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December 9, 2002

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

Dear Ms. Wideman:

Re: MPSC Case No. U-13000

I am enclosing for filing an original and 4 copies of the **Attorney General's Petition for Rehearing** together with a Proof of Service. I will be sending a copy of this via email to the parties listed on the attached proof of service. In addition, a copy of this filing is being submitted electronically.

Sincerely,

Donald E. Erickson

Donald E. Erickson
Assistant Attorney General

c All Parties

PROOF OF SERVICE - U-13000

The undersigned certifies that a copy of the **Attorney General's Petition for Rehearing** 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 9th day of December, 2002.

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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of
CONSUMERS ENERGY COMPANY for
authority to increase its rates for the
distribution of natural gas and for other
relief
______________________________________/

MPSC Case No. U-13000

Attorney General's Petition for Rehearing

Pursuant to Rule 403 of the Rules of Practice and Procedure Before the Commission (1992 AACS, R 460,17403) and pursuant to MCL 8.6, Attorney General Jennifer M. Granholm petitions the Michigan Public Service Commission (MPSC or Commission) for rehearing of its Opinion and Order dated November 7, 2002. In support of this petition, the Attorney General says:

1. On November 7, 2002, the MPSC issued an Opinion and Order in the captioned case, and among other things, that order rejects an exception proposed by the Attorney General to disallow half of the increase in CECo's working capital requirements associated with a reclassification of gas stored underground resulting from an ex parte order issued in MPSC Case No. U-12679.

2. The 13-month average cost of CECo's gas stored underground after the reclassification is $428,669,000. That average would have been $180,203,000 if the reclassification had not occurred, so CECo's working capital requirements associated with gas

stored underground increased by $248,466,000 as a result of the reclassification (11 T 1785-1762 and Exhibit I-137, page 2). The reclassification reduced working capital for base gas by $36,502,000, so the net effect on rate base has been $211,964,100.

3. CECo reclassified approximately 74.6 Bcf of natural gas from base gas to working gas at a price of $0.6361 per Mcf. This reduced CECo's cost of gas sold by $132,382,000 from April 1, 2000, through March 31, 2001, and CECo received $115,800,000 of this benefit from the cost reduction while customers received a benefit of $16,582,000 (11 T 1765-1766). The gas reclassification will provide cost reduction benefits to CECo's GCR customers from April 1, 2001, through March 31, 2003, in the amounts of $77,437 and $1,514,000 (11 T 1757 & 1766 and Exhibit I-135). Therefore, Mr. Peloquin concluded that any increase in working capital cost requirements resulting from the reclassification of the 74.6 Bcf should be allocated 50% to CECo and 50% to CECo's customers (11 T 1768).

4. Page 17 of the Commission's Opinion and Order responds in relevant part:

> It is undisputed that the base gas adjustment reduced Consumers' plant in service balance, increased its working capital requirement balance, and reduced Consumers' GCR cost of gas. The Commission remains convinced that the base gas adjustment should be fully recognized for ratemaking purposes due to the substantial benefits already realized by Consumers' ratepayers.

This ruling does not quantify the benefits received by ratepayers and ignores the share of the benefits received by the Company.

5. The 13-month average cost of CECo's gas stored underground after the reclassification is $428,669,000. That average would have been $180,203,000 if the reclassification had not occurred, so CECo's working capital requirements associated with gas stored underground increased by $248,466,000 as a result of the reclassification (11 T 1785-1762

and Exhibit I-137, page 2). CECo did not rebut this testimony or the testimony regarding how the Company and its customers have shared the cost reduction benefits.

6. Because the reclassification increased costs for working gas stored underground by $248,466,000, because the reclassification reduced working capital for base gas by $36,502,000, because the net effect on rate base has been $211,964,100, and because CECo and its customers each received approximately half of the benefits from the reduction of the gas expense (costs of gas sold), Mr. William A. Peloquin concluded that $105,982,000 should be removed from CECo's average rate base in this case to allocate the increased working capital cost in proportion to the way CECo and its customers have shared the benefits (Exhibit I-137).

7. The Attorney General requests the Commission to grant rehearing and issue conclusions of fact regarding the results of reclassification of storage gas. Specifically, the Attorney General requests the Commission to indicate why, as a matter of fact, receipt by ratepayers of approximately half of the benefits from reclassification justifies allocating 100% of the subsequent increased costs to ratepayers.

8. All other things remaining equal, disallowing $105,982,000 would reduce CECo's revenue requirements by that sum times the overall rate of return approved by the Commission's Opinion and Order.

9. The Michigan Supreme Court has stated:

> It is the duty of the Commission, under its statutory power, to fix a just and reasonable rate. This can be accomplished only by balancing the interests of public utility investors and the consuming public. *Detroit v MPSC,* 308 Mich 706, 716; 14 NW2d 784 (1944).

Therefore, in setting rates the MPSC must consider why costs were incurred, i.e., why there was a net increase $211,964,100 in working capital costs.

Relief Requested

Since storage gas reclassification yielded cost savings followed by a net increase in working capital ratebase and since CECo and its ratepayers each received approximately 50% of the savings, Attorney General Jennifer M. Granholm requests the Michigan Public Service Commission to grant this petition for rehearing and reduce the resulting approved revenue requirement increase as requested above.

Respectfully submitted,

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