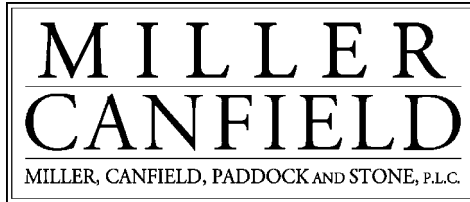


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June 30, 2006

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

Re: Michigan Gas Utilities Corporation
2006-07 GCR Plan and Factors
MPSC Case No. U-14715 [paperless]

Dear Ms. Kunkle:

Enclosed for electronic filing are the **Rebuttal Testimony and Exhibits of David J. Tyler and Testimony of Kent E. Huzzey** on behalf of Michigan Gas Utilities Corporation. Also enclosed is a Proof of Service. If you should have any questions, please advise.

Very truly yours,

MILLER, CANFIELD, PADDOCK AND STONE, P.L.C.

Sherri A.
Wellman
Sherri A. Wellman

Digitally signed by Sherri A.
Wellman
DN: CN = Sherri A. Wellman, C =
US, O = Miller Canfield
Date: 2006.06.30 09:57:48 -04'00'

SAW/edl

Enclosure

cc w/ enc: Parties of Record
David Tyler (via email)
Kent Huzzey

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
MICHIGAN GAS UTILITIES CORPORATION)
for authority to implement a gas cost recovery) Case No. U-14715
plan and factors for the 12-month period)
ending March 31, 2007.)

PROOF OF SERVICE

STATE OF MICHIGAN)
)ss
COUNTY OF INGHAM)

Edith D. Loomis, being first duly sworn, deposes and says that on June 30, 2006, she served a true copy of the ***Rebuttal Testimony and Exhibits of David J. Tyler and Testimony of Kent E. Huzzey*** upon the parties listed by electronic mail.

David Shaltz
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Edith Loomis Digitally signed by Edith Loomis
DN: CN = Edith Loomis, C =
US, O = Miller Canfield
Date: 2006.06.30 09:58:03 -
04'00'

Edith D. Loomis

Subscribed and sworn before me
on this 30th day of June, 2006.

Susan A. Crane Digitally signed by Susan A. Crane
DN: CN = Susan A. Crane, C = US,
O = Miller Canfield, OU = EVRG
Date: 2006.06.30 09:58:20 -04'00'

Susan A. Crane
State of Michigan, County of Ingham
My Commission Expires: July 3, 2012

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)
MICHIGAN GAS UTILITIES CORPORATION)
for authority to implement a gas cost recovery)
plan and factors for the 12-month period)
ending March 31, 2007.)

Case No. U-14715

REBUTTAL TESTIMONY

OF

KENT E. HUZZEY

July 2006

REBUTTAL TESTIMONY
OF KENT E. HUZZEY
ON BEHALF OF MICHIGAN GAS UTILITIES CORPORATION

1 Q. Please state your name and business address.

2 A. My name is Kent E. Huzzey and my business address is 600 North Adams
3 Street, Green Bay, Wisconsin, 54307.

4

5 Q. Are you the same Kent E. Huzzey who adopted the testimony, with some
6 modifications, of Harry Ono in this proceeding on May 25, 2006?

7 A. Yes, I am.

8

9 Q. What is the purpose of your rebuttal testimony in this proceeding?

10 A. I am testifying in response to certain recommendations made by Mr. Hollewa in
11 his pre-filed testimony on behalf of the Residential Ratepayer Consortium.

12

13 Q. At page 18, line 14 through 20 of his direct testimony, Mr. Hollewa states that
14 MGU should increase its MGU storage withdrawal to 40,000/d and reduce ANR
15 SE capacity by 10,000/d. do you agree?

16 A. No, I do not. Based on "normal" withdrawal patterns, MGUC's ability to withdraw
17 40,000/d from MGUC storage begins to diminish around mid to late December.
18 Consequently, without the 10,000/d of ANR SE capacity, MGUC's ability to meet
19 a load of 224,000/d is compromised less than mid-way through the heating
20 season.

