

STATE OF MICHIGAN
DEPARTMENT OF ATTORNEY GENERAL



MIKE COX
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May 30, 2006

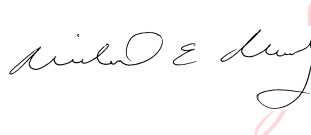
Ms. Mary Jo Kunkle
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
Lansing, MI 48911

Dear Ms. Kunkle:

RE: MPSC Case No. U-14718

Enclosed for filing in the above-captioned case please find the **Attorney General's Direct Testimony and Exhibits**, together with a proof of service. This filing is being submitted electronically pursuant to the Commission's Paperless Electronic Filings Program.

Sincerely,

 Michael E. Moody
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Michael E. Moody (P51985)
Assistant Attorney General
Tobacco and Special Litigation Division
(517) 373-1123

MEM:wjc
Enclosures
c: All Parties

PROOF OF SERVICE - U-14718

The undersigned certifies that a copy of the **Attorney General's Direct Testimony and Exhibits**, was served upon the parties listed below by mailing the same to them at their respective addresses with first class postage fully prepaid thereon on the 30th day of May, 2006.

Wendy J. Cadwell

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Wendy J. Cadwell

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The Residential Ratepayer

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STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of
SEMCO ENERGY GAS COMPANY for authority
to implement a gas cost recovery plan and factors for
the 12-month period of April 2006 through March 2007

MPSC Case No. U-14718

**Direct Testimony
And Exhibits**

of Ralph E. Miller

**On behalf of
Attorney General Michael A. Cox**

May 30, 2006

1

Qualifications

2 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND ADDRESS.**

3 A. My name is Ralph E. Miller. I am an independent consulting economist. My office is at
4 5502 Western Avenue, Chevy Chase, Maryland 20815.

5 **Q. PLEASE SUMMARIZE YOUR PROFESSIONAL QUALIFICATIONS.**

6 A. I am an economist specializing in the fields of utility regulation, industrial organization,
7 and public policy towards business. I have more than thirty-five years of experience in
8 public utility and related energy work, both as a consultant and in government. I am the
9 author of several published reports and papers on public utility economics and energy
10 matters, and I have testified in more than 30 different jurisdictions in a total of more than
11 300 public utility and other proceedings. I also have several additional years of
12 experience in government and as a university teacher in antitrust, energy demand
13 forecasting and supply analysis, and other areas of economics and energy.

14 Over the years, I have addressed almost all aspects of gas and electric utility regulation,
15 including rate of return, accounting and revenue requirements, rate design and cost of
16 service, electric fuel and purchased gas cost recovery, industry structure and the role of
17 competition, incentive ratemaking and other types of innovative rate designs, gas and
18 electric supply planning and power plant licensing, productivity and efficiency, and the
19 determination of marginal, incremental, and avoidable costs.

20 **Q. WHAT IS YOUR EMPLOYMENT EXPERIENCE?**

1 A. I have been an independent consultant for more than twenty years. I also have ten years
2 of experience as president or vice president of two different consulting firms specializing
3 in public utility and energy matters. Before that, I spent three years in the federal
4 government, where I was employed in positions at the Federal Power Commission (now
5 the Federal Energy Regulatory Commission, or FERC), the Antitrust Division of the
6 U.S. Department of Justice, and the Federal Energy Administration (now part of the U.S.
7 Department of Energy, or DOE). I was on the faculty of the University of California for
8 three years, where I taught economics courses at both the graduate and undergraduate
9 levels.

10 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

11 A. I did my undergraduate work at Harvard College, where I received the A. B. degree
12 *summa cum laude* in mathematics in 1961, and I was elected to Phi Beta Kappa. I then
13 went on to graduate work in economics at Harvard, where I received a Master's degree in
14 1963. I continued my graduate studies there until 1966, and I completed all of the course
15 requirements for the Ph.D. degree, but not a doctoral dissertation.

16 **Q. WHAT IS YOUR EXPERIENCE IN THE SPECIFIC AREA OF GAS SUPPLY**
17 **PLANNING AND GAS COST RECOVERY?**

18 A. I have more than 25 years of experience in this area. I have reviewed the gas supply
19 planning and/or gas cost recovery arrangements of more than 15 gas distribution
20 companies (GDCs) in numerous regulatory proceedings in seven states, and I have
21 extensive experience in gas pipeline cases at the FERC.

