

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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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.)
_____)

Case No. U-14718

TESTIMONY AND EXHIBITS

OF

FRANK J. HOLLEWA

ON BEHALF OF

THE RESIDENTIAL RATEPAYER CONSORTIUM

May 30, 2006

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

2 **A.** My name is Frank J. Hollewa. I am an independent energy consultant doing
3 business as EPEC (Energy Planning and Engineering Consultants). My office is
4 at 6182 Grovedale Court, Suite 100, Alexandria, Virginia 22310.

5 **Q. PLEASE SUMMARIZE YOUR PROFESSIONAL AND EMPLOYMENT**
6 **EXPERIENCE.**

7 **A.** I was employed by Washington Gas Light Company for 33 years. At the time of
8 my retirement, I held the position of Senior Vice President of Distribution, Gas
9 Supply and General Services. The responsibilities of this position included the
10 repair, installation and maintenance of all transmission and distribution facilities;
11 system design; system control; gas supply planning; gas acquisition; peak shaving
12 plants; storage field; total energy facilities; Federal Energy Regulatory
13 Commission (FERC) related matters; interface with interstate pipelines; general
14 structures maintenance and improvements; fleet acquisition and maintenance;
15 and interface with three local Public Service Commissions in Maryland, Virginia
16 and the District of Columbia relating to operating matters. The total scope of my
17 position encompassed approximately 50% of all employees at Washington Gas
18 Light. Much of my knowledge and experience was obtained on the job at
19 Washington Gas Light. I was employed there in 1963 at the age of 19 as a union
20 grade clerk in the Gas Supply Department. As my knowledge and
21 responsibilities increased, I moved to Staff Assistant; Staff Supervisor; Assistant
22 to the Vice President, Gas Supply; and in 1982 at the age of 38, I became Vice

1 President, Gas Supply. At that time, the Gas Supply Department had over 250
2 employees and represented approximately 10% of the Company manpower.
3 During the period from 1970 to 1995, I participated as an expert witness in
4 approximately 20 formal rate proceedings at the Maryland Public Service
5 Commission ("PSC"), District of Columbia PSC, Virginia State Corporation
6 Commission, and the FERC. I was well known throughout the gas industry and
7 participated as a speaker and panelist at numerous industry gatherings. I was on
8 the Board of Directors of Associated Gas Distributors ("AGD") and Gas Industry
9 Standards Board ("GISB") as well as a member of the Institute of Gas Technology
10 ("IGT") Task Force on Gas Quality at the time of my retirement.
11 For the past eleven years, I have operated EPEC consulting. During that time, I
12 have participated in numerous cases for the New Jersey Division of the Ratepayer
13 Advocate, the Ohio Consumers' Counsel, and the West Virginia Consumer
14 Advocate Division. Since 1999, I have participated in all GCR Plan and
15 Reconciliation Cases involving Michigan's four largest gas distribution
16 companies for the Residential Ratepayer Consortium.

17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

18 **A.** I have been retained by the Residential Ratepayer Consortium ("RRC") to make
19 an independent analysis and evaluation of the gas cost recovery plan filed by
20 SEMCO Energy Gas Company ("SEMCO" or the "Company") for the 12-month
21 period April 2006 thru March 2007.

1 **Q. WHAT DOCUMENTS HAVE YOU REVIEWED IN THIS CASE?**

2 **A.** I have reviewed the Company's testimony and exhibits filed in this case and
3 SEMCO's responses to data requests.

4 **Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.**

5 **A.** First, I am recommending that SEMCO's base ceiling GCR factor be revised to
6 \$9.34 and that the Contingency Mechanism (CM) have a \$3.00 cap on increases
7 in the NYMEX price forecast with a Fractional Multiplier of 1.00 for the 1st
8 quarter, 0.80 for the 2nd quarter, 0.60 for the 3rd quarter, and 0.40 for the 4th
9 quarter.

10 Second, I make a number of recommendations regarding adjustments to annual
11 and monthly GCR requirements, the Company's planned storage requirements, its
12 plan to accommodate colder-than-normal (CTN) weather and a reduction in the
13 current level of firm transportation.

14 **Q. WHAT ARE YOUR FINDINGS REGARDING THE COMPANY'S**
15 **PROPOSED BASE CEILING GCR FACTOR AND THE PROPOSED**
16 **CONTINGENCY MECHANISM?**

17 **A.** The Company's proposed base ceiling GCR factor is \$12.0545 per Mcf shown on
18 Exhibit A-1 (JRA-1), page 1. (Note: In light of the Commission's May 25, 2006
19 Order in Case No. U-14726, the RRC will use the "Merged MPSC Area and UP
20 West" GCR factor throughout the testimony in this case.) The GCR factor
21 SEMCO is charging in April 2006 is \$9.34 per Mcf, an amount that is \$2.7145

1 per Mcf lower than the Company's requested base ceiling GCR factor¹.
2 SEMCO's proposed CM could add as much as \$3.625 per Mcf to the \$12.0545
3 base ceiling GCR factor as filed on Exhibit A-23, page 16 for the third quarter.
4 This could potentially increase the GCR ceiling price to approximately \$15.68 per
5 Mcf, an amount that is \$6.34 per Mcf greater than the April 2006 billed GCR
6 Factor.

