

1 STATE OF MICHIGAN

2 BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

3 In the matter of the application of
Michigan Consolidated Gas Company Case No. U-14717
4 for approval of a gas cost recovery
plan, 5-year forecast and monthly Volume 2
5 GCR factor for the 12 months ending
March 31, 2007. Paperless E-File

6 _____/

7 CROSS-EXAMINATION

8 Proceedings held in the above-entitled matter
9 before James N. Rigas, J.D., Administrative Law Judge
10 with SOAHR, at the Michigan Public Service Commission,
11 6545 Mercantile Way, Room C, Lansing, Michigan, on
12 Thursday, July 6, 2006, at 10:10 a.m.

13 APPEARANCES:

14 RICHARD P. MIDDLETON, (P-41278)
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16 On behalf of Michigan Consolidated Gas Company

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23 On behalf of Residential Ratepayer Consortium

24

25 (Continued)

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1 APPEARANCES (Continuing):

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7 On behalf of Attorney General Michael A. Cox

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10 6545 Mercantile Way, Suite 15
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12 On behalf of Michigan Public Service
13 Commission Staff

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16 REPORTED BY: Lori Anne Penn (CSR-1315)

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1 I N D E X

2	WITNESS:	PAGE
3	Martin G. Kushler	
4	Testimony Bound In	16
5	Geoffrey C. Crandall	
6	Testimony Bound In	23

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10 E X H I B I T S

11	NUMBER	DESCRIPTION	MRKD	OFFRD	RECD
12	MCA-1	Resume of Martin G. Kushler, Ph.D.	14	15	15
13	MCA-2	Examining the Potential for Energy Efficiency To Help Address the			
14		Natural Gas Crisis in the Midwest			
15		Report Number U051, January 2005	14	15	15
16	MCA-3	Responding to the Natural Gas			
17		Crisis America's Best Natural			
18		Gas Energy Efficiency Programs			
19		Report Number U035, December 2003	14	15	15
20	MCA-4	Resume of Geoffrey C. Crandall	14	15	15
21	MCA-5	2006-2007 MichCon GCR Customers			
22		Savings Calculation From Energy			
23		Efficiency Activities	14	15	15

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At about 10:10 a.m.

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(Hearing resumed pursuant to adjournment of February 21, 2006.)

Good morning. This is the continued hearing before the Michigan Public Service Commission in Case No. U-14717. This matter is being continued from the session held on February 21st of this year.

My name is James N. Rigas, I'm an administrative law judge for the State Office of Administrative Hearings and Rules.

MR. MIDDLETON: Good morning, your Honor.

Richard P. Middleton appearing on behalf of the Michigan Consolidated Gas Company.

MR. KESKEY: Don Keskey appearing on behalf of the Michigan Community Action Agency Association.

MS. LUKEY: Nancy L. Lukey appearing on behalf of the Residential Ratepayer Consortium.

MR. MOODY: Michael Moody on behalf of
Attorney General Mike Cox.

1 MS. SMITH: Kristin M. Smith, assistant
2 attorney general, on behalf of the staff the Michigan
3 Public Service Commission.

4 JUDGE RIGAS: Thank you. Are there any
5 other appearances? I hear none.

6 Mr. Middleton, what is the status of this
7 case?

8 MR. MIDDLETON: Thank you, your Honor.
9 The parties have had an opportunity to engage in a series
10 of negotiations, and as a result of those meetings, the
11 parties have agreed to settle all matters in this
12 proceeding with the exception of the issues presented in
13 the prefiled testimony of Mr. Kushler and Mr. Crandall on
14 behalf of MCAAA. So this morning, your Honor, the
15 parties would respectfully request that Mr. Kushler and
16 Mr. Crandall, through their counsel, Mr. Keskey, have an
17 opportunity to bind testimony into the record on that
18 matter and have it briefed. And we will be submitting
19 later today a signed settlement agreement on all other
20 GCR issues that were before the commission in this
21 matter.

22 JUDGE RIGAS: Very good. And everybody
23 wishes to so stipulate?

24 MS. LUKEY: Yes, your Honor.

25 MR. MOODY: Yes, your Honor.

1 MS. SMITH: Yes, your Honor.

2 JUDGE RIGAS: Mr. Keskey, would you
3 identify the testimony for us, please.

4 (Documents marked for identification by the court
5 reporter as Exhibit Nos. MCA-1, MCA-2, MCA-3, MCA-4
6 and MCA-5.)

