 14	736,896,570	736,896,570
8B	Less: Undistributed Subsidiary Earnings	P-522, page 225, lines 6, 13 and 20	(11,252,014)	
8C	Less: Common Equity Investment in Non-Utility Subsidiary Companies	P-522, page 225, lines 7 and 21	--	(59,475,170)
8D	Adjusted Common Equity at End of Year		725,644,556	677,421,400
9	Average Common Equity		727,185,370	683,990,671
10	Return on Common Equity		13.36%	14.20%