21

REBUTTAL TESTIMONY
OF KENT E. HUZZEY
ON BEHALF OF MICHIGAN GAS UTILITIES CORPORATION

1 Therefore, MGUC believes that it is only prudent to review the operational and
2 economic feasibility of releasing the 10,000/d of ANR SE capacity on a recallable
3 monthly basis.

4
5 Q. Do you concur with Mr. Hollewa's recommendation on page 19 lines 21 and 22
6 that MGUC explore the availability of a 10-day peaking service.

7 A. The Company has a peaking arrangement with Nexen Marketing U.S.A. that
8 provides for up to 10,000/d from November through March at the Benton Harbor
9 citygate. This agreement is delineated on line 5 of Exhibit A-9, Page 1 of 3, but
10 does not expire on March 31, 2006 as the exhibit shows. It actually runs through
11 March 31, 2007.

12
13 Q. Does this conclude your rebuttal testimony?

14 A. Yes, it does.

15 LALIB:142726.1\131120-00002

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)
MICHIGAN GAS UTILITIES CORPORATION)
for authority to implement a gas cost recovery)
plan and factors for the 12-month period)
ending March 31, 2007.)

Case No. U-14715

REBUTTAL TESTIMONY AND EXHIBITS

OF

DAVID J. TYLER

June 30, 2006

REBUTTAL TESTIMONY AND EXHIBITS
OF DAVID J. TYLER
ON BEHALF OF MICHIGAN GAS UTILITIES CORPORATION

1 Q. Please state your name and business address.

2 A. David J. Tyler, 899 Telegraph Road, Monroe, Michigan.

3

4 Q. Are you the same David J. Tyler who previously prepared and filed direct
5 testimony in this case?

6 A. Yes.

7

8 Q. What is the purpose of your rebuttal testimony?

9 A. The purpose of my testimony is to respond to and/or rebut certain aspects of Mr.
10 Miller's, Mr. Hollewa's, Ms. Kindschy's and Ms. Quilico's testimony.

11

12 Q. Ms. Kindschy, on behalf of Staff, made recommendations to replace or
13 revise Michigan Gas Utilities Corporation's ("MGUC" or the "Company") gas
14 purchasing guidelines for making fixed price purchases, do you agree with these
15 recommendations?

16 A. Because of the timing for Staff's recommendations, I believe that making
17 changes to MGUC's fixed price purchase practices and implementing these
18 recommendations for the Company's 2006-07 GCR period would be difficult. For
19 instance, the first two dates for meeting the percentage tiers of Staff's revised
20 gas purchasing guidelines, December 1, 2005 and April 1, 2006, have already
21 passed, therefore, if any changes are made to the fixed price target guidelines in
22 this case, they should be made, if at all, for the 2007-08 GCR plan.

23

REBUTTAL TESTIMONY AND EXHIBITS
OF DAVID J. TYLER
ON BEHALF OF MICHIGAN GAS UTILITIES CORPORATION

1 Q. Witnesses Miller, Hollewa, and Ms. Quilico in their respective testimony all
2 propose updating the MGUC's base factor how do you respond?

3 A. The Company does not agree with many of the reasons asserted by the
4 witnesses for updating the base factor. For instance, at page 19, line 15 of his
5 pre-filed direct testimony, Mr. Miller states that the filed GCR base factor of
6 \$12.2958 per Mcf is not reasonable because "[i]n December 2005, when Aquila
7 prepared the GCR plan, the NYMEX strip for MGU's annual period was \$11.22
8 per Dth. But gas prices have declined enormously since then. The NYMEX strip
9 for the GCR annual period fell more than \$2.80 per Dth from early December to
10 early March... ." In my opinion, Mr. Miller's rationale does not serve as a valid
11 basis for claiming that the filed GCR factor is unreasonable. Gas utilities seeking
12 to implement a GCR plan case are required to file the case 90 days prior to the
13 start of the period covered by the plan. As in the case of Aquila, for the 2006-07
14 GCR factor to become effective April 1, 2006, it was required to submit its plan
15 by December 31, 2005 at the latest. At that time, the most recent prices
16 available for use in determining GCR factors were the December NYMEX prices.
17 At that point it is impossible to utilize prices that do not become available until
18 after the plan is filed. Although prices may have declined since the December 29
19 filing was made, that decline in and of itself does not make the filed factor
20 unreasonable. Based upon the prices that were available at the time of the filing,
21 the determination of \$12.30 per Mcf was reasonable.
22 Moreover, MGUC is concerned that the proposals to reduce the base GCR factor
23 could result in costs being unnecessarily shifted to a later point in time with