7 MR. MIDDLETON: Yes. Thank you, your
8 Honor.

9 The first witness is Dr. Martin G.
10 Kushler, and his testimony to be entered into the record
11 consists of a cover page and six pages of questions and
12 answers. Dr. Kushler also sponsors three exhibits. The
13 first exhibit is his resume, which is Exhibit MCA-1. The
14 second exhibit is a study, which is identified as Exhibit
15 MCA-2, which consists of 104 pages and is entitled
16 "Examining the Potential for Energy Efficiency To Help
17 Address the Natural Gas Crisis in the Midwest", Report
18 Number U051, dated January 2005. The third exhibit for
19 Dr. Kushler is Exhibit MCAAA -- excuse me -- MCA-3, which
20 is another study which consists of 42 pages plus some
21 attachments and is entitled "Responding to the Natural
22 Gas Crisis America's Best Natural Gas Energy Efficiency
23 Programs", Report Number U035, dated December 2003.

24 The second witness to be presented by
25 MCAAA is that of Mr. Geoffrey C. Crandall, and his
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1 testimony consists of a cover sheet and 15 pages of
2 questions and answers, and is entitled Revised Testimony
3 and Exhibits of Geoffrey C. Crandall dated May 2nd, 2006.
4 In addition, Mr. Crandall sponsors two exhibits; Exhibit
5 MCA-4, which consists of his resume, and also Exhibit
6 MCA-5, which consists of a cover page and a one-sheet
7 calculation exhibit.

8 And with that, your Honor, we move that
9 the testimony of Dr. Kushler and Mr. Crandall, with his
10 exhibits, be accepted into the record.

11 JUDGE RIGAS: Very good. Pursuant to the
12 stipulation of the parties, then, the testimony, the
13 prepared Direct Testimony of Martin G. Kushler in Case
14 No. U-14717 consisting of some six pages of questions and
15 answers will be bound into the record. Exhibits MCA-1, 2
16 and 3 will be received at this time.

17 Further, prepared Direct Testimony of
18 Geoffrey C. Crandall in Case No. U-14717 consisting of
19 some 15 pages of questions and answers will be bound into
20 the record. Exhibits MCA-4 and 5 will be received at
21 this time.

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STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the Application of	)	
MICHIGAN CONSOLIDATED GAS	)	Case No. U-14717
COMPANY for approval of Gas Cost	)	(e-file/paperless)
Recovery Plan, 5-year Forecast and monthly	)	
GCR Factor for the 12 months ending March	)	
31, 2007.	)	

TESTIMONY AND EXHIBITS

OF

MARTIN G. KUSHLER

On Behalf of the

Michigan Community Action Agency Association

Filed May 2, 2006

1 **Q. Please state your name and business address.**

2 A. My name is Martin G. Kushler. My business address is 1751 Brookshire Court,
3 Williamston, Michigan, 48895.

4 **Q. What is your occupation?**

5 A. I am the Director of the Utilities Program for the American Council for an Energy
6 Efficient Economy (ACEEE), a non-profit organization, with headquarters in
7 Washington, D.C., dedicated to research and policy development in the area of
8 energy efficiency. My basic responsibility is to conduct research and policy
9 development in the area of utility-related energy efficiency activities, and to provide
10 consultation and assistance to policy-makers, regulators, and interested parties at the
11 state and federal level. My qualifications are attached to this Testimony as Exhibit
12 (MCA-1).

13 **Q. What additional professional experiences do you have that have helped prepare**
14 **or qualify you for your testimony today?**

15 A. I have worked as a professional program evaluator in the field of energy and utility
16 programs for over 20 years. For a decade I was the Supervisor of the Program
17 Evaluation Section at the Michigan Public Service Commission (MPSC), where I
18 was responsible for overseeing the evaluation of all energy efficiency programs
19 conducted by Michigan regulated utility companies. In that capacity I testified
20 before the MPSC in numerous regulatory hearings. I have also published a large
21 number of professional papers and articles on energy program evaluation, and for
22 six years served as the President of the Board of Directors of the International
23 Energy Program Evaluation Conference.

1 **Q. What is the purpose of your testimony?**

2 **A. The purpose of my testimony is to provide the Commission with information about**
 3 the demonstrated effectiveness of energy efficiency as a low-cost natural gas
 4 resource that is being widely used in other states to help lower the total costs of
 5 meeting their natural gas system needs and provide significant dollar savings to
 6 utility customers. My testimony and sponsored studies, Exhibits MCA-2 and MCA-
 7 3, describe how energy efficiency programs can reduce natural gas supply costs
 8 claimed by utilities under Act 304 and thus provide significant cost savings to
 9 customers. In this case I am providing this information on behalf of the Michigan
 10 Community Action Agency Association (CMAAA).