1 Beginning in 1981, I analyzed the way Southern Union Gas Company acquired gas
2 supplies for its New Mexico distribution system, and I testified on aspects of this subject
3 in U.S. District Court in 1982.

4 At the FERC, I reviewed requests by three interstate pipelines for recovery of take-or-
5 pay buyout and contract reformation costs under Order No. 500. I did this work on
6 behalf of customers of the pipelines or their representatives. It included detailed analysis
7 of the gas purchase contracts and other materials obtained in the discovery process. I
8 also testified in many pipeline rate proceedings and two pipeline gas inventory charge
9 (GIC) proceedings, and I reviewed the gas supply restructuring plans proposed by two
10 pipelines as part of their Order 636 compliance. I also reviewed the implementation of
11 Order 637 by two pipelines.

12 At the state level, I (along with one or more colleagues) have performed many
13 management/performance audits of the gas purchasing practices and policies of gas
14 distribution companies in Ohio, and our reports on these audits were submitted to the
15 Public Utilities Commission of Ohio (PUCO). The companies that I have audited
16 include three of the major GDCs in Ohio, as well as two smaller gas utilities that relied
17 to a large extent on purchases of local production for their system gas supplies.

18 Here in Michigan, I have reviewed and testified on the gas supply plans and gas cost
19 recovery (GCR) reconciliations of Consumers Energy Company (Consumers) and
20 Michigan Consolidated Gas Company (MichCon) in each year since 1988, except for the
21 three years when their GCR clauses were suspended. I have also reviewed and testified

1 on many of the gas supply plans and GCR reconciliations of Michigan Gas Utilities
2 Corporation (MGU) and SEMCO Energy Gas Company (SEMCO) during this period.

3 In New Jersey, I participated in the levelized gas adjustment clause (LGAC) proceedings
4 as a consultant to the Ratepayer Advocate (or its predecessor, the Public Advocate) for
5 ten years. During this period I have reviewed the LGAC filings and gas supply planning
6 of all four of the New Jersey GDCs. I also participated extensively in the consideration
7 of gas cost recovery issues in the unbundling proceedings and base rate cases of the New
8 Jersey GDCs.

9 In Maryland, I have for more than 25 years been reviewing the gas supply planning and
10 gas purchases of several Maryland utilities, including Baltimore Gas and Electric
11 Company ("BGE") and Washington Gas Light Company, in a variety of proceedings in
12 which I have worked on behalf of Maryland People's Counsel. Other states in which I
13 have done similar work include Pennsylvania, Nevada, and Utah.

1

Prepared Direct Testimony

2

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

3

A. I have been asked by the Michigan Department of Attorney General to make an

4

independent analysis of SEMCO's GCR plan for period April 2006 through March 2007.

5

This testimony presents a report of that analysis.

6

Q. WHAT TOPICS ARE YOU ADDRESSING IN YOUR TESTIMONY THIS YEAR?

7

A. I am addressing three topics this year. The first is the need for the Commission to

8

establish a base GCR factor that reasonably reflects current price conditions in the gas

9

markets. Such a factor would be about \$3.00 per Mcf lower than the \$12.0545 per Mcf

10

that SEMCO is seeking for its merged MPSC Division and Pen Gas service areas.

11

The second topic that I am addressing is SEMCO's request for changes in the procedures

12

applicable to its use of a contingent GCR factor matrix. I oppose these changes.

13

My third topic is SEMCO's alleged fixed price purchasing plan.

14

Q. IS YOUR TESTIMONY ON THESE TOPICS ACCOMPANIED BY EXHIBITS?

15

A. Yes. I prepared or selected Exhibits AG-1 through AG-3 to accompany this testimony.

16

17

Establishing a Reasonable Maximum Base GCR Factor

18

Q. WHAT GCR FACTOR IS SEMCO PROPOSING?

1 A. SEMCO's GCR plan includes separate presentations for the former Pen Gas service
2 territory, which SEMCO has recently acquired, and for SEMCO's MPSC Division,
3 which is SEMCO's service area under the MPSC rate jurisdiction prior to the Pen Gas
4 acquisition. SEMCO has applied in a separate docket to include the former Pen Gas
5 service area under SEMCO's GCR clause, and SEMCO's GCR plan also includes a
6 presentation for the merged service areas. I am focusing only on the GCR factors for the
7 merged service areas.