REBUTTAL TESTIMONY AND EXHIBITS
OF DAVID J. TYLER
ON BEHALF OF MICHIGAN GAS UTILITIES CORPORATION

1 customer costs increasing. Natural gas prices are extremely volatile in the
2 current market and the nation has just entered into another hurricane season
3 which is predicted to be as active as that experienced last year. In sum, if the
4 base GCR is reduced, I believe that there is the risk of under-collection of gas
5 costs. This is inconsistent with the goal of the GCR mechanism which is to
6 provide a reasonable opportunity for recovery of prudently incurred gas costs on
7 a timely basis. Avoiding under-collections could also spare customers the added
8 burden of interest costs. And although parties have in the past been receptive to
9 GCR plan reopeners to address significant costs increases, the regulatory lag
10 associated with such reopener, nevertheless, results in increased interest costs.
11 Since the inception of this GCR plan, MGUC has demonstrated a willingness to
12 self-manage costs as well as its revenues collected through the GCR process,
13 and has self-implemented a GCR factor which is lower than the filed factor, i.e.
14 \$9.32 per Mcf. MGUC has done this so as to avoid an overcollection of
15 revenues. Because MGUC is required to pay interest at its authorized rate of
16 return, MGUC is motivated to keep its overcollections at a minimum. Clearly,
17 MGUC has demonstrated that it will on its own reduce its GCR factor to the
18 appropriate level to recover its projected costs.

19
20 Q. Why do the Staff's and intervenors' proposed revised based GCR factors differ?

21 A. Staff is proposing a revised base GCR factor of \$10.19 per Mcf, the AG is
22 proposing \$9.39 per Mcf and the RRC is proposing \$9.31 per Mcf. A significant
23 reason for the differences is that each party in adjusting the base factor is using

REBUTTAL TESTIMONY AND EXHIBITS
OF DAVID J. TYLER
ON BEHALF OF MICHIGAN GAS UTILITIES CORPORATION

1 different NYMEX dates. Staff used the last five trading days in April 2006, the
2 AG uses the first five trading days in March 2006, and the RRC uses the first five
3 trading days in April 2006.

4
5 Q. What is the magnitude of the change calculated between the base GCR from
6 December 2005 to the time periods used by Staff and intervenors?

7 A. The difference is between \$2.11 and \$2.98, covering a period of between 141
8 and 151 days. What is noteworthy is that even though Staff's and the RRC's
9 proposed factors were computed only 20 days apart, they reflect as much as an
10 \$0.87 change in the base factor.

11
12 Q. Please continue by discussing the rationale for changing the base GCR factor so
13 as to send "appropriate" pricing messages to Choice customers.

14 A. Both Mr. Miller and Mr. Hollewa recommend a reduction to the base GCR factor
15 because they are concerned that Choice suppliers could use base GCR factor of
16 \$12.30 per Mcf as a benchmark for marketing their supply. In my opinion this
17 concern does not serve as a reasonable basis for change. First, the only
18 licensed gas marketer in MGUC's service territory, Cornerstone Energy, is
19 apparently no longer marketing in Michigan. On June 20, 2006, I reviewed
20 Cornerstone Energy's website and Michigan was not listed as an area in which it
21 is offering service See my exhibit A-13 (DJT-7. Additionally, even if Cornerstone
22 (or any other licensed gas marketer) were to begin offering services in MGUC's
23 service territory I do not believe that lowering the base GCR factor is an effective