11 **Q. Why are you presenting this information in this case?**

12 **A. The Commission has recently re-affirmed the importance of energy efficiency and**
 13 its interest in seeking to advance the implementation of energy efficiency. In a
 14 recent Order the Commission wrote:

15 “Now, however, the Commission finds that a rational energy
 16 policy for Michigan must include efforts towards identifying
 17 and implementing practical, cost-effective, and achievable
 18 reductions in energy demand through energy efficiency
 19 programs....Staff should identify what can be done to achieve
 20 gains in energy efficiency in Michigan within the
 21 Commission’s existing regulatory authority, as well as
 22 identifying other programs....”

23 MPSC Order U-14667, pp. 4-5, October 18, 2005

24 Since the GCR process is an appropriate mechanism for achieving “gains in
 25 energy efficiency in Michigan within the Commission’s existing regulatory
 26 authority”, I am providing information in this case about the demonstrated
 27 experience of other states in achieving practical and cost-effective energy efficiency.

1 Moreover, even more recently, the Governor issued an Executive Directive
2 (No. 2006-2) on April 12, 2006 for a “21st Century Energy Plan”, and called for
3 recommendations on “reducing reliance on fossil fuels through energy
4 efficiency....”

5 Energy efficiency is a very low-cost natural gas system resource, and
6 customers strongly support utility investment in energy efficiency programs. This
7 proceeding is one potential avenue for considering implementation of energy
8 efficiency resource programs. If Michigan Consolidated Gas Company
9 implemented energy efficiency programs, it would not only lower the total cost of
10 meeting the energy needs of its customers, it would be directly responsive to the
11 expressed interests of the Commission and the Governor in advancing energy
12 efficiency in Michigan.

13 **Q. What information sources on energy efficiency programs are you providing**
14 **with your testimony?**

15 A. To assist the Commission in its deliberations I would like to provide the results of
16 two recent ACEEE reports which I co-authored: Exhibit MCA-2, *Examining the*
17 *Potential for Energy Efficiency to Help Address the Natural Gas Crisis in the*
18 *Midwest*, January 2005; and Exhibit MCA-3, *Responding to the Natural Gas Crisis:*
19 *America’s Best Natural Gas Energy Efficiency Programs*, December 2003. These
20 reports are also included as exhibits to this testimony.

1 **Q. What are the key findings of these ACEEE reports?**

2 A. Two of the key findings of these reports are as follows:

3 Energy efficiency programs to save natural gas are very cost-effective in
4 terms of direct savings. Across a group of two dozen different programs examined,
5 the median (mid-point) levelized cost of natural gas saved was about \$2.80 per Mcf.
6 This is much less than half the current market wholesale cost of natural gas.

7 Because the natural gas market is so constrained, reductions in demand from
8 energy efficiency can actually reduce the wholesale market price of natural gas.
9 Our analyses indicate that an aggressive but achievable program of energy
10 efficiency for the 8 Midwest states (IA, IL, IN, MI, MN, MO, OH and WI) would
11 produce up to a 13% reduction in the wholesale market price of natural gas in the
12 region. These energy efficiency programs would significantly reduce natural gas
13 costs for all customers, and produce hundreds of millions of dollars per year in total
14 energy cost savings for Michigan ratepayers.

15 **Q. How effective are today's utility sector energy efficiency programs?**

16 A. Energy efficiency program designs have evolved and improved in numerous ways
17 over the past 20 years. Today's program designers have learned from experience.
18 They have learned to target programs better in terms of technologies and markets.
19 They have learned to keep program and incentive costs down by using non-
20 monetary means of encouraging efficiency investments. By evaluating what works
21 and doesn't work, today's efficiency programs are producing savings at lower costs
22 than in the past. Numerous states have documented the ability of these programs to
23 save natural gas at a cost of less than \$3.00 per Mcf.

1 **Q. Can you provide specific examples of successful utility sector energy efficiency**
2 **programs from other states?**

3 A. Yes. The best reference for this would be the report I co-authored, entitled:
4 *Responding to the Natural Gas Crisis: America's Best Natural Gas Energy*
5 *Efficiency Programs*, Exhibit MCA-3. This project provided detailed case studies
6 on a total of 29 different exemplary natural gas energy efficiency programs from
7 around the nation.

8 **Q. Earlier you said that customers strongly support utility spending for energy**
9 **efficiency programs. What is the basis for that assertion?**

10 A. This has been a consistent finding in customer surveys nationally for many years.
11 More specifically, an independent survey of Michigan utility customers conducted
12 on behalf of the Michigan Public Service Commission (MPSC) staff in 1996
13 directly addressed these subjects. Customers were asked to rate their level of
14 support for their utility spending more money on each of seven different options,
15 ranging from energy efficiency programs to renewable energy to building a
16 traditional coal or gas power plant. The results were as follows (presented in order
17 of the level of preference they received): "Controls to reduce air and water
18 pollution" (85.8% favor); "more energy efficiency programs, so that people could
19 get help making their homes efficient" (83.3%); "The use of renewable energy
20 supplies, such as wind or solar" (72.2%); "Building a traditional coal or gas burning
21 power plant" (30%); "Additional power being generated, so people wouldn't have to
22 worry about being energy efficient (28.7%); "Building a nuclear power plant"
23 (21.0%); and "Buying additional power from another state or Canada" (18.9%).

