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MICHIGAN PUBLIC SERVICE
FILED
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COMMISSION

July 16, 2001

Ms. Dorothy Wideman
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
Lansing, Michigan 48909

Re: Michigan Consolidated Gas Company's Reply to the Attorney General' Response; MPSC Case No. U-12893

Dear Ms. Wideman:

Enclosed for filing please find the original and 17 copies of the above-referenced Reply of Michigan Consolidated Gas Company.

Please acknowledge receipt of this filing by date-stamping the additional copies provided and returning them to MichCon in the enclosed, self-addressed envelope.

Should you have any questions regarding this filing or require additional information, please do not hesitate to contact me. Your attention to this matter is appreciated.

Sincerely,

Richard P. Middleton

Richard P. Middleton

RPM/tmc
enclosures

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	)))	MPSC Case No. U-12893

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused copies of the foregoing Reply of Michigan Consolidated Gas Company to the Attorney General's Response to be served by first class mail upon all counsel of record in this case by depositing the same in the U. S. Mail at Detroit, Michigan, postage prepaid and plainly addressed.

Dated at Detroit this 16th day of July, 2001.

Richard P. Middleton (P41278)
Michigan Consolidated Gas Company
500 Griswold, GB 9
Detroit, Michigan 48226

Its: Attorney

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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)	MPSC Case No. U-12893

MICHIGAN CONSOLIDATED GAS COMPANY'S REPLY TO THE ATTORNEY GENERAL'S RESPONSE

Michigan Consolidated Gas Company ("MichCon") files this formal reply to the Attorney General's ("AG") Response to MichCon's income sharing calculation filed with the Michigan Public Service Commission ("Commission") on May 31, 2001. In reply MichCon states as follows:

1. On May 31, 2001, the AG filed a response challenging the accuracy of MichCon's income sharing calculation for 2000.

2. In her response, the AG does not dispute the accuracy of the math only that certain MichCon subsidiary amounts were incorrectly excluded from the calculation. Specifically, the AG maintains that the common equity balance portion of the calculation was incorrectly computed with respect to MichCon subsidiaries. The AG's claim is erroneous.

3. The Commission approved MichCon's income sharing mechanism in its Order in Case No. U-11682. In that Order, the Commission expressly limited review of MichCon's income sharing calculation to the accuracy and conformance of the computation to the calculations contained in Attachment D. (See April 28, 1998, MPSC Opinion and Order in Case No. U-11682 pages 7 and 8.) The Commission also established a thirty-day period after the Company's filing in which interested parties could file a request for hearing on the calculations.

4. On March 30, 2001, MichCon made its annual income sharing filing which conformed precisely with the Commission-approved calculations set forth in Attachment D to MichCon's Application in Case No. U-11682.

5. On May 31, 2001, the AG filed a document in Case No. U-12893 which the AG described as a "Response" to MichCon's income sharing calculation. Contained within this written response is the AG's version of MichCon's 2000 income sharing calculation, supported by the Affidavit of Mr. William A. Peloquin ("Affidavit") on MichCon's income sharing calculation. The AG does not request a hearing, but rather makes the assertion that MichCon's income sharing calculation must be modified for alleged errors as described in the Affidavit.

6. Contrary to the AG's assertions, the Commission should accept MichCon's March 30, 2001 filing as filed and for the reason stated in this reply, treat the AG's May 31, 2001 Response as mere comment and not a request for hearing.

7. The AG's Response does not request a hearing. As noted in the Response, the AG requests only that MichCon calculate its income sharing mechanism consistent with the MPSC approved calculation contained in the Commission's U-11682 Order. MichCon's March 30, 2001 income sharing filing conforms precisely with the income sharing mechanism approved by the Commission in Case No. U-11682. MichCon's conformance with the Commission's Order was confirmed by the MPSC Staff which filed its letter stating that a Commission hearing to review MichCon's 2000 income sharing calculation was unnecessary.

8. Even if the AG's Response had requested that the Commission conduct a hearing on this matter, such a request should be denied because it was not filed within the thirty-day period established by the Commission's Order in Case No. U-11682.

9. In addition to being procedurally defective and untimely, the AG's Response also contains erroneous claims and errors.

10. The AG's Affidavit contains two substantive assertions, both of which are erroneous. In Paragraph 2, the Affidavit that states that the amount on line 2 of MichCon's Exhibit 1, page 1 "Earnings of Non-Utility Companies" does not include any amounts applicable to Blue Lake Holdings, Inc. Attachment D, Exhibit 1, page 2, as approved by the Commission's U-11682 Order requires that MichCon's actual ROE will be calculated based on book net income, exclusive of earnings from non-utility subsidiaries. Contrary to the AG's claim, Attachment D, Exhibit 1, page 2, defined MichCon's non-utility subsidiaries as of March 31, 1998, as MichCon Development Company, MichCon Fuels and MichCon Pipeline. Blue Lake Holdings, Inc., a wholly owned subsidiary of MichCon at March 31, 1998, is not considered a non-utility subsidiary for purposes of the income sharing calculation and, therefore, inclusion of its income in MichCon's net income is correct. [1]

11. In Paragraphs 5 and 6 of the Affidavit, the AG maintains that MichCon's calculations of the "Common Equity Balance(s)" includes two fundamental errors: 1) exclusion of the common equity from line 8 in columns (d) and (g) of the 2000 Form P-222, pages 224-225 applicable to Blue Lakes Holdings, Inc. from the beginning and ending MichCon common equity balances; and 2) failure to exclude the entire common equity for MichCon Development Corporation and MichCon Pipeline Company subsidiaries

12. MichCon did exclude the common equity applicable to Blue Lake Holdings Inc. from the beginning and ending MichCon common equity balances. Such treatment is in conformity

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[1] The amount reported by MichCon on line 2 of Exhibit 1, page 1 "Earnings of Non-Utility Companies," also does not include any amounts applicable to MichCon Fuels because as of October 1998, this company ceased being a MichCon subsidiary.

with calculations set forth in Attachment D, Exhibit 2 of Case No. U-11682. MichCon's treatment actually increases the calculated return on common equity because Blue Lake Holding, Inc. income remains in the numerator of the calculation, while the denominator in the calculation is reduced by Blue Lake Holding, Inc.'s Equity in Earnings. The return reported and used in determining income sharing consistent with the Commissions Order in Case No. U-11682 is a return on common equity. The computation in the AG's Affidavit erroneously resembles more of a return on investment calculation.

13. Because the assertions contained in Paragraphs 5 and 6 of the Affidavit are erroneous, the AG's claims in Paragraphs 7, 8, 9 and 10 of the Affidavit are also invalid because they are based on the incorrect claims contained within Paragraphs 5 and 6.

WHEREFORE, the reasons stated above, MichCon respectfully requests that the Commission consider the AG's May 31, 2001, Response to constitute mere comment and not set the matter of MichCon's 2000 income sharing calculation for hearing.

Respectfully submitted,

Michigan Consolidated Gas Company

By Richard P. Middleton

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Its: Attorney

Dated: July 16, 2001