8 SEMCO's filing includes a base GCR factor of \$12.0545 per Mcf and a Contingency
9 Factor Matrix. The first opportunity for a contingent adjustment was applicable to the
10 GCR factors for April, May, and June 2006, which is the first quarter of SEMCO's GCR
11 annual period. As proposed by SEMCO, contingency adjustments can increase the
12 maximum GCR factor above the base of \$12.0545 per Mcf proposed by the Company,
13 but they cannot decrease the maximum GCR factor below this base.

14 **Q. IS THIS GCR FACTOR REASONABLE?**

15 A. No, it is not. In December 2005, when SEMCO prepared its GCR plan, the NYMEX
16 strip for SEMCO's GCR annual period (the 12 months April 2006 through March 2007)
17 was \$11.22 per Dth. But gas prices have declined enormously since then. The NYMEX
18 strip for the GCR annual period fell more than \$2.80 per Dth from early December to
19 early March, when it stood at \$8.35 per Dth, as shown in Exhibit AG-1.

20 Gas prices in April were somewhat higher than in early March, but the 12-month strip
21 for SEMCO's GCR annual period remained about \$2 per Dth lower than the NYMEX

1 prices that SEMCO used to develop its initial filing with its base GCR factor of \$12.0545
2 per Mcf. By late May, the NYMEX gas prices for the GCR annual period had fallen
3 back to their early March levels.

4 **Q. SHOULD SEMCO'S PROPOSED BASE GCR FACTOR BE MODIFIED?**

5 A. Yes. The Commission should reduce SEMCO's base GCR factor to one that reasonably
6 reflects current gas market conditions, including the current outlook for the future.

7 **Q. WHAT CHANGE DO YOU RECOMMEND?**

8 A. I recommend a base GCR factor of \$9.05 per Mcf. This base GCR factor would be the
9 maximum GCR factor unless and until changed by order of the Commission or in accord
10 with a contingent factor adjustment procedure approved by the Commission.

11 **Q. HOW DID YOU DEVELOP YOUR RECOMMENDED BASE GCR FACTOR OF**
12 **\$9.05 PER MCF?**

13 A. I used the same procedure that SEMCO itself has proposed for its contingency
14 adjustment mechanism, except that I used it to reflect a decrease in the NYMEX gas
15 futures prices instead of an increase. SEMCO's proposed Contingency Factor Matrix is
16 in Exhibit A-23 (JAV-1), pages 13-17. This matrix is based on the "three-input"
17 method that Staff witness Robert G. Ozar recommended last year, but only two of the
18 inputs are used for the first quarterly adjustment to be effective April 2006. I calculated
19 an adjustment to SEMCO's proposed base GCR factor using the method underlying the

1 Company's Contingency Factor Matrix, and I applied that method to the NYMEX prices
2 as of the first week in March 2006.

3 The first component of the Company's contingency adjustment for April 2006 would
4 increase the GCR factor Ceiling Price by a fractional multiplier of 0.5883 per Mcf for
5 each increase of 1.000 per Dth in the NYMEX strip for the summer months April
6 through October 2006. The second component would be a further increase of 0.479 per
7 Mcf for each 1.000 per Dth increase in the NYMEX strip for the winter months
8 November 2006 through March 2007.

9 As indicated in Exhibit AG-1, the NYMEX strip for April through October 2006 was
10 \$7.231 per Dth in the first week of March 2006. This amount is a decrease of \$3.564 per
11 Dth from the corresponding NYMEX strip of \$10.795 per Dth that the Company used to
12 develop its GCR plan and its proposed base GCR factor of \$12.0545 per Mcf. I applied
13 the Company's summer season fractional multiplier of 0.5883 to this decrease of \$3.564
14 per Dth in the summer NYMEX strip. The result indicated a reduction in the GCR
15 ceiling price of \$2.10 per Mcf. The calculation of this decrease is shown in Exhibit
16 AG-2.