1 More recently, the Commission has seen vivid evidence of the very high
2 level of public interest in having access to energy efficiency programs. On January
3 18, 2006 the MPSC and a number of utilities announced the availability of a small
4 program ("Save Energy With Ease") to provide workshops and free home energy
5 conservation packets to 3,450 residents, plus programmable thermostats to 1,500
6 low-income homes. The customer response was extraordinary, with the MPSC
7 receiving over 10,000 calls in the first day after the announcement, and Community
8 Action Agencies around the state received thousands of additional calls. Clearly,
9 Michigan citizens and ratepayers are hungry for utility energy efficiency programs
10 to assist them to save energy.

11 **Q. Would you please summarize your testimony?**

12 **A.** My testimony provides information for the Commission about the demonstrated
13 availability of cost-effective natural gas energy efficiency resource programs that
14 have been successfully implemented in a number of states. The MPSC has recently
15 indicated that "Michigan must include efforts towards identifying and implementing
16 practical, cost-effective, and achievable reductions in energy demand through
17 energy efficiency programs"(Order, U-14667). This is a very timely development,
18 because the use of energy efficiency as a resource has the potential to reduce overall
19 natural gas system costs for all ratepayers.

20 **Q. Does this complete your testimony?**

21 **A.** Yes.

STATE OF MICHIGAN
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In the matter of the Application of)
Michigan Consolidated Gas Company)
or approval of a Gas Cost Recovery)
Plan, 5-year Forecast and Monthly GCR)
Factor for the 12 months ending)
March 31, 2007.)

Case No. U-14717

**Revised Testimony and Exhibits of
Geoffrey C. Crandall**

On Behalf of:

Michigan Community Action Agency Association

May 2, 2006

1 **Q. What is your name and business address?**

2 A. My name is Geoffrey C. Crandall. My business address is MSB Energy
3 Associates, Inc., 7507 Hubbard Avenue Suite 200, Middleton, Wisconsin 53562.

4

5 **Q. On whose behalf are you testifying today?**

6 A. I am testifying on behalf of the Michigan Community Action Agency
7 Association.

8

9 **Q. Please describe your background and experience in the field of gas and**
10 **electric utility regulation.**

11 A. I am a principal and the Vice President of MSB Energy Associates, Inc. I have
12 over 32 years of experience in utility regulatory issues, including resource
13 planning, restructuring, mergers, fuel, purchase power and gas cost recovery and
14 planning analysis, energy efficiency, conservation and load management impacts,
15 program design and other issues. I have provided expert testimony before more
16 than a dozen public utility regulatory bodies throughout the United States. I have
17 provided expert testimony before the United States Congress on several occasions
18 and have previously filed testimony on Power Supply Cost Recovery and Gas
19 Cost Recovery planning and reconciliation cases before the Michigan Public
20 Service Commission.

21

22 My experience includes over 15 years of service on the Staff of the Michigan
23 Public Service Commission (Commission). In my tenure at the Commission, I

1 served as an analyst in the Electric Division (Rates and Tariff section) involving
2 rate as well as fuel and purchase power cases. I also served as the Technical
3 Assistant to the Chief of Staff, supervisor of the energy conservation section
4 (involving residential and commercial energy efficiency programs). I also served
5 as the Division Director of the Industrial, Commercial and Institutional Division.
6 In that capacity, I was Director of the Division that had responsibility for the
7 energy efficiency and conservation program design, funding, and implementation
8 of Michigan utility and DOE-funded programs and initiatives involving Industrial,
9 Commercial and Institutional gas and electric customers throughout Michigan.
10 In 1990, I became employed by MSB Energy Associates, Inc. and have served
11 clients throughout the United States on numerous projects related to system
12 planning, fuel, purchase power and gas cost recovery assessments, energy
13 efficiency and load management program development, electric restructuring,
14 customer impact analyses, and other issues. My vita is attached as
15 Exhibit MCA-4 (GCC-1).