REBUTTAL TESTIMONY AND EXHIBITS
OF DAVID J. TYLER
ON BEHALF OF MICHIGAN GAS UTILITIES CORPORATION

1 way to regulate a Choice marketer's marketing strategy. Pursuant to Rule G-
2 4B(1) (Sheet No. G-8.00) of MGUC's tariff provisions, Choice marketers are
3 required to issue accurate and understandable marketing materials. These
4 marketing materials can be reviewed by the Commission. It is my opinion that if
5 the Commission were to review such materials, the RRC's and AG's concerns
6 with respect to sending proper Choice signals could be directly addressed.
7 Moreover, it is the GCR customer that makes the decision to change, and
8 MGUC's customers see the actual GCR rate charged on their bills. For
9 instance, when the maximum authorized base GCR factor is higher than current
10 market prices, MGUC has the ability to charge a GCR factor that is less than the
11 maximum base GCR factor and customers see a GCR rate on their bills that
12 reflects the expected GCR costs. Finally, from a policy stand point, the GCR
13 mechanism should not be used to "control" the Choice market; it is my
14 understanding that the purpose of the GCR mechanism is to allow utilities the
15 opportunity to recovery on a timely basis their reasonably and prudently incurred
16 booked cost of gas.

17
18 Q. Do either Mr. Miller's or Mr. Hollewa's revised base GCR factors reflect the prior
19 period underrecovery?

20 A. No. Mr. Miller's recommended base factor of \$9.39 per Mcf erroneously reflects
21 an assumption that a small overcollection was experienced for the 2005-06 GCR
22 period as stated at page 7, line 17, and Mr. Hollewa's recommended base factor
23 of \$9.31 per Mcf fails to take into account the prior period underrecovery. As of

REBUTTAL TESTIMONY AND EXHIBITS
OF DAVID J. TYLER
ON BEHALF OF MICHIGAN GAS UTILITIES CORPORATION

1 March 31, 2005, there was a cumulative under-recovery of \$4,280,233 as
2 reflected on the 45 day report made to the Commission. This underrecovered
3 amount adds an additional \$0.1928 per Mcf to any computation of the base GCR
4 factor. This has been confirmed by Staff witness Ms. Quilico in her direct
5 testimony at page 4, line 21 through page 5, line 3. An undercollection from a
6 prior period must be taken into account when determining the base GCR factor.
7

8 Q. Has the Company reviewed Staff's recommended revisions regarding the Multi –
9 Input GCR Contingent Methodology?

10 A. Yes. The Company has reviewed Ms. Kindschy's recommendations concerning
11 the revisions to the GCR Contingency mechanism and find that these
12 modifications are acceptable and will help to simplify the process. The Company
13 supports Ms. Kindschy's revisions.
14

15 Q. At Page 11, line 5 of his direct testimony, Mr. Hollewa states that he disagrees
16 with the use of the recommended Contingency Matrix because it is too complex.
17 Further at page 13, lines 8 through 11, Mr. Hollewa states that if the Commission
18 does not accept his recommendation to adjust the Base GCR factor... then I
19 recommend removal of any Contingency Mechanism for the 2006-07 Plan year
20 because it will be unnecessary. Do you agree?

21 A. No, I do not. With the revisions that Staff has made to the Contingency
22 Mechanism, as outlined by Ms. Kindschy, the Company believes that the
23 Contingency Mechanism has been simplified and is appropriate. Furthermore,

REBUTTAL TESTIMONY AND EXHIBITS
OF DAVID J. TYLER
ON BEHALF OF MICHIGAN GAS UTILITIES CORPORATION

1 based on prior Commission policy, the Contingency Mechanism is to be used in
2 conjunction with the GCR base factor; it is not, as a matter of course, one or the
3 other.