7 **Q. WHAT CONCLUSIONS DID YOU REACH REGARDING THE ABOVE**
8 **LEVELS FOR THE GCR FACTOR?**

9 **A.** Because of changes that have occurred since December 2005 when SEMCO filed
10 its 2006-2007 GCR Plan, the data shown in Exhibit A-1 (JRA-1) are not
11 reasonable projections of the Company's gas costs in April 2006-March 2007.
12 The Company's base ceiling GCR factor of \$12.0545 per Mcf significantly
13 overstates the billing charge necessary to recover SEMCO's gas costs in the
14 2006-2007 GCR period. Later in this testimony, I discuss how SEMCO's GCR
15 factor and its CM should be adjusted to reflect the changes that have occurred
16 since December 2005.
17 It is important that SEMCO's base GCR ceiling factor be adjusted to more
18 closely reflect current market conditions and send accurate pricing signals as soon

¹ SEMCO is billing a GCR Factor of \$7.00 per Mcf in May 2006. However, it is unlikely that \$7.00 per Mcf is reflective of the Company's anticipated gas costs for the remainder of the GCR period. SEMCO must have made the decision to reduce its GCR Factor for other reasons, e.g., to address a gas cost over recovery.

1 as possible. The existing price spread between the actual GCR factor that
2 SEMCO is billing its customers and the maximum allowable GCR factor is large
3 enough to create attractive marketing opportunities for alternative gas suppliers
4 participating in the Gas Customer Choice (GCC) program². This price spread
5 may foster confusion for customers that will work to their financial detriment.
6 An example of this problem would be a marketer offering a fixed price of \$11.50
7 for a year versus the base ceiling GCR factor of \$12.0545 filed by SEMCO. The
8 Marketer could further claim that the Company's price could be lower, but could
9 also increase to \$15.68 based on the proposed CM. Under these circumstances,
10 marketers can take unfair advantage of uninformed GCR customers without risk
11 and at large profit margins. The hypothetical price of \$11.50 would be \$2.16
12 greater than the Company's GCR Factor of \$9.34 for April 2006. The basis
13 differentials, demand charges and fuel are already incorporated in the Company's
14 April GCR factor and the assumption is that the same costs would be incurred by
15 the marketer. Therefore, a GCR customer who thinks that she or he is saving
16 \$0.55 per Mcf by signing up could, in fact, be paying approximately \$2.16 per
17 Mcf more for her or his gas commodity costs.
18 In my opinion, this situation is not the operation of a competitive market
19 envisioned by the GCC Program. Rather, it is the application of opportunistic

² I recognize that currently, there is only one alternative supplier in SEMCO's service territory identified on the MPSC's website. That alternative supplier is serving the residential, commercial and industrial classes. The price spread I have identified could attract additional alternative suppliers to SEMCO's service territory.

1 solicitation resulting from a volatile marketplace for natural gas. The drop in the
2 price forecast from December 2005 when SEMCO its GCR filing and March
3 2006 is the direct cause of this large spread, not market competition.

4 To date, prior adjustments to the base GCR factor have been upward to recognize
5 price increases after the plan filing. The Commission has approved use of the
6 CM based in part on its view that a large under recovery by the Company would
7 only create market distortions for both the plan year and the following year. The
8 exact reverse has now occurred. Downward prices will create market distortions
9 and send incorrect price signals for the 2006-2007 GCR Plan year. This fosters
10 the conditions that may cause customers to make bad choices and incur higher
11 commodity costs for the next 12 months.

12 I recognize that no one can predict with certainty that an offer of \$11.50 will be
13 \$2.16 more expensive than the Company's billed GCR factor over the next 12
14 months. However, in making a decision whether to lock in the price offered by
15 an alternative gas supplier, the customer should be armed with the knowledge of
16 the GCR factor that her or his local gas distribution company is currently billing
17 and what it is likely to charge over the GCR period based on current price
18 projections. The Company's filed base GCR base factor does not do that and it
19 sends an incorrect price signal to the customer.

20 **Q. WHAT ARE YOUR RECOMMENDATIONS REGARDING SEMCO'S GCR**
21 **FACTOR ?**

22 **A.** Based on the Company's decision to bill an April 2006 GCR factor of \$9.34 per

1 Mcf, I have reviewed all of the material provided in response to discovery to
2 determine if \$9.34 per Mcf is a reasonable estimate of SEMCO's gas costs for the
3 balance of 2006-2007 GCR period.

4 Exhibit A-12 (WEF-7) shows the Futures Price based on the five-day average of
5 the NYMEX settlement prices occurring between December 1-7, 2005 for the
6 period from April 2006 through March 2007. Taking the figures shown under the
7 "Average" column for the contract months "Apr-06" through "Mar-07" and
8 averaging them produces the GCR Period Average of \$11.2203 per Dth. Exhibit
9 A-1 shows that the use of this NYMEX average converts to a Gas Commodity
10 Charge of \$11.4403 per Mcf after consideration of the Basis Price Forecast,
11 conversion from Dth to Mcf and the adjustment for net storage costs. When the
12 \$11.4403 Gas Commodity Charge is added to the \$0.2500 Balancing recovery
13 Charge and the \$0.3642 Demand Capacity Charge, that produces the \$12.0545 per
14 Mcf base GCR factor in SEMCO's filing

15 The first five trading days in March (3/1-3/7/06) resulted in a GCR Period Average
16 of \$8.3529 per Dth. The first five trading days in April (4/3-4/7/06) resulted in a
17 GCR Period Average of \$8.6665 per Dth. The first five trading days in May (5/1-
18 5/5/06) resulted in a GCR Period Average of \$8.7687 per Dth. The GCR Period
19 Average was \$8.7277 per Dth for the week of 5/8-5/12/06 and \$8.3475 per Dth for
20 the week of 5/15-5/19/06 (with a GCR Period Average of \$8.1684 per Dth on
21 5/19/06).