17 Exhibit AG-1 shows also that the NYMEX strip for November 2006 through March
18 2007 decreased from \$11.816 per Dth in December 2005 to \$9.924 per Dth in March
19 2006. I applied the Company's winter season fractional multiplier of 0.479 to this
20 decrease of \$1.892 per Dth in the winter NYMEX strip, and I obtained an indicated
21 further decrease of \$0.91 per Mcf in the GCR ceiling price.

1 The combined effect of the decreases in the summer and winter NYMEX price strips is a
2 total reduction of \$3.00 per Mcf in the base GCR factor. The combined effect reduces
3 the base GCR factor from \$12.0545 per Mcf (as proposed by the Company) to \$9.05 per
4 Mcf reflecting NYMEX gas prices in March 2006. This is the base GCR factor that I
5 recommend.

6 **Q. WHY DID YOU USE THE NYMEX PRICES FOR THE FIRST WEEK OF**
7 **MARCH TO CALCULATE YOUR RECOMMENDED BASE GCR FACTOR?**

8 A. I used the NYMEX prices in the first week of March because those are the NYMEX
9 prices that SEMCO used to determine whether it would implement a contingency
10 adjustment to its GCR factor for the first quarter of the GCR annual period under the
11 Company's proposed contingency adjustment procedure. The Company's contingency
12 calculation indicated that no adjustment was needed, because the Company's procedure
13 is a one-way street leading only to higher ceiling prices, and there was no movement in
14 that direction in March because gas prices had fallen rather than risen since the Company
15 prepared its GCR plan. My recommendation is based on using SEMCO's own proposed
16 contingency mechanism as a two-way street, to reflect the very large decreases in
17 NYMEX gas prices that have occurred since the Company prepared its GCR plan in
18 December 2005.

19 **Q. ARE YOU RECOMMENDING THAT THE CONTINGENCY MECHANISM**
20 **SHOULD BE USED FOR DOWNWARD ADJUSTMENTS IN EACH QUARTER**
21 **OF THE GCR ANNUAL PERIOD, IF NYMEX PRICES HAVE FALLEN?**

1 A. Not necessarily. In years past, the Commission has approved some contingency
2 mechanisms that would only increase the maximum GCR factor, but not decrease it.
3 More recently, however, the Commission has required that the amount of the contingent
4 adjustment be recalculated each quarter, and that it be decreased when NYMEX prices
5 fell. But the Commission also recognized a base GCR factor in those more recent orders,
6 and it did not require contingent adjustments to reduce the maximum GCR factor below
7 the base GCR factor.

8 My recommendation is based on the assumption that the Commission will establish a
9 base GCR factor and a symmetric contingency adjustment, as in recent cases, and that
10 the contingent adjustment will apply only to the extent that it yields a quarterly factor
11 higher than the base GCR factor. My use of SEMCO's proposed contingent mechanism
12 is just a convenient way to calculate a new base GCR factor that is consistent with
13 current prices for gas. A downward adjustment to the base GCR factor is needed this
14 year because SEMCO prepared its GCR plan under extraordinary gas market
15 circumstances that should not be reflected in the base GCR factor, especially not now
16 that the gas market has recovered from those extraordinary circumstances. I expand on
17 this point later in my testimony.

18 **Q. IS YOUR RECOMMENDED BASE GCR FACTOR OF \$9.05 PER MCF, BASED**
19 **ON THE NYMEX PRICES IN MARCH 2006, REASONABLE IN THE FACE OF**
20 **NYMEX PRICE CHANGES THAT HAVE OCCURRED SINCE THEN?**

1 A. Yes. SEMCO has already established its GCR factors for April and May 2006, and it
2 will undoubtedly have established its June factor before the Commission has an
3 opportunity to issue a final order in this proceeding. On the assumption that the final
4 order will permit the inclusion of a quarterly contingency adjustment procedure, SEMCO
5 will have an opportunity to add any appropriate contingency adjustment to the base GCR
6 factor of \$9.05 per Mcf that I am recommending.