16
17 **Q. What is the purpose of your testimony?**

18 **A.** The purpose of my testimony is to address several aspects of the applicant's
19 deficient and incomplete GCR plan filing. MichCon's proposed GCR plan is
20 inadequate because it fails to integrate natural gas cost reduction strategies i.e.,
21 demand management and usage reduction strategy in its long-range plan to
22 acquire natural gas resources. In addition, the proposed GCR factor is
23 unnecessarily high and should not be authorized for several reasons as is

1 described more fully in my testimony and the testimony of MCAAA witness

2 Mendl. MCAAA is recommending the following:

- 3 1) That the Commission not approve the GCR plan or factor as proposed by
4 the Applicant, but instead approve a lower GCR and contingency factor
5 based on the methodology proposed by MCAAA witness Mendl as well as
6 the adjustments described in this testimony.
- 7 2) The Commission should ensure that vulnerable, low-income customers are
8 held harmless and exempt from upward adjustments to MichCon's
9 contingency mechanism.
- 10 3) The Commission should not authorize inclusion of the proposed
11 \$96,000,000 (\$0.64/Mcf) for the alleged 2005-2006 underrecovery.
- 12 4) The Commission should require applicant waive its disconnect, reconnect
13 and collection fees for its vulnerable, low income customers resulting
14 from problems of non-payment or, at a minimum, retain the temporary
15 rule changes applied to qualified low-income GCR customers that were
16 put in place by the Commission for the 2005-2006 heating period, until
17 further modified by Commission Order.
- 18 5) In order to ensure a thorough and comprehensive planning process and
19 reduce the GCR costs, the Commission should direct the applicant to
20 immediately initiate a collaborative process to develop resource
21 displacement plans i.e., energy efficiency programs for GCR customers
22 especially vulnerable, low income customers and submit them as an
23 integral part of the subsequent GCR planning case.

1

2 **Q. Why does MCAAA believe it's important to participate in this case?**

3 A. MCAAA commends the Commission for establishing the U-14667 proceeding to
4 review energy efficiency opportunities in Michigan for gas and electric
5 customers. MCAAA also appreciates the Commissions actions administering the
6 LIEE fund. This crucial initiative has provided sorely needed funds to help many
7 families and low-income customers to keep the lights and heat on in Michigan.

8

9 Aside from the above, however, Act 304 places a duty on the Applicant to
10 formulate a reasonable five year natural gas resource plan and forecast, and places
11 the duty and burden on the Applicant to minimize the cost of natural gas. The
12 Applicant is seeking authority from the Commission to impose or maintain
13 unnecessarily high GCR rates on GCR, residential and vulnerable low-income
14 customers for their natural gas use. Applicant's case seeks the setting of
15 maximum GCR rate factors, and claimed cost flow-throughs, without
16 demonstrating sufficient actions to minimize costs or to adopt innovative resource
17 planning and demand or load reduction, energy efficiency, and cost minimization
18 programs and strategies. Applicant's case fails to address these duties and
19 program approaches despite the fact the Commission's October 2005 Order in U-
20 14667 found that "the Commission finds that a rational energy policy for
21 Michigan must include efforts towards identifying and implementing practical,
22 cost-effective and achievable reductions in energy demand through energy
23 efficiency programs".

1
2 MCAAA is also disturbed by the proposed GCR factor in view of Michigan's
3 current economic plight. Low-income GCR customers simply do not have the
4 ability to pay enormously increased costs. MCAAA believes that a sound natural
5 gas energy plan is crucial to the States long-term economic condition as well as
6 the overall quality of life of its citizens.

7
8 Act 304 provides an already existing statutory process for exploring and
9 implementing in this case alternative resource planning, load mitigation, energy
10 efficiency and conservation, and gas cost minimization, strategies and programs.
11 It is here that interested parties (who will be coerced into paying for the gas
12 resources selected) have the opportunity to shape their five-year energy future.
13 Forecasts and expense projections include anticipated demand, employment,
14 industrial production, resource prices, competition as well as the anticipated
15 customer needs for natural gas during the upcoming five-year period.

16
17 **Q. Do you believe that the applicant has proposed a plan consistent with the**
18 **Commission's desire that utilities and citizens in Michigan have a rational**
19 **energy policy which includes "efforts towards identifying and implementing**
20 **practical, cost-effective and achievable reductions in energy demand through**
21 **energy efficiency programs"?**
22

1 A. No. After reviewing the application and the testimony, discovery responses and
2 other relevant materials, it's clear that the Applicant has not included significant
3 options and technologies to manage customer demand or usage reduction
4 strategies. MichCon's proposed plan is thus not consistent with the public
5 interest. It is flawed, deficient and the proposed factor is unjustifiably high. It
6 should be not be authorized by the Commission, as proposed. The applicant
7 should lower its proposed GCR factor and include significant energy efficiency,
8 conservation and customer usage reduction strategies in its five-year plan as a
9 resource displacement to help customers reduce their GCR costs.