1 The actual factor billed for April 2006 minus the Balancing Recovery Charge and
2 the Demand Capacity Charge would result in a Gas Commodity charge of \$8.7258
3 per Mcf (\$9.34 - \$0.2500 - \$0.3642) and would correspond to an average 12-
4 month NYMEX price of approximately \$8.60 per Dth. Based on the above data, I
5 would recommend that \$9.3400 per Mcf is a reasonable and conservative level for
6 the base GCR factor.

7 **Q. WHAT ARE YOUR RECOMMENDATIONS REGARDING SEMCO'S CM?**

8 **A.** In order to recognize the potential for continued price volatility, I am
9 recommending that the Contingency Mechanism (CM) have a \$3.00 cap on
10 increases in the NYMEX price with a maximum fractional multiplier of 1.00.
11 This would result in a maximum GCR factor of \$12.3400 per Mcf for the First
12 Quarter which is slightly higher than the Company's proposed base ceiling GCR
13 factor. This would serve to minimize customer confusion and provide the choice
14 of GCR service at \$9.3400 per Mcf now and up to \$12.3400 per Mcf for 12
15 months and would provide a more realistic comparison to the guaranteed price
16 from marketers. Absent the implementation of this recommendation, the GCR
17 customer is left with the choice of knowing that while the GCR factor in April
18 2006 is \$9.3400 per Mcf, the gas company that increased their gas bill
19 dramatically over the past two years may charge them up to \$15.68 per Mcf in the
20 3rd quarter using the contingency factor matrix in Exhibit A-23, page 16 – an
21 amount that is out of line with current market conditions. Even the customers who
22 realize the Company was not to blame for the price increases may decide that a

1 guarantee of \$11.50 is better than the risk of \$15.68 per Mcf.

2 The only way to insure a relatively level playing field for the GCR program and
3 the GCC program is to set a new base GCR ceiling price in conjunction with an
4 appropriate CM. Otherwise, the base GCR ceiling factor filed by the Company
5 will send incorrect price signals to the GCR customers and distort the choice they
6 are making between GCR service and signing up with an alternative gas supplier.
7 In a period of relatively high natural gas prices, making the wrong choice will
8 undoubtedly cause financial harm to many customers.

9 **Q. DO YOU HAVE OTHER RECOMMENDATIONS WITH RESPECT TO**
10 **SEMCO'S CONTINGENCY MECHANISM?**

11 **A.** Yes. I recommend two changes to the CM.

12 First, if my recommendation to set the base ceiling GCR factor at \$9.3400 per Mcf
13 is adopted, the Quarterly Contingency Factor Matrix shown on Exhibit A-23 (JAV-
14 1) starting at page 13 should be adjusted to reflect this price change. Specifically,
15 the "Plan NYMEX" numbers that appear in the first row of that exhibit should be
16 reduced to reflect the change to the Company's original price projections. The
17 "Base GCR Factor" in the second row of the exhibit should be changed to \$9.3400
18 per Mcf.

19 Second, I disagree with the use of the CM proposed by SEMCO because it is much
20 too complex. The RRC requested a copy of SEMCO witness James Van Sickles's
21 work papers which were identified by the Company as 1-RRC-3. The first page of
22 that response is included with my testimony as Exhibit RRC-1 (FJH-1). In

1 addition to the errors and corrections to the “2006-2007 Multi-Input Data File”
2 noted in the Company’s response, I found several other inconsistencies when
3 comparing SEMCO’s calculations in its CM to those performed by Staff witness
4 Ozar in Case No. U-14402. Exhibit RRC-2 (FJH-2) is the portion of Mr. Van
5 Sickel’s work papers in which the fractional multipliers are calculated. A major
6 difference between his approach and that used by Mr. Ozar is that Mr. Ozar used
7 working gas in storage at October 31st and Mr. Van Sickel used October 1st. This
8 creates a significant difference in the fractional multiplier for storage. The work
9 papers also showed the incorrect addition of the fractional multipliers for the 2nd,
10 3rd, and 4th quarters even though they were added correctly under “Fractional
11 Multipliers Combined”. The work papers also show that Mr. Van Sickel used last
12 year’s Base GCR Factor and NYMEX strips, even though the correct data is
13 included in a separate work paper entitled NYMEX Natural Gas Futures Prices.
14 Finally, Exhibit RRC-2 shows that the Company uses 1.000 for heating value
15 conversion instead of 1.014 (actual average Btu is 1013.7).
16 My original interest was to determine how a \$3.00 cap for the CM could result in a
17 \$3.625 increase for the 3rd Quarter (Exhibit A-23, Page 16). My observations
18 should not be construed as a criticism of the Company, but are meant to point out
19 that the multi-input contingent GCR Factor method proposed in SEMCO’s filing is
20 detailed and complex. Most customers could not understand the underlying work
21 papers associated with the CM.
22 In addition to being overly complex and difficult to explain, I believe that the

1 multi-input method incorporated in SEMCO's CM calculates a degree of precision
2 that is not supported by actual operations, which are subject to actual weather
3 patterns and any other variations from the filed plan regarding storage injections
4 and withdrawals. Also, in today's volatile market, the timing of purchases can be
5 a variance of \$0.00-\$1.00 in spite of the actual NYMEX close in any given month.
6 An example of this would be buying gas for May 2006 at various points in time
7 during April 2006.