7 **Q. WOULD A FAILURE TO UPDATE SEMCO'S BASE GCR FACTOR**
8 **AUTOMATICALLY MEAN THAT GCR CUSTOMERS WOULD BE CHARGED**
9 **TOO MUCH?**

10 A. No. SEMCO itself established a GCR factor of \$9.34 per Mcf for April 2006, and a
11 much lower factor of \$7.00 per Mcf for May. The April factor was 29¢ per Mcf higher
12 than the base GCR factor of \$9.05 per Mcf that I am recommending, but SEMCO's
13 decision to bill only \$7.00 per Mcf in May indicates that the April factor was higher than
14 SEMCO needs under current gas market conditions.

15 **Q. WHY SHOULD THE BASE GCR FACTOR BE REDUCED, IF SEMCO IS**
16 **VOLUNTARILY CHARGING PRICES CLOSE TO THE MODIFIED BASE GCR**
17 **FACTOR THAT YOU RECOMMEND?**

18 A. SEMCO's filed GCR factor of \$12.0545 per Mcf reflects the extraordinary impact of
19 hurricanes Katrina and Rita, which struck the Gulf Coast gas producing basin in late
20 summer 2005 and seriously damaged the gas production facilities there. But it has now
21 become clear that the impact of these hurricanes was only a transitory event, and it is

1 unreasonable for SEMCO's base GCR factor to reflect a transitory event whose impact
2 on gas prices ended even before the beginning of the GCR annual period.

3 **Q. ARE THERE OTHER REASONS FOR REDUCING THE BASE GCR FACTOR?**

4 A. Yes. SEMCO sells gas to its GCR customers in competition with alternative suppliers
5 operating under the provisions of the Company's Gas Customer Choice (GCC) program.
6 SEMCO's base GCR factor is the benchmark price against which other suppliers
7 compete. Retention of SEMCO's filed base GCR factor of \$12.0545 per Mcf is a false
8 price signal that distorts the competition between SEMCO and alternative suppliers. It
9 could lead some customers to lock themselves into commitments to purchase gas from
10 alternative suppliers at prices much higher than prices realistically reflecting the current
11 gas market. This price signal conveys a misleading impression that SEMCO itself is
12 likely to be charging gas prices around \$12 per Mcf. Even if customers understand that
13 SEMCO may not actually charge the maximum factor, they would not be likely to expect
14 that the factor should be about \$3 per Mcf lower under present gas market conditions.

15
16 **SEMCO's Requested Changes to Its Contingency Mechanism**

17 **Q. WHAT CHANGES IS SEMCO SEEKING FOR ITS CONTINGENCY**
18 **MECHANISM?**

19 A. SEMCO witness John R. Alger proposes three changes: (a) monthly contingency
20 adjustments instead of quarterly adjustments, at least in the winter months November
21 through March; (b) elimination of the "symmetry" requirement that the maximum

1 allowed GCR factor be reduced if NYMEX prices fall and one of the quarterly
2 contingent adjustments is smaller than the adjustment implemented in the preceding
3 quarter; and (c) removal of the “cap” on the maximum NYMEX price increase
4 recognized in the Contingent Factor Matrix.

5 **Q. DO YOU AGREE WITH THESE PROPOSED CHANGES?**

6 A. No, I do not. Monthly contingent factors are inappropriate because the GCR rates are
7 intended to be stable, and they should not be designed to follow the occasionally extreme
8 gyrations of the NYMEX. On those few occasions when there have been extremely
9 large price spikes, such as those affecting the NYMEX contracts for January 2001,
10 March 2003, and October 2005, the NYMEX has begun to retreat after at most a month
11 or two. SEMCO does not need monthly adjustments to recover its gas costs in these
12 circumstances.

13 Symmetry is appropriate because high NYMEX prices at a time at least three months in
14 the past are not a justification for allowing SEMCO to continue to bill GCR factors
15 reflecting those high prices.

16 A cap is appropriate because the Commission should not permit a utility to increase its
17 price without limit, even on a contingent basis, without supervisory oversight from the
18 Commission.

19 **Q. DOES MR. ALGER PROVIDE A BASIS FOR THE REQUESTED CHANGES?**

1 A. Mr. Alger's principal attempt to support his requested changes is the argument that if
2 these changes had been in place last year, when hurricanes Katrina and Rita drove the
3 NYMEX up sharply, SEMCO would have been able to increase its GCR rates without
4 reopening its 2005-2006 GCR plan, MPSC Case No. U-14402.