10

11 **Q. Is it reasonable to assume that MichCon could offer energy efficiency**
12 **services to its GCR customers to help reduce the GCR costs?**

13

14 A. Yes. Beginning in the early 1970's the Applicant offered its customers various
15 programs including the Michigan Residential Conservation Services Program
16 (MRCS), Zero Interest (ZIP) loan program for ceiling insulation and vent dampers
17 and the Below Market Loan programs for residential efficiency improvements,
18 the Michigan Business Energy Efficiency Program and the Insulation Outreach
19 Program. After extensive studies and evaluations, which were the subject of
20 hearings in case U-8528, the Commission determined that the MRCS and ZIP
21 programs benefits exceeded their costs and were deemed to be cost-effective.
22 MichCon terminated those programs and services. The company has the
23 capability to design, develop, implement and operate energy efficiency programs

1 in a cost effective manner. The Applicant should re-institute energy efficiency
 2 programs, offer them to their customers and integrate the projected impact of
 3 those programs in its five-year GCR plan. Last fall, in its Order U-14667, the
 4 Commission pointed out that MichCon has very extensive experience with energy
 5 efficiency programs beginning more than three decades ago. MichCon has a long
 6 history of providing substantial and cost effective energy conservation and
 7 efficiency service to its customers.

8

9 **Q. Do you believe this is the proper forum to discuss the proposed GCR factor,**
 10 **gas resource alternatives, planning and the expected acquisition of gas**
 11 **supplies for GCR customers?**

12 A. Yes. This is clearly the proper forum to deal with the operational elements that
 13 impact GCR customer costs and gas supply. In this application, MichCon seeks
 14 authorization of a GCR factor in excess of \$12/Mcf with an opportunity to add
 15 over an additional \$3.00 through its contingency mechanism. These
 16 unnecessarily high GCR rate authorizations being sought by MichCon make it
 17 doubly important that the Commission require some solid cost minimization and
 18 alternative resource planning from the Applicant including load mitigation and
 19 energy efficiency strategies and programs.

20

21 The Commission also has an obligation and duty to “do all things necessary” to
 22 prevent the waste of natural gas under Section 14 of 1929 PA 9. The legislature
 23 empowered the Commission to reduce the wasteful use of natural gas, which

1 includes many things including energy conservation and energy efficiency
2 strategies and programs. This annual five-year gas planning case is the
3 appropriate forum for interested parties to provide input on key elements of the
4 five-year plan, to include these cost minimization approaches. Forecasts include
5 anticipated demand levels. Demand is not static, instead it is influenced by
6 numerous variables, including price, terms and consumer demand.
7

8 **Q. Do you have a recommendation regarding the applicant's proposal to include**
9 **\$0.64 per Mcf or \$96,000,000 related to an alleged underrecovery occurring**
10 **during 2005 and 2006?**

11 A. Yes. Witness Schmidt on Exhibit A-20 (JCS-1) line 16, proposes to include
12 \$96,000,000 for an alleged 2005- March 31, 2006 underrecovery. Since the
13 Commission has not made a formal determination nor has it issued an Order on
14 this matter, it would be premature and inappropriate to include it in the GCR
15 factor as proposed in this application. In view of circumstances that have
16 occurred since this application was prepared, there is absolutely no justification to
17 authorize this alleged underrecovery. Since the Applicant has on its own volition
18 lowered the GCR factor beginning in February 2006, the only logical conclusion
19 that can be drawn is that the alleged underrecovery has now been fully recovered
20 as a result of the imposition of the painfully high \$11.39 GCR factor. The
21 proposed \$96,000,000 inclusion for the alleged 2005-2006 underrecovery is
22 unwarranted and should not be authorized by the Commission. The Commission

1 should therefore reduce the proposed \$12.15 GCR base factor by \$0.64 to remove
2 this item. This adjustment alone would result in a \$11.51 GCR base factor.
3 MCAAA is suggesting further downward adjustments to the proposed GCR
4 Factor through Witness Mendl, for other reasons that he describes in his
5 testimony.

6 **Q. Are there other important issues that the Commission should consider**
7 **regarding the new GCR factor proposed by MichCon?**

8 A. Yes. The Commission should consider rate shock, ability of customers to pay and
9 to adjust to high gas costs, and options to moderate increases and reduce
10 unnecessary volatility in GCR rate factors. Rate shock is especially important
11 when considering the harsh impacts on low-income customers already burdened
12 because a disproportionate share of their discretionary income is already being
13 spent on energy costs. In Michigan, approximately 30% of the residents fall below
14 200% of the Federal poverty guidelines.

15 **Q. Why is that relevant in this GCR case?**

16 A. MichCon's low-income customers are GCR customers, and they will be affected
17 by the price increases emanating from a higher GCR base and contingency factor.
18 Impacts to low-income customers are relevant and must be considered because
19 MichCon's contingent mechanism creates an opportunity for an unlimited
20 automatic increase in gas rates, up to the ceiling levels of the contingency
21 mechanism and the base rate, with no Commission consideration or review of the
22 potential impacts on low-income customers. My experience in other states

suggests that regulatory bodies would strive to find alternatives which would buffer vulnerable customers and smooth out and moderate increases of a large magnitude to prevent rate shock e.g., low-income weatherization and lifeline rates, senior citizen rate discounts, etc.