8 A simpler approach would be to take the average NYMEX prices to date plus the
9 projected NYMEX price for the remaining months and add a percentage of the
10 difference to the Plan NYMEX. For example, if 50% of the gas purchase
11 requirements for the year are purchased in the first six months (April thru
12 September) at approximately \$7.35 and the NYMEX projection for October thru
13 March is approximately \$9.90, the average price for the year will be approximately
14 \$8.625. If another hurricane occurred and the NYMEX projection for October
15 thru March rose by \$3.00 to approximately \$12.90, the average price for the year
16 would be approximately \$10.125. If six DCA purchases had been made at
17 approximately \$10.30, then the NYMEX price increase would be covered with
18 40% of the NYMEX increase plus the hedge associated with DCA purchases.

19 I am recommending an annual Plan NYMEX of approximately \$8.60 per Mcf with
20 Fractional Multipliers of 100%, 80%, 60% and 40% respectively for each of the
21 four quarters. Percentages are based on known prices for 0, 3, 6, and 9 months
22 respectively. The fourth quarter may seem low until consideration is given to the

1 fact that SEMCO plans to purchase only 17% (after deducting DCA purchases) of
2 its annual requirements from January thru March.

3 I am also recommending that symmetry be applied to the Contingency Mechanism
4 with a floor at the Base GCR Factor of \$9.34 per Mcf.

5 If the MPSC does not accept my recommendation to adjust the Base GCR Factor
6 from \$12.0545 to \$9.34 per Mcf, then I recommend that the Contingency
7 Mechanism be removed from SEMCO's tariffs for the 2006-07 GCR Plan year.

8 **Q. DOES THE COMPANY PROPOSE ANY CHANGES WITH REGARD TO**
9 **THE CONTINGENCY MECHANISM?**

10 **A.** Yes. Mr. Alger presents testimony entitled "The Contingency Factor Matrix
11 Mechanism" on page 15, line 6 thru page 20, line 5. "The Company proposes that
12 the readopted CFM be implemented (1) without the requirement of symmetry, (2)
13 on a quarterly basis for the first two quarters of the Plan Year and on a monthly
14 basis for the last two quarters of the Plan Year, and (3) without a price cap."

15 **Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL?**

16 **A.** No. Almost all of Mr. Alger's testimony centers on the issue of potential under
17 recoveries. The Company continues to emphasize sending proper price signals,
18 but only in one direction.

19 As I pointed out earlier in my testimony, the proper price signal is also a vital
20 concern for customers who may be considering an offer from alternative suppliers.
21 The wrong choice prompted by the wrong price signal will undoubtedly cause
22 financial harm to many customers.

1 I also pointed out that in today's volatile market, the timing of purchases on even
2 an intra-month basis for the next month can be a variance of \$0.00-\$1.00 in spite
3 of the actual NYMEX close in any given month. It is unrealistic to believe that
4 monthly GCR factors would produce anything but significant up and down
5 adjustments. However, under the Company's proposal of no symmetry, once the
6 price was up-based on a single month's estimate, the authorized price is posted
7 regardless of the actual price charged by the Company.

8 Finally, the Company has presented no quantitative analysis based on prior years
9 of actual data to demonstrate how a monthly factor would be superior to a
10 quarterly mechanism or the amount of exposure to under recoveries on even a
11 hypothetical basis.

12 **Q. DID YOU EXAMINE THE OPERATIONAL AND ESTIMATING**
13 **PROCEDURES PROPOSED BY THE COMPANY?**

14 **A.** Yes. I analyzed SEMCO's estimates of annual and monthly GCR requirements,
15 Peak Day estimate, its planned storage utilization, its plan to accommodate
16 colder-than-normal (CTN) weather, and utilization of available firm
17 transportation.

18 **Q. WHAT WERE THE RESULTS OF YOUR ANALYSIS OF TOTAL GCR**
19 **REQUIREMENTS AND MONTHLY DISTRIBUTION?**

20 **A.** I reviewed Mr. Alger's testimony on page 8 thru page 11, line 16 and analyzed his
21 responses to eight discovery requests from the RRC. Mr. Alger's responses were
22 very comprehensive and informative, and I am very much in agreement with his

1 testimony in this area with two exceptions.

2 The first exception is that in developing an estimate of requirements for 2006, Mr.
3 Alger notes a 6% reduction in customer requirements between 2003 and 2005, but
4 he then adds back in an increase for forecasted customers.

5 Exhibit A-1 (JRA-1) shows that there was a net reduction of requirements of 4.5%
6 between 2004-2005 at 38,819 MMcf versus 37,053 MMcf in 2006-2007. I believe
7 that the Company experiences an annual historical conservation rate of
8 approximately 1.5% and that the estimating system has a one-year lag in
9 development. If customer additions account for approximately 1.5% of increased
10 requirements per year, then the additions are being offset by the continuing 1.5%
11 conservation. I recommend that the Company review this possibility and
12 incorporate this revision in its estimating procedure.

13 The second exception is the monthly distribution of the 4.5% reduction in GCR
14 requirements. Exhibit A-1 (JRA-1) shows that for the period April through
15 October, there was a 10.3% reduction from 2004-2005 (at 11,140 MMcf) to 2006-
16 2007 (at 9,993 MMcf). The same comparison for the November through March
17 period results in 27,679 MMcf in 2004-2005 versus 27,061 MMcf for 2006-2007,
18 for a reduction of only 2.2%. I believe that a 6% reduction should be applied to
19 all months of the year. This would result in a November thru March estimate of
20 26,018 MMcf. A comparison with the 2004-2005 Reconciliation Case (MPSC No.
21 U-13960-R) shows that the Actual GCR Requirements were 26,657 MMcf versus
22 the Estimated Normal Requirements of 27,679 MMcf. The actual heating degree

days were 5,265 versus the normal heating degree days of 5,112. Therefore, the actual requirements with 153 heating degree days more than normal were 1,022 MMcf less than the estimated requirements. I believe that a reduction of 639 MMcf for 153 heating degree days is reasonable by anyone's standard.