5 **Q. IS THIS ARGUMENT A GOOD JUSTIFICATION FOR THE REQUESTED**
6 **CHANGES?**

7 A. No. The NYMEX price increases at the time of last year's hurricanes were an
8 extraordinary event that could not have been anticipated prior to the hurricane season,
9 and it was appropriate that the response be crafted by the Commission in reopened GCR
10 plan proceedings rather than by the utilities with self-implementation of unlimited
11 contingent factor mechanisms. And it turned out that the increases allowed by the
12 Commission were rapid enough and large enough to more than cover the additional
13 purchased gas costs that the utilities actually incurred. SEMCO, for example, had
14 already reached an over-recovery position by the end of December 2005, after only two
15 months at a newly established maximum GCR factor that was itself far less than the
16 Company requested in its reopened GCR plan proceeding.

17
18

SEMCO's Fixed Price Purchasing Plan

19 **Q. WHAT IS SEMCO'S FIXED PRICE PURCHASING PLAN?**

20 A. At pages 25-26 of his testimony, Company witness Walter E. Fitzgerald describes
21 SEMCO's "fixed price purchasing plan" as:

1 dollar cost averaging “DCA” purchases ... in equal [monthly] installments ... over
2 the April through October 2006 summer period.

3 **Q. IS THERE AN ISSUE RELATING TO THIS FIXED PRICE PURCHASING**
4 **PLAN?**

5 A. Yes. SEMCO apparently does not understand the quoted words the same way others in
6 the gas industry understand them. SEMCO is not planning to make fixed price purchases
7 in equal monthly installments, or in any other way that would achieve dollar cost
8 averaging. SEMCO is instead planning to try to outsmart the market by making fixed
9 price purchases only at times when it thinks the available fixed prices are attractive, and
10 by refraining from making its ostensibly scheduled fixed price purchases if it views the
11 market prices as unattractive.

12 **Q. HOW DOES SEMCO MAKE THE PURCHASES THAT IT CLAIMS ARE FIXED**
13 **PRICE DCA PURCHASES?**

14 A. During each of the summer months (April through October), SEMCO enters into
15 contracts to purchase the indicated quantities of gas for delivery in the winter months,
16 but SEMCO does not do so at a fixed price. Instead, SEMCO negotiates a fixed basis
17 (see page 29 of Mr. Fitzgerald’s testimony for an explanation of “basis”) but leaves the
18 NYMEX component of the total price floating, subject to later “triggering” if and when
19 SEMCO decides to lock in the NYMEX component of the total price. Exhibit AG-3 is a
20 copy of SEMCO’s response to the RRC’s discovery question 2-RRC-10, which explains
21 this procedure.

1 **Q. WHY DO YOU DISAGREE WITH SEMCO’S VIEW THAT THIS**
2 **ARRANGEMENT CONSTITUTES A FIXED PRICE PURCHASE?**

3 A. The price of a gas purchase is not fixed — and cannot reasonably be characterized as
4 fixed — unless and until the NYMEX component of the total price is fixed. The total
5 price consists of the NYMEX component plus the basis; but the basis is much smaller
6 than the NYMEX component (it may be positive or negative), and the basis at SEMCO’s
7 gas purchase locations is not volatile the way the NYMEX is volatile. Fixing the basis
8 — which is all that SEMCO does when it purports to make a “fixed price” purchase — is
9 simply not fixing the price.

10 It is even clearer that SEMCO’s purported fixed price purchasing procedure fails to
11 achieve the dollar-cost averaging that Company witness Fitzgerald ascribes to it. Dollar
12 cost averaging (DCA) is achieved by capturing the different prices that occur in
13 successive months, so that the prices average out over the scheduled purchase period.
14 But SEMCO is instead planning to pick and choose the times at which it triggers the
15 NYMEX component of the prices for its ostensibly fixed price purchases, rather than
16 apply the DCA method.

17 **Q. ARE SEMCO’S ATTEMPTS TO PICK AND CHOOSE THE TIMES FOR**
18 **TRIGGERING ITS SO-CALLED FIXED PRICE PURCHASES APPROPRIATE?**

19 A. It may or may not be appropriate for SEMCO to attempt to capture low prices by picking
20 and choosing the times for triggering the NYMEX components of the prices for some of
21 its purchases. But these attempts to “time” the gas market are not an acceptable

1 substitute for making fixed price purchases under a DCA plan, which ensures that
2 SEMCO will obtain price diversity by requiring that some prices (including their
3 NYMEX components) be fixed each month.

4 The Commission should modify SEMCO's GCR plan to include the DCA purchases
5 proposed by Mr. Fitzgerald, but with the further indication that each month's DCA
6 purchase is not complete unless and until the NYMEX component of the purchase price
7 is fixed or set by triggering or some other method.

8
9 **Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?**

10 A. Yes, it does.

SEMCO Energy Gas Company

NYMEX Futures Prices in December 2005, As Used by SEMCO for Its GCR Plan,
And More Recent NYMEX Futures Prices for SEMCO's GCR Annual Period

Contract Month ~~~~~	Dec. 1 to Dec. 7, 2005 ~~~~~	Jan. 3 to Jan. 9, 2006 ~~~~~	Feb. 1 to Feb. 7, 2006 ~~~~~	March 1 to March 7, 2006 ~~~~~
April 2006	\$10.934	\$9.592	\$8.463	\$6.702
May	\$10.692	\$9.575	\$8.583	\$6.910
June	\$10.724	\$9.623	\$8.690	\$7.102
July	\$10.764	\$9.682	\$8.790	\$7.290
August	\$10.807	\$9.731	\$8.873	\$7.431
September	\$10.799	\$9.748	\$8.928	\$7.531
October	\$10.843	\$9.807	\$9.012	\$7.649
November	\$11.309	\$10.397	\$9.867	\$8.743
December	\$11.769	\$10.968	\$10.630	\$9.750
January 2007	\$12.144	\$11.402	\$11.148	\$10.437
February	\$12.080	\$11.416	\$11.163	\$10.442
March	\$11.777	\$11.212	\$11.001	\$10.247
	-----	-----	-----	-----
12- month average	\$11.220	\$10.263	\$9.596	\$8.353
Source	Exhibit A-12 (WEF-7)			
<u>Seasonal Averages</u>				
April – October	\$10.795	\$9.680	\$8.763	\$7.231
November – March	\$11.816	\$11.079	\$10.762	\$9.924

SEMCO Energy Gas Company

Calculation of Base GCR Factor Recommended by Attorney General's Witness

SEMCO's filed base GCR factor for merged MPSC Division and UP West(2) \$12.0545

Adjustment for first quarter (April – June) based on Exhibit A-23 (JAV-1), pages 14-15

		Summer April–Oct	Winter Nov–March	
Plan NYMEX	\$ per Dth	\$10.795	\$11.816	
NYMEX 5-day average in March 2006	\$ per Dth	\$7.231	\$9.924	
NYMEX increase / (decrease)	\$ per Dth	(\$3.564)	(\$1.892)	
Fractional multiplier		0.588	0.479	
Adjustment to base GCR factor	\$ per Mcf	(\$2.0969)	(\$0.9064)	
Total adjustment to base GCR factor				(\$3.0032)
Base GCR factor after adjustment to reflect March 2006 NYMEX 5-day average				\$9.0513

**SEMCO ENERGY GAS COMPANY
MPSC Case No. U-14718**

**Response to the Residential Ratepayer Consortium's
Second Discovery Request to SEMCO Energy Gas Company**

2-RRC-10 Please confirm that each monthly DCA purchase will be bid, selection made, and triggered to a fixed price all in the same month with no delays attributable to market fundamentals, national storage balances, or historical considerations unless they are intra-month considerations.

Response: No. There is no commitment for the Company to trigger in the same month that the bid/purchase is made. Moreover, without an agreed-to-commitment, it would be difficult for the Company (who has the best interest of its customers in mind) to commit to ignore the natural gas market price signals and trigger prices within the month regardless of where the NYMEX was or where it is expected to go.

Response by: Walt Fitzgerald

Dated: May 17, 2006

LALIB:141853.1\129584-00011