Q. What should the Commission do to mitigate harmful rate increases to low-income customers?

A. The Commission should adopt the GCR base and Contingency factor adjustments proposed by MCAAA and also exempt vulnerable low-income customers from upward adjustments resulting from the contingent mechanism and contingent factor induced increases. Risk shifting away from the utility should not fall on the backs of the vulnerable, low-income customers. Exempting low income customers would cap rates for low-income customers at the base GCR. In so doing, the Commission would be giving full consideration to the special problems and burdens faced by low-income customers. If the contingency mechanism were to result in a downward adjustment, that reduction should be passed on to the low-income customers.

The Commission should also require the company to implement more aggressive communication activities, such as joint projects with CAP agencies, billing inserts (with applications), to assist customers in applying for low-income programs such as LIHEAP, the Weatherization Assistance Program, or The Heat And Warmth Fund (THAW), etc.

1

2 **Q. Why do you believe that the approval of the applicant's request would create**
 3 **a hardship for residential and low-income customers in Michigan?**

4 A. According to the U.S. Bureau of Labor Statistics (February 2006) Michigan is
 5 experiencing a painfully high 6.6% unemployment rate. Only Alaska and
 6 Mississippi have higher unemployment levels. If this application (as proposed) is
 7 approved, it could lead to unnecessary hardship to low-income citizens. This
 8 proposed increase comes at a time when many Michigan citizens have their backs
 9 up against the wall economically with gasoline approaching \$3 per gallon, and
 10 with heavy job losses being experienced. Last fall, Governor Granholm issued a
 11 press release expressing her concern about the well being of vulnerable low-
 12 income customers and the potential impact of rising natural gas costs. More
 13 recently, the Governor issued Executive Order No. 2006-2, wherein the Governor
 14 acknowledges the hardships customers face resulting from increased energy
 15 prices:

16 “ Whereas, recent price shocks in the international and
 17 domestic energy markets have resulted in rising energy
 18 costs that have placed increased strain on Michigan
 19 businesses and citizens, especially low-income residents
 20 struggling to pay utility bills”.

21 In the Executive Order, the Governor directs the Chairman of the Commission to
 22 prepare a proposed Energy Plan for the State of Michigan by December 2006, and
 23 states:

24 The Energy Plan is to include “The appropriate use and
 25 application of *energy efficiency*, alternative energy
 26 technology, and renewable energy technologies shall be

1 consistent with the goal of assuring reliable, safe, clean and
2 affordable energy” (emphasis added)

3

4 **Q. Are there further GCR Plan and resource related actions the Commission**
5 **should consider?**

6 A. Yes. The Commission should ensure that the applicant makes a good faith effort
7 to help keep gas costs down for GCR customers by initiating weatherization and
8 energy efficiency assistance.

9

10 **Q. Have other utilities providing natural gas been offering energy efficiency and**
11 **conservation service to their customers?**

12 A. Yes. Energy efficiency services and energy conservation strategies and options
13 are being made available throughout the United States by gas utilities. I have
14 personally worked on a number of projects reviewing and suggesting modification
15 of various energy efficiency and conservation programs involving gas utilities.
16 MCAAA Witness Kushler has described numerous electric and gas utility energy
17 efficiency programs in his testimony and exhibits in this proceeding. I found
18 MCAAA Witness Kushler’s background materials and information to be credible
19 and useful.

20

21 **Q. What level and magnitude of energy efficiency and demand management**
22 **programs do you believe is plausible for the Applicants customers?**

23 A. MCAAA Witness Kushler has identified on page 3 of his study, Exhibit MCA-3,
24 entitled *Responding to the Natural Gas Crisis: Americas Best natural Gas Energy*

1 *Efficiency Programs*, December 2003, a number of exemplary gas utility
2 programs. Some of these have resulted in annual consumption by approximately
3 2%.

4
5 I believe that an achievable level of savings of 1% per year is reasonable in
6 MichCon's service territory. Such a program could be designed, implemented
7 and managed by MichCon. If implemented in a cost-effective manner, GCR
8 customer gas costs would be less than proposed in this application. For example,
9 if an energy efficiency program having an 1% impact on MichCon's forecast for
10 2006-2007 was operational, GCR customer gas costs would be reduced from the
11 proposed level by over \$18,400,000. (See Exhibit MCA-5 (GCC-2). The savings
12 to GCR customers would result from the reduced gas consumption costing less
13 than \$3 Mcf. This would create GCR customer savings of over \$12 per Mcf,
14 compared to the GCR rates proposed in the application. The GCR customer gas
15 bills would be lower by using energy efficiency to displace far more expensive
16 and price-volatile natural gas.