4
5 Q. On page 30, line 17 through page 31, line 17 of his direct testimony, in referring
6 to work paper WP A-2-1, Mr. Miller states that the *“current month unbilled*
7 *volumes ... are unreasonable”* and that *“there is no reasonable way that unbilled*
8 *sales at month-end can exceed total calendar sales for the month”*. Do you
9 agree with these statements?

10 A. No I do not. Mr. Miller’s statements leave the impression that the Company’s
11 calculations are purely arbitrary. That is not the case. The forecasted current
12 month’s unbilled volumes were calculated by taking a percentage of the monthly
13 sendout for the Residential, Multi-Family and General Service Rate classes.
14 MGUC bills its Residential, Multi-Family and Small Commercial and Industrial
15 customers throughout the month in 18 cycles for the previous 26-35 days’
16 consumption. In previous plan cases, Aquila had utilized 50 percent of the
17 amount billed in a given month to compute “unbilled” volumes. However, this
18 methodology was called into question by the intervenors and was revised to
19 accommodate their concerns in Case No. U-14400. The monthly unbilled
20 percentages displayed on work paper WP A-2-1 were derived from actual
21 experience during July 2004 through June 2005. I have reformatted work paper
22 WP A-2-1 to display the details of my calculations for determining the unbilled
23 percentages. See Exhibit A-14 (DJT-8)

REBUTTAL TESTIMONY AND EXHIBITS
OF DAVID J. TYLER
ON BEHALF OF MICHIGAN GAS UTILITIES CORPORATION

1

2 Specifically, the percentages were derived by dividing the current month unbilled
3 volumes by Total Company Billed volumes. As can be seen for these
4 computations, the months of October through December do result in percentages
5 greater than 100%.

6 Upon further reflection of my computations, a more appropriate determination
7 might be to divide the current month unbilled volumes by Total GCR Sales rather
8 than Total Company Billed volumes, since this percentage is being applied to the
9 monthly GCR sales. For comparison purposes, I have displayed those
10 percentages on the reformatted work paper Exhibit A-14 (DJT-8), as well. If
11 parties agree to the appropriateness of this correction, the Company will utilize
12 this methodology in its future filings.

13

14 Q. Do you have any further comments in connection with Mr. Hollewa's pre-filed
15 direct testimony?

16 A. Yes, at page 13, line 18 through page 14, line 22 of his pre-filed direct testimony,
17 Mr. Hollewa states that he has performed an analysis of MGUC's total GCR
18 requirements and recommends that the Company reduce its requirements for
19 the months of April, May, October and November, in addition to increasing
20 requirements for January.

REBUTTAL TESTIMONY AND EXHIBITS
OF DAVID J. TYLER
ON BEHALF OF MICHIGAN GAS UTILITIES CORPORATION

1 In response to formal discovery requests, Mr. Hollewa has provided an
2 explanation of his analysis. The Company is currently reviewing Mr. Hollewa's
3 methodology to determine whether or not it will meet the Company's needs.
4 Although the approach utilized by Mr. Hollewa is somewhat simpler, the
5 Company does not believe that it results in a more accurate projection of the
6 system requirements than the methodology it currently utilizes.

7
8 Q. Does this conclude your rebuttal testimony?

9 A. Yes, it does.

10
11
12 LALIB:142780.1\131120-00001
13 06/29/06 11:30 AM

Michigan Public Service Commission
Aquila Networks - MGU

WP A-2-1

Sales Volumes - Summary

LINE	DESCRIPTION (a)	APRIL (e)	MAY (f)	JUNE (g)	JULY (h)	AUGUST (i)	SEPTEMBER (j)	OCTOBER (k)	NOVEMBER (l)	DECEMBER (m)	JANUARY (n)	FEBRUARY (o)	MARCH (p)	2006/2007 TOTAL (n)	LINE
	Current Month Unbilled (1)	740,490	395,033	153,547	287,820	341,871	292,638	812,721	1,610,012	2,620,059	2,747,616	1,934,504	1,578,539	13,514,850	
	Total Company Billed (2)	2,236,047	1,276,596	634,255	467,196	422,716	440,037	660,418	1,335,264	2,584,556	3,990,688	3,802,067	3,496,906	21,346,746	
	Percent Unbilled	33%	31%	24%	62%	81%	67%	123%	121%	101%	69%	51%	45%		
1	Residential & Multi-Family Billed	1,825,400	846,600	427,100	184,900	233,400	372,300	38,800	924,400	1,970,600	3,300,100	2,979,300	2,238,700	15,341,600	1
2	Prior Month Unbilled	(998,300)	(409,500)	(195,800)	(73,900)	(178,200)	(233,300)	(276,100)	(1,266,400)	(2,004,000)	(2,463,700)	(1,848,800)	(1,171,100)	(11,119,100)	2
3	Current Month Unbilled	409,500	195,800	73,900	178,200	233,300	276,100	1,266,400	2,004,000	2,463,700	1,848,800	1,171,100	878,500	10,999,300	3
4	Sales	1,236,600	632,900	305,200	289,200	288,500	415,100	1,029,100	1,662,000	2,430,300	2,685,200	2,301,600	1,946,100	15,221,800	4
5	General Services Billed	836,600	385,300	213,000	103,600	135,200	203,300	25,700	431,300	888,400	1,484,300	1,340,300	1,003,800	7,050,800	5
6	Prior Month Unbilled	(464,800)	(184,100)	(90,100)	(39,300)	(103,300)	(135,100)	(135,400)	(585,500)	(903,400)	(1,107,600)	(832,600)	(525,900)	(5,107,100)	6
7	Current Month Unbilled	184,100	90,100	39,300	103,300	135,100	135,400	585,500	903,400	1,107,600	832,600	525,900	393,300	5,035,600	7
8	Sales	555,900	291,300	162,200	167,600	167,000	203,600	475,800	749,200	1,092,600	1,209,300	1,033,600	871,200	6,979,300	8
9	Total GCR Billed	2,662,000	1,231,900	640,100	288,500	368,600	575,600	64,500	1,355,700	2,859,000	4,784,400	4,319,600	3,242,500	22,392,400	9
10	Prior Month Unbilled	(1,463,100)	(593,600)	(285,900)	(113,200)	(281,500)	(368,400)	(411,500)	(1,851,900)	(2,907,400)	(3,571,300)	(2,681,400)	(1,697,000)	(16,226,200)	10
11	Current Month Unbilled	593,600	285,900	113,200	281,500	368,400	411,500	1,851,900	2,907,400	3,571,300	2,681,400	1,697,000	1,271,800	16,034,900	11
12	Total GCR Sales	1,792,500	924,200	467,400	456,800	455,500	618,700	1,504,900	2,411,200	3,522,900	3,894,500	3,335,200	2,817,300	22,201,100	12

(1) July 2004 through June 2005 Actual volumes - Exhibit A-4, Page 1 of 6, line # 10 (For 2004 data refer to Case No. U-13990-R. For 2005 data, refer to Case No. U-14400-R.)

(2) July 2004 through June 2005 Actual volumes - Exhibit A-4, Page 1 of 6, line # 8. (For 2004 data refer to Case No. U-13990-R. For 2005 data, refer to Case No. U-14400-R.)

Comparison Percentages:

Current Month Unbilled (1)	740,490	395,033	153,547	287,820	341,871	292,638	812,721	1,610,012	2,620,059	2,747,616	1,934,504	1,578,539	13,514,850
Total GCR Sales (3)	1,397,998	931,139	392,769	418,582	476,767	390,804	1,180,501	2,132,555	3,594,603	4,118,245	2,988,955	3,140,941	21,163,859
Percent Unbilled	53%	42%	39%	69%	72%	75%	69%	75%	73%	67%	65%	50%	

(3) July 2004 through June 2005 Actual volumes - Exhibit A-4, Page 1 of 6, line # 13 (For 2004 data refer to Case No. U-13990-R. For 2005 data, refer to Case No. U-14400-R.)