Q. WHAT ARE YOUR RECOMMENDATIONS FOR TOTAL GCR REQUIREMENTS AND MONTHLY DISTRIBUTION?

A. I recommend that the November through March monthly estimates be revised by using the 2004-2005 GCR Plan monthly supply requirements decreased by 6% for each month. These results in MMcf are shown below and compared with the Company's filed 2006-2007 monthly supply requirements:

	Case No. U-14718 Exhibit A-1 (JRA-1) <u>2006-07</u>	Case No. U-13960 Exhibit A- __ (JRA-1) <u>2004-05 Minus 6%</u>
<u>Month</u>		
November	3,904	3,843
December	5,785	5,491
January	6,679	6,268
February	5,893	5,572
March	<u>4,800</u>	<u>4,844</u>
Total	27,061	26,018

For the months of April through October, the monthly estimates with a 6% reduction for each month would result in a revised total of 10,472 MMcf instead of 9,993 MMcf. The affected months would be increases for June, September and October as well as a decrease in August. I recommend that the Company review these months and incorporate a revision in their future plan cases.

My recommendation for the November through March period is much more

important from an operational standpoint. The planning for 1 Bcf in reduced GCR requirements will affect storage operations and the amount of firm transportation being utilized each month. I will address this impact later in my testimony.

Q. WHAT WERE THE RESULTS OF YOUR ANALYSIS OF SEMCO'S PEAK DAY ESTIMATE?

A. I reviewed Mr. Alger's testimony on page 11, line 17 through page 14, line 16 and Exhibit A-3 (JRA-3) and analyzed his responses to discovery questions. In MPSC Case No. U-13622, the RRC recommended a Peak Day estimate of 377,000 Mcf. In MPSC Case No. U-13960-R, the RRC analyzed the five highest days of GCR requirements on SEMCO's Exhibit JRA-2 and the extrapolation of the highest day resulted in a Peak Day estimate of 374,000 MMcf. I concur and recommend acceptance of the Company's Peak Day estimate of 376,848 Mcf in this case. I also compliment Mr. Alger on the thoroughness of his responses to the RRC's discovery questions.

Q. WHAT WERE THE RESULTS OF YOUR ANALYSIS OF SEMCO'S PLANNED STORAGE UTILIZATION?

A. I reviewed Mr. Fitzgerald's testimony on the extension of the ANR 1.5 MMDth storage service together with the reasons he gave for that decision. Even though I do not agree with all of the reasons, I definitely agree that this service has become extremely cost effective due to the summer/winter price differentials that currently exist. I will note that as of December 7, 2005, the differential between summer and winter NYMEX prices for the 2006-2007 GCR year was only \$1.02 per Dth or

1 a projected savings of \$1,530,000. However, the differential between summer and
2 winter based on the first three (3) weeks of May 2006 was \$3.55 or a projected
3 savings of \$5,325,000.

4 My purpose in highlighting the savings from the ANR 1.5 MMDth storage service
5 is to emphasize the potential savings from fully utilizing the plan storage from *all*
6 sources as long as the summer/winter price differential is at a high level. I agree
7 with the scheduled storage withdrawals of approximately 10.5 MMDth and note
8 that this would represent approximately \$37.3 million at the \$3.55 price
9 differential. I believe that it is imperative for the Company to revise its estimate
10 of monthly GCR requirements in the November thru March period as I have
11 recommended earlier in my testimony. SEMCO should carefully monitor the
12 actual requirements and make monthly adjustments if necessary. In my opinion, if
13 the Company purchases the monthly pipeline supply shown in Exhibit A-10, then
14 the amount of supply contributed by storage would be reduced by approximately
15 1.0 MMDth. The Company should ensure that if the schedule for normal
16 withdrawals is not attained, it is not the result of inattention to price-driven
17 conservation.

18 **Q. WHAT WERE THE RESULTS OF YOUR ANALYSIS OF SEMCO's PLAN**
19 **TO ACCOMMODATE CTN WEATHER?**

20 **A.** I reviewed Mr. Fitzgerald's testimony regarding the Company's plan for CTN
21 weather which would require an additional 2.7 MMDth of supply. I performed a
22 simplified calculation assuming a system-wide daily base load of 26 MMcf, 5173

1 heating degree days developed from a weighted average of the data supplied by
2 Mr. Alger from 2005-2006, and the recommended GCR requirements of 26,018
3 MMcf for the November thru March period. This calculation resulted in
4 approximately 2.2 MMDth of additional supply. (26,018 minus 3926 for base load
5 = 22,092 divided by 5173 DDD = 4.270 times 517 = 2.2 MMDth.) However, my
6 own experience in the past suggests that price-driven conservation is reduced in
7 CTN weather. I have no problem agreeing to the Company's plan for CTN
8 weather.

9 **Q. WHAT WERE THE RESULTS OF YOUR ANALYSIS REGARDING**
10 **UTILIZATION OF FIRM TRANSPORTATION?**

11 **A.** I reviewed Exhibit A-6 which outlines the GCR Peak Day Supply Plan and
12 provides GCR supply by source and type. I then reviewed Exhibit A-10 which
13 outlines the 2006-2007 supply purchase plan on a monthly basis. I prepared
14 discovery question 2-RRC-6 which is included in my testimony as Exhibit RRC-3
15 (FJH-3). This question involved a comparison of peak day supply on Exhibit A-6
16 versus the monthly quantities shown on Exhibit A-10 for January 2007. I am
17 troubled by the Company's response for three reasons.
18 First, I am aware from my past participation in SEMCO cases that supply from
19 CECO is vital to the Company's operations. This was also covered by Mr.
20 Fitzgerald in his testimony on Page 15, line 19 thru Page 16, line 11. I expected a
21 response to 2-RRC-6(b) that approximately 5,000-10,000 Dth/D would be
22 provided as monthly base load supply for January. The response stated what was

1 already known and in Mr. Fitzgerald's testimony plus mention of "monthly base
2 load supply" but with no quantification. Also, if the incremental 25,000 for a peak
3 day is being supplied via swing supply or peaking services delivered on CECo,
4 then the firm transportation level of 50,000 will be exceeded by 10,794 which will
5 be delivered via interruptible transportation on a peak day. This area of the plan
6 needs further explanation and clarification.

7 Second, the Company's responses to 2-RRC-6 c., d., and e. were surprising to me.

8 The 7,000 of peak day supply at the MichCon City Gate is shown on Exhibit A-6
9 and there is not even a listing for MichCon on Exhibit A-10. The 10,000 of peak
10 day supply from NNG was developed from 23,551 of peak day supply on Exhibit
11 A-6 and the average daily supply of 13,372 shown on Exhibit A-10 for January.

12 The 1,500 of peak day supply from Trunkline/PEPL was developed from 9,500 of
13 peak day supply on Exhibit A-6 and the average daily supply of 8,214 shown on
14 Exhibit A-10 for January. When asked to confirm that the total of 18,500 would
15 require a daily spot purchase, the Company's response was "No" without
16 explanation. In my opinion, these are still inconsistencies which should be
17 explained.

18 Third, the Company's reluctance to provide information and/or clarification of
19 relatively minor points in their planned supply could be interpreted as an effort to
20 hide something. The reduction in peak day demand was almost entirely offset by a
21 reduction of supply on CECo. The CECo contract is an ideal source of supply
22 since it involves no annual demand charges with a modest transportation charge

1 when utilized and the CECO Balancing Account is peak shaving at its finest.
2 SEMCO should be required to explain why the reduction could not occur on
3 another pipeline supply and identify the best candidate for a reduction of firm
4 transportation whenever possible by contract expiration.

5 **Q. DO YOU HAVE ANY RECOMMENDATIONS REGARDING THE**
6 **COMPANY'S DCA PURCHASING PLAN?**

7 **A.** Yes. I recommend that each monthly DCA purchase should be bid, selection
8 made, and triggered to a fixed price all in the same month.

9 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

10 **A.** Yes, it does.

SEMCO ENERGY GAS COMPANY
MPSC Case No. U-14718

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

1-RRC-3 Provide a copy of James Van Sickle's workpapers.

Response: Please note that while reviewing my workpaper "2006-2007 Multi Input Data File", I discovered that I had used the wrong data for the DCA Fractional Multiplier for the two remaining workpapers listed below. I have made the corrections and have attached the following files as Attachment 1-RRC-3:

Tariff Page Matrix Data Corrected
GCR CFM NYMEX Avg 06-07 Corrected Data
2006-2007 Multi Input Data File

The following reflects a breakdown of the errors and the related corrections made to these workpapers:

	Incorrect	Correct
MPSC DCA 2 Qtr	.171	.095
MPSC DCA 3 Qtr	.343	.209
MPSC DCA 4 Qtr	.400	.248
UPW(2) DCA 2 Qtr	.171	.147
UPW(2) DCA 3 Qtr	.343	.319
UPW(2) DCA 4 Qtr	.400	.407
Combined DCA 2 Qtr	.171	.096
Combined DCA 3 Qtr	.343	.210
Combined DCA 4 Qtr	.400	.250

Response by: Jim Van Sickle
Dated: May 17, 2006

2006-2007

Supply Prior to DCA Fixed Price Purchases (Dth)	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Total
Fixed Price ANR-Alliance (BP)													0
Fixed Price ANR-SW (BP)													0
Net Fixed	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Index	3,354,743	3,553,399	3,072,548	2,909,486	2,969,204	2,864,922	3,260,196	3,497,085	3,688,364	3,898,397	3,568,997	3,582,733	40,220,074
Total Purchases	3,354,743	3,553,399	3,072,548	2,909,486	2,969,204	2,864,922	3,260,196	3,497,085	3,688,364	3,898,397	3,568,997	3,582,733	40,220,074
Transport and Contract-Storage Fuel	99,437	97,828	101,295	100,909	98,842	95,418	98,824	130,194	174,677	178,581	156,959	156,544	1,489,508
Total Purchases (Delivered)	3,255,306	3,455,571	2,971,253	2,808,577	2,870,362	2,769,504	3,161,372	3,366,891	3,513,687	3,719,816	3,412,038	3,426,189	38,730,566
Injections (Net)	-353,539	-1,614,911	-2,266,145	-2,019,394	-1,968,311	-1,869,619	-991,681						-11,083,600
Withdrawals (Net)	75,000							655,010	2,441,030	3,146,156	2,635,025	1,514,020	10,466,241
GCR Requirements (Dth) Delivered	2,976,767	1,840,660	705,108	789,183	902,051	899,885	2,169,691	4,021,901	5,954,717	6,865,972	6,047,063	4,940,209	38,113,207

Original Purchase Fractions	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Total
Fraction monthly purchases @ fixed price	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Remaining fraction summer purchases @ fixed price	0.000	0.000	0.000	0.000	0.000	0.000	0.000						
Remaining fraction winter purchases @ fixed price	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
Remaining fraction purchases @ fixed price	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	

Working Gas In Storage @ Oct 1 (Dth)	10,016,919
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SEMCO Energy Gas Company

Calculation of Fractional Multipliers for Staff Multi-Input Contingent GCR Factor Method

Remaining Months Basis (Prior to DCA)	Apr-06	Jul-06	Oct-06	Jan-07
Ps Summer purchases (Dth Delivered)	21,984,498	12,003,808	3,260,196	
I Storage Injections (Dth)	-11,083,600	-6,849,005	-991,681	
W Storage Withdrawals (Dth)	10,391,241	10,391,241	10,391,241	7,295,201
Pw Winter Purchases (Dth Delivered)	18,235,576	18,235,576	18,235,576	11,050,127
R Requirements Remaining (Dth)	39,527,715	33,781,620	30,895,332	18,345,328
f _{st} fraction original summer purchases @ fixed price	0.000	0.000	0.000	
f _{wt} fraction original winter purchases @ fixed price	0.000	0.000	0.000	0.000

Remaining Months Basis (After DCA)	Apr-06	Jul-06	Oct-06	Jan-07
D _{min} minimum fraction fixed via DCA Guidelines (winter)	0.000	0.171	0.343	0.400
D _{adj} additional fraction fixed via DCA Guidelines (winter)	0.000	0.171	0.343	0.400
f _s fraction summer purchases @ index	1.000	1.000	1.000	
f _w fraction winter purchases @ index	1.000	0.829	0.657	0.600
f _{storage} fraction total storage injections @ index		1.000		
f _{wg} ratio of summer injections to working gas		1.106		
f _{fuel} transportation & contract-storage fuel		1.038		
h system-average heating value (MMbtu/Mcf @14.65dry)		1.000		

Fractional Requirements	Apr-06	Jul-06	Oct-06	Jan-07
(P _s -I)*f _g /R	0.276	0.153	0.073	0.000
W*f _{storage} /R	0.263	0.308	0.336	0.398
(P _w *f _w)/R	0.461	0.447	0.388	0.361
(P _w *D _{additional})/R additional fixed price	0.000	0.093	0.202	0.241
[(P _s -I)*f _{st} +Pw*f _{wt}]/R original fixed-price supply	0.000	0.000	0.000	0.000
W*(1-f _{storage})/R original fixed-price via withdrawal	0.000	0.000	0.000	0.000
(Σ F) = fraction remaining requirements	1.000	1.000	1.000	1.000

Fractional Multipliers	Apr-06	Jul-06	Oct-06	Jan-07
F _{summer} = [(P _s -I)*f _g /R]*f _{fuel}	0.286	0.158	0.076	0.000
F _{storage} = [(W*f _{storage})/R]*f _{wg} *f _{fuel}	0.302	0.353	0.386	0.457
F _{winter} = [(P _w *f _w)/R]*f _{fuel}	0.479	0.464	0.403	0.375
F _{additional} = Pw*H _{additional} /R*f _{fuel}	0.000	0.096	0.210	0.250
(Σ F)	1.068	0.976	0.866	0.832

Fractional Multipliers Combined	Apr-06	Jul-06	Oct-06	Jan-07
F _{summer /storage withdraw} = [(P _s -I)*f _g /R + (W*f _{storage} /R)*f _{wg}]*f _{fuel} *h	0.588	0.512	0.463	0.457
F _{winter} = (P _w *f _w)/R	0.479	0.464	0.403	0.375
F _{additional} = Pw*H _{additional} /R*f _{fuel} *h	0.000	0.096	0.210	0.250
(Σ F)	1.068	1.072	1.076	1.082

NYMEX	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07
Original NYMEX 5-Day Average	\$6.8870	\$6.7370	\$6.7690	\$6.8010	\$6.8190	\$6.7940	\$6.8170	\$7.0970	\$7.3770	\$7.5770	\$7.5670	\$7.3470

Original NYMEX	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07
Summer Strip (April-Oct)	\$6.8034	\$6.8034	\$6.8034	\$6.8034	\$6.8034	\$6.8034	\$6.8034	\$6.8034	\$6.8034	\$6.8034	\$6.8034	\$6.8034
Remaining Winter Strip(Current-March)	\$7.3930	\$7.3930	\$7.3930	\$7.3930	\$7.3930	\$7.3930	\$7.3930	\$7.3930	\$7.4670	\$7.4970	\$7.4570	\$7.3470

SEMCO Energy Gas Company

delta GCR	Apr-06		Jul-06		Oct-06		Jan-07	
F Fractional Multiplier	0.588	0.479	0.512	0.464	0.463	0.403	0.457	0.375
Base GCR Factor	\$7.8675	\$7.8675	\$7.8675	\$7.8675	\$7.8675	\$7.8675	\$7.8675	\$7.8675
	S NYMEX	W NYMEX	S NYMEX	W NYMEX	S NYMEX	W NYMEX	S NYMEX	W NYMEX
Original NYMEX price strip	\$6.8034	\$7.3930	\$6.8034	\$7.3930	\$6.8034	\$7.3930	\$6.8034	\$7.4970
Incremental Contingent Factor	#1	#2	#1	#2	#1	#2	#1	#2
0-.10	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
1-.20	\$0.059	\$0.048	\$0.051	\$0.046	\$0.046	\$0.040	\$0.046	\$0.038
2-.3	\$0.118	\$0.096	\$0.102	\$0.093	\$0.093	\$0.081	\$0.091	\$0.075
3-.4	\$0.177	\$0.144	\$0.154	\$0.139	\$0.139	\$0.121	\$0.137	\$0.113
4-.5	\$0.235	\$0.192	\$0.205	\$0.186	\$0.185	\$0.161	\$0.183	\$0.150
5-.6	\$0.294	\$0.240	\$0.256	\$0.232	\$0.231	\$0.201	\$0.228	\$0.188
6-.7	\$0.353	\$0.287	\$0.307	\$0.279	\$0.278	\$0.242	\$0.274	\$0.225
7-.8	\$0.412	\$0.335	\$0.358	\$0.325	\$0.324	\$0.282	\$0.320	\$0.263
8-.9	\$0.471	\$0.383	\$0.410	\$0.372	\$0.370	\$0.322	\$0.366	\$0.300
9-1.0	\$0.530	\$0.431	\$0.461	\$0.418	\$0.416	\$0.363	\$0.411	\$0.338
1.0-1.1	\$0.647	\$0.479	\$0.512	\$0.464	\$0.463	\$0.403	\$0.457	\$0.375
1.0-1.2	\$0.706	\$0.575	\$0.614	\$0.557	\$0.555	\$0.483	\$0.548	\$0.450
1.0-1.3	\$0.765	\$0.623	\$0.665	\$0.604	\$0.602	\$0.524	\$0.594	\$0.488
1.0-1.4	\$0.824	\$0.671	\$0.717	\$0.650	\$0.648	\$0.564	\$0.640	\$0.525
1.0-1.5	\$0.883	\$0.719	\$0.768	\$0.697	\$0.694	\$0.604	\$0.685	\$0.563
1.0-1.6	\$0.942	\$0.767	\$0.819	\$0.743	\$0.740	\$0.644	\$0.731	\$0.600
1.0-1.7	\$1.000	\$0.814	\$0.870	\$0.790	\$0.787	\$0.685	\$0.777	\$0.638
1.0-1.8	\$1.059	\$0.862	\$0.921	\$0.836	\$0.833	\$0.725	\$0.822	\$0.676
1.0-1.9	\$1.118	\$0.910	\$0.973	\$0.882	\$0.879	\$0.765	\$0.868	\$0.713
2.0	\$1.177	\$0.958	\$1.024	\$0.929	\$0.925	\$0.806	\$0.914	\$0.751
Total Fractional Multipliers	1.068		0.976		0.866		0.832	

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-6 Please provide the following with regard to the 2006-07 values from Exhibit A-6 and Exhibit A-10 for a Peak Day occurrence in January 2007:
- a. Confirm that at least 35,794 (or 50,000) will be maintained in the CECo GBA for a potential Peak Day.
 - b. Confirm that no Base Load purchases are scheduled on CECo and that a daily spot purchase of 25,000 would be required.
 - c. Confirm that a daily spot purchase of 7,000 would be required on Michigan.
 - d. Confirm that a daily spot purchase of 10,000 would be required on NNG.
 - e. Confirm that a daily spot purchase of 1,500 would be required on Trunkline/PEPL.
 - f. Confirm that the total minimum daily spot purchase required is 43,500 Dth plus fuel.
 - g. Confirm that the 43,500 Dth covered above would equate to approximately 9 heating degree days and that no daily spot purchases would be required on a day with 65 heating degree days.
 - h. Confirm that the only source of supply on Exhibit A-6 which might require additional daily spot purchases during a very cold week or two in January would be the CECo GBA on days with 57 or more heating degree days.
 - i. Provide the number of days during a two-week period in January that on-system storage withdrawals are available at 80,800 Dth/Day and the maximum reduced withdrawals which can be sustained for two weeks.

SEMCO ENERGY GAS COMPANY
MPSC Case No. U-14718

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

Response: a. Yes.

- b. No. Although it's not obvious from Exhibit A-10, the Company is anticipating an average January daily demand of approximately 25,000 Dth per day from the Company's CECO gate stations. This demand is anticipated to be served through a mix of the CECO balancing account, the Company's leased storage assets, and monthly base load supply. On a peak-day, the Company is planning for an additional incremental demand of 25,000 Dth per day that is anticipated to be supplied via swing supply or through peaking services to avoid daily spot purchases.
- c. No.
- d. No.
- e. No.
- f. No.
- g. The Company cannot confirm that 43,000 Dth would equate to 9 heating degree days because the Company does not understand how the RRC equates 9 degree days with 43,000 Dth of demand. The Company cannot say and will not say that no daily spot purchases would be required on day with 65 heating degree days.
- h. No.
- i. The question cannot be answered accurately because the answer depends on the actual on-system storage inventory at the beginning of the two week period.

Response by: Walt Fitzgerald

Dated: May 17, 2006

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.)
_____)

Case No. U-14718

PROOF OF SERVICE

The undersigned certifies that on May 30, 2006 he served by electronic mail a copy of
**The Testimony and Exhibits of Frank J. Hollewa on Behalf of The Residential Ratepayer
Consortium** on the parties listed below.

David L.
Shaltz

Digitally signed by David L. Shaltz
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