17
18 We are presenting this analysis in this case because we believe that gas savings
19 opportunities are clearly present and MichCon has an obligation and duty, in
20 accordance with Act 304, to pursue cost reduction alternatives. If MichCon had
21 continued its past cost effective energy efficiency resource programs with its
22 customers, GCR customer bills would have been less. Unfortunately this was not
23 done and GCR customer bills are unnecessarily high as a result.

1 **Q. What are your recommendations?**

2 A. I recommend the Commission find that MichCon proposed five year GCR plan
3 not be approved as filed, and that the Commission adopt MCAAA's adjustments
4 consistent with the recommendations of MCAAA Witness Mendl and in my
5 testimony.

6

7 The Commission should require that the Applicant immediately develop and
8 initiate a substantial energy efficiency/conservation program and offer it to its
9 GCR customers as a cost reduction strategy. This should be created by the
10 Company in conjunction with a collaborative working group made up the
11 Commission staff, intervenors, customers and interested parties. The Commission
12 should require that MichCon adopt a similar program development and
13 implementation strategy it employed in the Consumers Power Company U-9346
14 docket to establish the optimal design, phase-in schedule and overall
15 implementation strategy. The Commission should require the applicant to file a
16 progress report within six months of the date of the order in this case and integrate
17 expected impacts into its ongoing GCR planning activities and next GCR five
18 year plan filing.

19

20 The Commission should require that the applicant establish energy efficiency
21 programs and strategies that will result in a new increment of 1% savings of
22 natural gas per year (5% for its GCR customers over the upcoming five years) as
23 a cost mitigation strategy for GCR customers.

1

2 The Commission should not authorize the proposed \$0.64/Mcf, \$96,000,000
3 alleged 2005-2006 underrecovery.

4

5 The Commission should require that vulnerable, low-income customers be
6 exempt and held harmless from the MichCon contingency mechanism and factor.

7 The Commission should require the applicant to waive its disconnect, reconnect
8 and collection fees for its vulnerable, low income customers resulting from
9 problems of non-payment or at a minimum make permanent the rule changes that
10 were in effect for the 2005-2006 heating season.

11

12 **Q. Does this complete your testimony?**

13 **A. Yes.**

1 MR. KESKEY: Your Honor, we also had
2 filed a motion for declaratory ruling, and we would
3 propose, in light of the settlement and stipulation, that
4 the issues that we have presented in that motion be
5 merged essentially into the brief that we filed according
6 to the briefing schedule, and that we do not need a
7 separate hearing on that motion, we would simply brief
8 those issues, legal and factual, in part of the briefing
9 process on the merits of the case.

10 JUDGE RIGAS: All right. Let's go off
11 the record and discuss a schedule.

12 (A discussion was held off the record.)

13 JUDGE RIGAS: All right. We'll go back
14 on the record.

15 Let the record show we've had a brief
16 discussion. The following consensus schedule has been
17 developed for this case: Briefs may be submitted on or
18 before 5:00 p.m., July 31st of this year; reply briefs
19 are being provided for, they may be submitted on or
20 before 5:00 p.m., August 14th of this year.

21 I'll prepare a proposal for decision and
22 submit it to the parties on or about September 12th.
23 With that proposal for decision, I'll establish the time
24 for exceptions and replies thereto.

25 Anything further today?

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1 MR. MIDDLETON: Nothing, your Honor.

2 JUDGE RIGAS: Nothing.

3 MR. MOODY: No, your Honor.

4 JUDGE RIGAS: Very well. Then upon
5 submission of the settlement agreement and proposal for
6 decision, the matter will be ripe for commission
7 consideration. Is that right?

8 MR. MIDDLETON: Yes.

9 JUDGE RIGAS: Very good. This matter is
10 concluded then. Thank you all very much.

11 MR. MIDDLETON: Thank you.

12 MS. SMITH: Thank you.

13 (Proceedings concluded at 10:20 a.m.)

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C E R T I F I C A T E

I, Lori Anne Penn (CSR-1315), do hereby
certify that I reported in stenotype the proceedings had
in the above-entitled matter, that being Case No.
U-14717, before James N. Rigas, J.D., Administrative Law
Judge with SOAHR, at the Michigan Public Service
Commission, 6545 Mercantile Way, Lansing, Michigan, on
Thursday, July 6, 2006; and do further certify that the
foregoing transcript constitutes a true and correct
transcript of my stenotype notes.

LoriAnnePe
nn

Digitally signed by LoriAnnePenn
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Lori Anne Penn, CSR-1315
33231 Grand River Avenue
Farmington, Michigan 48336

Dated: